

City of Middletown, New York

Financial Statements and
Supplementary Information

Year Ended December 31, 2012

City of Middletown, New York

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City, as of December 31, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General, Water and Sewer funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP

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Other Matters

Required Supplementary Information

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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133 Audits of State, Local Governments and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the City's internal control over financial reporting and compliance.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
June 12, 2013

City of Middletown, New York

Management's Discussion and Analysis (MD&A)
December 31, 2012

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, 2012. Please read it in conjunction with the basic financial statements and the accompanying notes to those statements that follow this section to enhance understanding of the City's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 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 \$32,849,309. However, unrestricted net position, which is available to meet the ongoing obligations of the City, reflect a deficit of \$9,228,627 at December 31, 2012. The unrestricted net position decreased by \$1,534,639 from the prior year. This reduction results primarily from the accrual of certain operating liabilities pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 34, which will be satisfied in future years, including compensated absences and the required accrual of the City's annual other postemployment benefit cost in accordance with the provisions of GASB Statement No. 45.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$11,235,115, an increase of \$16,445,468. This was primarily caused by the issuance of the EFC loans into long term bonds. Exclusive of the Capital Projects Fund, the combined ending fund balances was \$18,656,777. Of this latter amount, the unassigned fund balance was \$7,838,947. 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 \$7,004,377, or 22% of total General Fund expenditures and other financing uses.
- During the current fiscal year, the City had outstanding \$12,193,529 of bond anticipation notes issued for various purposes. The City retired \$4,505,463 of these bond anticipation notes from either the issuance of the EFC bond and appropriations. These notes bear interest at an average of 1.25%. The proceeds were used to finance capital projects.
- In 2012, the City retired \$2,350,000 of long-term bonded indebtedness. The only issuance of debt was for the conversion of the EFC Loan to a long term bond.

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 position* presents information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position 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 showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 only result in cash flows in future fiscal periods (for example, uncollected taxes, earned but unused vacation leave and other postemployment benefit obligations ("OPEB")).

The government-wide financial statements distinguish functions of the City that are *governmental activities* (those principally supported by taxes and revenues from other governments). 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 three 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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary 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 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, Capital Projects Fund, and the Debt Serviced 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 position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$32,849,309 at the close of the current fiscal year.

Net Assets

	2012	2011
Current Assets	\$ 33,983,654	\$ 30,056,258
Capital Assets, net	91,446,600	90,737,993
Total Assets	125,430,254	120,794,251
Current Liabilities	16,998,525	30,965,945
Long-term Liabilities	75,582,420	55,444,358
Total Liabilities	92,580,945	86,410,303
Net Assets:		
Invested in capital assets, net of related debt	31,697,930	34,421,652
Restricted	10,380,006	8,392,434
Unrestricted	(9,228,627)	(8,430,138)
Total Net Assets	\$ 32,849,309	\$ 34,383,948

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 position of \$10,380,006 are as follows:

	2012	2011
Capital Projects	\$ -	\$ 440,683
Debt Service	5,243,310	2,751,541
Tax Stabilization	8,323	8,314
Unemployment Benefits	85,975	85,975
Future Capital Projects	190,000	190,000
Special Revenue	4,777,569	4,859,335
Special Purposes	74,829	56,586
	\$ 10,380,006	\$ 8,392,434

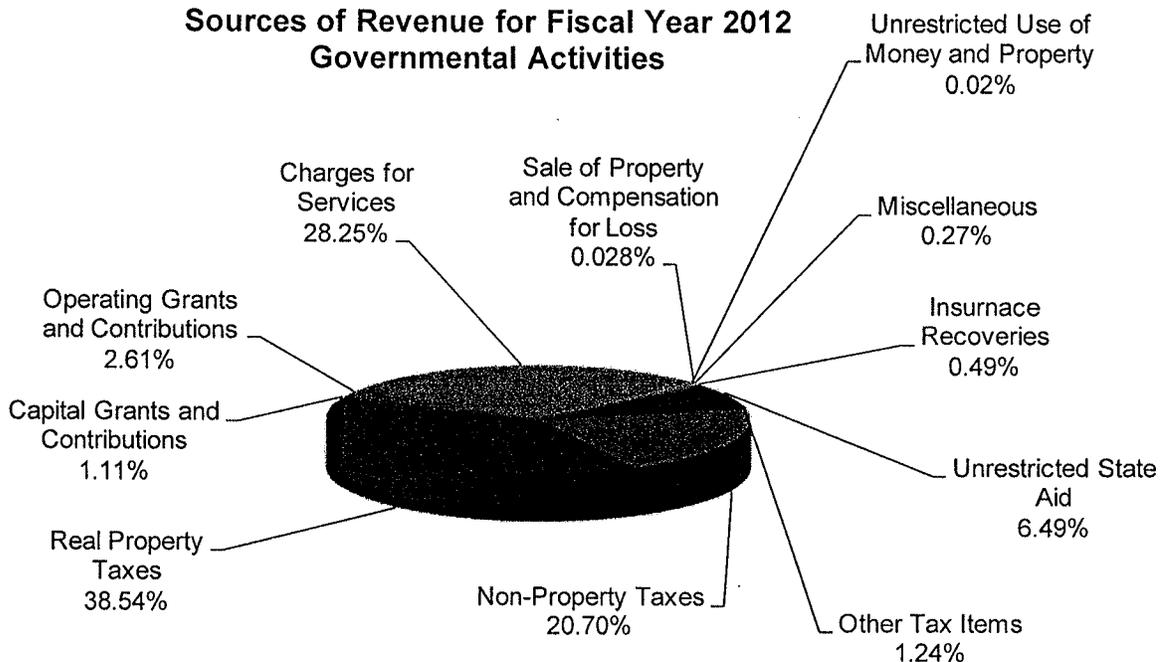
There is currently a deficit of unrestricted net position in the amount of \$9,228,627.

Changes in Net Assets

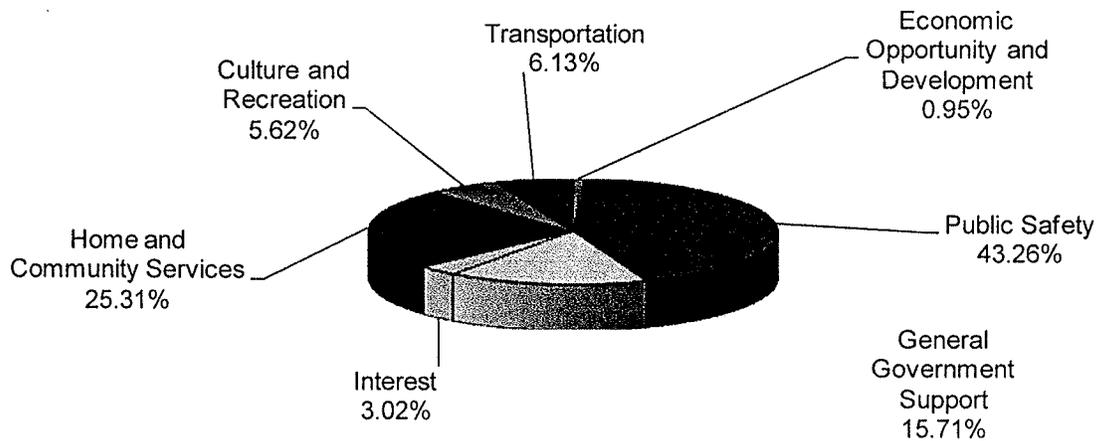
	2012	2011
Program Revenues:		
Charges for Services	\$ 13,193,919	\$ 14,483,449
Operating Grants and Contributions	1,220,266	1,825,848
Capital Grants and Contributions	518,689	3,078,535
General Revenues:		
Real Property Taxes	17,996,833	16,585,380
Other Tax Items	577,604	600,021
Non-Property Taxes	9,664,486	9,221,848
Unrestricted Use of Money and Property	10,618	10,657
Sale of Property and Compensation for Loss	128,853	80,814
Unrestricted State Aid	3,030,995	2,935,648
Miscellaneous	126,081	181,729
Insurance recoveries	228,909	140,410
Total Revenues	46,697,253	49,144,339
Program Expenses:		
General Government Support	7,578,075	7,695,158
Public Safety	20,866,352	19,695,030
Transportation	2,954,698	3,193,457
Economic Opportunity and Development	457,771	429,462
Culture and Recreation	2,709,664	2,809,035
Home and Community Services	12,207,619	13,860,122
Interest	1,457,713	1,468,284
Total Expenses	48,231,892	49,150,548
Change in Net Assets	(1,534,639)	(6,209)
Net Assets - Beginning	34,383,948	34,390,157
Net Assets - Ending	\$ 32,849,309	\$ 34,383,948

Governmental activities decreased the City's net position by \$1,534,639. This decrease is directly attributable to the other post employment benefit obligations, which increased \$4,120,000 in the current year.

**Sources of Revenue for Fiscal Year 2012
Governmental Activities**



**Expenses for Fiscal Year 2012
Governmental Activities**



For the fiscal year ended December 31, 2012, revenues from governmental activities totaled \$46.7 million. Tax revenues (\$28.24 million), comprised of real property taxes, other tax items and non-property taxes, represent the largest revenue sources (60%). Governmental activities' expenses of the City for the year ended December 31, 2012 totaled \$48.2 million. The largest components of these expenses are in the areas of public safety (43%) and home and community services (25%).

The major changes are as follows:

Revenues

- Real property taxes increased \$1,411,453. This is due to a higher tax levy and was partly increase by a reduction of approximately \$691,000 in the allowance account.
- Non-Property Taxes increased by a net of \$442,638, as a result of increase in sales tax revenues received by the County.

Expenses:

- Public Safety increased by \$1,171,322. This was the result of increased police salaries and overtime, required retirement system contributions and current OPEB expenditure.
- Home and Community Services decreased by \$1,652,503 as a result of a decrease 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.

Fund Balance Reporting

GASB issued 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 Town's fiscal period ending December 31, 2011. GASB Statement No. 54 abandoned the reserved and unreserved classifications of fund balance and replaced 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.

These changes were made to reflect spending constraints on resources, rather than availability for appropriations and to bring greater clarity and consistency to fund balance reporting. This pronouncement should result in an improvement in the usefulness of fund balance information.

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance deficit of \$11.2 million, a increase of approximately \$16,445,000 from the prior year. Exclusive of the Capital Projects Fund, the combined fund balances total \$18.7 million. Of this amount, \$7.8 million constitutes unassigned fund balance. The nonspendable fund balance component is \$712,532, consisting of amounts representing prepaid expenditures. Fund balance of \$5,602,437 is restricted for trusts, debt service, tax stabilization, unemployment benefits, and future capital projects. The assigned fund balance classification aggregates \$5,239,861, consisting primarily of available to be used in the future at the City's discretion in funds other than the General Fund (\$256,602 in the Community Development Fund, \$1,835,617 in the Water Fund, \$3,145,714 in the Sewer Fund and \$1,928 in the Non-Major Funds). The remaining fund balance is unassigned and represents the remaining positive fund balance in the General Fund of \$7,004,377 after amounts that have been restricted, committed or assigned for other purposes, offset by the deficit fund balance in the Capital Projects Fund of \$7,421,662.

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 \$7.8 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 22% of total General Fund expenditures and other financing uses, while total fund balance represents 24% of that same amount.

When the fiscal 2012 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 \$496,020 of fund balance. However, actual results of operations resulted in an increase in fund balance of \$1,523,367, a positive variance of approximately \$2.0 million.

These results were derived from expenditure savings offset by lower than anticipated revenues. Overall, General Fund expenditures and other financing uses were \$32.3 million, which was \$3 million, or 8%, less than the final budget. The major areas where spending was less than budget was general government support (\$1.2 million) and transportation (\$366,000). The General Fund revenues were \$33.8 million, which was \$1.0 million, or 3%, less than the final

budget. The largest revenue category that reflected a negative variance as compared to the budget was the net between real property taxes (\$1.2,million) and sale of property and loss (\$500,000).

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$773,344 for 2012. This change was primarily attributable to an increase in the appropriation for the corporate counsel and the judgment and claims in the general government support.

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2012, amounted to \$91.3 million (net of accumulated depreciation) as compared to \$90.7 million in 2011. This investment in capital assets includes land, buildings and improvements, improvements other than buildings and machinery and equipment.

Capital Assets (Net of Accumulated Depreciation)

	2012	2011	
Land	\$ 3,822,955	\$ 3,822,955	
Buildings and Improvements	58,587,076	59,714,221	
Improvements Other than Buildings	1,610,608	1,814,454	
Infrastructure	18,685,770	16,316,972	
Machinery and Equipment	4,078,594	4,407,794	
Construction-in-Progress	4,661,597	4,661,597	
Total	\$ 91,446,600	\$ 90,737,993	

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 \$52,468,074. 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 2012 fiscal year, the City retired \$2,350,000 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.

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City of Middletown, New York

Statement of Net Position
December 31, 2012

	Primary Government	Component Unit Industrial Development Agency
	Governmental Activities	
ASSETS		
Cash and equivalents	\$ 15,339,328	\$ 45,123
Restricted investments	1,783,353	-
Receivables		
Taxes, net	4,052,059	-
Mortgages	61,572	-
Accounts	772,116	-
Loans, net	3,482,970	-
Sewer rents, net	2,005,684	-
Water rents, net	2,329,922	-
State and Federal aid	574,247	-
Due from other governments	2,631,235	-
Prepaid expenses	810,102	-
Deferred charges	141,066	-
Capital assets		
Not being depreciated	8,484,552	-
Being depreciated, net	82,962,048	-
Total Assets	<u>125,430,254</u>	<u>45,123</u>
LIABILITIES		
Accounts payable	1,331,051	-
Accrued liabilities	237,300	-
Accrued interest payable	493,395	-
Retained percentages	102,097	-
Due to State and Federal governments	40,976	-
Due to County for tax levy	165,465	-
Due to school district	1,484,017	-
Unearned revenues	950,695	-
Bond anticipation notes payable	12,193,529	-
Non-current liabilities		
Due within one year	3,430,000	-
Due in more than one year	72,152,420	-
Total Liabilities	<u>92,580,945</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	31,697,930	-
Restricted for		
Debt service	5,243,310	-
Tax stabilization	8,323	-
Unemployment benefits	85,975	-
Future capital projects	190,000	-
Special revenue funds		
Community Development	2,013,478	-
Water	797,926	-
Sewer	1,966,165	-
Special purpose	74,829	-
Unrestricted	<u>(9,228,627)</u>	<u>45,123</u>
Total Net Position	<u>\$ 32,849,309</u>	<u>\$ 45,123</u>

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, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government support	\$ 7,578,075	\$ 1,010,384	\$ 188,462	\$ -
Public safety	20,866,352	415,133	187,096	-
Transportation	2,954,698	-	-	358,080
Economic opportunity and development	457,771	32,219	-	-
Culture and recreation	2,709,664	398,055	53,267	-
Home and community services	12,207,619	11,338,128	791,441	-
Interest	1,457,713	-	-	160,609
Total Governmental Activities	<u>\$ 48,231,892</u>	<u>\$ 13,193,919</u>	<u>\$ 1,220,266</u>	<u>\$ 518,689</u>
Component unit				
Industrial Development Agency	<u>\$ 2,976</u>	<u>\$ 4,874</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 Position

 Net Position - Beginning

 Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Unit
Governmental Activities	Industrial Development Agency
\$ (6,379,229)	\$ -
(20,264,123)	-
(2,596,618)	-
(425,552)	-
(2,258,342)	-
(78,050)	-
(1,297,104)	-
(33,299,018)	-
-	1,898
17,996,833	-
340,689	-
236,915	-
8,895,738	-
381,812	-
386,936	-
10,618	65
128,853	-
3,030,995	-
126,081	-
228,909	-
31,764,379	65
(1,534,639)	1,963
34,383,948	43,160
\$ 32,849,309	\$ 45,123

City of Middletown, New York

Balance Sheet
 Governmental Funds
 December 31, 2012

	General	Community Development	Water	Sewer
ASSETS				
Cash and equivalents	\$ 2,052,215	\$ 549,486	\$ 1,757,507	\$ 2,682,455
Restricted investments	-	-	-	-
Taxes receivable, net	4,052,059	-	-	-
Other receivables				
Mortgages	61,572	-	-	-
Accounts	742,438	4,908	24,770	-
Loans, net	-	3,482,970	-	-
Sewer rents, net	-	-	-	2,005,684
Water rents, net	-	-	2,329,922	-
State and Federal aid	71,530	413,272	-	-
Due from other governments	2,556,834	-	-	-
Due from other funds	3,416,864	4,771	804,239	154,895
	<u>6,849,238</u>	<u>3,905,921</u>	<u>3,158,931</u>	<u>2,160,579</u>
Prepaid expenditures	712,532	-	53,345	44,225
Total Assets	<u>\$ 13,666,044</u>	<u>\$ 4,455,407</u>	<u>\$ 4,969,783</u>	<u>\$ 4,887,259</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities				
Accounts payable	\$ 691,000	\$ -	\$ 144,579	\$ 83,576
Accrued liabilities	155,035	824	44,692	34,553
Accrued interest	-	-	-	-
Retained percentages	-	-	-	-
Due to State and Federal governments	40,976	-	-	-
Due to County for tax levy	165,465	-	-	-
Due to school district	1,484,017	-	-	-
Due to other funds	387,679	301,739	2,741,550	1,579,191
Unearned revenues	347,221	3,896,242	-	-
Unearned tax revenues	2,543,444	-	-	-
Bond anticipation notes payable	-	-	-	-
Total Liabilities	<u>5,814,837</u>	<u>4,198,805</u>	<u>2,930,821</u>	<u>1,697,320</u>
Fund balances (deficits)				
Nonspendable	712,532	-	53,345	44,225
Restricted	134,298	-	150,000	-
Assigned	-	256,602	1,835,617	3,145,714
Unassigned	7,004,377	-	-	-
Total Fund Balances (Deficits)	<u>7,851,207</u>	<u>256,602</u>	<u>2,038,962</u>	<u>3,189,939</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 13,666,044</u>	<u>\$ 4,455,407</u>	<u>\$ 4,969,783</u>	<u>\$ 4,887,259</u>

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ 5,631,619	\$ 2,545,379	\$ 120,667	\$ 15,339,328
1,783,353	-	-	1,783,353
-	-	-	4,052,059
-	-	-	61,572
-	-	-	772,116
-	-	-	3,482,970
-	-	-	2,005,684
-	-	-	2,329,922
89,445	-	-	574,247
61,673	-	12,728	2,631,235
1,502,269	3,442,601	15,451	9,341,090
1,653,387	3,442,601	28,179	21,198,836
-	-	-	810,102
<u>\$ 9,068,359</u>	<u>\$ 5,987,980</u>	<u>\$ 148,846</u>	<u>\$ 43,183,678</u>
\$ 411,655	\$ -	\$ 241	\$ 1,331,051
-	-	2,196	237,300
-	14,357	-	14,357
102,097	-	-	102,097
-	-	-	40,976
-	-	-	165,465
-	-	-	1,484,017
3,530,966	730,313	69,652	9,341,090
251,774	-	-	4,495,237
-	-	-	2,543,444
12,193,529	-	-	12,193,529
16,490,021	744,670	72,089	31,948,563
-	-	-	810,102
-	5,243,310	74,829	5,602,437
-	-	1,928	5,239,861
(7,421,662)	-	-	(417,285)
(7,421,662)	5,243,310	76,757	11,235,115
<u>\$ 9,068,359</u>	<u>\$ 5,987,980</u>	<u>\$ 148,846</u>	<u>\$ 43,183,678</u>

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City of Middletown, New York

Reconciliation of Governmental Funds Balance Sheet to
the Government - Wide Statement of Net Position
December 31, 2012

Fund Balances - Total Governmental Funds	\$ 11,235,115
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>91,446,600</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Real property taxes	2,543,444
Departmental income	3,482,970
Mortgage receivable	<u>61,572</u>
	<u>6,087,986</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>141,066</u>
Long-term liabilities that are not due and payable in the current period are not reported in the funds.	
Accrued interest payable	(479,038)
Bonds payable	(52,468,074)
Loans payable	(1,930,000)
Compensated absences	(2,849,439)
Claims payable	(4,124,907)
Other post employment benefit obligations payable	<u>(14,210,000)</u>
	<u>(76,061,458)</u>
Net Position of Governmental Activities	<u>\$ 32,849,309</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, 2012

	General	Community Development	Water	Sewer
REVENUES				
Real property taxes	\$ 16,169,151	\$ -	\$ -	\$ -
Other tax items	577,604	-	-	-
Non-property taxes	9,664,486	-	-	-
Departmental income	887,632	455,429	5,523,820	5,053,851
Intergovernmental charges	115,518	-	-	-
Use of money and property	213,175	697	2,661	2,858
Licenses and permits	221,259	-	20,374	100
Fines and forfeitures	409,611	-	-	-
Sale of property and compensation for loss	128,853	-	1,100	-
State aid	3,230,073	-	-	-
Federal aid	185,908	595,632	-	-
Miscellaneous	204,353	-	28,775	71,452
Total Revenues	32,007,623	1,051,758	5,576,730	5,128,261
EXPENDITURES				
Current				
General government support	4,582,176	-	387,994	241,675
Public safety	10,910,228	-	-	-
Transportation	1,840,348	-	-	-
Economic opportunity and development	298,406	-	-	-
Culture and recreation	1,482,703	-	-	-
Home and community services	1,945,607	917,067	1,955,252	1,775,212
Employee benefits	10,167,416	-	658,299	620,702
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	48,611	-	33,071	95,881
Total Expenditures	31,275,495	917,067	3,034,616	2,733,470
Excess (Deficiency) of Revenues Over Expenditures	732,128	134,691	2,542,114	2,394,791
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	228,909	-	-	-
Sale of real property	26,171	-	-	-
Bonds issued	-	-	-	-
Transfers in	1,589,100	-	-	-
Transfers out	(1,052,941)	(219,056)	(2,663,406)	(1,901,897)
Total Other Financing Sources (Uses)	791,239	(219,056)	(2,663,406)	(1,901,897)
Net Change in Fund Balances	1,523,367	(84,365)	(121,292)	492,894
Fund Balances (Deficits) - Beginning of Year	6,327,840	340,967	2,160,254	2,697,045
Fund Balances (Deficits) - End of Year	\$ 7,851,207	\$ 256,602	\$ 2,038,962	\$ 3,189,939

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 16,169,151
-	-	-	577,604
-	-	-	9,664,486
-	-	137,987	12,058,719
-	-	-	115,518
-	4,812	557	224,760
-	-	-	241,733
-	-	-	409,611
-	-	-	129,953
358,080	-	-	3,588,153
-	-	21,981	803,521
-	155,797	31,286	491,663
<u>358,080</u>	<u>160,609</u>	<u>191,811</u>	<u>44,474,872</u>
-	-	-	5,211,845
-	-	13,576	10,923,804
-	-	-	1,840,348
-	-	-	298,406
-	-	151,644	1,634,347
-	-	-	6,593,138
-	-	-	11,446,417
4,188,888	-	-	4,188,888
-	2,493,454	-	2,493,454
-	1,319,477	-	1,497,040
<u>4,188,888</u>	<u>3,812,931</u>	<u>165,220</u>	<u>46,127,687</u>
<u>(3,830,808)</u>	<u>(3,652,322)</u>	<u>26,591</u>	<u>(1,652,815)</u>
-	-	-	228,909
-	-	-	26,171
17,843,203	-	-	17,843,203
507,269	6,216,091	-	8,312,460
(2,403,160)	(72,000)	-	(8,312,460)
<u>15,947,312</u>	<u>6,144,091</u>	<u>-</u>	<u>18,098,283</u>
12,116,504	2,491,769	26,591	16,445,468
<u>(19,538,166)</u>	<u>2,751,541</u>	<u>50,166</u>	<u>(5,210,353)</u>
<u>\$ (7,421,662)</u>	<u>\$ 5,243,310</u>	<u>\$ 76,757</u>	<u>\$ 11,235,115</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, 2012

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

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 16,445,468</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 that are under the capitalization threshold.</p>	
Capital outlay expenditures	4,093,131
Depreciation expense	<u>(3,384,524)</u>
	<u>708,607</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	1,827,682
Departmental income	(378,168)
Mortgages	<u>(26,171)</u>
	<u>1,423,343</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>	
Bonds issued	(17,843,203)
Principal paid on bonds	2,350,000
Principal paid on loans	143,454
Amortization of issuance costs, loss on refunding and premium	<u>(25,340)</u>
	<u>(15,375,089)</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	45,336
Compensated absences	(292,261)
Claims	(370,043)
Other post employment benefit obligations	<u>(4,120,000)</u>
	<u>(4,736,968)</u>
Change in Net Position of Governmental Activities	<u>\$ (1,534,639)</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, Community Development, Water and Sewer Funds
Year Ended December 31, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Real property taxes	\$ 17,342,827	\$ 17,342,827	\$ 16,169,151	\$ (1,173,676)
Other tax items	516,000	516,000	577,604	61,604
Non-property taxes	8,945,000	8,945,000	9,664,486	719,486
Departmental income	837,903	852,723	887,632	34,909
Intergovernmental charges	80,500	80,500	115,518	35,018
Use of money and property	215,696	215,696	213,175	(2,521)
Licenses and permits	183,500	183,500	221,259	37,759
Fines and forfeitures	334,000	334,000	409,611	75,611
Sale of property and compensation for loss	606,000	606,000	128,853	(477,147)
State aid	3,033,093	3,105,493	3,230,073	124,580
Federal aid	112,500	657,526	185,908	(471,618)
Miscellaneous	178,697	295,637	204,353	(91,284)
Total Revenues	32,385,716	33,134,902	32,007,623	(1,127,279)
EXPENDITURES				
Current				
General government support	4,822,234	5,749,222	4,582,176	1,167,046
Public safety	10,823,804	10,965,282	10,910,228	55,054
Transportation	2,188,363	2,207,117	1,840,348	366,769
Economic opportunity and development	337,547	365,047	298,406	66,641
Culture and recreation	1,527,198	1,719,137	1,482,703	236,434
Home and community services	2,233,465	2,244,078	1,945,607	298,471
Employee benefits	10,620,195	10,572,287	10,167,416	404,871
Debt service				
Interest	48,611	48,611	48,611	-
Total Expenditures	32,601,417	33,870,781	31,275,495	2,595,286
Excess (Deficiency) of Revenues Over Expenditures	(215,701)	(735,879)	732,128	1,468,007
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	65,000	89,158	228,909	139,751
Sale of real property	-	-	26,171	26,171
Transfers in	1,589,100	1,589,100	1,589,100	-
Transfers out	(1,438,399)	(1,438,399)	(1,052,941)	385,458
Total Other Financing Sources (Uses)	215,701	239,859	791,239	551,380
Net Change in Fund Balances	-	(496,020)	1,523,367	2,019,387
Fund Balances (Deficits) - Beginning of Year	-	496,020	6,327,840	5,831,820
Fund Balances - End of Year	\$ -	\$ -	\$ 7,851,207	\$ 7,851,207

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,950,600	5,950,600	5,523,820	(426,780)	5,352,540	5,352,540	5,053,851	(298,689)
-	-	-	-	-	-	-	-
1,500	1,500	2,661	1,161	1,200	1,200	2,858	1,658
8,000	8,000	20,374	12,374	500	500	100	(400)
-	-	-	-	-	-	-	-
-	-	1,100	1,100	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,000	27,000	28,775	1,775	1,000	1,000	71,452	70,452
5,962,100	5,987,100	5,576,730	(410,370)	5,355,240	5,355,240	5,128,261	(226,979)
400,170	456,365	387,994	68,371	272,544	261,718	241,675	20,043
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,099,114	2,235,182	1,955,252	279,930	1,963,971	1,986,122	1,775,212	210,910
739,372	725,177	658,299	66,878	693,763	679,589	620,702	58,887
35,926	35,926	33,071	2,855	133,705	158,705	95,881	62,824
3,274,582	3,452,650	3,034,616	418,034	3,063,983	3,086,134	2,733,470	352,664
2,687,518	2,534,450	2,542,114	7,664	2,291,257	2,269,106	2,394,791	125,685
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2,663,413)	(2,663,413)	(2,663,406)	7	(1,765,086)	(1,765,086)	(1,901,897)	(136,811)
(2,663,413)	(2,663,413)	(2,663,406)	7	(1,765,086)	(1,765,086)	(1,901,897)	(136,811)
24,105	(128,963)	(121,292)	7,671	526,171	504,020	492,894	(11,126)
(24,105)	128,963	2,160,254	2,031,291	(526,171)	(504,020)	2,697,045	3,201,065
\$ -	\$ -	\$ 2,038,962	\$ 2,038,962	\$ -	\$ -	\$ 3,189,939	\$ 3,189,939

City of Middletown, New York

Statement of Assets and Liabilities

Fiduciary Fund

December 31, 2012

	<u>Agency</u>
ASSETS	
Cash	
Demand deposits	\$ 582,904
Accounts receivable	<u>683,192</u>
Total Assets	<u>\$ 1,266,096</u>
LIABILITIES	
Accounts payable	\$ 1,051,085
Deposits	<u>215,011</u>
Total Liabilities	<u>\$ 1,266,096</u>

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

City of Middletown, New York

Notes to Financial Statements
December 31, 2012

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 Position 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 Position 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues and expenditures/expense. 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 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. The major revenues of this fund are departmental income and Federal aid.

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. The major revenue of this fund is departmental income.

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. The major revenue of this fund is departmental income.

Capital Projects Fund - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

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.

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. The major revenue of this fund is departmental income and Federal 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.

- 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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 but 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 pronouncements issued after November 30, 1989 in accounting and reporting for its operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position 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.

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, 2012.

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.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

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

Prepaid Expenses/Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Prepaid expenses/expenditures consist of costs which have been satisfied prior to the end of the fiscal year, but represent items which have been provided for in the subsequent year's budget and/or will benefit such periods. Reported amounts in governmental funds are equally offset by 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 Revenues - Unearned 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/or revenue from grants received before the eligibility requirements have been met.

Unearned 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 unearned revenues of \$61,572 for mortgages, \$285,649 for State and Federal aid not received after the ninety day availability period used for revenue recognition, and \$2,543,444 for real property taxes in the General Fund. The Community Development Fund reflects unearned revenues \$3,896,242 for grants and loans receivable. The City has also reported unearned 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of December 31, 2012, no amounts were required to be reported as deferred outflows/inflows of resources.

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 Position. 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 Position 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.

Net Position - Net position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is 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 position on the Statement of Net Position include, net investment in capital assets, restricted for debt service, tax stabilization, unemployment benefits, future capital projects and special revenue funds. 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:

Note 1 - Summary of Significant Accounting Policies (Continued)

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 of the State of New York.

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. The City Council is the highest level of decision making authority for the City that can, be the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the City removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain amounts 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. 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 and deferred inflows of resources, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows of resources.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town'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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 12, 2013.

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.
- 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.

Note 2 - Stewardship, Compliance and Accountability (Continued)

- 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 2012 was \$34,443,260, inclusive of exclusions, which exceeded the actual levy by \$17,100,432.

In addition, 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.

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

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 2 - Stewardship, Compliance and Accountability (Continued)

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.

C. Expenditures in Excess of Budget

The following categories of expenditure exceeded their budgetary provisions by the amounts indicated:

General Fund		
Employee Benefits		
Workers' Compensation	\$	21,070
Sewer Fund		
Other Financing Uses		
Transfers Out		136,811
Debt Service Fund		
Debt Service		
Interest Bonds		106,804
Transfers Out		72,000

D. Fund Deficits

The unassigned deficit in the Capital Projects Fund of \$7,421,662 arises because of the application of generally accepted accounting principles to the financial reporting of such funds. The proceeds of bond anticipation notes issued to finance construction of capital projects are not recognized as an "other financing source". Liabilities for bond anticipation loans payable are accounted for in the Capital Projects Fund. Bond anticipation notes are recognized as revenue only to the extent that they are redeemed. The deficit will be reduced and eliminated as bond anticipation notes are redeemed from interfund transfers from other governmental funds or converted to permanent financing.

E. Application of Accounting Standards

For the year ended December 31, 2012, the City implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB Statement No. 63"). This statement provides financial reporting guidelines for these elements first introduced in GASB Concept Statement No. 4, "Elements of Financial Statements". Previous financial reporting standards did not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities.

Note 3 - Detailed Notes on All Funds

A. Restricted Investments

The restricted investments of \$1,783,353 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.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

B. Taxes Receivable

Taxes receivable at December 31, 2012 consisted of the following:

City and County taxes - Current and overdue	\$	1,594,901
School district taxes - Current and overdue		1,235,180
Tax sale certificates		1,221,978
Property acquired for taxes		<u>1,546,523</u>
		5,598,582
Allowance for uncollectible taxes		<u>(1,546,523)</u>
	\$	<u>4,052,059</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 unearned tax revenues of \$2,543,444, 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 \$9,960 at December 31, 2012. 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 \$51,612 at December 31, 2012. 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, 2012 were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 3,416,864	\$ 387,679
Community Development	4,771	301,739
Water	804,239	2,741,550
Sewer	154,895	1,579,191
Capital Projects	1,502,269	3,530,966
Debt Service	3,442,601	730,313
Non-Major Governmental	15,451	69,652
	<u>\$ 9,341,090</u>	<u>\$ 9,341,090</u>

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

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, 2012	Additions	Deletions	Balance December 31, 2012
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 3,822,955	\$ -	\$ -	\$ 3,822,955
Construction-in-progress	4,661,597	-	-	4,661,597
Total Capital Assets, not being depreciated	<u>\$ 8,484,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,484,552</u>
Capital Assets, being depreciated				
Buildings and improvements	\$ 72,242,490	\$ 669,967	\$ -	\$ 72,912,457
Improvements other than buildings	4,476,985	-	-	4,476,985
Infrastructure	24,245,130	2,882,236	-	27,127,366
Machinery and equipment	26,336,910	540,928	151,454	26,726,384
Total Capital Assets, being depreciated	<u>127,301,515</u>	<u>4,093,131</u>	<u>151,454</u>	<u>131,243,192</u>
Less Accumulated Depreciation for				
Buildings and improvements	12,528,269	1,797,112	-	14,325,381
Improvements other than buildings	2,662,531	203,846	-	2,866,377
Infrastructure	7,928,158	513,438	-	8,441,596
Machinery and equipment	21,929,116	870,128	151,454	22,647,790
Total Accumulated Depreciation	<u>45,048,074</u>	<u>3,384,524</u>	<u>151,454</u>	<u>48,281,144</u>
Total Capital Assets, being depreciated, net	<u>\$ 82,253,441</u>	<u>\$ 708,607</u>	<u>\$ -</u>	<u>\$ 82,962,048</u>
Capital Assets, net	<u>\$ 90,737,993</u>	<u>\$ 708,607</u>	<u>\$ -</u>	<u>\$ 91,446,600</u>

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

Governmental Activities	
General government support	\$ 413,059
Public safety	360,916
Transportation	151,492
Culture and recreation	122,522
Home and community services	<u>2,336,535</u>
Total Depreciation Expense	<u>\$ 3,384,524</u>

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

Component Units

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

Class	Balance January 1, 2012	Additions	Balance December 31, 2012
Capital Assets, being depreciated			
Buildings	\$ -	\$ -	\$ -
Equipment	1,219	-	1,219
Total Capital Assets, being depreciated	<u>1,219</u>	<u>-</u>	<u>1,219</u>
Less Accumulated Depreciation for			
Buildings	-	-	-
Equipment	1,077	142	1,219
Total Accumulated Depreciation	<u>1,077</u>	<u>142</u>	<u>1,219</u>
Total Capital Assets, being depreciated, net	<u>\$ 142</u>	<u>\$ (142)</u>	<u>\$ -</u>
Capital Assets, net	<u>\$ 142</u>	<u>\$ (142)</u>	<u>\$ -</u>

F. Accrued Liabilities

Accrued liabilities at December 31, 2012 were as follows:

	Fund					Total Governmental
	General	Community Development	Water	Sewer	Non-Major Governmental	
Payroll and Employee Benefits	<u>\$ 155,035</u>	<u>\$ 824</u>	<u>\$ 44,692</u>	<u>\$ 34,553</u>	<u>\$ 2,196</u>	<u>\$ 237,300</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 and employees in tier 6 who

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

contribute between 3% and 6% depending on salary levels and also without regard to 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, 2013 are as follows:

	<u>Tier/Plan</u>	<u>Rate</u>
ERS	1 75I	25.4%
	2 75I	23.2
	3 A14	18.6
	4 A15	18.6
	5 A15	15.1
	6 A15	10.1
PFRS	1 384D	30.2
	2 384D	25.1
	3 384D	24.2
	5 384D	24.1
	6 384D	21.6

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

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 1,246,748	\$ 1,649,295
2011	1,013,489	1,885,275
2010	701,479	1,250,849

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	\$ 890,459
Community Development	21,549
Water	185,429
Sewer	149,311
	<u>\$ 1,246,748</u>

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

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

H. 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, 2012	New Issues	Redemptions	Balance December 31, 2012
Bond Anticipation Notes							
Sewage Treatment Plant Reconstruction	2002	02/22/13	0.08 %	\$ 2,600,000	\$ -	\$ 2,052,422	\$ 547,578
Sewage Treatment Plant Reconstruction	2008	02/22/13	0.08	2,940,000	-	2,318,772	621,228
Purchase of Fire Trucks	2009	02/22/13	1.50	1,065,000	-	40,000	1,025,000
Water Supply System Reconstruction	2010	02/22/13	1.50	1,800,000	-	20,000	1,780,000
Machinery and Equipment	2010	02/22/13	1.50	573,000	-	32,000	541,000
Improvements to Building	2010	02/22/13	1.50	270,000	-	5,000	265,000
Pole Barn	2010	02/22/13	1.50	100,000	-	2,000	98,000
Water Meters Purchase	2010	02/22/13	1.50	100,000	-	3,000	97,000
Water and Sewer Mains	2010	02/22/13	1.50	100,000	-	1,000	99,000
Sewers Replacements	2010	02/22/13	1.50	150,000	-	1,000	149,000
Municipal Pool Improvements	2010	02/22/13	1.50	100,000	-	5,000	95,000
Recreations	2010	02/22/13	1.50	310,000	-	15,000	295,000
Senior Citizens Bus Purchase	2010	02/22/13	1.50	30,495	-	6,495	24,000
Water Treatment Plant - Phase 1	2010	02/22/13	1.50	29,700	-	200	29,500
Water Treatment Plant - Phase 2	2010	02/22/13	1.50	194,800	-	1,800	193,000
Mill Pond Water Main Replacements	2010	02/22/13	1.50	202,166	-	1,166	201,000
Garbage Truck	2010	02/22/13	1.50	30,608	-	608	30,000
Acquisition of Building - TD Bank	2011	02/22/13	1.50	575,000	-	-	575,000
Garbage Truck	2012	02/22/13	1.00	-	200,000	-	200,000
Reconstruction of fire truck	2012	02/22/13	1.00	-	375,000	-	375,000
Radio System Upgrade	2012	02/22/13	1.00	-	167,000	-	167,000
Purchase of Fire Trucks	2012	02/22/13	1.00	-	1,027,500	-	1,027,500
Purchase and installation of software	2012	02/22/13	1.00	-	325,000	-	325,000
Reconstruction & resurface of streets	2012	02/22/13	1.00	-	520,308	-	520,308
Purchase of Tompkins building	2012	02/22/13	1.00	-	672,000	-	672,000
Purchase of lawn mowers	2012	02/22/13	1.00	-	30,000	-	30,000
Improvements to steeples	2012	02/22/13	1.00	-	306,154	-	306,154
City Hall upgrades	2012	02/22/13	1.00	-	234,261	-	234,261
Replace Black Dirt Sewer Line (Elm St)	2012	02/22/13	1.00	-	1,250,000	-	1,250,000
Sewer System Costs	2012	02/22/13	1.00	-	421,000	-	421,000
				<u>\$ 11,170,769</u>	<u>\$ 5,528,223</u>	<u>\$ 4,505,463</u>	<u>\$ 12,193,529</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 \$48,611, \$33,071 and \$95,881 were recorded in the fund financial statements in the General, Water and Sewer Funds, respectively.

Interest expense of \$207,221 was recorded in the government-wide financial statements for governmental activities.

City of Middletown, New York

Notes to Financial Statements (Continued)

December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

I. Long-Term Liabilities

The following table summarizes changes in the City's long-term indebtedness for the year ended December 31, 2012:

	Balance January 1, 2011	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2012	Due Within One-Year
Bonds Payable	\$ 37,014,999	\$ 17,843,203	\$ 2,350,000	\$ 52,508,202	\$ 2,420,000
Less					
Deferred Amounts on Refunding	(46,137)	-	(6,009)	(40,128)	-
	<u>36,968,862</u>	<u>17,843,203</u>	<u>2,343,991</u>	<u>52,468,074</u>	<u>2,420,000</u>
Loans Payable	<u>2,073,454</u>	<u>-</u>	<u>143,454</u>	<u>1,930,000</u>	<u>130,000</u>
Other Non-current Liabilities					
Compensated Absences	2,557,178	557,261	265,000	2,849,439	285,000
Claims Payable	3,754,864	1,004,201	634,158	4,124,907	595,000
Other post employment benefit obligation payable	<u>10,090,000</u>	<u>5,780,000</u>	<u>1,660,000</u>	<u>14,210,000</u>	<u>-</u>
Total Other Non-Current Liabilities	<u>16,402,042</u>	<u>7,341,462</u>	<u>2,559,158</u>	<u>21,184,346</u>	<u>880,000</u>
Total Long-Term Liabilities	<u>\$ 55,444,358</u>	<u>\$ 25,184,665</u>	<u>\$ 5,046,603</u>	<u>\$ 75,582,420</u>	<u>\$ 3,430,000</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, 2012 are comprised of the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rates	Amount Outstanding at December 31, 2012
Water Purposes	2004	\$ 3,397,093	May, 2023	3.1250 - 4.475 %	\$ 2,055,000
Refunding	2005	5,530,000	October, 2017	3.7500 - 4.917	2,635,000
Environmental Facilities Corporation	2006	3,671,027	April, 2036	3.9710 - 4.861	3,135,000
Public Improvement	2007	5,210,000	July, 2028	4.0000 - 5.000	4,334,999
Environmental Facilities Corporation	2008	20,161,142	April, 2038	4.270	18,185,000
Refunding	2011	5,025,000	August, 2021	2.0000 - 3.000	4,535,000
Environmental Facilities Corporation	2012	17,843,203	November, 2042	.2550 - 4.269	17,628,203
					<u>\$ 52,508,202</u>

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

Interest expenditures of \$1,243,875 were recorded in the fund financial statements in the Debt Service Fund.

Interest expense of \$1,174,890 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 \$75,602 were recorded in the fund financial statements in the Debt Service Fund and in the 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, 2012 including interest payments of \$27,195,864 are as follows:

Year Ending December 31,	Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 2,420,000	\$ 1,952,109	\$ 130,000	\$ 26,446	\$ 2,550,000	\$ 1,978,555
2014	2,468,203	1,883,244	135,000	24,325	2,603,203	1,907,569
2015	2,519,999	1,808,697	135,000	22,220	2,654,999	1,830,917
2016	2,600,001	1,724,147	135,000	20,037	2,735,001	1,744,184
2017	2,665,000	1,631,488	135,000	17,834	2,800,000	1,649,322
2018-2022	10,595,000	6,954,404	684,000	46,778	11,279,000	7,001,182
2023-2027	8,465,000	5,213,978	450,000	1,242	8,915,000	5,215,220
2028-2032	7,774,999	3,571,894	126,000	1,134	7,900,999	3,573,028
2033-2037	8,540,000	1,902,173	-	-	8,540,000	1,902,173
2038-2042	4,460,000	393,714	-	-	4,460,000	393,714
	<u>\$ 52,508,202</u>	<u>\$ 27,035,848</u>	<u>\$ 1,930,000</u>	<u>\$ 160,016</u>	<u>\$ 54,438,202</u>	<u>\$ 27,195,864</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.

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

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

two year's average salary. Firefighters are paid for all accumulated sick leave at 40% of salary. Civil service employees' personal time may also be accumulated and included with sick leave. Vacation time may be accumulated by civil service employees. Upon retirement, a civil service employee is compensated for unused vacation leave up to a maximum of 30 days. The value of all compensated absences has been reflected in the government-wide financial statements.

Claims Payable

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

An analysis of the unpaid claims liability is as follows:

	<u>2012</u>	<u>2011</u>
Balance - Beginning of Year	\$ 3,754,864	\$ 3,081,949
Provision for Claims and Claims Adjustment Expenses	1,004,201	1,266,831
Claims and Claims Adjustment Expenses Paid	<u>(634,158)</u>	<u>(593,916)</u>
Balance - End of Year	<u>\$ 4,124,907</u>	<u>\$ 3,754,864</u>
Due Within One Year	<u>\$ 595,000</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

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

\$69,925 for Medicare Part D payments made directly to its health insurance carrier on behalf of its retirees.

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

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

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

<u>Year Ended December 31,</u>	<u>Health Care Cost Trend Rates</u>
2013	9.50 %
2014	9.00
2015	8.50
2016	8.00
2017	7.50
2018	7.00
2019	6.50
2020	6.00
2021	5.50
2022+	5.00

The amortization basis is the level percentage of payroll basis with an open amortization approach with 25 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

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

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, 2012 was as follows:

	<u>Governmental Activities</u>
Active Employees	218
Retired Employees	<u>194</u>
	<u><u>412</u></u>

Amortization Component:	
Actuarial Accrued Liability as of January 1, 2011	\$ 65,700,000
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 65,700,000</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (active plan members)	<u>\$ 18,800,000</u>
UAAL as a Percentage of Covered Payroll	<u>349.47%</u>
Annual Required Contribution	\$ 5,920,000
Interest on Net OPEB Obligation	450,000
Adjustment to Annual Required Contribution	<u>(590,000)</u>
Annual OPEB Cost	5,780,000
Contributions Made	<u>(1,660,000)</u>
Increase in Net OPEB Obligation	4,120,000
Net OPEB Obligation - Beginning of Year	<u>10,090,000</u>
Net OPEB Obligation - End of Year	<u>\$ 14,210,000</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>
2012	\$ 5,780,000	28.70 %	\$ 14,210,000
2011	\$ 5,000,000	35.60	\$ 10,090,000
2010	4,770,000	32.90	6,870,000

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

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.

J. Revenues and Expenditures

Interfund Transfers

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

Transfers Out	Transfers In			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
General Fund	\$ -	\$ 106,103	\$ 946,838	\$ 1,052,941
Community Development Fund	-	-	219,056	219,056
Water Fund	930,000	26,166	1,707,240	2,663,406
Sewer Fund	587,100	375,000	939,797	1,901,897
Capital Projects Fund	-	-	2,403,160	2,403,160
Debt Service Fund	72,000	-	-	72,000
	<u>\$ 1,589,100</u>	<u>\$ 507,269</u>	<u>\$ 6,216,091</u>	<u>\$ 8,312,460</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.

K. Net Position

The components of net position are detailed below:

Net Investment in Capital Assets - the component of net position 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 Debt Service - the component of net position that reports the difference between assets and liabilities with constraints placed on their use by Local Finance Law.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

Restricted for Tax Stabilization - the component of net position 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 position 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 position that reports the amounts restricted for future capital projects.

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

Unrestricted - all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

L. Fund Balances

	2012										2011									
	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total				
Nonspendable																				
Prepaid expenditures	\$ 712,532	\$ -	\$ 53,345	\$ 44,225	\$ -	\$ -	\$ -	\$ 810,102	\$ 1,219,739	\$ -	\$ 63,501	\$ 55,888	\$ -	\$ -	\$ -	\$ 1,339,128				
Restricted																				
Tax stabilization	8,323	-	-	-	-	-	8,323	8,323	8,314	-	-	-	-	-	-	8,314				
Unemployment benefits	85,975	-	-	-	-	-	85,975	85,975	85,975	-	-	-	-	-	-	85,975				
Future capital projects	40,000	-	150,000	-	-	-	190,000	190,000	40,000	150,000	-	-	-	-	-	190,000				
Trusts	-	-	-	-	-	74,829	74,829	74,829	-	-	-	-	-	-	56,586	56,586				
Debt service	-	-	-	-	-	5,243,310	5,243,310	5,243,310	-	-	-	-	-	2,751,541	-	2,751,541				
Total Restricted	134,298	-	150,000	-	-	5,243,310	5,602,437	134,289	-	150,000	-	-	-	2,751,541	56,586	3,092,416				
Assigned																				
Major Funds	-	256,602	1,835,617	3,145,714	-	-	5,237,933	5,237,933	-	1,946,753	-	2,641,157	-	-	-	4,928,877				
Non-Major - Golden Area	-	-	-	-	-	1,928	1,928	1,928	-	-	-	-	-	-	-	-				
Total Assigned	-	256,602	1,835,617	3,145,714	-	1,928	5,239,861	-	340,967	1,946,753	2,641,157	-	-	-	-	4,928,877				
Unassigned																				
	7,004,377	-	-	-	(7,421,662)	-	(417,285)	(417,285)	-	-	-	-	(19,538,166)	-	(6,420)	(14,570,774)				
Total Fund Balances	\$ 7,851,207	\$ 256,602	\$ 2,038,962	\$ 3,189,939	\$ (7,421,662)	\$ 5,243,310	\$ 11,235,115	\$ 6,327,840	\$ 340,967	\$ 2,160,254	\$ 2,697,045	\$ 2,697,045	\$ (19,538,166)	\$ 2,751,541	\$ 50,166	\$ (5,210,353)				

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2012

Note 3 - Detailed Notes on All Funds (Continued)

Certain elements of fund balance are described above. Those additional elements which are not reflected in the statement of net position 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.

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.

On or about August 1, 2012, a former employee of the City of Middletown, filed an Article 78 in the Supreme Court of Orange County seeking an annulment of the City's decision to terminate their

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

employment and reinstatement to the payroll with back pay, On November 15, 2012, the City filed a cross motion to dismiss the petition. If the employee is successful in their complaint they may be entitled to back pay, from April 27, 2012 to the present.

B. Risk Management

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

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

C. Contingencies

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

During 2010 and 2011 the City sold \$1,543,035 and \$526,474, respectively, of tax liens to an outside purchaser. The City is obligated to repurchase unredeemed liens at the end of three years from the date of sale. Such repurchase includes the full amount paid for the liens plus interest at 12% from the sale date and any fees paid by the purchaser. The purchaser has established a reserve account of 20% of the interest charged on the liens redeemed on its behalf. This reserve will be used to fund the repurchase by the City of any unredeemed liens. The City will be obligated to pay any excess of the costs of redemption over the reserve. No liability or reserve has been established by the City to repurchase these liens.

Note 5 - Subsequent Events

The City, on February 21, 2013 issued bond anticipation notes in the amount of \$12,026,651. The notes are due on February 21, 2014, with interest at 1.00%. The proceeds were used to renew portions of bond anticipation notes outstanding at December 31, 2012.

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, 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
January 1, 2012	-	65,700,000	65,700,000	-	18,800,000	349.47

City of Middletown, New York

General Fund
 Comparative Balance Sheet
 December 31,

	2012	2011
ASSETS		
Cash		
Demand deposits	\$ 2,051,365	\$ 3,298,804
Petty cash	850	850
	<u>2,052,215</u>	<u>3,299,654</u>
Taxes receivable		
City and County taxes	1,594,901	1,327,090
School district taxes	1,235,180	967,599
Tax sale certificates	1,221,978	864,770
Property acquired for taxes	1,546,523	1,412,098
	<u>5,598,582</u>	<u>4,571,557</u>
Allowance for uncollectible taxes	<u>(1,546,523)</u>	<u>(2,238,343)</u>
	<u>4,052,059</u>	<u>2,333,214</u>
Other receivables		
Mortgages	61,572	87,743
Accounts	742,438	484,600
State and Federal aid	71,530	82,601
Due from other governments	2,556,834	2,450,487
Due from other funds	3,416,864	1,978,132
	<u>6,849,238</u>	<u>5,083,563</u>
Prepaid expenditures	<u>712,532</u>	<u>1,219,739</u>
Total Assets	<u>\$ 13,666,044</u>	<u>\$ 11,936,170</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 691,000	\$ 1,539,671
Accrued liabilities	155,035	1,578,929
Due to State and Federal governments	40,976	17,269
Due to County for tax levy	165,465	193,404
Due to school district	1,484,017	1,445,904
Due to other funds	387,679	29,648
Unearned revenues	347,221	87,743
Unearned tax revenues	2,543,444	715,762
Total Liabilities	<u>5,814,837</u>	<u>5,608,330</u>
Fund balance		
Nonspendable	712,532	1,219,739
Restricted	134,298	134,289
Unassigned	7,004,377	4,973,812
Total Fund Balance	<u>7,851,207</u>	<u>6,327,840</u>
Total Liabilities and Fund Balance	<u>\$ 13,666,044</u>	<u>\$ 11,936,170</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,

	2012			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Real property taxes	\$ 17,342,827	\$ 17,342,827	\$ 16,169,151	\$ (1,173,676)
Other tax items	516,000	516,000	577,604	61,604
Non-property taxes	8,945,000	8,945,000	9,664,486	719,486
Departmental income	837,903	852,723	887,632	34,909
Intergovernmental charges	80,500	80,500	115,518	35,018
Use of money and property	215,696	215,696	213,175	(2,521)
Licenses and permits	183,500	183,500	221,259	37,759
Fines and forfeitures	334,000	334,000	409,611	75,611
Sale of property and compensation for loss	606,000	606,000	128,853	(477,147)
State aid	3,033,093	3,105,493	3,230,073	124,580
Federal aid	112,500	657,526	185,908	(471,618)
Miscellaneous	178,697	295,637	204,353	(91,284)
Total Revenues	32,385,716	33,134,902	32,007,623	(1,127,279)
EXPENDITURES				
Current				
General government support	4,822,234	5,749,222	4,582,176	1,167,046
Public safety	10,823,804	10,965,282	10,910,228	55,054
Transportation	2,188,363	2,207,117	1,840,348	366,769
Economic opportunity and development	337,547	365,047	298,406	66,641
Culture and recreation	1,527,198	1,719,137	1,482,703	236,434
Home and community services	2,233,465	2,244,078	1,945,607	298,471
Employee benefits	10,620,195	10,572,287	10,167,416	404,871
Debt service				
Interest	48,611	48,611	48,611	-
Total Expenditures	32,601,417	33,870,781	31,275,495	2,595,286
Excess (Deficiency) of Revenues Over Expenditures	(215,701)	(735,879)	732,128	1,468,007
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	65,000	89,158	228,909	139,751
Sale of real property	-	-	26,171	26,171
Transfers in	1,589,100	1,589,100	1,589,100	-
Transfers out	(1,438,399)	(1,438,399)	(1,052,941)	385,458
Total Other Financing Sources	215,701	239,859	791,239	551,380
Net Change in Fund Balance	-	(496,020)	1,523,367	2,019,387
Fund Balance - Beginning of Year	-	496,020	6,327,840	5,831,820
Fund Balance - End of Year	\$ -	\$ -	\$ 7,851,207	\$ 7,851,207

2011

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 17,002,828	\$ 17,002,828	\$ 17,316,884	\$ 314,056
542,000	542,000	600,021	58,021
8,483,000	8,483,000	9,221,848	738,848
855,246	881,729	753,727	(128,002)
163,500	206,292	265,499	59,207
239,905	239,905	287,054	47,149
174,250	174,250	241,161	66,911
253,500	253,500	378,033	124,533
80,500	80,500	80,814	314
3,196,784	3,301,484	3,073,889	(227,595)
115,500	316,864	384,363	67,499
110,001	247,523	291,636	44,113
<u>31,217,014</u>	<u>31,729,875</u>	<u>32,894,929</u>	<u>1,165,054</u>
4,649,741	5,583,905	5,013,982	569,923
10,779,601	11,029,041	10,722,631	306,410
1,988,861	2,078,397	1,991,146	87,251
296,635	296,714	274,550	22,164
1,402,067	1,616,264	1,495,845	120,419
2,148,856	2,168,844	2,075,546	93,298
10,450,355	10,450,106	10,337,888	112,218
80,000	45,000	34,850	10,150
<u>31,796,116</u>	<u>33,268,271</u>	<u>31,946,438</u>	<u>1,321,833</u>
<u>(579,102)</u>	<u>(1,538,396)</u>	<u>948,491</u>	<u>2,486,887</u>
65,000	65,000	140,410	75,410
15,000	15,000	10,902	(4,098)
1,517,944	1,517,944	1,517,944	-
<u>(1,018,842)</u>	<u>(1,053,842)</u>	<u>(1,032,498)</u>	<u>21,344</u>
<u>579,102</u>	<u>544,102</u>	<u>636,758</u>	<u>92,656</u>
-	(994,294)	1,585,249	2,579,543
-	994,294	4,742,591	3,748,297
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,327,840</u>	<u>\$ 6,327,840</u>

City of Middletown, New York

General Fund

Schedule of Revenues and Other Financing Sources Compared to Budget

Year Ended December 31, 2012

(With Comparative Actuals for 2011)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2011 Actual
REAL PROPERTY TAXES	\$ 17,342,827	\$ 17,342,827	\$ 16,169,151	\$ (1,173,676)	\$ 17,316,884
OTHER TAX ITEMS					
Payments in lieu of taxes	324,000	324,000	340,689	16,689	342,441
Interest and penalties - Taxes	192,000	192,000	236,915	44,915	257,580
	516,000	516,000	577,604	61,604	600,021
NON-PROPERTY TAXES					
Non-property tax distribution from County	8,165,000	8,165,000	8,895,738	730,738	8,372,684
Franchise fees - Cable TV	350,000	350,000	381,812	31,812	377,673
Utilities gross receipts taxes	430,000	430,000	386,936	(43,064)	471,491
	8,945,000	8,945,000	9,664,486	719,486	9,221,848
DEPARTMENTAL INCOME					
Treasurer	90,000	90,000	90,630	630	80,265
City Clerk fees	4,000	4,000	6,542	2,542	4,438
Tax sale advertising	40,000	40,000	56,454	16,454	24,733
Police Department fees	4,000	4,000	5,522	1,522	3,140
Vital statistics	13,000	13,000	32,219	19,219	44,988
Public works service fee	90,000	90,000	81,113	(8,887)	125,615
Building department fees	174,000	174,000	194,050	20,050	189,360
Parks and recreation fees	16,000	16,000	18,910	2,910	16,750
Pool fees	13,000	13,000	11,047	(1,953)	13,864
Tennis fees	500	500	-	(500)	-
Day camp fees	77,000	89,320	87,016	(2,304)	78,247
Special recreation program fees	28,000	30,500	41,492	10,992	34,511
Zoning board fees	1,500	1,500	300	(1,200)	600
Planning Board fees	30,000	30,000	37,352	7,352	35,875
Tax collection fees	120,000	120,000	123,382	3,382	35,415
Paramount Theatre	55,000	55,000	15,053	(39,947)	19,926
Other departmental fees	81,903	81,903	86,550	4,647	46,000
	837,903	852,723	887,632	34,909	753,727

INTERGOVERNMENTAL CHARGES

Charges for services to other governments

	80,500	80,500	115,518	35,018	265,499
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USE OF MONEY AND PROPERTY

Earnings on investments

	10,000	10,000	10,627	627	11,094
--	--------	--------	--------	-----	--------

Rentals of real property

	205,596	205,596	202,357	(3,239)	275,768
--	---------	---------	---------	---------	---------

Commissions

	100	100	191	91	192
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	215,696	215,696	213,175	(2,521)	287,054
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LICENSES AND PERMITS

Business and occupational licenses

	45,000	45,000	48,115	3,115	52,077
--	--------	--------	--------	-------	--------

Bingo licenses

	3,500	3,500	2,841	(659)	2,874
--	-------	-------	-------	-------	-------

Dog licenses

	16,000	16,000	14,879	(1,121)	12,635
--	--------	--------	--------	---------	--------

Other licenses

	4,500	4,500	3,699	(801)	3,658
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Building permits

	110,000	110,000	146,837	36,837	163,964
--	---------	---------	---------	--------	---------

Other permits

	4,500	4,500	4,888	388	5,953
--	-------	-------	-------	-----	-------

	183,500	183,500	221,259	37,759	241,161
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FINES AND FORFEITURES

Fines and forfeited bail

	330,000	330,000	408,686	78,686	375,308
--	---------	---------	---------	--------	---------

Dog pound fees

	4,000	4,000	925	(3,075)	2,725
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	334,000	334,000	409,611	75,611	378,033
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**SALE OF PROPERTY AND
COMPENSATION FOR LOSS**

Sale of equipment

	500,000	500,000	6,391	(493,609)	-
--	---------	---------	-------	-----------	---

Sale of scrap

	6,000	6,000	24,684	18,684	13,978
--	-------	-------	--------	--------	--------

Sale of timber

	100,000	100,000	97,778	(2,222)	66,836
--	---------	---------	--------	---------	--------

	606,000	606,000	128,853	(477,147)	80,814
--	---------	---------	---------	-----------	--------

STATE AID

Per capita

	2,700,000	2,700,000	2,705,826	5,826	2,705,826
--	-----------	-----------	-----------	-------	-----------

Mortgage tax

	190,000	190,000	325,169	135,169	229,822
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Youth programs

	8,693	8,693	-	(8,693)	23,946
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Police - DWI

	2,500	2,500	5,914	3,414	8,061
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Police - Child Safety

	-	3,000	2,319	(681)	-
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Court facilities aid

	50,000	50,000	34,367	(15,633)	41,331
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Traffic enforcement grant

	-	5,100	5,100	-	10,000
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Buckle up NY

	-	2,340	2,281	(59)	4,553
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Impact grant

	81,900	81,900	73,430	(8,470)	50,350
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Disaster assistance

	-	-	14,842	14,842	-
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Other

	-	61,960	60,825	(1,135)	-
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	3,033,093	3,105,493	3,230,073	124,580	3,073,889
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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, 2012
 (With Comparative Actuals for 2011)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2011 Actual
FEDERAL AID					
Police block grant	\$ -	\$ -	\$ -	\$ -	24,997
Byrne Justice Assistance Grant	-	-	-	-	62,240
Energy Efficiency Conservation Block Grant	-	447,856	44,526	(403,330)	64,723
Disaster assistance	112,500	209,670	141,382	(68,288)	-
Drug Free Communities Support Grant					232,403
	112,500	657,526	185,908	(471,618)	384,363
MISCELLANEOUS					
Refund of prior year's expenditures	75,000	75,000	96,190	21,190	83,357
Urban renewal grant recycle	-	30,000	29,998	(2)	30,000
Teen violence	13,000	32,000	18,878	(13,122)	20,896
Safe schools	60,197	60,197	48,274	(11,923)	59,011
Employment and training	-	45,520	-	(45,520)	-
Other	30,500	52,920	11,013	(41,907)	98,372
	178,697	295,637	204,353	(91,284)	291,636
TOTAL REVENUES	32,385,716	33,134,902	32,007,623	(1,127,279)	32,894,929
OTHER FINANCING SOURCES					
Insurance recoveries	65,000	89,158	228,909	139,751	140,410
Sale of real property	-	-	26,171	26,171	10,902
Transfers in					
Debt Service Fund	72,000	72,000	72,000	-	-
Water Fund	930,000	930,000	930,000	-	930,821
Sewer Fund	587,100	587,100	587,100	-	587,123
	1,654,100	1,678,258	1,844,180	165,922	1,669,256
TOTAL OTHER FINANCING SOURCES					
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 34,039,816	\$ 34,813,160	\$ 33,851,803	\$ (961,357)	\$ 34,564,185

City of Middletown, New York

General Fund

Schedule of Expenditures and Other Financing Uses Compared to Budget

Year Ended December 31, 2012

(With Comparative Actuals for 2011)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2011 Actual
GENERAL GOVERNMENT SUPPORT					
Common Council	\$ 261,669	\$ 261,669	\$ 244,551	\$ 17,118	\$ 242,365
Board of Estimate and Apportionment	200	200	-	200	-
Mayor	128,747	128,747	125,204	3,543	127,530
Finance	560,269	622,229	580,234	41,995	525,819
Data processing	11,667	11,667	9,121	2,546	10,871
Assessor	308,100	308,100	281,876	26,224	285,246
Costs of tax sale	25,000	100,000	99,640	360	29,977
Corporation Counsel	306,970	456,970	370,994	85,976	554,532
Bond and note issuance costs	1,000	1,000	-	1,000	-
Civil service	97,932	97,931	96,617	1,314	96,847
Engineer	7,000	7,000	5,110	1,890	9,332
Elections	73,000	73,000	68,162	4,838	39,426
Board of Ethics	250	250	-	250	-
Public works administration	830,046	830,046	740,820	89,226	762,488
Maintenance department	809,125	818,740	618,924	199,816	638,756
Purchase of land	10,000	10,000	-	10,000	225
Liability insurance	929,790	772,109	657,741	114,368	726,137
Mayor's conference dues	-	-	-	-	6,506
Judgments and claims	130,000	130,000	87,101	42,899	173,350
Refunds and cancellations of taxes	200,000	250,000	238,061	11,939	362,006
Taxes on City property	-	84,464	84,464	-	43,735
Audit and accounting services	32,000	32,000	30,388	1,612	29,000
Metropolitan Commuter Transit Association tax	49,469	55,244	55,244	-	52,832
Disaster assistance	-	647,856	166,649	481,207	172,002
Labor negotiations	50,000	50,000	21,275	28,725	125,000
	4,822,234	5,749,222	4,582,176	1,167,046	5,013,982
PUBLIC SAFETY					
Police Department	7,800,236	7,897,242	7,892,705	4,537	7,809,203
Fire Department	3,005,678	3,050,150	3,000,016	50,134	2,896,344
Public safety programs	17,890	17,890	17,507	383	17,084
	10,823,804	10,965,282	10,910,228	55,054	10,722,631

TRANSPORTATION

Street maintenance	1,311,921	1,381,321	1,223,089	158,232	1,191,725
Snow and ice control	469,300	418,654	211,317	207,337	407,774
Street lighting	407,142	407,142	405,942	1,200	391,647
	<u>2,188,363</u>	<u>2,207,117</u>	<u>1,840,348</u>	<u>366,769</u>	<u>1,991,146</u>

ECONOMIC OPPORTUNITY AND DEVELOPMENT

Economic development	35,793	63,293	61,142	2,151	35,872
Veterans' Service Agency	1,000	1,000	1,000	-	1,000
Senior citizen's programs	300,754	300,754	236,264	64,490	237,678
	<u>337,547</u>	<u>365,047</u>	<u>298,406</u>	<u>66,641</u>	<u>274,550</u>

CULTURE AND RECREATION

General recreation	514,490	525,895	513,060	12,835	537,332
Parks	361,026	372,809	345,045	27,764	365,864
Playgrounds	55,340	59,000	46,676	12,324	48,846
Swimming pools	113,837	121,605	67,546	54,059	64,619
Community center	14,300	14,300	6,984	7,316	8,408
Day camp	70,000	82,320	77,495	4,825	65,608
Tennis program	500	500	-	500	-
Special programs	392,205	537,208	420,497	116,711	401,668
Historical society	2,500	2,500	2,500	-	2,500
Celebration of Memorial Day	1,000	1,000	1,000	-	1,000
Band concerts	2,000	2,000	1,900	100	-
	<u>1,527,198</u>	<u>1,719,137</u>	<u>1,482,703</u>	<u>236,434</u>	<u>1,495,845</u>

HOME AND COMMUNITY SERVICES

Zoning Board of Appeals	5,200	5,200	3,609	1,591	3,334
Planning Board	5,800	5,800	3,870	1,930	4,224
Human Rights Commission	100	100	-	100	-
Academy Avenue School	86,257	85,307	72,463	12,844	88,648
Waste collection	1,863,921	1,863,921	1,684,248	179,673	1,932,515
Street cleaning	19,170	19,170	16,708	2,462	20,639
Demolition of buildings	210,000	210,000	132,236	77,764	-
Hazard mitigation	-	11,563	4,018	7,545	-
Senate initiative	100	100	-	100	-
Nutrition for elderly	42,917	42,917	28,455	14,462	26,186
	<u>2,233,465</u>	<u>2,244,078</u>	<u>1,945,607</u>	<u>298,471</u>	<u>2,075,546</u>

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City of Middletown, New York

General Fund
 Schedule of Expenditures and Other Financing Uses Compared to Budget (Continued)
 Year Ended December 31, 2012
 (With Comparative Actuals for 2011)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2011 Actual
EMPLOYEE BENEFITS					
State retirement	\$ 753,145	\$ 891,321	\$ 890,459	\$ 862	\$ 731,140
Police and fire retirement	1,594,337	1,649,295	1,649,295	-	1,885,275
Social security	1,111,479	1,111,479	1,072,785	38,694	1,127,393
Workers' compensation benefits	2,107,540	1,793,852	1,814,922	(21,070)	2,406,948
Health, dental and optical insurance	4,832,972	4,935,878	4,582,945	352,933	4,024,795
Welfare fund	80,000	82,720	82,720	-	70,026
Unused sick leave	75,000	75,000	48,834	26,166	37,473
Unemployment benefits	43,780	14,040	12,109	1,931	41,848
Disability insurance	20,942	17,702	13,347	4,355	12,990
Meal allowance	1,000	1,000	-	1,000	-
	<u>10,620,195</u>	<u>10,572,287</u>	<u>10,167,416</u>	<u>404,871</u>	<u>10,337,888</u>
DEBT SERVICE					
Interest					
Bond anticipation notes	48,611	48,611	48,611	-	34,850
	<u>32,601,417</u>	<u>33,870,781</u>	<u>31,275,495</u>	<u>2,595,286</u>	<u>31,946,438</u>
TOTAL EXPENDITURES					
OTHER FINANCING USES					
Transfers out					
Capital Projects Fund	491,561	491,561	106,103	385,458	35,000
Debt Service Fund	946,838	946,838	946,838	-	997,498
	<u>1,438,399</u>	<u>1,438,399</u>	<u>1,052,941</u>	<u>385,458</u>	<u>1,032,498</u>
TOTAL OTHER FINANCING USES					
TOTAL EXPENDITURES AND OTHER FINANCING USES					
	<u>\$ 34,039,816</u>	<u>\$ 35,309,180</u>	<u>\$ 32,328,436</u>	<u>\$ 2,980,744</u>	<u>\$ 32,978,936</u>

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City of Middletown, New York

Community Development Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash		
Demand deposits	\$ 549,486	\$ 545,754
Receivables		
Accounts	4,908	11,672
Loans receivable, net of allowance for uncollectible amounts of \$442,050 in 2012 and \$814,723 in 2011	3,482,970	3,861,138
State and Federal aid	413,272	49,690
Due from other funds	4,771	3,318
	<u>3,905,921</u>	<u>3,925,818</u>
Total Assets	<u>\$ 4,455,407</u>	<u>\$ 4,471,572</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued liabilities	\$ 824	\$ 1,719
Due to State and Federal governments	-	34,745
Due to other funds	301,739	233,003
Unearned revenues	3,896,242	3,861,138
Total Liabilities	4,198,805	4,130,605
Fund balance		
Assigned	<u>256,602</u>	<u>340,967</u>
Total Liabilities and Fund Balance	<u>\$ 4,455,407</u>	<u>\$ 4,471,572</u>

City of Middletown, New York

Community Development Fund
Comparative Statement of Revenues, Expenditures and Changes in
Fund Balance
Years Ended December 31,

	<u>2012</u>	<u>2011</u>
REVENUES		
Departmental income	\$ 455,429	\$ 621,913
Use of money and property	697	6,208
Federal aid	<u>595,632</u>	<u>1,123,053</u>
 Total Revenues	 1,051,758	 1,751,174
EXPENDITURES		
Current		
Home and community services	<u>917,067</u>	<u>2,066,293</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>134,691</u>	 <u>(315,119)</u>
OTHER FINANCING USES		
Loans issued	-	54,454
Transfers out	<u>(219,056)</u>	<u>(207,247)</u>
 Total Other Financing Sources (Uses)	 <u>(219,056)</u>	 <u>(152,793)</u>
 Net Change in Fund Balance	 (84,365)	 (467,912)
 Fund Balance - Beginning of Year	 <u>340,967</u>	 <u>808,879</u>
 Fund Balance - End of Year	 <u>\$ 256,602</u>	 <u>\$ 340,967</u>

City of Middletown, New York

Water Fund
Comparative Balance Sheet
December 31,

	2012	2011
ASSETS		
Cash		
Demand deposits	\$ 1,757,307	\$ 812,200
Petty cash	200	200
	<u>1,757,507</u>	<u>812,400</u>
Receivables		
Accounts	24,770	15,171
Water rents, net of allowance for uncollectible amounts of \$470,108 in 2012 and \$305,406 in 2011	2,329,922	2,625,841
Due from other funds	804,239	800,768
	<u>3,158,931</u>	<u>3,441,780</u>
Prepaid expenditures	53,345	63,501
Total Assets	<u>\$ 4,969,783</u>	<u>\$ 4,317,681</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 144,579	\$ 146,299
Accrued liabilities	44,692	71,844
Due to other funds	2,741,550	1,939,284
Total Liabilities	<u>2,930,821</u>	<u>2,157,427</u>
Fund balance		
Nonspendable	53,345	63,501
Restricted	150,000	150,000
Assigned	1,835,617	1,946,753
Total Fund Balance	<u>2,038,962</u>	<u>2,160,254</u>
Total Liabilities and Fund Balance	<u>\$ 4,969,783</u>	<u>\$ 4,317,681</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,

	2012			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Departmental income	\$ 5,950,600	\$ 5,950,600	\$ 5,523,820	\$ (426,780)
Use of money and property	1,500	1,500	2,661	1,161
Licenses and permits	8,000	8,000	20,374	12,374
Sale of property and compensation for loss	-	-	1,100	1,100
Miscellaneous	2,000	27,000	28,775	1,775
Total Revenues	<u>5,962,100</u>	<u>5,987,100</u>	<u>5,576,730</u>	<u>(410,370)</u>
EXPENDITURES				
Current				
General government support	400,170	456,365	387,994	68,371
Home and community services	2,099,114	2,235,182	1,955,252	279,930
Employee benefits	739,372	725,177	658,299	66,878
Debt service				
Interest	35,926	35,926	33,071	2,855
Total Expenditures	<u>3,274,582</u>	<u>3,452,650</u>	<u>3,034,616</u>	<u>418,034</u>
Excess of Revenues Over Expenditures	2,687,518	2,534,450	2,542,114	7,664
OTHER FINANCING USES				
Transfers out	(2,663,413)	(2,663,413)	(2,663,406)	7
Net Change in Fund Balance	24,105	(128,963)	(121,292)	7,671
Fund Balance - Beginning of Year	(24,105)	128,963	2,160,254	2,031,291
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,038,962</u>	<u>\$ 2,038,962</u>

2011

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 5,904,848	\$ 5,904,848	\$ 5,773,911	\$ (130,937)
3,500	3,500	1,908	(1,592)
7,000	7,000	10,360	3,360
-	-	2,501	2,501
2,500	2,500	4,600	2,100
<u>5,917,848</u>	<u>5,917,848</u>	<u>5,793,280</u>	<u>(124,568)</u>
246,574	353,605	340,215	13,390
2,001,965	2,123,791	2,065,003	58,788
879,209	780,966	701,723	79,243
41,000	41,000	32,086	8,914
<u>3,168,748</u>	<u>3,299,362</u>	<u>3,139,027</u>	<u>160,335</u>
2,749,100	2,618,486	2,654,253	35,767
<u>(2,749,100)</u>	<u>(3,238,844)</u>	<u>(3,195,146)</u>	<u>43,698</u>
-	(620,358)	(540,893)	79,465
-	620,358	2,701,147	2,080,789
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,160,254</u>	<u>\$ 2,160,254</u>

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City of Middletown, New YorkSewer Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash		
Demand deposits	\$ 2,682,255	\$ 1,015,405
Petty cash	200	200
	<u>2,682,455</u>	<u>1,015,605</u>
Receivables		
Sewer rents, net of allowance for uncollectible amounts of \$410,593 in 2012 and \$273,913 in 2011	2,005,684	2,264,023
Due from other funds	154,895	44,993
	<u>2,160,579</u>	<u>2,309,016</u>
Prepaid expenditures	44,225	55,888
Total Assets	<u>\$ 4,887,259</u>	<u>\$ 3,380,509</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 83,576	\$ 121,955
Accrued liabilities	34,553	32,477
Due to other funds	1,579,191	529,032
Total Liabilities	<u>1,697,320</u>	<u>683,464</u>
Fund balance		
Nonspendable	44,225	55,888
Assigned	3,145,714	2,641,157
Total Fund Balance	<u>3,189,939</u>	<u>2,697,045</u>
Total Liabilities and Fund Balance	<u>\$ 4,887,259</u>	<u>\$ 3,380,509</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,

2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Departmental income	\$ 5,352,540	\$ 5,352,540	\$ 5,053,851	\$ (298,689)
Use of money and property	1,200	1,200	2,858	1,658
Licenses and permits	500	500	100	(400)
Miscellaneous	1,000	1,000	71,452	70,452
Total Revenues	<u>5,355,240</u>	<u>5,355,240</u>	<u>5,128,261</u>	<u>(226,979)</u>
EXPENDITURES				
Current				
General government support	272,544	261,718	241,675	20,043
Home and community services	1,963,971	1,986,122	1,775,212	210,910
Employee benefits	693,763	679,589	620,702	58,887
Debt service				
Interest	<u>133,705</u>	<u>158,705</u>	<u>95,881</u>	<u>62,824</u>
Total Expenditures	<u>3,063,983</u>	<u>3,086,134</u>	<u>2,733,470</u>	<u>352,664</u>
Excess of Revenues Over Expenditures	2,291,257	2,269,106	2,394,791	125,685
OTHER FINANCING USES				
Transfers out	<u>(1,765,086)</u>	<u>(1,765,086)</u>	<u>(1,901,897)</u>	<u>(136,811)</u>
Net Change in Fund Balance	526,171	504,020	492,894	(11,126)
Fund Balance - Beginning of Year	<u>(526,171)</u>	<u>(504,020)</u>	<u>2,697,045</u>	<u>3,201,065</u>
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,189,939</u>	<u>\$ 3,189,939</u>

2011

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 5,362,602	\$ 5,362,602	\$ 5,229,180	\$ (133,422)
2,500	2,500	1,474	(1,026)
500	500	-	(500)
1,000	1,000	846	(154)
<u>5,366,602</u>	<u>5,366,602</u>	<u>5,231,500</u>	<u>(135,102)</u>
106,311	135,114	118,737	16,377
2,030,383	2,174,053	2,005,222	168,831
752,304	722,831	558,683	164,148
<u>167,000</u>	<u>102,000</u>	<u>93,156</u>	<u>8,844</u>
<u>3,055,998</u>	<u>3,133,998</u>	<u>2,775,798</u>	<u>358,200</u>
2,310,604	2,232,604	2,455,702	223,098
<u>(2,310,604)</u>	<u>(2,375,604)</u>	<u>(1,860,587)</u>	<u>515,017</u>
-	(143,000)	595,115	738,115
<u>-</u>	<u>143,000</u>	<u>2,101,930</u>	<u>1,958,930</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,697,045</u>	<u>\$ 2,697,045</u>

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City of Middletown, New York

Capital Projects Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash		
Demand deposits	\$ 5,631,619	\$ 2,770,478
Restricted investments	<u>1,783,353</u>	<u>2,639,114</u>
Receivables		
State and Federal aid	89,445	89,444
Due from other governments	61,673	61,673
Due from other funds	<u>1,502,269</u>	<u>1,159,015</u>
	<u>1,653,387</u>	<u>1,310,132</u>
Total Assets	<u>\$ 9,068,359</u>	<u>\$ 6,719,724</u>
LIABILITIES AND FUND DEFICIT		
Liabilities		
Accounts payable	\$ 411,655	\$ 570,093
Retained percentages	102,097	279,978
Due to other funds	3,530,966	1,018,171
Unearned revenues	251,774	251,774
Loans payable	-	12,967,105
Bond anticipation notes payable	<u>12,193,529</u>	<u>11,170,769</u>
Total Liabilities	16,490,021	26,257,890
Fund deficit - Unassigned	<u>(7,421,662)</u>	<u>(19,538,166)</u>
Total Liabilities and Fund Deficit	<u>\$ 9,068,359</u>	<u>\$ 6,719,724</u>

City of Middletown, New York

Capital Projects Fund

Comparative Statement of Revenues, Expenditures and Changes
in Fund Balance

Years Ended December 31,

	<u>2012</u>	<u>2011</u>
REVENUES		
State aid	\$ 358,080	\$ 433,942
Federal aid	-	2,398,482
Miscellaneous	-	24,693
	<u>358,080</u>	<u>2,857,117</u>
Total Revenues	358,080	2,857,117
EXPENDITURES		
Capital outlay	<u>4,188,888</u>	<u>4,968,281</u>
	<u>(3,830,808)</u>	<u>(2,111,164)</u>
Deficiency of Revenues Over Expenditures	(3,830,808)	(2,111,164)
OTHER FINANCING SOURCES (USES)		
Bonds issued	17,843,203	-
Transfers in	507,269	1,149,744
Transfers out	<u>(2,403,160)</u>	<u>-</u>
	<u>15,947,312</u>	<u>1,149,744</u>
Total Other Financing Sources	15,947,312	1,149,744
Net Change in Fund Balance	12,116,504	(961,420)
Fund Deficit - Beginning of Year	<u>(19,538,166)</u>	<u>(18,576,746)</u>
Fund Deficit - End of Year	<u>\$ (7,421,662)</u>	<u>\$ (19,538,166)</u>

City of Middletown, New York

Debt Service Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash		
Demand deposits	\$ 2,545,379	\$ 2,525,857
Due from other funds	<u>3,442,601</u>	<u>970,354</u>
Total Assets	<u>\$ 5,987,980</u>	<u>\$ 3,496,211</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued interest	\$ 14,357	\$ 14,357
Due to other funds	<u>730,313</u>	<u>730,313</u>
Total Liabilities	744,670	744,670
Fund balance		
Restricted	<u>5,243,310</u>	<u>2,751,541</u>
Total Liabilities and Fund Balance	<u>\$ 5,987,980</u>	<u>\$ 3,496,211</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,

	2012			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Use of money and property	\$ -	\$ -	\$ 4,812	\$ 4,812
Miscellaneous	-	-	155,797	155,797
Total Revenues	-	-	160,609	160,609
EXPENDITURES				
Debt service				
Principal				
Bonds	2,695,000	2,695,000	2,350,000	345,000
Loans	143,454	143,454	143,454	-
Refunding bond issuance cost	-	-	-	-
	<u>2,838,454</u>	<u>2,838,454</u>	<u>2,493,454</u>	<u>345,000</u>
Interest				
Bonds	1,137,071	1,137,071	1,243,875	(106,804)
Loans	75,602	75,602	75,602	-
	<u>1,212,673</u>	<u>1,212,673</u>	<u>1,319,477</u>	<u>(106,804)</u>
Total Expenditures	4,051,127	4,051,127	3,812,931	238,196
Deficiency of Revenues Over Expenditures	<u>(4,051,127)</u>	<u>(4,051,127)</u>	<u>(3,652,322)</u>	<u>398,805</u>
OTHER FINANCING SOURCES (USES)				
Refunded Bonds issued	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-
Premium on bonds issued	-	-	-	-
Transfers in	4,051,127	4,051,127	6,216,091	2,164,964
Transfers out	-	-	(72,000)	(72,000)
Total Other Financing Sources	4,051,127	4,051,127	6,144,091	2,092,964
Net Change in Fund Balance	-	-	2,491,769	2,491,769
Fund Balance - Beginning of Year	-	-	2,751,541	2,751,541
Fund Balance - End of Year	\$ -	\$ -	\$ 5,243,310	\$ 5,243,310

2011

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 5,218	\$ 5,218
-	-	216,200	216,200
-	-	221,418	221,418
3,231,010	3,231,010	2,220,000	1,011,010
134,000	134,000	134,000	-
-	125,734	125,734	-
3,365,010	3,490,744	2,479,734	1,011,010
1,329,592	1,329,592	1,200,541	129,051
73,247	73,247	73,247	-
1,402,839	1,402,839	1,273,788	129,051
4,767,849	4,893,583	3,753,522	1,140,061
(4,767,849)	(4,893,583)	(3,532,104)	1,361,479
-	5,025,000	5,025,000	-
-	(5,030,779)	(5,030,779)	-
-	131,513	131,513	-
4,767,849	4,767,849	3,627,790	(1,140,059)
-	-	-	-
4,767,849	4,893,583	3,753,524	(1,140,059)
-	-	221,420	221,420
-	-	2,530,121	2,530,121
\$ -	\$ -	\$ 2,751,541	\$ 2,751,541

City of Middletown, New York

Non-Major Governmental Funds
Combining Balance Sheet
December 31, 2012
(With Comparative Totals for 2011)

	<u>Golden Area</u>	<u>Special Purpose</u>
ASSETS		
Cash		
Demand deposits	<u>\$ 44,838</u>	<u>\$ 75,829</u>
Receivables		
Due from other governments	12,728	-
Due from other funds	<u>15,451</u>	<u>-</u>
	<u>28,179</u>	<u>-</u>
Total Assets	<u><u>\$ 73,017</u></u>	<u><u>\$ 75,829</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 241	\$ -
Accrued liabilities	2,196	-
Due to other funds	<u>68,652</u>	<u>1,000</u>
Total Liabilities	<u>71,089</u>	<u>1,000</u>
Fund balances (deficits)		
Restricted	-	74,829
Assigned	1,928	-
Unassigned	<u>-</u>	<u>-</u>
Total Fund Balances	<u>1,928</u>	<u>74,829</u>
Total Liabilities and Fund Balances	<u><u>\$ 73,017</u></u>	<u><u>\$ 75,829</u></u>

Total Non-Major
Governmental Funds

2012	2011
\$ 120,667	\$ 522,290
12,728	8,284
15,451	7,800
28,179	16,084
<u>\$ 148,846</u>	<u>\$ 538,374</u>
\$ 241	\$ 338
2,196	2,941
69,652	484,929
72,089	488,208
74,829	56,586
1,928	-
-	(6,420)
76,757	50,166
<u>\$ 148,846</u>	<u>\$ 538,374</u>

City of Middletown, New York

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances
Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Golden Area	Special Purpose
	<u> </u>	<u> </u>
REVENUES		
Departmental income	\$ 137,987	\$ -
Use of money and property	24	533
Federal aid	21,981	-
Miscellaneous	-	31,286
	<u> </u>	<u> </u>
Total Revenues	159,992	31,819
	<u> </u>	<u> </u>
EXPENDITURES		
Current		
Public safety	-	13,576
Culture and recreation	151,644	-
	<u> </u>	<u> </u>
Total Expenditures	151,644	13,576
	<u> </u>	<u> </u>
Excess of Revenues Over Expenditures	8,348	18,243
Fund Balances (Deficits) - Beginning of Year	(6,420)	56,586
	<u> </u>	<u> </u>
Fund Balances - End of Year	<u>\$ 1,928</u>	<u>\$ 74,829</u>

Total Non-Major
Governmental Funds

2012	2011
137,987	\$ 101,059
557	292
21,981	15,098
31,286	36,920
<u>191,811</u>	<u>\$153,369</u>
13,576	18,575
<u>151,644</u>	<u>118,832</u>
<u>165,220</u>	<u>137,407</u>
26,591	15,962
<u>50,166</u>	<u>34,204</u>
<u><u>76,757</u></u>	<u><u>\$ 50,166</u></u>

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City of Middletown, New York

Golden Area Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 44,838	\$ 9,521
Demand deposits		
Receivables		
Due from other governments	12,728	8,284
Due from other funds	<u>15,451</u>	<u>7,800</u>
	<u>28,179</u>	<u>16,084</u>
Total Assets	<u><u>\$ 73,017</u></u>	<u><u>\$ 25,605</u></u>
LIABILITIES AND FUND BALANCE (DEFICIT)		
Liabilities		
Accounts payable	\$ 241	\$ 338
Accrued liabilities	2,196	2,941
Due to other funds	<u>68,652</u>	<u>28,746</u>
Total Liabilities	<u>71,089</u>	<u>32,025</u>
Fund balance (deficit)		
Assigned	1,928	-
Unassigned	<u>-</u>	<u>(6,420)</u>
Total Fund Balance (Deficit)	<u>1,928</u>	<u>(6,420)</u>
Total Liabilities and Fund Balance (Deficit)	<u><u>\$ 73,017</u></u>	<u><u>\$ 25,605</u></u>

City of Middletown, New York

Golden Area Fund

Comparative Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual

Years Ended December 31,

	2012			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Departmental income	\$ 137,475	\$ 137,475	\$ 137,987	\$ 512
Use of money and property	-	-	24	24
Federal aid	25,629	25,629	21,981	(3,648)
Total Revenues	163,104	163,104	159,992	(3,112)
EXPENDITURES				
Current				
Culture and recreation	163,104	163,104	151,644	11,460
Excess (Deficiency) of Revenues Over Expenditures	-	-	8,348	8,348
Fund Balance (Deficit)				
Beginning of Year	-	-	(6,420)	(6,420)
Fund Balance (Deficit) - End of Year	\$ -	\$ -	\$ 1,928	\$ 1,928

2011

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 101,968	\$ 101,968	\$ 101,059	\$ (909)
-	-	6	6
<u>20,858</u>	<u>20,858</u>	<u>15,098</u>	<u>(5,760)</u>
122,826	122,826	116,163	(6,663)
<u>122,826</u>	<u>122,826</u>	<u>118,832</u>	<u>3,994</u>
-	-	(2,669)	(2,669)
<u>-</u>	<u>-</u>	<u>(3,751)</u>	<u>(3,751)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,420)</u>	<u>\$ (6,420)</u>

City of Middletown, New York

Special Purpose Fund
Comparative Balance Sheet
December 31,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash		
Demand deposits	<u>\$ 75,829</u>	<u>\$ 512,769</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to other funds	\$ 1,000	\$ 456,183
Fund balance	<u>74,829</u>	<u>56,586</u>
Restricted		
Total Liabilities and Fund Balance	<u>\$ 75,829</u>	<u>\$ 512,769</u>

City of Middletown, New York

Special Purpose Fund
Comparative Statement of Revenues, Expenditures and
Changes in Fund Balance
Years Ended December 31,

	<u>2012</u>	<u>2011</u>
REVENUES		
Use of money and property	\$ 533	\$ 286
Miscellaneous	<u>31,286</u>	<u>36,920</u>
Total Revenues	31,819	37,206
EXPENDITURES		
Current		
Public safety	<u>13,576</u>	<u>18,575</u>
Excess of Revenues Over Expenditures	18,243	18,631
Fund Balance - Beginning of Year	<u>56,586</u>	<u>37,955</u>
Fund Balance - End of Year	<u>\$ 74,829</u>	<u>\$ 56,586</u>

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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***

Independent Auditors' Report

**The Honorable Mayor and Common Council
of the City of Middletown, New York**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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

O'Connor Davies, LLP

O'Connor Davies, LLP

Harrison, New York

June 12, 2013

**Report on Compliance For Each Major Federal Program and on
Internal Control Over Compliance**

Independent Auditor's Report

**The Honorable Mayor and the City Council
of the City of Middletown, New York**

Report on Compliance for Each Major Federal Program

We have audited the City of Middletown, New York's ("City") compliance with the types of compliance requirements described in the *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, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2012.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Town'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

O'Connor Davies, LLP

Harrison, New York

June 12, 2013

City of Middletown, New York

Schedule of Expenditures of Federal Awards
Year Ending December 31, 2012

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number (1)</u>	<u>Federal Program Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct Programs		
Community Development Block Grants/ State's Program	14.218	\$ 728,138
Block Grants - Brownfields Economic Development Initiative	14.246	<u>33,283</u>
Total U.S. Department of Housing and Urban Development		<u>761,421</u>
<u>U.S. Department of Justice</u>		
Indirect Program - Passed through New York State Department of Justice:		
Community Policing	16.710	<u>11,350</u>
Total U.S. Department of Justice		11,350
<u>U.S. Department of Health and Human Services</u>		
Direct Programs		
Substance Abuse and Mental Health Services	93.243	37,871
Support Mentoring Program	93.276	<u>92,161</u>
Total U.S. Department of Health and Human Services		<u>130,032</u>
<u>U.S. Department of Homeland Security</u>		
Indirect Program		
Passed through New York State Emergency Management Office Disaster Grants- Public Assistance	97.036	44,526
Direct Program - Assistance to Firefighters Grant	97.044	<u>21,981</u>
Total U.S. Department of Homeland Security		<u>66,507</u>
Total		<u>\$ 969,310</u>

(1) Catalog of Federal Domestic Assistance Number

City of Middletown, New York

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

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, 2012. Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the Schedule.

2. *Basis of Accounting*

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

3. *Relationship to Financial Statements*

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

City of Middletown, New York

Summary of Prior Audit Findings
Year Ended December 31, 2012

None

City of Middletown, New York

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I-Summary of Auditor's Results
Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

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

___ Yes X No

___ Yes X None reported

Noncompliance material to financial statements noted?

___ Yes X No

Federal Awards

Internal Control over major programs:

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

___ Yes X No

___ Yes X None reported

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

Unqualified

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

___ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Block Grant - Entitlement

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

\$300,000
 X Yes ___ No

City of Middletown, New York

Schedule of Findings and Questioned Costs (Concluded)
Year Ended December 31, 2012

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

