

City of Middletown, New York

Financial Statements and
Supplementary Information

Year Ended December 31, 2013

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**

Report on the Financial Statements

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, 2013, 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, 2013, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General, Water and Sewer funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP

500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.odpkf.com

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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 States, 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 May 29, 2014 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
May 29, 2014

City of Middletown, New York

Management's Discussion and Analysis (MD&A)
December 31, 2013

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, 2013. 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 2013 are as follows:

- On the government-wide financial statements, the assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,553,999. However, unrestricted net position, which is available to meet the ongoing obligations of the City, reflects a deficit of \$13,245,798 at December 31, 2013. The unrestricted net position decreased by \$5,295,310 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 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 \$10,735,168, a decrease of \$499,947 from the prior year. The fund balances of the Capital Projects Fund and Debt Service Fund decreased by \$1,767,804 and \$156,911, respectively. These decreases were offset by positive variances in the General Fund (\$634,112), Community Development Fund (\$43,575), Water Fund (\$226,839) and Sewer Fund (\$506,946).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,201,706, or 20% of total General Fund expenditures and other financing uses.
- At the end of the current fiscal year, the City had outstanding \$14,164,192 of bond anticipation notes issued for various purposes. These notes bear interest at an average of 1.0%. The proceeds were used to finance various capital projects.
- In 2013, the City retired \$2,420,000 of long-term bonded indebtedness.

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 two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as 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 two 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, Water Fund, Sewer Fund, Golden Area Fund and Debt Service Fund. A budgetary comparison statement has been provided for these funds 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 and deferred outflows of resources exceeded liabilities by \$27,553,999 at the close of the current fiscal year.

Net Position

	2013	2012
Current Assets	\$ 33,786,502	\$ 33,983,654
Capital Assets, net	90,261,307	91,446,600
Total Assets	124,047,809	125,430,254
Deferred Outflows of Resources	190,245	-
Current Liabilities	18,834,753	16,998,525
Long-term Liabilities	77,849,302	75,582,420
Total Liabilities	96,684,055	92,580,945
Net Position		
Net investment in capital assets	31,016,672	31,697,930
Restricted	9,783,125	10,380,006
Unrestricted	(13,245,798)	(9,228,627)
Total Net Position	\$ 27,553,999	\$ 32,849,309

*Not restated for GASB Statement No. 65

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 \$9,783,125 is as follows:

	2013	2012
Debt Service	\$ 5,086,399	\$ 5,243,310
Tax Stabilization	8,328	8,323
Unemployment Benefits	85,975	85,975
Future Capital Projects	190,000	190,000
Special Revenue	4,335,381	4,777,569
Special Purposes	77,042	74,829
	\$ 9,783,125	\$ 10,380,006

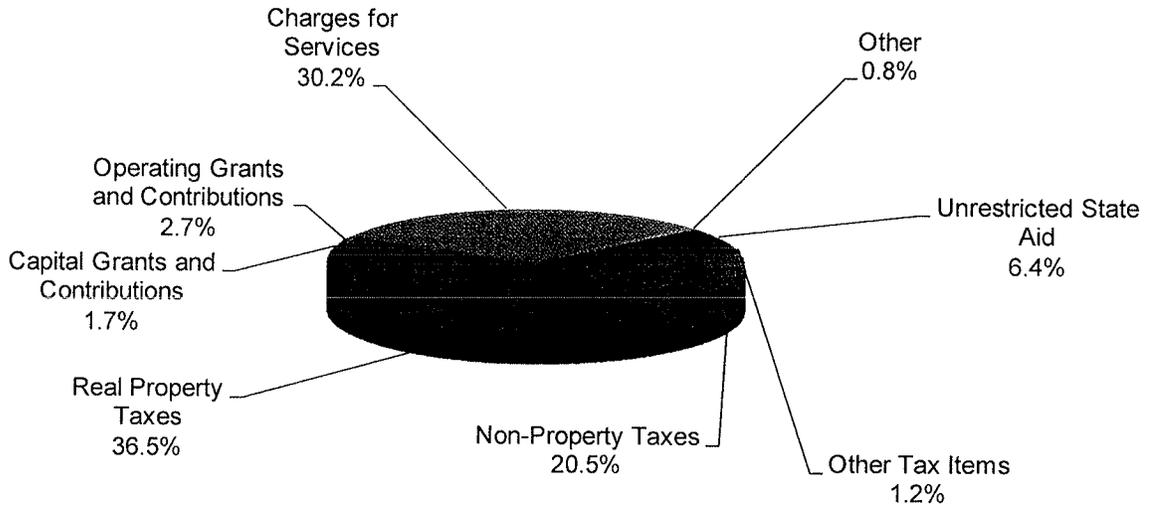
There is currently a deficit of unrestricted net position in the amount of \$13,245,798.

Changes in Net Position

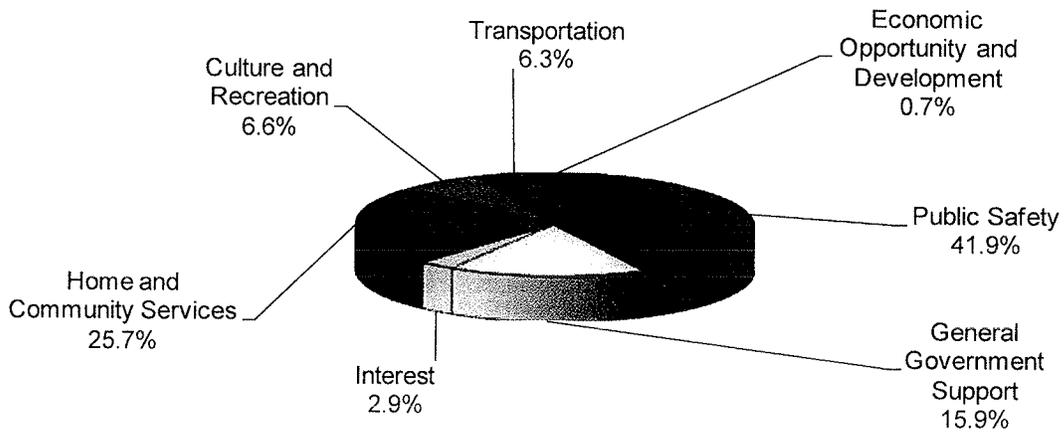
	2013	2012
REVENUES		
Program Revenues		
Charges for Services	\$ 14,443,875	\$ 13,193,919
Operating Grants and Contributions	1,277,133	1,220,266
Capital Grants and Contributions	819,340	518,689
General Revenues		
Real Property Taxes	17,466,017	17,996,833
Other Tax Items	564,276	577,604
Non-Property Taxes	9,796,663	9,664,486
Unrestricted Use of		
Money and Property	14,811	10,618
Sale of Property and		
Compensation for Loss	111,140	128,853
Unrestricted State Aid	3,060,592	3,030,995
Miscellaneous	25,339	126,081
Insurance recoveries	132,820	228,909
Sale of real property	153,370	-
	47,865,376	46,697,253
PROGRAM EXPENSES		
General Government Support	8,469,211	7,578,075
Public Safety	22,259,189	20,866,352
Transportation	3,362,798	2,954,698
Economic Opportunity and Development	375,036	457,771
Culture and Recreation	3,483,825	2,709,664
Home and Community Services	13,665,769	12,207,619
Interest	1,544,858	1,457,713
	53,160,686	48,231,892
Total Expenses		
Change in Net Position	(5,295,310)	(1,534,639)
NET POSITION		
Beginning	32,849,309	34,383,948
Ending	\$ 27,553,999	\$ 32,849,309

Governmental activities decreased the City's net position by \$5,295,310. This decrease is largely attributable to the other post employment benefit obligations, which increased \$4,270,000 in the current year.

**Sources of Revenue for Fiscal Year 2013
Governmental Activities**



**Expenses for Fiscal Year 2013
Governmental Activities**



For the fiscal year ended December 31, 2013, revenues from governmental activities totaled \$47.9 million. Tax revenues (\$27.8 million), comprised of real property taxes, other tax items and non-property taxes, represent the largest revenue sources (58%). Governmental activities' expenses of the City for the year ended December 31, 2013 totaled \$53.2 million. The largest components of these expenses are in the areas of public safety (42%) and home and community services (26%).

The major changes are as follows:

Revenues

- Real property taxes decreased by \$530,816. This is mainly due to the reduction in deferred tax revenue of approximately \$742,000, resulting in revenues received from a large tax lien sale in February 2014.
- Non-Property Taxes increased by \$132,177, as a result of increase in sales tax revenues received by the County.
- The City recognized revenues from the sale of a property in the amount of \$188,428.

Expenses:

- Public Safety increased by \$1,392,837. This was the result of increased police salaries and overtime, required retirement system contributions and the current year OPEB expenditure.
- Home and Community Services increased by \$1,458,150 as a result of an increase in the expenditures with the Community Development Fund, as well as the current year OPEB expenditures.

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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or an individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$10.7 million, a decrease of approximately \$499,947 from the prior year. Exclusive of the Capital Projects Fund, the combined fund balances total \$19.9 million. Of this amount, \$7.2 million constitutes unassigned fund balance. The nonspendable fund balance component is \$1.3 million, consisting prepaid expenditures. Restricted fund balance of \$4,843,727 is restricted for trusts, debt service, tax stabilization, unemployment benefits, and future capital projects. The assigned fund balance classification aggregates \$6,613,372, consisting primarily of amounts available to be used in the future at the City's discretion in funds other than the General Fund (\$300,177 in the Community Development Fund, \$2,051,902 in the Water Fund, \$3,644,265 in the Sewer Fund and \$13,011 in the Non-Major Funds). It also includes \$604,017 to balance the fiscal 2014 budget in the Debt Service Fund. The remaining fund balance is unassigned and represents the remaining positive fund balance in the General Fund of \$7,201,706 after amounts that have been restricted, committed or assigned for other purposes, offset by the deficit fund balance in the Capital Projects Fund of \$9,189,466.

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 \$8.5 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 20% of total General Fund expenditures and other financing uses, while total fund balance represents 23% of that same amount.

When the fiscal 2013 General Fund budget was adopted, it was anticipated that no funds would be used from fund balance. During the year, budget revisions increased the anticipated use to \$2,574,486 of fund balance. However, actual results of operations resulted in an increase in fund balance of \$634,112, a positive variance of approximately \$3.2 million.

These results were derived from expenditure savings combined with higher than anticipated revenues. Overall, General Fund expenditures and other financing uses were \$36.3 million, which was \$2.4 million, or 6%, less than the final budget. The major areas where spending was lower than budgeted were general government support (\$981,000), public safety (\$397,000) and employee benefits (\$395,000). The General Fund revenues were \$37.1 million, which was \$765,000, or 2%, more than the final budget. The largest revenue category that reflected a positive variance as compared to the budget was real property taxes (\$519,000).

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$3.3 million for 2013. This change was attributable to increases in the appropriation for various departments, including disaster assistance (\$843,000), police department (\$583,000), swimming pools (\$366,000) and police and fire retirement (\$797,000).

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2013, amounted to \$90.3 million (net of accumulated depreciation) as compared to \$91.4 million in 2012. This investment in capital assets includes land, buildings and improvements, improvements other than buildings and machinery and equipment.

Capital Assets (Net of Accumulated Depreciation)

	2013	2012
Land	\$ 3,822,955	\$ 3,822,955
Buildings and Improvements	56,130,723	58,587,076
Improvements Other than Buildings	1,411,136	1,610,608
Infrastructure	19,616,507	18,685,770
Machinery and Equipment	4,618,389	4,078,594
Construction-in-Progress	4,661,597	4,661,597
Total	\$ 90,261,307	\$ 91,446,600

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 \$50,088,202. 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 2013 fiscal year, the City retired \$2,420,000 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 Janet Gallo, Treasurer, City of Middletown, 16 James Street, Middletown, New York 10940.

City of Middletown, New York

Statement of Net Position
December 31, 2013

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Agency
ASSETS		
Cash and equivalents	\$ 16,243,636	\$ 121,673
Restricted investments	1,290,201	-
Receivables		
Taxes, net	3,506,604	-
Mortgages	250,000	-
Accounts	802,415	-
Loans, net	2,632,797	-
Sewer rents, net	2,083,970	-
Water rents, net	2,703,797	-
State and Federal aid	492,131	-
Due from other governments	2,515,122	-
Prepaid expenses	1,265,829	-
Capital assets		
Not being depreciated	8,484,552	-
Being depreciated, net	81,776,755	-
Total Assets	<u>124,047,809</u>	<u>121,673</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts on refunding bonds	190,245	-
LIABILITIES		
Accounts payable	1,210,232	-
Accrued liabilities	322,157	-
Accrued interest payable	481,728	-
Retained percentages	133,492	-
Due to State and Federal governments	35,290	-
Due to County for tax levy	136,108	-
Due to school district	1,909,960	-
Unearned revenues	441,594	-
Bond anticipation notes payable	14,164,192	-
Non-current liabilities		
Due within one year	3,546,203	-
Due in more than one year	74,303,099	-
Total Liabilities	<u>96,684,055</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	31,016,672	-
Restricted for		
Debt service	5,086,399	-
Tax stabilization	8,328	-
Unemployment benefits	85,975	-
Future capital projects	190,000	-
Special Revenue funds		
Community Development	1,360,213	-
Water	748,494	-
Sewer	2,226,674	-
Special purpose	77,042	-
Unrestricted	<u>(13,245,798)</u>	<u>121,673</u>
Total Net Position	<u>\$ 27,553,999</u>	<u>\$ 121,673</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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government support	\$ 8,469,211	\$ 1,136,018	\$ 165,892	\$ -
Public safety	22,259,189	404,913	245,590	-
Transportation	3,362,798	-	-	724,848
Economic opportunity and development	375,036	27,969	-	-
Culture and recreation	3,483,825	422,373	438,157	-
Home and community services	13,665,769	12,452,602	427,494	-
Interest	1,544,858	-	-	94,492
Total Governmental Activities	<u>\$ 53,160,686</u>	<u>\$ 14,443,875</u>	<u>\$ 1,277,133</u>	<u>\$ 819,340</u>
Component unit				
Industrial Development Agency	<u>\$ 26,200</u>	<u>\$ 102,482</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues
 Real property taxes
 Other tax items
 Payments in lieu of taxes
 Interest and penalties - Taxes
 Gain on sale of property acquired for 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
 Sale of real property

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 Position	
Primary Government	Component Unit
Governmental Activities	Industrial Development Agency
\$ (7,167,301)	\$ -
(21,608,686)	-
(2,637,950)	-
(347,067)	-
(2,623,295)	-
(785,673)	-
(1,450,366)	-
<u>(36,620,338)</u>	<u>-</u>
-	76,282
17,466,017	-
224,888	-
260,192	-
79,196	-
9,038,802	-
361,297	-
396,564	-
14,811	268
111,140	-
3,060,592	-
25,339	-
132,820	-
153,370	-
<u>31,325,028</u>	<u>268</u>
(5,295,310)	76,550
<u>32,849,309</u>	<u>45,123</u>
<u>\$ 27,553,999</u>	<u>\$ 121,673</u>

City of Middletown, New York

Balance Sheet
 Governmental Funds
 December 31, 2013

	General	Community Development	Water	Sewer
ASSETS				
Cash and equivalents	\$ 4,520,809	\$ 569,012	\$ 590,663	\$ 1,822,816
Restricted investments	-	-	-	-
Taxes receivable, net	3,506,604	-	-	-
Other receivables				
Mortgages	250,000	-	-	-
Accounts	317,804	6,821	21,331	-
Loans, net	-	2,632,797	-	-
Sewer rents, net	-	-	-	2,083,970
Water rents, net	-	-	2,703,797	-
State and Federal aid	400,215	612,692	-	-
Due from other governments	2,447,753	-	-	-
Due from other funds	1,476,069	360	2,972	1,166
	<u>4,891,841</u>	<u>3,252,670</u>	<u>2,728,100</u>	<u>2,085,136</u>
Prepaid expenditures	1,149,310	-	63,899	52,620
Total Assets	<u>\$ 14,068,564</u>	<u>\$ 3,821,682</u>	<u>\$ 3,382,662</u>	<u>\$ 3,960,572</u>
LIABILITIES, DEFERRED INFLOWS OF RE-SOURCES AND FUND BALANCES (DEFICITS)				
Liabilities				
Accounts payable	\$ 1,011,477	\$ -	\$ 77,698	\$ 34,437
Accrued liabilities	231,583	1,548	47,966	39,350
Accrued interest payable	-	-	-	-
Retained percentages	-	-	-	-
Due to State and Federal governments	35,290	-	-	-
Due to County for tax levy	136,108	-	-	-
Due to school district	1,909,960	-	-	-
Due to other funds	17,885	274,468	991,197	189,900
Unearned revenues	439,787	3,245,489	-	-
Bond anticipation notes payable	-	-	-	-
Total Liabilities	3,782,090	3,521,505	1,116,861	263,687
Deferred inflows of resources				
Deferred tax revenues	1,801,155	-	-	-
Total Liabilities and Deferred Inflows of Resources	<u>5,583,245</u>	<u>3,521,505</u>	<u>1,116,861</u>	<u>263,687</u>
Fund balances (deficits)				
Nonspendable	1,149,310	-	63,899	52,620
Restricted	134,303	-	150,000	-
Assigned	-	300,177	2,051,902	3,644,265
Unassigned	7,201,706	-	-	-
Total Fund Balances (Deficits)	<u>8,485,319</u>	<u>300,177</u>	<u>2,265,801</u>	<u>3,696,885</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 14,068,564</u>	<u>\$ 3,821,682</u>	<u>\$ 3,382,662</u>	<u>\$ 3,960,572</u>

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ 7,024,442	\$ 1,592,116	\$ 123,778	\$ 16,243,636
1,290,201	-	-	1,290,201
-	-	-	3,506,604
-	-	-	250,000
456,459	-	-	802,415
-	-	-	2,632,797
-	-	-	2,083,970
-	-	-	2,703,797
91,916	-	-	1,104,823
61,673	-	5,696	2,515,122
29,938	3,508,640	20,454	5,039,599
639,986	3,508,640	26,150	17,132,523
-	-	-	1,265,829
<u>\$ 8,954,629</u>	<u>\$ 5,100,756</u>	<u>\$ 149,928</u>	<u>\$ 39,438,793</u>
\$ 85,964	\$ -	\$ 656	\$ 1,210,232
-	-	1,710	322,157
-	14,357	-	14,357
133,492	-	-	133,492
-	-	-	35,290
-	-	-	136,108
-	-	-	1,909,960
3,508,640	-	57,509	5,039,599
251,807	-	-	3,937,083
14,164,192	-	-	14,164,192
18,144,095	14,357	59,875	26,902,470
-	-	-	1,801,155
18,144,095	14,357	59,875	28,703,625
-	-	-	1,265,829
-	4,482,382	77,042	4,843,727
-	604,017	13,011	6,613,372
(9,189,466)	-	-	(1,987,760)
(9,189,466)	5,086,399	90,053	10,735,168
<u>\$ 8,954,629</u>	<u>\$ 5,100,756</u>	<u>\$ 149,928</u>	<u>\$ 39,438,793</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, 2013

Fund Balances - Total Governmental Funds	\$ 10,735,168
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>90,261,307</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Real property taxes	1,801,155
Departmental income	2,632,797
Mortgage receivable	<u>250,000</u>
	<u>4,683,952</u>
Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.	
Deferred amounts on refunding bonds	<u>190,245</u>
Long-term liabilities that are not due and payable in the current period are not reported in the funds.	
Accrued interest payable	(467,371)
Bonds payable	(50,245,414)
Loans payable	(1,800,000)
Compensated absences	(2,980,633)
Claims payable	(4,343,255)
Other post employment benefit obligations payable	<u>(18,480,000)</u>
	<u>(78,316,673)</u>
Net Position of Governmental Activities	<u><u>\$ 27,553,999</u></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, 2013

	General	Community Development	Water	Sewer
REVENUES				
Real property taxes	\$ 18,208,306	\$ -	\$ -	\$ -
Other tax items	564,276	-	-	-
Non-property taxes	9,796,663	-	-	-
Departmental income	1,103,953	528,455	6,304,965	5,104,094
Intergovernmental charges	111,267	-	-	-
Use of money and property	208,634	643	1,303	2,133
Licenses and permits	296,274	-	10,787	300
Fines and forfeitures	397,097	-	-	-
Sale of property and compensation for loss	111,140	-	800	-
State aid	3,611,132	-	-	-
Federal aid	188,238	384,858	-	-
Miscellaneous	112,844	-	4,344	9,213
Total Revenues	34,709,824	913,956	6,322,199	5,115,740
EXPENDITURES				
Current				
General government support	4,874,687	-	414,409	278,313
Public safety	11,392,620	-	-	-
Transportation	1,994,194	-	-	-
Economic opportunity and development	375,036	-	-	-
Culture and recreation	2,050,231	-	-	-
Home and community services	2,164,314	663,405	2,189,101	1,880,546
Employee benefits	12,294,497	-	786,433	712,193
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	62,714	-	38,414	19,587
Total Expenditures	35,208,293	663,405	3,428,357	2,890,639
Excess (Deficiency) of Revenues Over Expenditures	(498,469)	250,551	2,893,842	2,225,101
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	132,820	-	-	-
Sale of real property	301,817	-	-	-
Transfers in	1,768,503	-	-	-
Transfers out	(1,070,559)	(206,976)	(2,667,003)	(1,718,155)
Total Other Financing Sources (Uses)	1,132,581	(206,976)	(2,667,003)	(1,718,155)
Net Change in Fund Balances	634,112	43,575	226,839	506,946
FUND BALANCES (DEFICITS)				
Beginning of Year	7,851,207	256,602	2,038,962	3,189,939
End of Year	<u>\$ 8,485,319</u>	<u>\$ 300,177</u>	<u>\$ 2,265,801</u>	<u>\$ 3,696,885</u>

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 18,208,306
-	-	-	564,276
-	-	-	9,796,663
-	-	104,094	13,145,561
-	-	-	111,267
-	4,248	103	217,064
-	-	-	307,361
-	-	-	397,097
-	-	-	111,940
624,848	-	-	4,235,980
-	-	-	573,096
100,000	90,244	47,444	364,089
<u>724,848</u>	<u>94,492</u>	<u>151,641</u>	<u>48,032,700</u>
-	-	-	5,567,409
-	-	23,534	11,416,154
-	-	-	1,994,194
-	-	-	375,036
-	-	114,811	2,165,042
-	-	-	6,897,366
-	-	-	13,793,123
2,659,530	-	-	2,659,530
-	2,550,000	-	2,550,000
-	1,428,715	-	1,549,430
<u>2,659,530</u>	<u>3,978,715</u>	<u>138,345</u>	<u>48,967,284</u>
<u>(1,934,682)</u>	<u>(3,884,223)</u>	<u>13,296</u>	<u>(934,584)</u>
-	-	-	132,820
-	-	-	301,817
166,878	3,978,715	-	5,914,096
-	(251,403)	-	(5,914,096)
<u>166,878</u>	<u>3,727,312</u>	<u>-</u>	<u>434,637</u>
<u>(1,767,804)</u>	<u>(156,911)</u>	<u>13,296</u>	<u>(499,947)</u>
<u>(7,421,662)</u>	<u>5,243,310</u>	<u>76,757</u>	<u>11,235,115</u>
<u>\$ (9,189,466)</u>	<u>\$ 5,086,399</u>	<u>\$ 90,053</u>	<u>\$ 10,735,168</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, 2013

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

Net Change in Fund Balances - Total Governmental Funds \$ (499,947)

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 depreciation expense exceeded capital outlay 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.

Capital outlay expenditures	2,584,213
Depreciation expense	<u>(3,432,631)</u>
	<u>(848,418)</u>

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

Real property taxes	(742,289)
Departmental income	(850,173)
Mortgages	<u>188,428</u>
	<u>(1,404,034)</u>

The net effect of transactions involving the sale of capital assets is to decrease net assets.

Sale of real property	<u>(336,875)</u>
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Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized on the statement of activities.

Principal paid on bonds	2,420,000
Principal paid on loans	130,000
Amortization of loss on refunding and premium	<u>(148,161)</u>
	<u>2,401,839</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest	11,667
Compensated absences	(131,194)
Claims	(218,348)
Other post employment benefit obligations	<u>(4,270,000)</u>
	<u>(4,607,875)</u>

Change in Net Position of Governmental Activities \$ (5,295,310)

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

City of Middletown, New York

Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
General, Water and Sewer Funds
Year Ended December 31, 2013

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Real property taxes	\$ 17,689,684	\$ 17,689,684	\$ 18,208,306	\$ 518,622
Other tax items	490,000	490,000	564,276	74,276
Non-property taxes	9,818,220	9,818,220	9,796,663	(21,557)
Departmental income	822,496	981,996	1,103,953	121,957
Intergovernmental charges	91,600	91,600	111,267	19,667
Use of money and property	209,600	209,600	208,634	(966)
Licenses and permits	192,000	192,000	296,274	104,274
Fines and forfeitures	353,000	353,000	397,097	44,097
Sale of property and compensation for loss	110,000	117,497	111,140	(6,357)
State aid	3,017,092	3,506,612	3,611,132	104,520
Federal aid	174,750	199,945	188,238	(11,707)
Miscellaneous	124,500	164,552	112,844	(51,708)
Total Revenues	33,092,942	33,814,706	34,709,824	895,118
EXPENDITURES				
Current				
General government support	4,740,194	5,855,864	4,874,687	981,177
Public safety	11,145,020	11,789,539	11,392,620	396,919
Transportation	2,229,106	2,265,133	1,994,194	270,939
Economic opportunity and development	398,441	400,238	375,036	25,202
Culture and recreation	1,450,167	2,160,587	2,050,231	110,356
Home and community services	2,211,218	2,415,278	2,164,314	250,964
Employee benefits	12,105,947	12,689,704	12,294,497	395,207
Debt service				
Interest	62,714	62,714	62,714	-
Total Expenditures	34,342,807	37,639,057	35,208,293	2,430,764
Excess (Deficiency) of Revenues Over Expenditures	(1,249,865)	(3,824,351)	(498,469)	3,325,882
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	65,000	65,000	132,820	67,820
Sale of real property	500,000	500,000	301,817	(198,183)
Transfers in	1,768,503	1,768,503	1,768,503	-
Transfers out	(1,083,638)	(1,083,638)	(1,070,559)	13,079
Total Other Financing Sources (Uses)	1,249,865	1,249,865	1,132,581	(117,284)
Net Change in Fund Balances	-	(2,574,486)	634,112	3,208,598
FUND BALANCES (DEFICITS)				
Beginning of Year	-	2,574,486	7,851,207	5,276,721
End of Year	\$ -	\$ -	\$ 8,485,319	\$ 8,485,319

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,258,400	6,258,400	6,304,965	46,565	4,993,000	4,993,000	5,104,094	111,094
-	-	-	-	-	-	-	-
300	300	1,303	1,003	12,000	12,000	2,133	(9,867)
13,000	13,000	10,787	(2,213)	400	400	300	(100)
-	-	-	-	-	-	-	-
1,000	1,000	800	(200)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,000	2,000	4,344	2,344	10,000	18,000	9,213	(8,787)
6,274,700	6,274,700	6,322,199	47,499	5,015,400	5,023,400	5,115,740	92,340
490,256	432,287	414,409	17,878	379,538	314,656	278,313	36,343
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,228,453	2,506,193	2,189,101	317,092	2,051,815	2,098,842	1,880,546	218,296
801,959	805,867	786,433	19,434	747,344	749,526	712,193	37,333
39,233	39,233	38,414	819	20,016	20,016	19,587	429
3,559,901	3,783,580	3,428,357	355,223	3,198,713	3,183,040	2,890,639	292,401
2,714,799	2,491,120	2,893,842	402,722	1,816,687	1,840,360	2,225,101	384,741
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2,667,010)	(2,667,010)	(2,667,003)	7	(1,718,156)	(1,718,156)	(1,718,155)	1
(2,667,010)	(2,667,010)	(2,667,003)	7	(1,718,156)	(1,718,156)	(1,718,155)	1
47,789	(175,890)	226,839	402,729	98,531	122,204	506,946	384,742
(47,789)	175,890	2,038,962	1,863,072	(98,531)	(122,204)	3,189,939	3,312,143
\$ -	\$ -	\$ 2,265,801	\$ 2,265,801	\$ -	\$ -	\$ 3,696,885	\$ 3,696,885

City of Middletown, New York

Statement of Assets and Liabilities

Fiduciary Fund

December 31, 2013

	<u>Agency</u>
ASSETS	
Cash and equivalents	\$ 693,853
Accounts receivable	<u>104,171</u>
Total Assets	<u>\$ 798,024</u>
LIABILITIES	
Accounts payable	\$ 488,848
Employee payroll deductions	35,743
Deposits	<u>273,433</u>
Total Liabilities	<u>\$ 798,024</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, 2013

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.

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 guidance 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, 2013.

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, 2013

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, 2013, 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.

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.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

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 \$250,000 for mortgages and \$189,787 for State and Federal aid not received after the ninety day availability period used for revenue recognition in the General Fund. The Community Development Fund reflects unearned revenues \$3,245,489 for grants and loans receivable. The City has also reported unearned revenues of \$251,807 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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

The City reported deferred outflows of resources of \$190,245 for a deferred loss on refunding bonds in the government-wide Statement of Net Position. This amount results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The City reported deferred inflows of resources of \$1,801,155 for real property taxes in the General Fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 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 expensed as incurred.

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 its 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 includes, 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Restricted fund balance is 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 is 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 is 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 City Council.

Assigned fund balance, in the General Fund, represents amounts constrained either by policies of the City Council for amounts assigned for balancing the subsequent year's budget or the City Comptroller for amounts assigned for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

In order to calculate the amounts to report as restricted and unrestricted fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. 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.

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 May 29, 2014.

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.

Note 2 - Stewardship, Compliance and Accountability (Continued)

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

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

B. Property Tax Limitation

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five year average full valuation of taxable real estate located within the City, exclusive of the amount raised for the payment of interest on and redemption of long-term debt. In accordance with this definition, the maximum amount of the levy for 2013 was \$34,927,032, inclusive of exclusions, which exceeded the actual levy by \$17,237,348.

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.

Note 2 - Stewardship, Compliance and Accountability (Continued)

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

C. Application of Accounting Standards

For the year ended December 31, 2013, the City implemented GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflow/inflows of resources, certain items that were previously reported as assets and liabilities. This statement also recognizes as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

D. Fund Deficits

The unassigned deficit in the Capital Projects Fund of \$9,189,466 arises because of the application of generally accepted accounting principles to the financial reporting of such funds. The proceeds of bond anticipation notes issued to finance construction of capital projects are not recognized as an "other financing source". Liabilities for bond anticipation loans payable are accounted for in the Capital Projects Fund. Bond anticipation notes are recognized as revenue only to the extent that they are redeemed. The deficit will be reduced and eliminated as bond anticipation notes are redeemed from interfund transfers from other governmental funds or converted to permanent financing.

Note 3 - Detailed Notes on All Funds

A. Restricted Investments

The restricted investments of \$1,290,201 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, 2013

Note 3 - Detailed Notes on All Funds (Continued)

B. Taxes Receivable

Taxes receivable at December 31, 2013 consisted of the following:

City and County taxes - Current and overdue	\$	1,578,765
School district taxes - Current and overdue		919,522
Tax sale certificates		1,008,317
Property acquired for taxes		<u>1,780,716</u>
		5,287,320
Allowance for uncollectible taxes		<u>(1,780,716)</u>
	\$	<u>3,506,604</u>

School district taxes are offset by liabilities to the school district, which will be paid when the warrants are required to be satisfied. Taxes receivable are also partially offset in the fund financial statements by deferred tax revenues of \$1,801,155, 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 \$250,000 at December 31, 2013. The mortgage is for the sale of real property and is payable in annual installments of \$50,000 for 5 years through February 2018, with no interest.

D. Due From/To Other Funds

The balances reflected as due from/to other funds at December 31, 2013 were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 1,476,069	\$ 17,885
Community Development	360	274,468
Water	2,972	991,197
Sewer	1,166	189,900
Capital Projects	29,938	3,508,640
Debt Service	3,508,640	-
Non-Major Governmental	<u>20,454</u>	<u>57,509</u>
	<u>\$ 5,039,599</u>	<u>\$ 5,039,599</u>

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.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 3 - Detailed Notes on All Funds (Continued)

E. Capital Assets

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

Class	Balance January 1, 2013	Reclassifications	January 1, 2013, as Restated	Additions	Deletions	Balance December 31, 2013
Governmental Activities						
Capital Assets, not being depreciated						
Land	\$ 3,822,955	\$ -	\$ 3,822,955	\$ -	\$ -	\$ 3,822,955
Construction-in-progress	4,661,597	-	4,661,597	-	-	4,661,597
Total Capital Assets, not being depreciated	<u>\$ 8,484,552</u>	<u>\$ -</u>	<u>\$ 8,484,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,484,552</u>
Capital Assets, being depreciated						
Buildings and improvements	\$ 72,912,457	\$ (826,250)	\$ 72,086,207	\$ 512,275	\$ 550,000	\$ 72,048,482
Improvements other than buildings	4,476,985	-	4,476,985	-	-	4,476,985
Infrastructure	27,127,366	419,180	27,546,546	1,069,294	-	28,615,840
Machinery and equipment	26,726,384	407,070	27,133,454	1,002,644	365,636	27,770,462
Total Capital Assets, being depreciated	<u>131,243,192</u>	<u>-</u>	<u>131,243,192</u>	<u>2,584,213</u>	<u>915,636</u>	<u>132,911,769</u>
Less Accumulated Depreciation for						
Buildings and improvements	14,325,381	-	14,325,381	1,805,503	213,125	15,917,759
Improvements other than buildings	2,866,377	-	2,866,377	199,472	-	3,065,849
Infrastructure	8,441,596	-	8,441,596	557,737	-	8,999,333
Machinery and equipment	22,647,790	-	22,647,790	869,919	365,636	23,152,073
Total Accumulated Depreciation	<u>48,281,144</u>	<u>-</u>	<u>48,281,144</u>	<u>3,432,631</u>	<u>578,761</u>	<u>51,135,014</u>
Total Capital Assets, being depreciated, net	<u>\$ 82,962,048</u>	<u>\$ -</u>	<u>\$ 82,962,048</u>	<u>\$ (848,418)</u>	<u>\$ 336,875</u>	<u>\$ 81,776,755</u>
Capital Assets, net	<u>\$ 91,446,600</u>	<u>\$ -</u>	<u>\$ 91,446,600</u>	<u>\$ (848,418)</u>	<u>\$ 336,875</u>	<u>\$ 90,261,307</u>

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

Governmental Activities	
General government support	\$ 266,095
Public safety	373,143
Transportation	299,001
Culture and recreation	125,044
Home and community services	<u>2,369,348</u>
Total Depreciation Expense	<u>\$ 3,432,631</u>

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 3 - Detailed Notes on All Funds (Continued)

F. Accrued Liabilities

Accrued liabilities at December 31, 2013 were as follows:

	Fund					Total Governmental
	General	Community Development	Water	Sewer	Non-Major Governmental	
Payroll and Employee Benefits	\$ 231,583	\$ 1,548	\$ 47,966	\$ 39,350	\$ 1,710	\$ 322,157

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 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, 2014 are as follows:

	Tier/Plan	Rate
ERS	1 75I	28.8%
	2 75I	26.2
	3 A14	21.0
	4 A15	21.0
	5 A15	16.9
	6 A15	11.4
PFRS	2 384D	28.4
	3 384D	27.5
	5 384D	27.1
	6 384D	16.0

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 3 - Detailed Notes on All Funds (Continued)

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

	<u>ERS</u>	<u>PFRS</u>
2013	\$ 1,387,692	\$ 2,961,257
2012	1,246,748	1,649,295
2011	1,013,489	1,885,275

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	\$ 961,104
Community Development	24,775
Water	221,972
Sewer	<u>179,841</u>
	<u>\$ 1,387,692</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, 2013

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, 2013	New Issues	Redemptions	Balance December 31, 2013
Bond Anticipation Notes							
Sewage Treatment Plant Reconstruction	2002	02/21/14	1.00 %	\$ 547,578	\$ -	\$ 7,578	\$ 540,000
Sewage Treatment Plant Reconstruction	2008	02/21/14	1.00	621,228	-	5,000	616,228
Purchase of Fire Trucks	2009	02/21/14	1.00	1,025,000	-	40,000	985,000
Water Supply System Reconstruction	2010	02/21/14	1.00	1,780,000	-	20,000	1,760,000
Machinery and Equipment	2010	02/21/14	1.00	541,000	-	37,000	504,000
Improvements to Building	2010	02/21/14	1.00	265,000	-	5,000	260,000
Pole Barn	2010	02/21/14	1.00	98,000	-	2,000	96,000
Water Meters Purchase	2010	02/21/14	1.00	97,000	-	3,000	94,000
Water and Sewer Mains	2010	02/21/14	1.00	99,000	-	1,000	98,000
Sewers Replacements	2010	02/21/14	1.00	149,000	-	1,000	148,000
Municipal Pool Improvements	2010	02/21/14	1.00	95,000	-	5,000	90,000
Recreations	2010	02/21/14	1.00	295,000	-	15,000	280,000
Senior Citizens Bus Purchase	2010	02/21/14	1.00	24,000	-	8,000	16,000
Water Treatment Plant - Phase 1	2010	02/21/14	1.00	29,500	-	300	29,200
Water Treatment Plant - Phase 2	2010	02/21/14	1.00	193,000	-	2,000	191,000
Mill Pond Water Main Replacements	2010	02/21/14	1.00	201,000	-	2,000	199,000
Garbage Truck	2010	02/21/14	1.00	30,000	-	2,000	28,000
Acquisition of Building - TD Bank	2011	02/21/14	1.00	575,000	-	10,000	565,000
Garbage Truck	2012	02/21/14	1.00	200,000	-	-	200,000
Reconstruction of fire truck	2012	02/21/14	1.00	375,000	-	-	375,000
Radio System Upgrade	2012	02/21/14	1.00	167,000	-	-	167,000
Purchase of Fire Trucks	2012	02/21/14	1.00	1,027,500	-	-	1,027,500
Purchase and installation of software	2012	02/21/14	1.00	325,000	-	-	325,000
Reconstruction & resurface of streets	2012	02/21/14	1.00	520,308	-	-	520,308
Purchase of Tompkins building	2012	02/21/14	1.00	672,000	-	-	672,000
Purchase of lawn mowers	2012	02/21/14	1.00	30,000	-	-	30,000
Improvements to steeples	2012	02/21/14	1.00	306,154	-	-	306,154
City Hall upgrades	2012	02/21/14	1.00	234,261	-	-	234,261
Replace Black Dirt Sewer Line (Elm St)	2012	02/21/14	1.00	1,250,000	-	-	1,250,000
Sewer System Costs	2012	02/21/14	1.00	421,000	-	1,000	420,000
Pool Renovations	2013	02/21/14	1.09	-	600,000	-	600,000
Drainage Improvements	2013	02/21/14	1.10	-	1,537,541	-	1,537,541
				<u>\$ 12,193,529</u>	<u>\$ 2,137,541</u>	<u>\$ 166,878</u>	<u>\$ 14,164,192</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 \$62,714, \$38,414 and \$19,587 were recorded in the fund financial statements in the General, Water and Sewer Funds, respectively.

Interest expense of \$124,574 was recorded in the government-wide financial statements for governmental activities.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

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, 2013.

	Balance January 1, 2013	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2013	Due Within One-Year
Bonds Payable	\$ 52,508,202	\$ -	\$ 2,420,000	\$ 50,088,202	\$ 2,468,203
Less					
Deferred Amounts on Refunding	184,945	-	27,733	157,212	-
	<u>52,693,147</u>	<u>-</u>	<u>2,447,733</u>	<u>50,245,414</u>	<u>2,468,203</u>
Loans Payable	<u>1,930,000</u>	<u>-</u>	<u>130,000</u>	<u>1,800,000</u>	<u>135,000</u>
Other Non-current Liabilities					
Compensated Absences	2,849,439	416,194	285,000	2,980,633	298,000
Claims Payable	4,124,907	917,964	699,616	4,343,255	645,000
Other post employment benefit obligation payable	<u>14,210,000</u>	<u>6,020,000</u>	<u>1,750,000</u>	<u>18,480,000</u>	<u>-</u>
Total Other Non-Current Liabilities	<u>21,184,346</u>	<u>7,354,158</u>	<u>2,734,616</u>	<u>25,803,888</u>	<u>943,000</u>
Total Long-Term Liabilities	<u>\$ 75,807,493</u>	<u>\$ 7,354,158</u>	<u>\$ 5,312,349</u>	<u>\$ 77,849,302</u>	<u>\$ 3,546,203</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, 2013 are comprised of the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rates	Amount Outstanding at December 31, 2013
Water Purposes	2004	\$ 3,397,093	May, 2023	3.5150 - 4.475 %	\$ 1,895,000
Refunding	2005	5,530,000	October, 2017	4.2520 - 4.917	2,150,000
Environmental Facilities Corporation	2006	3,671,027	April, 2036	4.1110 - 4.861	3,040,000
Public Improvement	2007	5,210,000	July, 2028	4.0000 - 5.000	4,139,999
Environmental Facilities Corporation	2008	20,161,142	April, 2038	4.270	17,665,000
Refunding	2011	5,025,000	August, 2021	2.0000 - 3.000	4,085,000
Environmental Facilities Corporation	2012	17,843,203	November, 2042	.4450 - 4.269	17,113,203
					<u>\$ 50,088,202</u>

Interest expenditures of \$1,351,739 were recorded in the fund financial statements in the Debt Service Fund.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 3 - Detailed Notes on All Funds (Continued)

Interest expense of \$1,343,308 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 \$76,976 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, 2013 including interest payments of \$25,632,359 are as follows:

Year Ending December 31,	Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 2,468,203	\$ 1,883,244	\$ 135,000	\$ 72,875	\$ 2,603,203	\$ 1,956,119
2015	2,519,999	1,808,697	135,000	68,282	2,654,999	1,876,979
2016	2,600,001	1,724,147	135,000	63,425	2,735,001	1,787,572
2017	2,665,000	1,631,488	135,000	58,321	2,800,000	1,689,809
2018	2,140,000	1,534,356	141,000	53,004	2,281,000	1,587,360
2019-2023	10,255,000	6,592,222	645,000	173,762	10,900,000	6,765,984
2024-2028	8,429,999	4,882,442	390,000	54,003	8,819,999	4,936,445
2029-2033	7,640,000	3,257,436	84,000	4,948	7,724,000	3,262,384
2034-2038	8,655,000	1,535,340	-	-	8,655,000	1,535,340
2039-2042	2,715,000	234,367	-	-	2,715,000	234,367
	<u>\$ 50,088,202</u>	<u>\$ 25,083,739</u>	<u>\$ 1,800,000</u>	<u>\$ 548,620</u>	<u>\$ 51,888,202</u>	<u>\$ 25,632,359</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 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

Note 3 - Detailed Notes on All Funds (Continued)

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>2013</u>	<u>2012</u>
Balance - Beginning of Year	\$ 4,124,907	\$ 3,754,864
Provision for Claims and Claims Adjustment Expenses	917,964	1,004,201
Claims and Claims Adjustment Expenses Paid	<u>(699,616)</u>	<u>(634,158)</u>
Balance - End of Year	<u>\$ 4,343,255</u>	<u>\$ 4,124,907</u>
Due Within One Year	<u>\$ 645,000</u>	<u>\$ 595,000</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 \$69,925 for Medicare Part D payments made directly to its health insurance carrier on behalf of its retirees.

Note 3 - Detailed Notes on All Funds (Continued)

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

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

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

<u>Year Ended</u> <u>December 31,</u>	<u>Health Care</u> <u>Cost Trend</u> <u>Rates</u>
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 24 years remaining in the amortization period. There is no inflation rate assumed which results in a default to level dollar amortization method. The actuarial assumptions included a 4.5% investment rate of return. The City currently has no assets set aside for the purpose of paying postemployment benefits. The actuarial cost method utilized was the projected unit credit method.

City of Middletown, New York

Notes to Financial Statements (Continued)
December 31, 2013

Note 3 - Detailed Notes on All Funds (Continued)

The number of participants as of December 31, 2013 was as follows:

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

Amortization Component:	
Actuarial Accrued Liability as of January 1, 2013	\$ 68,700,000
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability	<u>\$ 68,700,000</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (active plan members)	<u>\$ 18,260,000</u>
UAAL as a Percentage of Covered Payroll	<u>376.23%</u>
Annual Required Contribution	\$ 6,220,000
Interest on Net OPEB Obligation	640,000
Adjustment to Annual Required Contribution	<u>(840,000)</u>
Annual OPEB Cost	6,020,000
Contributions Made	<u>(1,750,000)</u>
Increase in Net OPEB Obligation	4,270,000
Net OPEB Obligation - Beginning of Year	<u>14,210,000</u>
Net OPEB Obligation - End of Year	<u>\$ 18,480,000</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>
2013	\$ 6,020,000	29.07 %	\$ 18,480,000
2012	5,780,000	28.70	14,210,000
2011	5,000,000	35.60	10,090,000

City of Middletown, New York

Notes to Financial Statements (Continued)

December 31, 2013

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	\$ -	\$ 124,000	\$ 946,559	\$ 1,070,559
Community Development Fund	-	-	206,976	206,976
Water Fund	930,000	28,300	1,708,703	2,667,003
Sewer Fund	587,100	14,578	1,116,477	1,718,155
Debt Service Fund	251,403	-	-	251,403
	<u>\$ 1,768,503</u>	<u>\$ 166,878</u>	<u>\$ 3,978,715</u>	<u>\$ 5,914,096</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, 2013

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 amounts 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, 2013

Note 3 - Detailed Notes on All Funds (Continued)

L. Fund Balances

	2013										2012									
	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	\$ 1,148,310	-	\$ 63,899	\$ 52,620	-	-	\$ -	\$ 1,265,829	\$ 712,532	-	\$ 53,245	\$ 44,225	-	-	-	\$ 810,102				
Prepaid expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Restricted	8,328	-	-	-	-	-	-	8,328	8,323	-	-	-	-	-	-	8,323				
Tax stabilization	85,975	-	-	-	-	-	-	85,975	85,975	-	-	-	-	-	-	85,975				
Unemployment benefits	40,000	-	150,000	-	-	-	-	190,000	40,000	150,000	-	-	-	-	-	190,000				
Future capital projects	-	-	-	-	-	-	77,042	77,042	-	-	-	-	-	-	74,829	74,829				
Trusts	-	-	-	-	-	-	-	4,482,382	-	-	-	-	-	-	-	4,991,907				
Debt service	-	-	-	-	-	4,482,382	-	4,482,382	-	-	-	-	-	-	-	4,991,907				
Total Restricted	134,303	-	150,000	-	-	4,482,382	77,042	4,843,727	134,298	-	150,000	-	-	-	74,829	5,351,034				
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Subsequent year's expenditures	-	300,177	2,051,902	3,644,265	-	604,017	-	604,017	-	256,602	1,835,617	3,145,714	-	251,403	-	251,403				
Major Funds	-	-	-	-	-	-	13,011	5,896,344	-	-	-	-	-	-	-	5,237,933				
Non-Major - Golden Area	-	-	-	-	-	-	-	13,011	-	-	-	-	-	-	1,928	1,928				
Total Assigned	-	300,177	2,051,902	3,644,265	-	604,017	13,011	6,613,372	-	256,602	1,835,617	3,145,714	-	251,403	1,928	5,491,284				
Unassigned	7,201,705	-	-	-	(9,189,466)	-	-	(1,987,760)	7,004,377	-	-	-	(7,421,662)	-	-	(417,285)				
Total Fund Balances (Deficits)	\$ 8,485,319	\$ 300,177	\$ 2,265,801	\$ 3,696,885	\$ (9,189,466)	\$ 5,086,399	\$ 90,053	\$ 10,735,168	\$ 7,851,207	\$ 256,602	\$ 2,038,862	\$ 3,189,939	\$ (7,421,662)	\$ 5,243,310	\$ 76,757	\$ 11,235,115				

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.

Subsequent year's expenditures represent that at December 31, 2013, the City Council has assigned the above amounts to be appropriated for the ensuing year's budget.

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 reinstatement with back pay. On November 15, 2012, the City filed a cross motion to dismiss the petition. A decision was made granting the former employee's Petition and ordering a hearing on the Judgment. The City filed a Notice of Appeals with New York State Appellate Division, Second Judicial Department. If the former employee is successful, the City may be liable for back pay, from April 27, 2012 to the present. In addition, the former employee reserves the right to seek adjudication in the United States Court for the Southern District for alleged claims that the City's actions violated their civil rights. The City continues to vigorously defend its decision.

The Civil Service Employee Association ("CSEA") filed a demand for arbitration on or about November 2013, and an improper practice charge with the NYS Public Employment Relations Board ("PERB") in December 2013, regarding the City's decision to layoff an employee. In both the arbitration and improper practice charge, the CSEA seeks the reinstatement of the employee to the payroll, included the back pay for the period they were laid off, covering the period August 2013 to the present. Both charges are pending at this time. The City will continue to aggressively defend its decision.

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

On or about October, 2013, a former employee of the City of Middletown, filed an Article 78 in the Supreme Court of Orange County alleging that the City improperly terminated their employment in violation of Civil Service Law Section 71. In December 2013, a decision was issued, dismissing the claim in its entirety. A Notice of Appeal was then filed in the New York State Appellate Division, Second Judicial Department. To date, the Appeal has not been perfected. Should the plaintiff be successful with the Appeal, they may be reinstated to the payroll and entitled to back pay from the date of termination, July 14, 2013, in an amount that has yet to be determined. The City will continue to aggressively defend its decision.

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 \$10 million per occurrence and 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 2011 and 2012 the City sold \$526,474 and \$649,032, 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.

City of Middletown, New York

Notes to Financial Statements (Concluded)
December 31, 2013

Note 5 - Subsequent Events

The City, in February 2014 issued serial bonds in the amount of \$6,292,900 to redeem portions of bond anticipation notes outstanding at December 31, 2013. The bonds mature annually through February 2039 with interest at various rates, depending on maturity.

The City, on February 20, 2014 issued bond anticipation notes in the amount of \$7,404,041. The notes are due on February 20, 2015, with interest at 1.00%. The proceeds were used to renew portions of bond anticipation notes outstanding at December 31, 2013.

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, 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
January 1, 2013	-	68,700,000	68,700,000	-	18,260,000	376.23

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City of Middletown, New York

General Fund
Comparative Balance Sheet
December 31,

	2013	2012
ASSETS		
Cash and equivalents	\$ 4,520,809	\$ 2,052,215
Taxes receivable		
City and County taxes	1,578,765	1,594,901
School district taxes	919,522	1,235,180
Tax sale certificates	1,008,317	1,221,978
Property acquired for taxes	1,780,716	1,546,523
	5,287,320	5,598,582
Allowance for uncollectible taxes	(1,780,716)	(1,546,523)
	3,506,604	4,052,059
Other receivables		
Mortgages	250,000	61,572
Accounts	317,804	670,375
State and Federal aid	400,215	71,530
Due from other governments	2,447,753	2,628,897
Due from other funds	1,476,069	3,416,864
	4,891,841	6,849,238
Prepaid expenditures	1,149,310	712,532
Total Assets	\$ 14,068,564	\$ 13,666,044
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 1,011,477	\$ 691,000
Accrued liabilities	231,583	155,035
Due to State and Federal governments	35,290	40,976
Due to County for tax levy	136,108	165,465
Due to school district	1,909,960	1,484,017
Due to other funds	17,885	387,679
Unearned revenues	439,787	347,221
Total Liabilities	3,782,090	3,271,393
Deferred inflows of resources		
Deferred tax revenues	1,801,155	2,543,444
Total Liabilities and Deferred Inflows of Resources	5,583,245	5,814,837
Fund balance		
Nonspendable	1,149,310	712,532
Restricted	134,303	134,298
Unassigned	7,201,706	7,004,377
Total Fund Balance	8,485,319	7,851,207
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 14,068,564	\$ 13,666,044

City of Middletown, New York

General Fund
 Comparative Schedule of Revenues, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Years Ended December 31,

2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Real property taxes	\$ 17,689,684	\$ 17,689,684	\$ 18,208,306	\$ 518,622
Other tax items	490,000	490,000	564,276	74,276
Non-property taxes	9,818,220	9,818,220	9,796,663	(21,557)
Departmental income	822,496	981,996	1,103,953	121,957
Intergovernmental charges	91,600	91,600	111,267	19,667
Use of money and property	209,600	209,600	208,634	(966)
Licenses and permits	192,000	192,000	296,274	104,274
Fines and forfeitures	353,000	353,000	397,097	44,097
Sale of property and compensation for loss	110,000	117,497	111,140	(6,357)
State aid	3,017,092	3,506,612	3,611,132	104,520
Federal aid	174,750	199,945	188,238	(11,707)
Miscellaneous	124,500	164,552	112,844	(51,708)
Total Revenues	33,092,942	33,814,706	34,709,824	895,118
EXPENDITURES				
Current				
General government support	4,740,194	5,855,864	4,874,687	981,177
Public safety	11,145,020	11,789,539	11,392,620	396,919
Transportation	2,229,106	2,265,133	1,994,194	270,939
Economic opportunity and development	398,441	400,238	375,036	25,202
Culture and recreation	1,450,167	2,160,587	2,050,231	110,356
Home and community services	2,211,218	2,415,278	2,164,314	250,964
Employee benefits	12,105,947	12,689,704	12,294,497	395,207
Debt service				
Interest	62,714	62,714	62,714	-
Total Expenditures	34,342,807	37,639,057	35,208,293	2,430,764
Excess (Deficiency) of Revenues Over Expenditures	(1,249,865)	(3,824,351)	(498,469)	3,325,882
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	65,000	65,000	132,820	67,820
Sale of real property	500,000	500,000	301,817	(198,183)
Transfers in	1,768,503	1,768,503	1,768,503	-
Transfers out	(1,083,638)	(1,083,638)	(1,070,559)	13,079
Total Other Financing Sources	1,249,865	1,249,865	1,132,581	(117,284)
Net Change in Fund Balance	-	(2,574,486)	634,112	3,208,598
FUND BALANCE				
Beginning of Year	-	2,574,486	7,851,207	5,276,721
End of Year	\$ -	\$ -	\$ 8,485,319	\$ 8,485,319

2012

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 17,342,827	\$ 17,342,827	\$ 16,169,151	\$ (1,173,676)
516,000	516,000	577,604	61,604
8,945,000	8,945,000	9,664,486	719,486
837,903	852,723	887,632	34,909
80,500	80,500	115,518	35,018
215,696	215,696	213,175	(2,521)
183,500	183,500	221,259	37,759
334,000	334,000	409,611	75,611
106,000	106,000	135,244	29,244
3,033,093	3,105,493	3,230,073	124,580
112,500	657,526	185,908	(471,618)
178,697	295,637	204,353	(91,284)
<u>31,885,716</u>	<u>32,634,902</u>	<u>32,014,014</u>	<u>(620,888)</u>
4,822,234	5,749,222	4,582,176	1,167,046
10,823,804	10,965,282	10,910,228	55,054
2,188,363	2,207,117	1,840,348	366,769
337,547	365,047	298,406	66,641
1,527,198	1,719,137	1,482,703	236,434
2,233,465	2,244,078	1,945,607	298,471
10,620,195	10,572,287	10,167,416	404,871
48,611	48,611	48,611	-
<u>32,601,417</u>	<u>33,870,781</u>	<u>31,275,495</u>	<u>2,595,286</u>
<u>(715,701)</u>	<u>(1,235,879)</u>	<u>738,519</u>	<u>1,974,398</u>
65,000	89,158	228,909	139,751
500,000	500,000	19,780	(480,220)
1,589,100	1,589,100	1,589,100	-
(1,438,399)	(1,438,399)	(1,052,941)	385,458
<u>715,701</u>	<u>739,859</u>	<u>784,848</u>	<u>44,989</u>
-	(496,020)	1,523,367	2,019,387
-	496,020	6,327,840	5,831,820
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,851,207</u>	<u>\$ 7,851,207</u>

City of Middletown, New York

General Fund

Schedule of Revenues and Other Financing Sources Compared to Budget

Year Ended December 31, 2013

(With Comparative Actuals for 2012)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2012 Actual
REAL PROPERTY TAXES	\$ 17,689,684	\$ 17,689,684	\$ 18,208,306	\$ 518,622	\$ 16,169,151
OTHER TAX ITEMS					
Payments in lieu of taxes	260,000	260,000	224,888	(35,112)	340,689
Interest and penalties - Taxes	230,000	230,000	260,192	30,192	236,915
Gain on sale of property acquired for taxes	-	-	79,196	79,196	-
	490,000	490,000	564,276	74,276	577,604
NON-PROPERTY TAXES					
Non-property tax distribution from County	9,028,220	9,028,220	9,038,802	10,582	8,895,738
Franchise fees - Cable TV	350,000	350,000	361,297	11,297	381,812
Utilities gross receipts taxes	440,000	440,000	396,564	(43,436)	386,936
	9,818,220	9,818,220	9,796,663	(21,557)	9,664,486
DEPARTMENTAL INCOME					
Treasurer	95,000	95,000	95,980	980	90,630
City Clerk fees	6,500	6,500	6,079	(421)	6,542
Tax sale advertising	40,000	40,000	111,736	71,736	56,454
Police Department fees	4,000	4,000	7,816	3,816	5,522
Vital statistics	36,000	36,000	27,969	(8,031)	32,219
Public works service fee	110,000	110,000	167,201	57,201	81,113
Building department fees	184,000	214,000	243,380	29,380	194,050
Parks and recreation fees	18,000	18,000	16,310	(1,690)	18,910
Pool fees	15,500	15,500	11,537	(3,963)	11,047
Day camp fees	87,000	87,000	95,939	8,939	87,016
Special recreation program fees	30,500	35,000	35,391	391	41,492
Zoning board fees	3,000	3,000	3,500	500	300
Planning Board fees	5,000	5,000	44,525	39,525	37,352
Tax collection fees	120,000	120,000	77,488	(42,512)	123,382
Paramount Theatre	10,000	30,000	10,650	(19,350)	15,053
Movie and theatre ticket sales	-	105,000	114,042	9,042	-
Other departmental fees	57,996	57,996	34,410	(23,586)	86,550
	822,496	981,996	1,103,953	121,957	887,632

INTERGOVERNMENTAL CHARGES
Charges for services to other governments

91,600	91,600	111,267	19,667	115,518
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USE OF MONEY AND PROPERTY

7,500	7,500	14,820	7,320	10,627
202,000	202,000	193,687	(8,313)	202,357
100	100	127	27	191
209,600	209,600	208,634	(966)	213,175

LICENSES AND PERMITS

55,000	55,000	59,974	4,974	48,115
1,500	1,500	2,532	1,032	2,841
17,000	17,000	15,860	(1,140)	14,879
4,500	4,500	5,698	1,198	3,699
110,000	110,000	206,869	96,869	146,837
4,000	4,000	5,341	1,341	4,888
192,000	192,000	296,274	104,274	221,259

FINES AND FORFEITURES

350,000	350,000	394,472	44,472	408,686
3,000	3,000	2,625	(375)	925
353,000	353,000	397,097	44,097	409,611

SALE OF PROPERTY AND COMPENSATION FOR LOSS

10,000	10,000	6,999	(3,001)	6,391
100,000	107,497	104,141	(3,356)	24,684
110,000	117,497	111,140	(6,357)	97,778
2,700,000	2,700,000	2,705,826	5,826	128,853

STATE AID

250,000	250,000	354,766	104,766	2,705,826
14,592	14,592	21,258	6,666	325,169
2,500	2,500	13,813	11,313	-
50,000	50,000	32,338	(17,662)	5,914
-	6,000	5,386	(614)	2,319
-	2,520	-	(2,520)	34,367
-	81,000	84,324	3,324	5,100
-	-	23,966	23,966	2,281
-	400,000	369,455	(30,545)	73,430
-	-	-	-	14,842
-	-	-	-	-
3,017,092	3,506,612	3,611,132	104,520	60,825
				3,230,073

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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, 2013

(With Comparative Actuals for 2012)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2012 Actual
FEDERAL AID					
Impact grant	\$ 81,000	\$ 81,000	\$ -	\$ (81,000)	\$ -
Disaster assistance	-	-	71,896	71,896	44,526
Drug Free Communities Support Grant	93,750	118,945	116,342	(2,603)	141,382
	174,750	199,945	188,238	(11,707)	185,908
MISCELLANEOUS					
Refund of prior year's expenditures	75,000	75,000	7,838	(67,162)	96,190
Urban renewal grant recycle	-	25,000	25,000	-	29,998
Teen violence	19,500	19,500	25,622	6,122	18,878
Safe schools	-	-	-	-	48,274
Employment and training	-	-	36,883	36,883	-
Other	30,000	45,052	17,501	(27,551)	11,013
	124,500	164,552	112,844	(51,708)	204,353
TOTAL REVENUES	33,092,942	33,814,706	34,709,824	895,118	32,007,623
OTHER FINANCING SOURCES					
Insurance recoveries	65,000	65,000	132,820	67,820	228,909
Sale of real property	500,000	500,000	301,817	(198,183)	26,171
Transfers in					
Debt Service Fund	251,403	251,403	251,403	-	72,000
Water Fund	930,000	930,000	930,000	-	930,000
Sewer Fund	587,100	587,100	587,100	-	587,100
	2,333,503	2,333,503	2,203,140	(130,363)	1,844,180
TOTAL OTHER FINANCING SOURCES					
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 35,426,445	\$ 36,148,209	\$ 36,912,964	\$ 764,755	\$ 33,851,803

City of Middletown, New York

General Fund

Schedule of Expenditures and Other Financing Uses Compared to Budget

Year Ended December 31, 2013

(With Comparative Actuals for 2012)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2012 Actual
GENERAL GOVERNMENT SUPPORT					
Common Council	\$ 260,825	\$ 339,637	\$ 328,785	\$ 10,852	\$ 244,551
Board of Estimate and Apportionment	200	200	-	200	-
Mayor	164,589	168,589	167,056	1,533	125,204
Finance	532,905	558,839	557,800	1,039	580,234
Data processing	16,085	18,585	18,245	340	9,121
Assessor	314,362	314,525	288,146	26,379	281,876
Costs of tax sale	40,000	80,000	69,374	10,626	99,640
Corporation Counsel	344,013	352,520	340,871	11,649	370,994
Civil service	100,818	101,514	96,308	5,206	96,617
Engineer	7,000	40,780	37,342	3,438	5,110
Elections	50,000	50,000	39,242	10,758	68,162
Board of Ethics	250	250	-	250	-
Public works administration	801,096	921,631	789,091	132,540	740,820
Maintenance department	581,303	753,484	669,389	84,095	618,924
Purchase of land	10,000	10,000	-	10,000	-
Liability insurance	966,429	737,910	706,950	30,960	657,741
Judgments and claims	130,000	130,000	11,196	118,804	87,101
Refunds and cancellations of taxes	200,000	200,000	104,160	95,840	238,061
Taxes on City property	85,000	97,816	93,984	3,832	84,464
Audit and accounting services	33,333	33,333	30,055	3,278	30,388
Metropolitan Commuter Transit Association tax	51,986	53,427	53,288	139	55,244
Disaster assistance	-	842,824	423,592	419,232	166,649
Labor negotiations	50,000	50,000	49,813	187	21,275
	4,740,194	5,855,864	4,874,687	981,177	4,582,176
PUBLIC SAFETY					
Police Department	8,234,133	8,816,983	8,617,016	199,967	7,892,705
Fire Department	2,884,217	2,945,836	2,753,652	192,184	3,000,016
Public safety programs	26,670	26,720	21,952	4,768	17,507
	11,145,020	11,789,539	11,392,620	396,919	10,910,228

TRANSPORTATION

Street maintenance	1,458,667	1,470,759	1,292,606	178,153	1,223,089
Snow and ice control	336,500	359,441	293,962	65,479	211,317
Street lighting	433,939	434,933	407,626	27,307	405,942
	<u>2,229,106</u>	<u>2,265,133</u>	<u>1,994,194</u>	<u>270,939</u>	<u>1,840,348</u>

ECONOMIC OPPORTUNITY AND DEVELOPMENT

Economic development	107,091	107,091	107,081	10	61,142
Veterans' Service Agency	1,000	1,000	1,000	-	1,000
Senior citizen's programs	290,350	292,147	266,955	25,192	236,264
	<u>398,441</u>	<u>400,238</u>	<u>375,036</u>	<u>25,202</u>	<u>298,406</u>

CULTURE AND RECREATION

General recreation	531,123	753,146	732,176	20,970	513,060
Parks	368,404	437,100	398,697	38,403	345,045
Playgrounds	47,440	38,674	38,253	421	46,676
Swimming pools	113,021	478,938	446,969	31,969	67,546
Community center	15,140	13,670	13,170	500	6,984
Day camp	74,650	82,555	82,555	-	77,495
Tennis program	7,084	4,862	4,862	-	-
Special programs	286,805	345,142	327,199	17,943	420,497
Historical society	2,500	2,500	2,500	-	2,500
Celebration of Memorial Day	1,000	1,000	1,000	-	1,000
Band concerts	3,000	3,000	2,850	150	1,900
	<u>1,450,167</u>	<u>2,160,587</u>	<u>2,050,231</u>	<u>110,356</u>	<u>1,482,703</u>

HOME AND COMMUNITY SERVICES

Zoning Board of Appeals	5,200	6,056	4,417	1,639	3,609
Planning Board	5,400	5,735	3,194	2,541	3,870
Academy Avenue School	89,610	91,268	83,674	7,594	72,463
Waste collection	2,012,401	2,121,929	1,897,508	224,421	1,684,248
Street cleaning	19,170	19,170	10,817	8,353	16,708
Demolition of buildings	50,000	140,000	133,755	6,245	132,236
Hazard mitigation	-	-	-	-	4,018
Senate initiative	2,000	2,000	2,000	-	-
Nutrition for elderly	27,437	29,120	28,949	171	28,455
	<u>2,211,218</u>	<u>2,415,278</u>	<u>2,164,314</u>	<u>250,964</u>	<u>1,945,607</u>

(Continued)

City of Middletown, New York

**General Fund
 Schedule of Expenditures and Other Financing Uses Compared to Budget (Continued)
 Year Ended December 31, 2013
 (With Comparative Actuals for 2012)**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2012 Actual
EMPLOYEE BENEFITS					
State retirement	\$ 1,045,044	\$ 1,045,044	\$ 961,104	\$ 83,940	\$ 890,459
Police and fire retirement	2,164,153	2,961,258	2,961,257	1	1,649,295
Social security	1,195,221	1,137,335	1,134,771	2,564	1,072,785
Workers' compensation benefits	2,431,356	2,259,989	2,148,029	111,960	1,814,922
Health, dental and optical insurance	5,044,710	5,052,756	4,890,014	162,742	4,582,945
Welfare fund	80,000	82,455	82,455	-	82,720
Unused sick leave	75,000	86,604	86,604	-	48,834
Unemployment benefits	48,067	41,867	19,596	22,271	12,109
Disability insurance	21,396	21,396	10,667	10,729	13,347
Meal allowance	1,000	1,000	-	1,000	-
	<u>12,105,947</u>	<u>12,689,704</u>	<u>12,294,497</u>	<u>395,207</u>	<u>10,167,416</u>
DEBT SERVICE					
Interest					
Bond anticipation notes	62,714	62,714	62,714	-	48,611
	<u>34,342,807</u>	<u>37,639,057</u>	<u>35,208,293</u>	<u>2,430,764</u>	<u>31,275,495</u>
TOTAL EXPENDITURES					
OTHER FINANCING USES					
Transfers out					
Capital Projects Fund	137,078	137,078	124,000	13,078	106,103
Debt Service Fund	946,560	946,560	946,559	1	946,838
	<u>1,083,638</u>	<u>1,083,638</u>	<u>1,070,559</u>	<u>13,079</u>	<u>1,052,941</u>
TOTAL OTHER FINANCING USES					
TOTAL EXPENDITURES AND OTHER FINANCING USES					
	<u>\$ 35,426,445</u>	<u>\$ 38,722,695</u>	<u>\$ 36,278,852</u>	<u>\$ 2,443,843</u>	<u>\$ 32,328,436</u>

City of Middletown, New York

Community Development Fund
 Comparative Balance Sheet
 December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 569,012	\$ 549,486
Receivables		
Accounts	6,821	4,908
Loans receivable, net of allowance for uncollectible amounts of \$1,257,104 in 2013 and \$442,050 in 2012	2,632,797	3,482,970
State and Federal aid	612,692	413,272
Due from other funds	<u>360</u>	<u>4,771</u>
	<u>3,252,670</u>	<u>3,905,921</u>
 Total Assets	 <u>\$ 3,821,682</u>	 <u>\$ 4,455,407</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued liabilities	\$ 1,548	\$ 824
Due to other funds	274,468	301,739
Unearned revenues	<u>3,245,489</u>	<u>3,896,242</u>
 Total Liabilities	 3,521,505	 4,198,805
 Fund balance		
Assigned	<u>300,177</u>	<u>256,602</u>
 Total Liabilities and Fund Balance	 <u>\$ 3,821,682</u>	 <u>\$ 4,455,407</u>

City of Middletown, New York

Community Development Fund

Comparative Statement of Revenues, Expenditures and Changes in
Fund Balance

Years Ended December 31,

	<u>2013</u>	<u>2012</u>
REVENUES		
Departmental income	\$ 528,455	\$ 455,429
Use of money and property	643	697
Federal aid	<u>384,858</u>	<u>595,632</u>
Total Revenues	913,956	1,051,758
EXPENDITURES		
Current		
Home and community services	<u>663,405</u>	<u>917,067</u>
Excess of Revenues Over Expenditures	250,551	134,691
OTHER FINANCING USES		
Transfers out	<u>(206,976)</u>	<u>(219,056)</u>
Net Change in Fund Balance	43,575	(84,365)
FUND BALANCE		
Beginning of Year	<u>256,602</u>	<u>340,967</u>
End of Year	<u>\$ 300,177</u>	<u>\$ 256,602</u>

City of Middletown, New York

Water Fund
 Comparative Balance Sheet
 December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 590,663	\$ 1,757,507
Receivables		
Accounts	21,331	24,770
Water rents, net of allowance for uncollectible amounts of \$188,887 in 2013 and \$470,108 in 2012	2,703,797	2,329,922
Due from other funds	2,972	804,239
	<u>2,728,100</u>	<u>3,158,931</u>
Prepaid expenditures	<u>63,899</u>	<u>53,345</u>
Total Assets	<u>\$ 3,382,662</u>	<u>\$ 4,969,783</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 77,698	\$ 144,579
Accrued liabilities	47,966	44,692
Due to other funds	991,197	2,741,550
Total Liabilities	<u>1,116,861</u>	<u>2,930,821</u>
Fund balance		
Nonspendable	63,899	53,345
Restricted	150,000	150,000
Assigned	2,051,902	1,835,617
Total Fund Balance	<u>2,265,801</u>	<u>2,038,962</u>
Total Liabilities and Fund Balance	<u>\$ 3,382,662</u>	<u>\$ 4,969,783</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,

2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Departmental income	\$ 6,258,400	\$ 6,258,400	\$ 6,304,965	\$ 46,565
Use of money and property	300	300	1,303	1,003
Licenses and permits	13,000	13,000	10,787	(2,213)
Sale of property and compensation for loss	1,000	1,000	800	(200)
Miscellaneous	2,000	2,000	4,344	2,344
Total Revenues	6,274,700	6,274,700	6,322,199	47,499
EXPENDITURES				
Current				
General government support	490,256	432,287	414,409	17,878
Home and community services	2,228,453	2,506,193	2,189,101	317,092
Employee benefits	801,959	805,867	786,433	19,434
Debt service				
Interest	39,233	39,233	38,414	819
Total Expenditures	3,559,901	3,783,580	3,428,357	355,223
Excess of Revenues Over Expenditures	2,714,799	2,491,120	2,893,842	402,722
OTHER FINANCING USES				
Transfers out	(2,667,010)	(2,667,010)	(2,667,003)	7
Net Change in Fund Balance	47,789	(175,890)	226,839	402,729
FUND BALANCE (DEFICIT)				
Beginning of Year	(47,789)	175,890	2,038,962	1,863,072
End of Year	\$ -	\$ -	\$ 2,265,801	\$ 2,265,801

2012

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 5,950,600	\$ 5,950,600	\$ 5,523,820	\$ (426,780)
1,500	1,500	2,661	1,161
8,000	8,000	20,374	12,374
-	-	1,100	1,100
2,000	27,000	28,775	1,775
<u>5,962,100</u>	<u>5,987,100</u>	<u>5,576,730</u>	<u>(410,370)</u>
400,170	456,365	387,994	68,371
2,099,114	2,235,182	1,955,252	279,930
739,372	725,177	658,299	66,878
35,926	35,926	33,071	2,855
<u>3,274,582</u>	<u>3,452,650</u>	<u>3,034,616</u>	<u>418,034</u>
2,687,518	2,534,450	2,542,114	7,664
<u>(2,663,413)</u>	<u>(2,663,413)</u>	<u>(2,663,406)</u>	<u>7</u>
24,105	(128,963)	(121,292)	7,671
<u>(24,105)</u>	<u>128,963</u>	<u>2,160,254</u>	<u>2,031,291</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,038,962</u>	<u>\$ 2,038,962</u>

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City of Middletown, New York

Sewer Fund
 Comparative Balance Sheet
 December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 1,822,816	\$ 2,682,455
Receivables		
Sewer rents, net of allowance for uncollectible amounts of \$164,697 in 2013 and \$410,593 in 2012	2,083,970	2,005,684
Due from other funds	1,166	154,895
	<u>2,085,136</u>	<u>2,160,579</u>
Prepaid expenditures	52,620	44,225
Total Assets	<u>\$ 3,960,572</u>	<u>\$ 4,887,259</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 34,437	\$ 83,576
Accrued liabilities	39,350	34,553
Due to other funds	189,900	1,579,191
Total Liabilities	<u>263,687</u>	<u>1,697,320</u>
Fund balance		
Nonspendable	52,620	44,225
Assigned	3,644,265	3,145,714
Total Fund Balance	<u>3,696,885</u>	<u>3,189,939</u>
Total Liabilities and Fund Balance	<u>\$ 3,960,572</u>	<u>\$ 4,887,259</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,

	2013			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Departmental income	\$ 4,993,000	\$ 4,993,000	\$ 5,104,094	\$ 111,094
Use of money and property	12,000	12,000	2,133	(9,867)
Licenses and permits	400	400	300	(100)
Miscellaneous	10,000	18,000	9,213	(8,787)
Total Revenues	5,015,400	5,023,400	5,115,740	92,340
EXPENDITURES				
Current				
General government support	379,538	314,656	278,313	36,343
Home and community services	2,051,815	2,098,842	1,880,546	218,296
Employee benefits	747,344	749,526	712,193	37,333
Debt service				
Interest	20,016	20,016	19,587	429
Total Expenditures	3,198,713	3,183,040	2,890,639	292,401
Excess of Revenues Over Expenditures	1,816,687	1,840,360	2,225,101	384,741
OTHER FINANCING USES				
Transfers out	(1,718,156)	(1,718,156)	(1,718,155)	1
Net Change in Fund Balance	98,531	122,204	506,946	384,742
FUND BALANCE (DEFICIT)				
Beginning of Year	(98,531)	(122,204)	3,189,939	3,312,143
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,696,885</u>	<u>\$ 3,696,885</u>

2012

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 5,352,540	\$ 5,352,540	\$ 5,053,851	\$ (298,689)
1,200	1,200	2,858	1,658
500	500	100	(400)
1,000	1,000	71,452	70,452
<u>5,355,240</u>	<u>5,355,240</u>	<u>5,128,261</u>	<u>(226,979)</u>
272,544	261,718	241,675	20,043
1,963,971	1,986,122	1,775,212	210,910
693,763	679,589	620,702	58,887
<u>133,705</u>	<u>158,705</u>	<u>95,881</u>	<u>62,824</u>
<u>3,063,983</u>	<u>3,086,134</u>	<u>2,733,470</u>	<u>352,664</u>
2,291,257	2,269,106	2,394,791	125,685
<u>(1,765,086)</u>	<u>(1,765,086)</u>	<u>(1,901,897)</u>	<u>(136,811)</u>
526,171	504,020	492,894	(11,126)
<u>(526,171)</u>	<u>(504,020)</u>	<u>2,697,045</u>	<u>3,201,065</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,189,939</u>	<u>\$ 3,189,939</u>

City of Middletown, New York

Capital Projects Fund
 Comparative Balance Sheet
 December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 7,024,442	\$ 5,631,619
Restricted investments	1,290,201	1,783,353
Receivables		
Accounts	456,459	-
State and Federal aid	91,916	89,445
Due from other governments	61,673	61,673
Due from other funds	29,938	1,502,269
	<u>639,986</u>	<u>1,653,387</u>
Total Assets	<u>\$ 8,954,629</u>	<u>\$ 9,068,359</u>
LIABILITIES AND FUND DEFICIT		
Liabilities		
Accounts payable	\$ 85,964	\$ 411,655
Retained percentages	133,492	102,097
Due to other funds	3,508,640	3,530,966
Unearned revenues	251,807	251,774
Bond anticipation notes payable	14,164,192	12,193,529
Total Liabilities	18,144,095	16,490,021
Fund deficit		
Unassigned	<u>(9,189,466)</u>	<u>(7,421,662)</u>
Total Liabilities and Fund Deficit	<u>\$ 8,954,629</u>	<u>\$ 9,068,359</u>

City of Middletown, New York

Capital Projects Fund
 Comparative Statement of Revenues, Expenditures and Changes
 in Fund Balance
 Years Ended December 31,

	<u>2013</u>	<u>2012</u>
REVENUES		
State aid	\$ 624,848	\$ 358,080
Miscellaneous	100,000	-
Total Revenues	724,848	358,080
EXPENDITURES		
Capital outlay	2,659,530	4,188,888
Deficiency of Revenues Over Expenditures	<u>(1,934,682)</u>	<u>(3,830,808)</u>
OTHER FINANCING SOURCES (USES)		
Bonds issued	-	17,843,203
Transfers in	166,878	507,269
Transfers out	-	<u>(2,403,160)</u>
Total Other Financing Sources	<u>166,878</u>	<u>15,947,312</u>
Net Change in Fund Balance	(1,767,804)	12,116,504
FUND DEFICIT		
Beginning of Year	<u>(7,421,662)</u>	<u>(19,538,166)</u>
End of Year	<u>\$ (9,189,466)</u>	<u>\$ (7,421,662)</u>

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City of Middletown, New York

Debt Service Fund
Comparative Balance Sheet
December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 1,592,116	\$ 2,545,379
Due from other funds	<u>3,508,640</u>	<u>3,442,601</u>
Total Assets	<u>\$ 5,100,756</u>	<u>\$ 5,987,980</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accrued interest payable	\$ 14,357	\$ 14,357
Due to other funds	<u>-</u>	<u>730,313</u>
Total Liabilities	<u>14,357</u>	<u>744,670</u>
Fund balance		
Restricted	4,482,382	4,991,907
Assigned	<u>604,017</u>	<u>251,403</u>
Total Fund Balance	<u>5,086,399</u>	<u>5,243,310</u>
Total Liabilities and Fund Balance	<u>\$ 5,100,756</u>	<u>\$ 5,987,980</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,

	2013			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Use of money and property	\$ -	\$ -	\$ 4,248	\$ 4,248
Miscellaneous	-	-	90,244	90,244
Total Revenues	-	-	94,492	94,492
EXPENDITURES				
Debt service				
Principal				
Bonds	2,420,000	2,420,000	2,420,000	-
Loans	130,000	130,000	130,000	-
	<u>2,550,000</u>	<u>2,550,000</u>	<u>2,550,000</u>	<u>-</u>
Interest				
Bonds	1,351,748	1,351,748	1,351,739	9
Loans	76,976	76,976	76,976	-
	<u>1,428,724</u>	<u>1,428,724</u>	<u>1,428,715</u>	<u>9</u>
Total Expenditures	3,978,724	3,978,724	3,978,715	9
Deficiency of Revenues Over Expenditures	<u>(3,978,724)</u>	<u>(3,978,724)</u>	<u>(3,884,223)</u>	<u>94,501</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	3,978,724	3,978,724	3,978,715	(9)
Transfers out	(251,403)	(251,403)	(251,403)	-
Total Other Financing Sources	3,727,321	3,727,321	3,727,312	(9)
Net Change in Fund Balance	(251,403)	(251,403)	(156,911)	94,492
FUND BALANCE				
Beginning of Year	251,403	251,403	5,243,310	4,991,907
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086,399</u>	<u>\$ 5,086,399</u>

2012

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 4,812	\$ 4,812
-	-	155,797	155,797
-	-	160,609	160,609
2,695,000	2,695,000	2,350,000	345,000
143,454	143,454	143,454	-
2,838,454	2,838,454	2,493,454	345,000
1,137,071	1,137,071	1,243,875	(106,804)
75,602	75,602	75,602	-
1,212,673	1,212,673	1,319,477	(106,804)
4,051,127	4,051,127	3,812,931	238,196
(4,051,127)	(4,051,127)	(3,652,322)	398,805
4,051,127	4,051,127	6,216,091	2,164,964
-	-	(72,000)	(72,000)
4,051,127	4,051,127	6,144,091	2,092,964
-	-	2,491,769	2,491,769
-	-	2,751,541	2,751,541
\$ -	\$ -	\$ 5,243,310	\$ 5,243,310

City of Middletown, New York

Non-Major Governmental Funds

Combining Balance Sheet

December 31, 2013

(With Comparative Totals for 2012)

	<u>Golden Area</u>	<u>Special Purpose</u>
ASSETS		
Cash and equivalents	\$ 46,536	\$ 77,242
Receivables		
Due from other governments	5,696	-
Due from other funds	20,454	-
	<u>26,150</u>	<u>-</u>
Total Assets	<u>\$ 72,686</u>	<u>\$ 77,242</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 456	\$ 200
Accrued liabilities	1,710	-
Due to other funds	57,509	-
Total Liabilities	<u>59,675</u>	<u>200</u>
Fund balances		
Restricted	-	77,042
Assigned	13,011	-
Total Fund Balances	<u>13,011</u>	<u>77,042</u>
Total Liabilities and Fund Balances	<u>\$ 72,686</u>	<u>\$ 77,242</u>

Total Non-Major
Governmental Funds

2013	2012
\$ 123,778	\$ 120,667
5,696	12,728
20,454	15,451
26,150	28,179
\$ 149,928	\$ 148,846
\$ 656	\$ 241
1,710	2,196
57,509	69,652
59,875	72,089
77,042	74,829
13,011	1,928
90,053	76,757
\$ 149,928	\$ 148,846

City of Middletown, New York

Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	<u>Golden Area</u>	<u>Special Purpose</u>
REVENUES		
Departmental income	\$ 104,094	\$ -
Use of money and property	50	53
Miscellaneous	<u>21,750</u>	<u>25,694</u>
Total Revenues	<u>125,894</u>	<u>25,747</u>
EXPENDITURES		
Current		
Public safety	-	23,534
Culture and recreation	<u>114,811</u>	<u>-</u>
Total Expenditures	<u>114,811</u>	<u>23,534</u>
Excess of Revenues Over Expenditures	11,083	2,213
FUND BALANCES		
Beginning of Year	<u>1,928</u>	<u>74,829</u>
End of Year	<u>\$ 13,011</u>	<u>\$ 77,042</u>

Total Non-Major
Governmental Funds

<u>2013</u>	<u>2012</u>
\$ 104,094	\$ 137,987
103	557
<u>47,444</u>	<u>53,267</u>
<u>151,641</u>	<u>191,811</u>
23,534	13,576
<u>114,811</u>	<u>151,644</u>
<u>138,345</u>	<u>165,220</u>
13,296	26,591
<u>76,757</u>	<u>50,166</u>
<u>\$ 90,053</u>	<u>\$ 76,757</u>

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City of Middletown, New York

Golden Area Fund
Comparative Balance Sheet
December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	\$ 46,536	\$ 44,838
Receivables		
Due from other governments	5,696	12,728
Due from other funds	<u>20,454</u>	<u>15,451</u>
	<u>26,150</u>	<u>28,179</u>
Total Assets	<u>\$ 72,686</u>	<u>\$ 73,017</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 456	\$ 241
Accrued liabilities	1,710	2,196
Due to other funds	<u>57,509</u>	<u>68,652</u>
Total Liabilities	59,675	71,089
Fund balance		
Assigned	<u>13,011</u>	<u>1,928</u>
Total Liabilities and Fund Balance	<u>\$ 72,686</u>	<u>\$ 73,017</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,

	2013			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Departmental income	\$ 108,033	\$ 108,033	\$ 104,094	\$ (3,939)
Use of money and property	-	-	50	50
Miscellaneous	26,727	26,727	21,750	(4,977)
Total Revenues	134,760	134,760	125,894	(8,866)
EXPENDITURES				
Current				
Culture and recreation	134,760	134,760	114,811	19,949
Excess of Revenues Over Expenditures	-	-	11,083	11,083
FUND BALANCE (DEFICIT)				
Beginning of Year	-	-	1,928	1,928
End of Year	\$ -	\$ -	\$ 13,011	\$ 13,011

2012

<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 137,475	\$ 137,475	\$ 137,987	\$ 512
-	-	24	24
<u>25,629</u>	<u>25,629</u>	<u>21,981</u>	<u>(3,648)</u>
163,104	163,104	159,992	(3,112)
<u>163,104</u>	<u>163,104</u>	<u>151,644</u>	<u>11,460</u>
-	-	8,348	8,348
<u>-</u>	<u>-</u>	<u>(6,420)</u>	<u>(6,420)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,928</u>	<u>\$ 1,928</u>

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City of Middletown, New York

Special Purpose Fund
Comparative Balance Sheet
December 31,

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and equivalents	<u>\$ 77,242</u>	<u>\$ 75,829</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 200	\$ -
Due to other funds	<u>-</u>	<u>1,000</u>
Total Liabilities	200	1,000
Fund balance	<u>77,042</u>	<u>74,829</u>
Restricted		
Total Liabilities and Fund Balance	<u>\$ 77,242</u>	<u>\$ 75,829</u>

City of Middletown, New York

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

	<u>2013</u>	<u>2012</u>
REVENUES		
Use of money and property	\$ 53	\$ 533
Miscellaneous	<u>25,694</u>	<u>31,286</u>
Total Revenues	25,747	31,819
EXPENDITURES		
Current		
Public safety	<u>23,534</u>	<u>13,576</u>
Excess of Revenues Over Expenditures	2,213	18,243
FUND BALANCE		
Beginning of Year	<u>74,829</u>	<u>56,586</u>
End of Year	<u><u>\$ 77,042</u></u>	<u><u>\$ 74,829</u></u>

**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 May 29, 2014.

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

May 29, 2014

**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, 2013. 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, 2013.

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

May 29, 2014

City of Middletown, New York

Schedule of Expenditures of Federal Awards
Year Ending December 31, 2013

<u>Federal Grantor</u> <u>Program Title</u>	<u>Federal CFDA Number (1)</u>	<u>Federal Program Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Direct Program Community Development Block Grants/ State's Program	14.218	\$ 384,858
<u>U.S. Department of Health and Human Services</u>		
Direct Program Support Mentoring Program	 93.276	 116,342
<u>U.S. Department of Homeland Security</u>		
Indirect Program Passed through the Division of Homeland Security and Emergency Services (DHSES)		
Disaster Grants- Public Assistance	97.036	<u>71,896</u>
Total		<u>\$ 573,096</u>

(1) Catalog of Federal Domestic Assistance Number

The accompanying notes are an integral part of this schedule.

City of Middletown, New York

Notes to Schedule of Expenditures of Federal Awards
December 31, 2013

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Middletown ("City") under programs of the federal government for the year ended December 31, 2013. Federal awards received directly from the Federal agencies as well as Federal awards passed through other government agencies are included in the Schedule. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, which establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

City of Middletown, New York

Summary of Prior Audit Findings
Year Ended December 31, 2013

None

City of Middletown, New York

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? ___ Yes X None reported

Noncompliance material to financial statements
Noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? ___ Yes X None reported

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

Any audit findings disclosed that are
required to be reported in accordance with
Section 510(a) of OMB Circular A-133? ___ Yes X No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218 93.276	Community Development Block Grants/State's Program Support Mentoring Program

Dollar threshold used to distinguish
between Type A and Type B programs \$300,000
Auditee qualified as low-risk auditee? X Yes ___ No

City of Middletown, New York

Schedule of Findings and Questioned Costs (Concluded)
Year Ended December 31, 2013

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

