

**City of Middletown, New York**

Financial Statements and  
Supplementary Information

Year Ended December 31, 2015



# 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, 2015, 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, 2015, 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.

### ***Emphasis of Matter***

We draw attention to Note 2C and Note 3I in the notes to the financial statements which disclose the effects of the City's adoption of the provisions of Governmental Accounting Standards Board Statement Nos. 68 "Accounting and Financial Reporting for Pensions" and 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date". Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the schedules included under Required Supplementary Information in the accompanying table of contents 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards 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 31, 2016 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.

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**

Harrison, New York

May 31, 2016

# City of Middletown, New York

## Management's Discussion and Analysis (MD&A) December 31, 2015

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### Introduction

The following discussion and analysis of the City of Middletown, New York's financial statements provides an overview of the financial activities of the City of Middletown, New York for the fiscal year ended December 31, 2015. 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 2015 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 \$23,894,256. However, unrestricted net position, which is available to meet the ongoing obligations of the City, reflects a deficit of \$17,544,498 at December 31, 2015. The total net position decreased by \$1,780,663 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.
- For the year ended December 31, 2015, the City implemented the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement established new accounting and financial reporting requirements associated with the City's participation in the cost sharing multiple employer pension plans administered by the New York State and Local Employees' Retirement System ("ERS") and the New York State and Local Police and Fire Retirement System ("PFRS"). Under the new standards, cost-sharing employers are required to report in their government-wide financial statements a net pension liability (asset), pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all of the municipalities and school districts in the plan. At December 31, 2015, the City reported in its Statement of Net Position a liability of \$1,924,425 for its proportionate share of the ERS and PFRS net pension liabilities. More detailed information about the City's pension plan reporting in accordance with the provisions of GASB Statement No. 68, including amounts reported as pension expense and deferred inflows/outflows of resources, is presented in the notes to financial statements.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$16,212,572, an increase of \$821,596 over the prior year. There were increases in the General Fund of \$1,553,184, the Water Fund of \$332,974, and the Sewer Fund of \$227,998. These increases were offset by negative

variances in the Capital Projects Fund (\$429,146), Community Development Fund (\$86,058), and Debt Service Fund (\$818,565).

- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,032,529, or 19% of total General Fund expenditures and other financing uses.
- At the end of the current fiscal year, the City had outstanding \$7,050,339 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 2015, the City retired \$2,687,899 of long-term bonded indebtedness and issued no new bonds.

## **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 \$23,894,256 at the close of the current fiscal year.

### Net Position

	2015	2014
Current Assets	\$ 32,188,376	\$ 33,020,494
Capital Assets, net	88,421,915	89,678,399
Total Assets	120,610,291	122,698,893
Deferred Outflows of Resources	3,256,090	156,503
Current Liabilities	10,608,445	11,866,145
Long-term Liabilities	88,620,430	85,314,332
Total Liabilities	99,228,875	97,180,477
Deferred Inflows of Resources	743,250	-
Net Position		
Net investment in capital assets	34,017,607	33,021,347
Restricted	7,421,147	8,335,502
Unrestricted	(17,544,498)	(15,681,930)
Total Net Position	\$ 23,894,256	\$ 25,674,919

One of the components of net position 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 \$7,421,147 is as follows:

	2015	2014
Debt Service	\$ 3,454,521	\$ 4,273,086
Tax Stabilization	8,335	8,333
Unemployment Benefits	85,975	85,975
Future Capital Projects	190,000	190,000
Fire Service Awards	18,987	-
Special Revenue	3,549,661	3,688,716
Special Purposes	113,668	89,392
	\$ 7,421,147	\$ 8,335,502

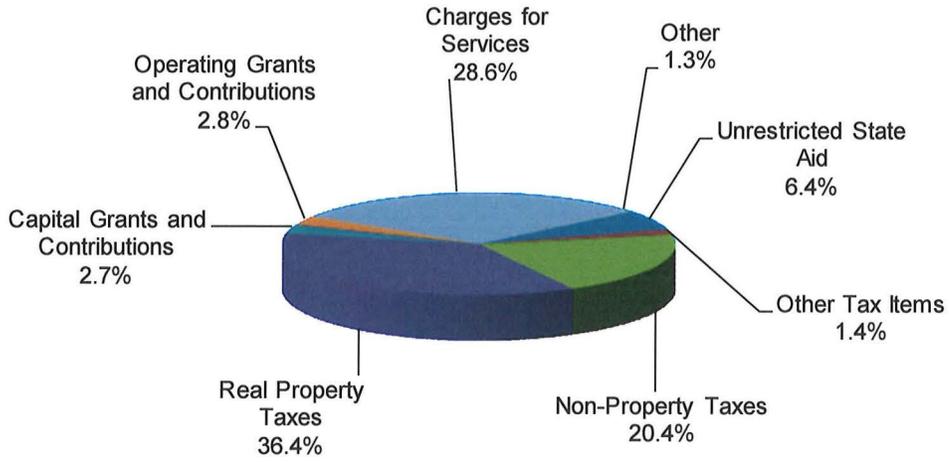
There is currently a deficit of unrestricted net position in the amount of \$17,544,498.

## Changes in Net Position

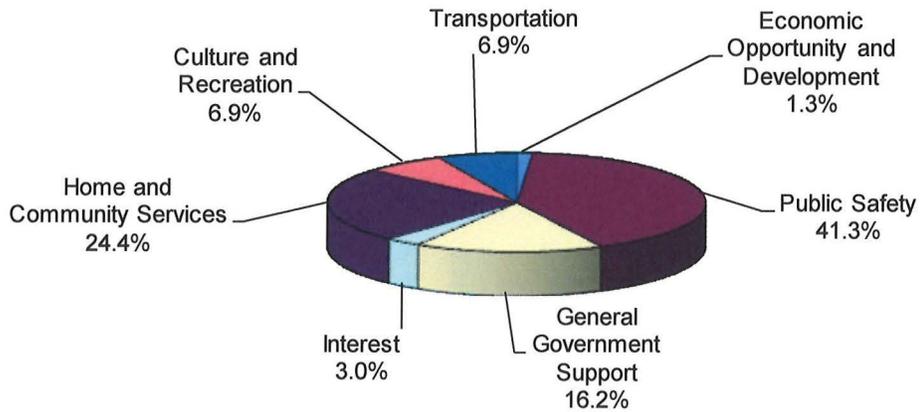
	2015	2014
<b>REVENUES</b>		
Program Revenues		
Charges for Services	\$ 14,048,862	\$ 13,950,706
Operating Grants and Contributions	1,368,481	1,298,550
Capital Grants and Contributions	1,303,512	1,843,595
General Revenues		
Real Property Taxes	17,857,041	17,737,092
Other Tax Items	682,031	698,714
Non-Property Taxes	9,982,059	9,892,338
Unrestricted Use of Money and Property	5,174	5,015
Sale of Property and Compensation for Loss	3,697	95,179
Unrestricted State Aid	3,154,947	2,963,998
Miscellaneous	84,478	212,432
Insurance recoveries	297,722	304,378
Sale of real property	261,000	429,000
	<b>49,049,004</b>	<b>49,430,997</b>
<b>PROGRAM EXPENSES</b>		
General Government Support	8,235,683	8,133,551
Public Safety	20,956,891	20,756,423
Transportation	3,480,589	3,457,418
Economic Opportunity and Development	658,994	372,779
Culture and Recreation	3,483,087	3,591,676
Home and Community Services	12,384,106	13,306,511
Interest	1,548,983	1,691,719
	<b>50,748,333</b>	<b>51,310,077</b>
Change in Net Position	(1,699,329)	(1,879,080)
<b>NET POSITION</b>		
Beginning	25,674,919	27,553,999
Cumulative Effect of Change in Accounting Principle	(81,334)	-
Net Assets - Beginning, as restated	25,593,585	27,553,999
Ending	\$ 23,894,256	\$ 25,674,919

Governmental activities decreased the City's net position by \$1,699,329. This decrease is due in part to the reduction in Capital grants and contributions of \$540,083 as well as the effects of the change in accounting principle relating to GASB 68.

**Sources of Revenue for Fiscal Year 2015  
Governmental Activities**



**Expenses for Fiscal Year 2015  
Governmental Activities**



For the fiscal year ended December 31, 2015, revenues from governmental activities totaled \$49.0 million. Tax revenues (\$28.5 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, 2015 totaled \$50.7 million. The largest components of these expenses are in the areas of public safety (41%) and home and community services (24%).

The major changes in the General Fund are as follows:

#### Revenues

- Real property taxes increased by \$1,415,942. This is due in part to an increase in real property taxes recognized of \$1,023,518 resulting from adjustments to the deferred tax revenue and allowance for doubtful accounts when comparing the current year adjustment to that of the prior year. This difference arose due to the timing of the tax sales and the fact there were two sales in 2014 versus only one in 2015.
- Mortgage Tax increased by \$190,949 signaling a strengthening housing market. In addition, Building permits increased by \$29,036 with an increase in remodeling projects.
- The Paramount Theater increased revenues by \$58,133 as the venue added more live events and the City sponsored a film festival.

#### Expenses:

- General Government Services increased by only \$83,156; however, there was a judgment for \$210,000 against the City. This increase was offset by a \$242,855 reduction in expenses as the projects related to hurricane repairs were completed.
- Transportation increased by \$157,442 due to snow and ice control required for the high number of snow events in early 2015.
- Employee benefits saw a decrease of \$117,230. There was a large decrease in Police and Fire retirement of \$415,150 which offset an increase of \$505,763 in Workers Compensation and Insurance.

### **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. 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 \$16.2 million, an increase of approximately \$821,600 from the prior year. Exclusive of the Capital Projects Fund, the combined fund balances total \$19.4 million. Of this amount, \$7.0 million constitutes unassigned fund balance. The nonspendable fund balance component is \$836,492, consisting of prepaid expenditures. Restricted fund balance of \$3,271,486 is restricted for tax stabilization, unemployment benefits, future capital projects, fire service award, trusts, and debt service. The assigned fund balance classification aggregates \$8,272,388, consisting primarily of amounts available to be used in the future at the City's discretion in funds other than the General Fund (\$34,610 in the Community Development Fund, \$2,816,418 in the Water Fund, \$3,692,949 in the Sewer Fund and \$22,123 in the Non-Major Funds). It also includes \$600,000 to balance the fiscal 2015 budget in the Debt Service Fund. The remaining fund balance is unassigned and represents the remaining positive fund balance in the General Fund of \$7,032,529 after amounts that have been restricted, committed or assigned for other purposes, offset by the deficit fund balance in the Capital Projects Fund of \$3,200,323.

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 \$9.0 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 19% of total General Fund expenditures and other financing uses, while total fund balance represents 25% of that same amount.

When the fiscal 2015 General Fund budget was adopted, it was anticipated that \$421,475 would be used from fund balance. During the year, budget revisions increased the anticipated use to \$2,673,367 of fund balance. However, actual results of operations resulted in an increase in fund balance of \$1,553,184, a positive variance of approximately \$4.2 million.

These results were derived from expenditure savings combined with higher than anticipated revenues. Overall, General Fund expenditures and other financing uses were \$36.4 million, which was \$23.5 million, or 9%, less than the final budget. The major areas where spending was lower than budgeted were general government support (\$610,053), public safety (\$828,243), home and community services (\$788,843) and employee benefits (\$545,655). The General Fund revenues were \$38.0 million, which was \$700,356, or 2% more than the final budget. The largest revenue categories that reflected a positive variance as compared to the budget were State disaster assistance \$119,686 and Federal disaster assistance \$359,055.

### **General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was \$2.5 million for 2015. This change was attributable to increases in the appropriation for various departments, including police department (\$217,841), snow and ice control (\$270,665), and beautification (\$418,953).

### **Capital Assets**

The City's investment in capital assets for its governmental activities as of December 31, 2015, amounted to \$88.4 million (net of accumulated depreciation) as compared to \$89.7 million in 2014. This investment in capital assets includes land, buildings and improvements, improvements other than buildings and machinery and equipment.

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

	2015	2014
Land	\$ 3,822,955	\$ 3,822,955
Buildings and Improvements	52,986,591	54,344,892
Improvements Other than Buildings	1,030,911	1,216,561
Infrastructure	25,519,969	22,531,203
Machinery and Equipment	4,466,793	4,789,447
Construction-in-Progress	594,696	2,973,341
<b>Total</b>	<b>\$ 88,421,915</b>	<b>\$ 89,678,399</b>

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

### **Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$51,225,000. 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 2015 fiscal year, the City retired \$2,687,899 in principal on outstanding obligations and issued no new bonds.

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, Assistant Treasurer, City of Middletown, 16 James Street, Middletown, New York 10940.

City of Middletown, New York

Statement of Net Position  
December 31, 2015

	Primary Government	Component Unit
	Governmental Activities	Industrial Development Agency
<b>ASSETS</b>		
Cash and equivalents	\$ 16,926,725	\$ 116,705
Restricted investments	428,010	-
Receivables		
Taxes, net	3,074,156	-
Mortgages	802,500	-
Accounts	435,251	-
Loans, net	2,544,862	-
Sewer rents, net	1,722,515	-
Water rents, net	2,576,109	-
State and Federal aid	284,148	-
Due from other governments	2,557,608	-
Prepaid expenses	836,492	-
Capital assets		
Not being depreciated	4,417,651	-
Being depreciated, net	84,004,264	-
Total Assets	<u>120,610,291</u>	<u>116,705</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,256,090</u>	<u>-</u>
<b>LIABILITIES</b>		
Accounts payable	1,061,575	-
Accrued liabilities	437,349	-
Retained percentages	99,778	-
Due to State and Federal governments	56,179	-
Due to County for tax levy	279,915	-
Due to school district	940,069	-
Unearned revenues	215,008	-
Bond anticipation notes payable	7,050,339	-
Accrued interest payable	468,233	-
Non-current liabilities		
Due within one year	3,960,000	-
Due in more than one year	84,660,430	-
Total Liabilities	<u>99,228,875</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>743,250</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	34,017,607	-
Restricted for		
Debt service	3,454,521	-
Tax stabilization	8,335	-
Fire service awards	18,987	-
Unemployment benefits	85,975	-
Future capital projects	190,000	-
Special Revenue funds		
Community Development	702,650	-
Water	990,781	-
Sewer	1,856,230	-
Special Purpose	113,668	-
Unrestricted	<u>(17,544,498)</u>	<u>116,705</u>
Total Net Position	<u>\$ 23,894,256</u>	<u>\$ 116,705</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, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government support	\$ 8,235,683	\$ 1,121,324	\$ 525,365	\$ -
Public safety	20,956,891	381,966	167,432	-
Transportation	3,480,589	-	-	706,831
Economic opportunity and development	658,994	27,569	-	-
Culture and recreation	3,483,087	696,327	144,951	-
Home and community services	12,384,106	11,821,676	530,733	401,900
Interest	1,548,983	-	-	194,781
Total Governmental Activities	<u>\$ 50,748,333</u>	<u>\$ 14,048,862</u>	<u>\$ 1,368,481</u>	<u>\$ 1,303,512</u>
Component unit				
Industrial Development Agency	<u>\$ 29,324</u>	<u>\$ 11,394</u>	<u>\$ -</u>	<u>\$ -</u>

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

Net Position - Beginning

Cumulative Effect of Change in Accounting Principle

Net Position - Beginning, as restated

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
\$ (6,588,994)	\$ -
(20,407,493)	-
(2,773,758)	-
(631,425)	-
(2,641,809)	-
370,203	-
(1,354,202)	-
<u>(34,027,478)</u>	<u>-</u>
-	(17,930)
17,857,041	-
409,696	-
272,335	-
9,236,909	-
355,373	-
389,777	-
5,174	182
3,697	-
3,154,947	-
84,478	-
297,722	-
261,000	-
<u>32,328,149</u>	<u>182</u>
<u>(1,699,329)</u>	<u>(17,748)</u>
25,674,919	134,453
<u>(81,334)</u>	<u>-</u>
<u>25,593,585</u>	<u>-</u>
<u>\$ 23,894,256</u>	<u>\$ 116,705</u>

City of Middletown, New York

Balance Sheet  
 Governmental Funds  
 December 31, 2015

	General	Community Development	Water	Sewer
<b>ASSETS</b>				
Cash and equivalents	\$ 4,646,922	\$ 323,532	\$ 1,607,168	\$ 2,897,092
Restricted investments	18,987	-	-	-
Taxes receivable, net	3,074,156	-	-	-
Other receivables				
Mortgages	802,500	-	-	-
Accounts	301,943	5,933	7,375	-
Loans, net	-	2,544,862	-	-
Sewer rents, net	-	-	-	1,722,515
Water rents, net	-	-	2,576,109	-
State and Federal aid	253,099	-	-	-
Due from other governments	2,555,443	-	-	-
Due from other funds	2,648,515	403	92,709	73,163
	6,561,500	2,551,198	2,676,193	1,795,678
Prepaid expenditures	719,978	-	65,578	50,936
Total Assets	<u>\$ 15,021,543</u>	<u>\$ 2,874,730</u>	<u>\$ 4,348,939</u>	<u>\$ 4,743,706</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RE-SOURCES AND FUND BALANCES (DEFICITS)</b>				
Liabilities				
Accounts payable	\$ 564,237	\$ -	\$ 205,275	\$ 136,794
Accrued liabilities	315,983	11,097	63,827	45,391
Retained percentages	-	-	-	-
Due to State and Federal governments	56,179	-	-	-
Due to County for tax levy	279,915	-	-	-
Due to school district	940,069	-	-	-
Due to other funds	562,338	284,161	1,047,841	817,636
Unearned revenues	802,500	2,544,862	-	-
Bond anticipation notes payable	-	-	-	-
Total Liabilities	3,521,221	2,840,120	1,316,943	999,821
Deferred inflows of resources				
Deferred tax revenues	2,488,230	-	-	-
Total Liabilities and Deferred Inflows of Resources	6,009,451	2,840,120	1,316,943	999,821
Fund balances (deficits)				
Nonspendable	719,978	-	65,578	50,936
Restricted	153,297	-	150,000	-
Assigned	1,106,288	34,610	2,816,418	3,692,949
Unassigned	7,032,529	-	-	-
Total Fund Balances (Deficits)	9,012,092	34,610	3,031,996	3,743,885
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 15,021,543</u>	<u>\$ 2,874,730</u>	<u>\$ 4,348,939</u>	<u>\$ 4,743,706</u>

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ 6,587,045	\$ 708,353	\$ 156,613	\$ 16,926,725
409,023	-	-	428,010
-	-	-	3,074,156
-	-	-	802,500
120,000	-	-	435,251
-	-	-	2,544,862
-	-	-	1,722,515
-	-	-	2,576,109
31,049	-	-	284,148
-	-	2,165	2,557,608
400,406	2,746,168	1,049	5,962,413
551,455	2,746,168	3,214	16,885,406
-	-	-	836,492
<u>\$ 7,547,523</u>	<u>\$ 3,454,521</u>	<u>\$ 159,827</u>	<u>\$ 38,150,789</u>

\$ 152,208	\$ -	\$ 3,061	\$ 1,061,575
-	-	1,051	437,349
99,778	-	-	99,778
-	-	-	56,179
-	-	-	279,915
-	-	-	940,069
3,230,513	-	19,924	5,962,413
215,008	-	-	3,562,370
7,050,339	-	-	7,050,339
10,747,846	-	24,036	19,449,987
-	-	-	2,488,230
10,747,846	-	24,036	21,938,217
-	-	-	836,492
-	2,854,521	113,668	3,271,486
-	600,000	22,123	8,272,388
(3,200,323)	-	-	3,832,206
(3,200,323)	3,454,521	135,791	16,212,572
<u>\$ 7,547,523</u>	<u>\$ 3,454,521</u>	<u>\$ 159,827</u>	<u>\$ 38,150,789</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, 2015

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Fund Balances - Total Governmental Funds	\$ 16,212,572
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>88,421,915</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Real property taxes	2,488,230
Departmental income	2,544,862
Mortgage receivable	<u>802,500</u>
	<u>5,835,592</u>
Governmental funds do not report the effect of losses on refunding bonds and assets or liabilities relates to net pension assets (liabilities) whereas these amounts are deferred and amortized in the statement of activities.	
Deferred amounts on net pension assets (liabilities)	2,390,079
Deferred amounts on refunding bonds	<u>122,761</u>
	<u>2,512,840</u>
Long-term liabilities that are not due and payable in the current period are not reported in the funds.	
Accrued interest payable	(468,233)
Bonds payable	(51,326,746)
Loans payable	(1,530,000)
Compensated absences	(3,285,317)
Net pension liability	(1,924,425)
Claims payable	(3,973,942)
Other post employment benefit obligations payable	<u>(26,580,000)</u>
	<u>(89,088,663)</u>
Net Position of Governmental Activities	<u>\$ 23,894,256</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, 2015

	General	Community Development	Water	Sewer
<b>REVENUES</b>				
Real property taxes	\$ 18,161,500	\$ -	\$ -	\$ -
Other tax items	682,031	-	-	-
Non-property taxes	9,982,059	-	-	-
Departmental income	1,249,249	412,746	6,654,340	4,930,243
Intergovernmental charges	102,844	-	-	-
Use of money and property	177,738	410	530	1,007
Licenses and permits	363,624	-	22,009	13,010
Fines and forfeitures	374,492	-	-	-
Sale of property and compensation for loss	3,697	-	1,350	-
State aid	3,388,096	-	1,516	825
Federal aid	480,359	490,664	4,548	2,475
Miscellaneous	109,746	-	2,919	25,839
Total Revenues	<u>35,075,435</u>	<u>903,820</u>	<u>6,687,212</u>	<u>4,973,399</u>
<b>EXPENDITURES</b>				
Current				
General government support	4,860,661	-	682,756	321,696
Public safety	10,894,893	-	-	-
Transportation	2,335,318	-	-	-
Economic opportunity and development	426,927	-	-	-
Culture and recreation	2,047,091	-	-	-
Home and community services	1,996,378	786,596	2,255,822	1,933,159
Employee benefits	12,061,901	-	890,668	679,043
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	57,590	-	-	16,450
Total Expenditures	<u>34,680,759</u>	<u>786,596</u>	<u>3,829,246</u>	<u>2,950,348</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>394,676</u>	<u>117,224</u>	<u>2,857,966</u>	<u>2,023,051</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	297,722	-	-	-
Sale of real property	86,000	-	-	-
Transfers in	2,519,000	-	-	-
Transfers out	<u>(1,744,214)</u>	<u>(203,282)</u>	<u>(2,524,992)</u>	<u>(1,795,053)</u>
Total Other Financing Sources (Uses)	<u>1,158,508</u>	<u>(203,282)</u>	<u>(2,524,992)</u>	<u>(1,795,053)</u>
Net Change in Fund Balances	1,553,184	(86,058)	332,974	227,998
<b>FUND BALANCES (DEFICITS)</b>				
Beginning of Year	<u>7,458,908</u>	<u>120,668</u>	<u>2,699,022</u>	<u>3,515,887</u>
End of Year	<u>\$ 9,012,092</u>	<u>\$ 34,610</u>	<u>\$ 3,031,996</u>	<u>\$ 3,743,885</u>

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

Capital Projects	Debt Service	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 18,161,500
-	-	-	682,031
-	-	-	9,982,059
-	-	92,356	13,338,934
-	-	-	102,844
-	3,501	22	183,208
-	-	-	398,643
-	-	-	374,492
-	-	-	5,047
663,306	-	-	4,053,743
301,425	-	-	1,279,471
144,000	191,280	97,600	571,384
<u>1,108,731</u>	<u>194,781</u>	<u>189,978</u>	<u>49,133,356</u>
-	-	-	5,865,113
-	-	57,499	10,952,392
-	-	-	2,335,318
-	-	-	426,927
-	-	91,270	2,138,361
-	-	-	6,971,955
-	-	-	13,631,612
1,935,871	-	-	1,935,871
-	2,822,899	-	2,822,899
-	1,540,994	-	1,615,034
<u>1,935,871</u>	<u>4,363,893</u>	<u>148,769</u>	<u>48,695,482</u>
<u>(827,140)</u>	<u>(4,169,112)</u>	<u>41,209</u>	<u>437,874</u>
-	-	-	297,722
-	-	-	86,000
647,994	4,100,547	-	7,267,541
(250,000)	(750,000)	-	(7,267,541)
<u>397,994</u>	<u>3,350,547</u>	<u>-</u>	<u>383,722</u>
(429,146)	(818,565)	41,209	821,596
<u>(2,771,177)</u>	<u>4,273,086</u>	<u>94,582</u>	<u>15,390,976</u>
<u>\$ (3,200,323)</u>	<u>\$ 3,454,521</u>	<u>\$ 135,791</u>	<u>\$ 16,212,572</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, 2015

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

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 821,596</u>
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.	
Capital outlay expenditures	2,258,748
Depreciation expense	<u>(3,515,232)</u>
	<u>(1,256,484)</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	(304,459)
Departmental income	(338,615)
Mortgages	<u>175,000</u>
	<u>(468,074)</u>
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.	
Principal paid on bonds	2,687,899
Principal paid on loans	135,000
Amortization of loss on refunding and premium	<u>(6,009)</u>
	<u>2,816,890</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	72,060
Compensated absences	(145,364)
Claims	143,059
Pension assets (obligations)	546,988
Other post employment benefit obligations	<u>(4,230,000)</u>
	<u>(3,613,257)</u>
Change in Net Position of Governmental Activities	<u>\$ (1,699,329)</u>

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

City of Middletown, New York

Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget and Actual  
General, Water and Sewer Funds  
Year Ended December 31, 2015

General Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Real property taxes	\$ 18,182,537	\$ 18,182,537	\$ 18,161,500	\$ (21,037)
Other tax items	530,000	530,000	682,031	152,031
Non-property taxes	10,269,730	10,269,730	9,982,059	(287,671)
Departmental income	1,089,810	1,124,810	1,249,249	124,439
Intergovernmental charges	91,000	91,000	102,844	11,844
Use of money and property	209,000	209,000	177,738	(31,262)
Licenses and permits	257,500	257,500	363,624	106,124
Fines and forfeitures	405,000	405,000	374,492	(30,508)
Sale of property and compensation for loss	5,000	5,000	3,697	(1,303)
State aid	3,031,000	3,063,229	3,388,096	324,867
Federal aid	93,750	135,000	480,359	345,359
Miscellaneous	104,500	285,995	109,746	(176,249)
<b>Total Revenues</b>	<b>34,268,827</b>	<b>34,558,801</b>	<b>35,075,435</b>	<b>516,634</b>
<b>EXPENDITURES</b>				
Current				
General government support	4,754,555	5,470,714	4,860,661	610,053
Public safety	11,410,848	11,723,136	10,894,893	828,243
Transportation	2,284,249	2,589,177	2,335,318	253,859
Economic opportunity and development	422,347	433,417	426,927	6,490
Culture and recreation	2,092,602	2,236,075	2,047,091	188,984
Home and community services	2,259,685	2,785,221	1,996,378	788,843
Employee benefits	12,607,556	12,607,556	12,061,901	545,655
Debt service				
Interest	57,590	57,590	57,590	-
<b>Total Expenditures</b>	<b>35,889,432</b>	<b>37,902,886</b>	<b>34,680,759</b>	<b>3,222,127</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,620,605)	(3,344,085)	394,676	3,738,761
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	100,000	100,000	297,722	197,722
Sale of real property	350,000	350,000	86,000	(264,000)
Transfers in	2,269,000	2,269,000	2,519,000	250,000
Transfers out	(1,519,870)	(2,048,282)	(1,744,214)	304,068
<b>Total Other Financing Sources (Uses)</b>	<b>1,199,130</b>	<b>670,718</b>	<b>1,158,508</b>	<b>487,790</b>
<b>Net Change in Fund Balances</b>	<b>(421,475)</b>	<b>(2,673,367)</b>	<b>1,553,184</b>	<b>4,226,551</b>
<b>FUND BALANCES</b>				
Beginning of Year	421,475	2,673,367	7,458,908	4,785,541
End of Year	\$ -	\$ -	\$ 9,012,092	\$ 9,012,092

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,595,404	6,595,404	6,654,340	58,936	4,805,877	4,805,877	4,930,243	124,366
-	-	-	-	-	-	-	-
1,000	1,000	530	(470)	1,000	1,000	1,007	7
10,000	10,000	22,009	12,009	600	600	13,010	12,410
-	-	-	-	-	-	-	-
-	-	1,350	1,350	-	-	-	-
-	-	1,516	1,516	-	-	825	825
-	100,629	4,548	(96,081)	-	-	2,475	2,475
2,500	2,500	2,919	419	1,000	1,000	25,839	24,839
<u>6,608,904</u>	<u>6,709,533</u>	<u>6,687,212</u>	<u>(22,321)</u>	<u>4,808,477</u>	<u>4,808,477</u>	<u>4,973,399</u>	<u>164,922</u>
464,968	725,189	682,756	42,433	347,621	325,070	321,696	3,374
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,504,006	2,579,969	2,255,822	324,147	1,990,121	2,174,000	1,933,159	240,841
876,785	910,680	890,668	20,012	651,492	684,195	679,043	5,152
2,200	1,761	-	1,761	45,806	45,806	16,450	29,356
<u>3,847,959</u>	<u>4,217,599</u>	<u>3,829,246</u>	<u>388,353</u>	<u>3,035,040</u>	<u>3,229,071</u>	<u>2,950,348</u>	<u>278,723</u>
2,760,945	2,491,934	2,857,966	366,032	1,773,437	1,579,406	2,023,051	443,645
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(2,760,945)	(2,770,945)	(2,524,992)	245,953	(1,773,437)	(1,779,437)	(1,795,053)	(15,616)
(2,760,945)	(2,770,945)	(2,524,992)	245,953	(1,773,437)	(1,779,437)	(1,795,053)	(15,616)
-	(279,011)	332,974	611,985	-	(200,031)	227,998	428,029
-	279,011	2,699,022	2,420,011	-	200,031	3,515,887	3,315,856
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,031,996</u>	<u>\$ 3,031,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,743,885</u>	<u>\$ 3,743,885</u>

**City of Middletown, New York**

Statement of Assets and Liabilities

Fiduciary Fund

December 31, 2015

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and equivalents	\$ 193,217
Accounts receivable	<u>299,076</u>
 Total Assets	 <u><u>\$ 492,293</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 152,859
Employee payroll deductions	18,700
Deposits	<u>320,734</u>
 Total Liabilities	 <u><u>\$ 492,293</u></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, 2015

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### **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.

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

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

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.

**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

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

(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 most 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, net pension liability and other post employment benefit obligations 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.

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balances**

**Deposits 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

## City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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

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

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

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the City's name. The City's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2015.

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. Investments of the General Fund are stated at fair value. The amounts are invested in various portfolios by the trustee of the Pension Trust – Service Awards Program, who has been designated by the State Comptroller. These investments are unrated. The City has no formal policy relating to interest rate or credit risk for these investments.

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

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

## City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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

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, 2015, 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.

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).

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

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

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

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

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

**Unearned 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 \$802,500 for mortgages receivable in the General Fund. The Community Development Fund reflects unearned revenues \$2,544,862 for loans receivable. The City has also reported unearned revenues of \$215,008 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.

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 \$122,761 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.

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

The City reported deferred inflows of resources of \$2,488,230 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.

The City also reported deferred outflows of resources in relation to its pension obligations. These amounts are detailed in the discussion of the City's pension plans in Note 3I.

**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, fire service awards, unemployment benefits, future capital projects and special revenue funds. The balance is classified as unrestricted.

**Fund Balances** - Generally, fund balance represents the difference between current assets and 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).

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

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 funds except the General Fund includes all remaining amounts, except for negative balances, that are not classified as nonspendable and are neither restricted nor committed.

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.

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

**F. Encumbrances**

In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable

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

appropriations, is generally employed as an extension of formal budgetary integration in the General, Water and Sewer funds. Encumbrances outstanding at year-end are generally reported as assigned fund balance since they do not constitute expenditures or liabilities.

**G. 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.

**H. 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 31, 2016.

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

**A. Budgetary Data**

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

- a) Prior to September 15th, the head of each administrative unit shall submit to the budget officer an estimate of revenues and expenditures for such administrative unit for the ensuing year.
- b) The budget officer, upon completion of the review of the estimates, shall prepare a tentative budget and file such budget in the Office of the Board of Estimate on or before October 1st.
- c) The Board of Estimate shall review the tentative budget and may make such changes, alterations and revisions as it shall consider advisable and which are consistent with law. Upon completion of such review, the tentative budget and any modifications as approved by the Board of Estimate shall become the preliminary budget.
- d) On or before December 31st, the Board of Estimate shall hold a public hearing on the preliminary budget.
- e) After the public hearing, the Board of Estimate may further change, alter and revise the preliminary budget subject to provisions of the law.

## City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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

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

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

#### **B. Property Tax Limitation**

The City is permitted by the Constitution of the State of New York to levy taxes up to 2% of the five year average full valuation of taxable real estate located within the City, exclusive of the amount raised for the payment of interest on and redemption of long-term debt. In accordance with this definition, the maximum amount of the levy for 2015 was \$29,956,106 inclusive of exclusions, which exceeded the actual levy by \$11,773,569.

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. The original legislation that established the Tax levy Limitation Law was set to expire on June 16, 2016. Chapter 20 of the Laws of 2015 extends the Tax Levy Limitation Law through June 2020.

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

The Tax Levy Limitation Law imposes a limitation on increases in the real property tax levy, subject to certain exceptions. The Tax Levy Limitation Law permits the City to increase its overall

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

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. Cumulative Effect of Change in Accounting Principle**

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". These statements seek to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expenses/expenditures. These statements also require the identification of the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to the periods of employee service. As a result of adopting these standards, the government-wide financial statements reflect a cumulative effect for the change in accounting principle of \$81,334.

**D. Expenditures in Excess of Budget**

The following functional expenditure categories exceed their budgetary authorization by the amounts indicated:

Sewer Fund	
Transfer out	\$15,616
Debt Service Fund	
Debt Service - Principal - Bonds	30,000

**E. Fund Deficits**

The unassigned deficit in the Capital Projects Fund of \$3,200,323 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

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

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 \$409,023 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. Restricted investments in the General Fund of \$18,987 consist of investments listed in Note 3G in various portfolios by the trustee of the plan established for fire service awards.

**B. Taxes Receivable**

Taxes receivable at December 31, 2015 consisted of the following:

City and County taxes - Current and overdue	\$	1,461,137
School district taxes - Current and overdue		384,274
Tax sale certificates		1,228,745
Property acquired for taxes		<u>1,795,688</u>
		4,869,844
Allowance for uncollectible taxes		<u>(1,795,688)</u>
	\$	<u>3,074,156</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 \$2,488,230, 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 outstanding mortgage receivables of \$802,500 at December 31, 2015. A mortgage receivable for \$152,500 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. A mortgage agreement was made in August 2014 for \$425,000 for the sale of real property with a contingency agreement where \$212,500 will be forgiven by the City if the borrower obtains certificates of occupancy for a minimum of 2 but up to 6 apartments on the second and third floors of the property by no later than August 18, 2017. If the borrower does not complete the certificates of occupancy timely, the amount of \$212,500 will be payable in 180 monthly installments of principal and interest of

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

\$1,680.44 at a 3% interest rate beginning on September 1, 2017 through August 1, 2032, when the outstanding unpaid principal will be due. If the borrower occupies and uses the Property to house and operate a microbrewery and a restaurant by no later than August 18, 2020 the lender will forgive the remaining \$212,500 amount due under the note. If the borrower fails this clause, then the additional \$212,500 will be payable in 180 monthly installments of principal and interest of \$1,680.44 at a 3% interest rate beginning on September 1, 2020 through August 1, 2035, when the outstanding unpaid principal will be due. A new mortgage receivable for \$225,000 was made in November, 2015 for the sale of real property with a contingent agreement where \$100,000 will be forgiven by the City if the purchaser meets and completes all the development goals set forth in the letter of intent within twenty-four months after the closing. If the purchaser does not sell the property prior to the expiration of five years after the closing the remaining \$125,000 will be forgiven. If the property is sold within five years, the purchaser will pay \$25,000 for each year remaining of the initial five year period. If the purchaser does not meet such goals within the twenty-four months after the closing the sum of \$65,000, without interest, will be due and payable no later than twenty-five months after the closing and ownership will revert back to the City.

**D. Due From/To Other Funds**

The balances reflected as due from/to other funds at December 31, 2015 were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 2,648,515	\$ 562,338
Community Development	403	284,161
Water	92,709	1,047,841
Sewer	73,163	817,636
Capital Projects	400,406	3,230,513
Debt Service	2,746,168	-
Non-Major Governmental	1,049	19,924
	<u>\$ 5,962,413</u>	<u>\$ 5,962,413</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, 2015

**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, 2015	Additions	Deletions	Balance December 31, 2015
<b>Governmental Activities</b>				
Capital Assets, not being depreciated				
Land	\$ 3,822,955	\$ -	\$ -	\$ 3,822,955
Construction-in-progress	2,973,341	-	2,378,645	594,696
Total Capital Assets, not being depreciated	\$ 6,796,296	\$ -	\$ 2,378,645	\$ 4,417,651
Capital Assets, being depreciated				
Buildings and improvements	\$ 72,048,482	\$ 435,158	\$ -	\$ 72,483,640
Improvements other than buildings	4,476,985	-	-	4,476,985
Infrastructure	32,120,722	3,660,647	-	35,781,369
Machinery and equipment	28,667,468	541,588	74,334	29,134,722
Total Capital Assets, being depreciated	137,313,657	4,637,393	74,334	141,876,716
Less Accumulated Depreciation for				
Buildings and improvements	17,703,590	1,793,459	-	19,497,049
Improvements other than buildings	3,260,424	185,650	-	3,446,074
Infrastructure	9,589,519	671,881	-	10,261,400
Machinery and equipment	23,878,021	864,242	74,334	24,667,929
Total Accumulated Depreciation	54,431,554	3,515,232	74,334	57,872,452
Total Capital Assets, being depreciated, net	\$ 82,882,103	\$ 1,122,161	\$ -	\$ 84,004,264
Capital Assets, net	\$ 89,678,399	\$ 1,122,161	\$ 2,378,645	\$ 88,421,915

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

Governmental Activities	
General government support	\$ 228,547
Public safety	505,090
Transportation	177,827
Culture and recreation	159,685
Home and community services	2,444,083
Total Depreciation Expense	\$ 3,515,232

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

**F. Accrued Liabilities**

Accrued liabilities at December 31, 2015 were as follows:

	Fund				Non-Major Governmental	Total Governmental
	General	Community Development	Water	Sewer		
Payroll and Employee Benefits	\$ 315,983	\$ 11,097	\$ 63,827	\$ 45,391	\$ 1,051	\$ 437,349

**G. Pension Trust - Service Awards Program**

The City, pursuant to Article 11-A of General Municipal Law of the State of New York and legislative resolution, has established a Length of Service Awards Program ("Program") for volunteer firefighters. This Program is a defined contribution plan established as a grantor/rabbi trust and, as such, the assets are subject to the claims of the City's creditors. The Program accounted for in the City's financial statements within the General Fund. The annual service award contribution is \$700 for each participant.

Active volunteer firefighters, with one year of active service, upon attainment of age 18, and upon earning 50 or more points in a calendar year after 1994 under the provisions of the program point system, are eligible to become participants in the Program. Points are granted for the performance of certain activities in accordance with a system established by the City on the basis of a statutory list of activities and point values. A participant may also receive credit for five years of firefighting service rendered prior to the establishment of the Program. Participants are fully vested upon attainment of entitlement age, upon death or upon general disablement and after earning five years of service credit. A participant, upon attainment of entitlement age (the later of age 60 or the participant's age after earning 50 program points), shall be able to receive their service award, payable in the form of a lump sum payment equal to the participants account balance or in two annual installments. The benefits and refunds of the plan are recognized when due and payable in accordance with the terms of the plan. The Program also provides disability and death benefits. The trustees of the Program, the Glens Falls National Bank and Trust Company, are authorized to invest the funds in authorized investment vehicles. Administrative costs are paid by the City from the Pension Trust Fund. Separate financial statements are not issued by the program.

Current membership in the Program is comprised of the following:

Group	December 31, 2015
Active - vested	5
Active - non-vested	44
Retirees and beneficiaries currently receiving benefits	2
Terminated members entitled to but not yet receiving benefits	-

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

The City's Board has retained and designated Penflex, Inc. ("Penflex") to assist in the administration of the Program. Based on the certified calendar year volunteer firefighter listings, Penflex determines and certifies in writing the amount of the service award to be paid to a participant or to a participant's designated beneficiary. As authorized by the City, Penflex then directs the paying agent to pay the service award. No service award benefit payment is made without the written certification from Penflex and written confirmation to the City.

Program assets are required to be held in trust by Article 11-A of the General Municipal Law of the State of New York, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the Program. Authority to invest the Program's assets is vested in the Trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with an investment policy adopted by the City.

The assets of the plan as of December 31, 2015 are invested as follows:

Money market funds	\$ 580
Equity mutual funds	11,888
Fixed income mutual funds	<u>6,519</u>
	<u>\$ 18,987</u>

The City's annual Program cost and the percentage of the annual Program cost contributed to the Plan for the current and two preceding fiscal years were as follows:

	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage of Annual Program Cost Contributed</u>	<u>Net Pension Obligation</u>
2015	\$ 21,000	\$ 21,000	100.00 %	\$ -

\* The program first became active in 2015.

The investments of the program are accounted for in the General Fund and fund balance is restricted for this balance. The net change in the program of \$2,013 is reported in the General Fund consisting of administrative fees of \$914 and distributions of \$1,099.

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

**H. Short-Term Capital Borrowings**

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

<u>Purpose</u>	<u>Year of Original Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance January 1, 2015</u>	<u>Redemptions</u>	<u>Balance December 31, 2015</u>
Bond Anticipation Notes						
Machinery and Equipment	2010	02/19/16	1.00 %	\$ 7,000	\$ 7,000	\$ -
Senior Citizens Bus Purchase	2010	02/19/16	1.00	8,000	8,000	-
Garbage Truck	2012	02/19/16	1.00	190,000	10,000	180,000
Reconstruction of fire truck	2012	02/19/16	1.00	355,000	260,667	94,333
Radio System Upgrade	2012	02/19/16	1.00	125,250	41,750	83,500
Purchase of Fire Trucks	2012	02/19/16	1.00	995,000	35,000	960,000
Purchase and installation of software	2012	02/19/16	1.00	243,750	81,250	162,500
Reconstruction & resurface of streets	2012	02/19/16	1.00	500,000	34,233	465,767
Purchase of Tompkins building	2012	02/19/16	1.00	640,000	35,000	605,000
Purchase of lawn mowers	2012	02/19/16	1.00	22,500	7,500	15,000
Improvements to steeples	2012	02/19/16	1.00	305,000	10,761	294,239
City Hall upgrades	2012	02/19/16	1.00	230,000	5,000	225,000
Replace Black Dirt Sewer Line (Elm St)	2012	02/19/16	1.00	1,230,000	20,000	1,210,000
Sewer System Costs	2012	02/19/16	1.00	415,000	5,000	410,000
Pool Renovations	2013	02/19/16	1.00	600,000	30,000	570,000
Drainage Improvements	2013	02/19/16	1.00	1,537,541	12,541	1,525,000
Vehicles and equipment and traffic operations	2015	02/19/16	1.12	-	250,000	250,000
				<u>\$ 7,404,041</u>	<u>\$ 853,702</u>	<u>\$ 7,050,339</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 \$57,590, and \$16,450 were recorded in the fund financial statements in the General and Sewer Funds, respectively.

Interest expense of \$71,266 was recorded in the government-wide financial statements for governmental activities.

City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

**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, 2015.

	Balance as Reported January 1, 2015	Cumulative Effect of Change in Accounting Principle	Balance as Restated January 1, 2015	New Issues/ Additions	Maturities and/or Payments	Balance December 31, 2015	Due Within One-Year
Bonds Payable	\$ 53,912,899	\$ -	\$ 53,912,899	\$ -	\$ 2,687,899	\$ 51,225,000	\$ 2,775,000
Less							
Deferred Amounts on Refunding	129,479	-	129,479	-	27,733	101,746	-
	<u>54,042,378</u>	<u>-</u>	<u>54,042,378</u>	<u>-</u>	<u>2,715,632</u>	<u>51,326,746</u>	<u>2,775,000</u>
Loans Payable	<u>1,665,000</u>	<u>-</u>	<u>1,665,000</u>	<u>-</u>	<u>135,000</u>	<u>1,530,000</u>	<u>135,000</u>
Other Non-current Liabilities							
Compensated Absences	3,139,953	-	3,139,953	459,364	314,000	3,285,317	329,000
Net Pension Liability	-	2,722,654	2,722,654	-	798,229	1,924,425	-
Claims Payable	4,117,001	-	4,117,001	600,469	743,528	3,973,942	721,000
Other post employment benefit obligations payable	<u>22,350,000</u>	<u>-</u>	<u>22,350,000</u>	<u>6,150,000</u>	<u>1,920,000</u>	<u>26,580,000</u>	<u>-</u>
Total Other Non-Current Liabilities	<u>29,606,954</u>	<u>2,722,654</u>	<u>32,329,608</u>	<u>7,209,833</u>	<u>3,775,757</u>	<u>35,763,684</u>	<u>1,050,000</u>
Total Long-Term Liabilities	<u>\$ 85,314,332</u>	<u>\$ 2,722,654</u>	<u>\$ 88,036,986</u>	<u>\$ 7,209,833</u>	<u>\$ 6,626,389</u>	<u>\$ 88,620,430</u>	<u>\$ 3,960,000</u>

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

**Bonds Payable**

Bonds payable at December 31, 2015 are comprised of the following individual issues:

Purpose	Year of Issue	Original Issue Amount	Final Maturity	Interest Rates	Amount Outstanding at December 31, 2015
Water Purposes	2004	\$ 3,397,093	May, 2023	3.775 - 4.475 %	\$ 1,560,000
Refunding	2005	5,530,000	October, 2017	4.870 - 4.917	1,120,000
Environmental Facilities Corporation	2006	3,671,027	April, 2036	4.221 - 4.861	2,840,000
Public Improvement	2007	5,210,000	July, 2028	4.000 - 5.000	3,720,000
Environmental Facilities Corporation	2008	20,161,142	April, 2038	4.270	16,595,000
Refunding	2011	5,025,000	August, 2021	2.500 - 3.000	3,160,000
Environmental Facilities Corporation	2012	17,843,203	November, 2042	.775 - 4.269	16,105,000
Public Improvement	2014	6,292,900	February, 2039	2.500 - 5.000	6,125,000
					<u>\$ 51,225,000</u>

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

Interest expenditures of \$1,472,712 were recorded in the fund financial statements in the Debt Service Fund.

Interest expense of \$1,409,435 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 \$68,282 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, 2015 including interest payments of \$25,097,181 are as follows:

Year Ending December 31,	Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 2,775,000	\$ 1,954,135	\$ 135,000	\$ 63,425	\$ 2,910,000	\$ 2,017,560
2017	2,840,000	1,855,351	135,000	58,321	2,975,000	1,913,672
2018	2,315,000	1,751,219	141,000	53,004	2,456,000	1,804,223
2019	2,355,000	1,676,983	142,000	47,189	2,497,000	1,724,172
2020	2,420,000	1,597,542	142,000	41,018	2,562,000	1,638,560
2021-2025	10,125,000	6,787,277	565,000	118,633	10,690,000	6,905,910
2026-2030	9,305,000	4,936,016	270,000	25,873	9,575,000	4,961,889
2031-2035	9,670,000	3,073,001	-	-	9,670,000	3,073,001
2036-2040	8,190,000	1,005,472	-	-	8,190,000	1,005,472
2041-2042	1,230,000	52,722	-	-	1,230,000	52,722
	<u>\$ 51,225,000</u>	<u>\$ 24,689,718</u>	<u>\$ 1,530,000</u>	<u>\$ 407,463</u>	<u>\$ 52,755,000</u>	<u>\$ 25,097,181</u>

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

**Compensated Absences**

In accordance with various existing collective bargaining agreements, employees are entitled to accumulate vacation and sick leave. Civil service employees may accumulate up to 260 days of sick leave, firefighters may accumulate 87 days and police may accumulate an unlimited amount of leave. Upon separation of service, civil service employees and police with five or more years of service may receive payment for forty percent of unused sick leave, up to the maximum of 260 days for civil service employees and 200 days for police employees. Payment is based upon the prior

## City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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

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

#### **Pension Plans**

##### *New York State and Local Retirement System*

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") which are collectively referred to as the New York State and Local Retirement System ("System"). These are cost-sharing, multiple-employer defined benefit pension plans. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund ("Fund"), which was established to hold all net assets and record changes in plan net position. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City also participates in the Public Employees' Group Life Insurance Plan, which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010, who generally contribute between 3% and 6% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. The employer contribution rates for the plan's year ending in 2016 are as follows:

Contribution rates for the plans' year ended March 31, 2016 are as follows:

	<u>Tier/Plan</u>	<u>Rate</u>
ERS	1 75I	25.2%
	2 75I	23.1
	3 A14	18.8
	4 A15	18.8
	5 A15	15.5
	6 A15	10.5

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

	<u>Tier/Plan</u>	<u>Rate</u>
PFRS	2 384D P	24.7%
	5 384D P	20.1
	6 384D P	14.3
	2 384D F	24.7
	5 384D F	23.6
	6 384D F	14.3

At December 31, 2015, the City reported a liability of \$1,074,975 for its proportionate share of the net pension liability of ERS and a liability of \$849,450 for its proportionate share of the net pension liability of PFRS. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a computation of the actuarially determined indexed present value of future compensation by employer relative to the total of all participating members. At December 31, 2015, the City's proportion was .0318205% for ERS and .3085995% for PFRS. For this first year of implementation, the System reported no change in the allocation percentage measured as of March 31, 2014.

For the year ended December 31, 2015, the City recognized pension expense in the government-wide financial statements of \$979,839 for ERS and \$1,821,090 for PFRS. Pension expenditures of \$1,508,422 for ERS and \$1,839,495 for PFRS were recorded in the fund financial statements and were charged to the following funds:

	<u>ERS</u>	<u>PFRS</u>
General Fund	\$ 1,074,299	\$ 1,839,495
Community Development	22,462	-
Water	232,552	-
Sewer	<u>179,109</u>	<u>-</u>
Total	<u>\$ 1,508,422</u>	<u>\$ 1,839,495</u>

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>ERS</u>	<u>PFRS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34,411	\$ 102,438	\$ -
Net difference between projected and actual earnings on pension plan investments	186,710	285,188	-
Changes in proportion and differences between City contributions and proportionate share of contributions	51,266	-	743,250
City contributions subsequent to the measurement date	<u>1,109,008</u>	<u>1,364,308</u>	<u>-</u>
	<u>\$ 1,381,395</u>	<u>\$ 1,751,934</u>	<u>\$ 743,250</u>

\$1,109,008 and \$1,364,308 reported as deferred outflows of resources related to ERS and PFRS, respectively, resulting from the City's accrued contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS and PFRS will be recognized in pension expense as follows:

<u>Year Ended March 31,</u>	<u>ERS</u>	<u>PFRS</u>
2016	\$ 68,097	\$ (56,865)
2017	68,097	(56,865)
2018	68,097	(56,865)
2019	68,096	(56,865)
2020	-	(128,164)

The total pension liability for the March 31, 2015 measurement date was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liabilities to March 31, 2015. The total pension liabilities for the March 31, 2014 measurement date were determined by using an actuarial valuation as of April 1, 2014. Significant actuarial assumptions used in the April 1, 2014 valuation were as follows:

Actuarial cost method	Entry age normal
Inflation	2.7%
Salary scale	4.9% in ERS, 6.0% in PFRS indexed by service
Investment rate of return	7.5% compounded annually, net of investment expenses, including inflation
Cost of living adjustments	1.4% annually

City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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

Annuitant mortality rates are based on the April 1, 2005 – March 31, 2010 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below.

<u>Asset Type</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	38 %	7.30 %
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return Strategies	3	6.75
Opportunistic Portfolio	3	8.60
Real Assets	3	8.65
Bonds and Mortgages	18	4.00
Cash	2	2.25
Inflation Indexed Bonds	2	4.00
	<u>100 %</u>	

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
City's proportionate share of the ERS net pension liability (asset)	<u>\$ 7,165,175</u>	<u>\$ 1,074,975</u>	<u>\$ (4,066,664)</u>
City's proportionate share of the PFRS net pension liability (asset)	<u>\$ 11,309,976</u>	<u>\$ 849,450</u>	<u>\$ (7,917,103)</u>

The components of the collective net pension liability as of the March 31, 2015 measurement date were as follows:

	ERS	PFRS	Total
Total pension liability	\$ 164,591,504,000	\$ 28,474,417,000	\$ 193,065,921,000
Fiduciary net position	<u>161,213,259,000</u>	<u>28,199,157,000</u>	<u>189,415,416,000</u>
Employers' net pension liability	<u>\$ 3,378,245,000</u>	<u>\$ 275,260,000</u>	<u>\$ 3,650,505,000</u>
Fiduciary net position as a percentage of total pension liability	<u>97.9%</u>	<u>99.0%</u>	<u>98.1%</u>

Employer contributions to ERS and PFRS are paid annually and cover the period through the end of the System's fiscal year, which is March 31<sup>st</sup>. Retirement contributions as of December 31, 2015 represent the employer contribution for the period of April 1, 2015 through December 31, 2015 based on prior year ERS and PFRS wages multiplied by the employers' contribution rate, by tier. Retirement contributions to ERS and PFRS for the nine months ended December 31, 2015 were \$1,109,008 and \$1,364,308, respectively.

**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

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

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>2015</u>	<u>2014</u>
Balance - Beginning of Year	\$ 4,117,001	\$ 4,343,255
Provision for Claims and Claims Adjustment Expenses	600,469	492,399
Claims and Claims Adjustment Expenses Paid	<u>(743,528)</u>	<u>(718,653)</u>
Balance - End of Year	<u>\$ 3,973,942</u>	<u>\$ 4,117,001</u>
Due Within One Year	<u>\$ 721,000</u>	<u>\$ 684,000</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'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

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

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

<u>Year Ended December 31,</u>	<u>Health Care Cost Trend Rates</u>
2015	9.50 %
2016	9.00
2017	8.50
2018	8.00
2019	7.50
2020	7.00
2021	6.50
2022	6.00
2023	5.50
2024+	5.00

The amortization basis is the level percentage of payroll basis with an open amortization approach with 23 years remaining in the amortization period. There is no inflation rate assumed which results in a default to level dollar amortization method. The actuarial assumptions included a 4.5% investment rate of return. The City currently has no assets set aside for the purpose of paying postemployment benefits. The actuarial cost method utilized was the projected unit credit method.

The number of participants as of December 31, 2015 was as follows:

	<u>Governmental Activities</u>
Active Employees	207
Retired Employees	209
	<u>416</u>

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

Amortization Component:	
Actuarial Accrued Liability as of January 1, 2015	\$ 71,640,000
Assets at Market Value	-
Unfunded Actuarial Accrued Liability	<u>\$ 71,640,000</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll (active plan members)	<u>\$ 17,910,000</u>
UAAL as a Percentage of Covered Payroll	<u>400.00%</u>
Annual Required Contribution	\$ 6,460,000
Interest on Net OPEB Obligation	1,000,000
Adjustment to Annual Required Contribution	<u>(1,310,000)</u>
Annual OPEB Cost	6,150,000
Contributions Made	<u>(1,920,000)</u>
Increase in Net OPEB Obligation	4,230,000
Net OPEB Obligation - Beginning of Year	<u>22,350,000</u>
Net OPEB Obligation - End of Year	<u>\$ 26,580,000</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>
2015	\$ 6,150,000	31.22 %	\$ 26,580,000
2014	5,880,000	34.18	22,350,000
2013	6,020,000	29.07	18,480,000

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

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

**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	\$ -	\$ 622,994	\$ 1,121,220	\$ 1,744,214
Community Development Fund	-	-	203,282	203,282
Water Fund	930,000	-	1,594,992	2,524,992
Sewer Fund	589,000	25,000	1,181,053	1,795,053
Capital Projects Fund	250,000	-	-	250,000
Debt Service Fund	750,000	-	-	750,000
	<u>\$ 2,519,000</u>	<u>\$ 647,994</u>	<u>\$ 4,100,547</u>	<u>\$ 7,267,541</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.

*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.

**City of Middletown, New York**

Notes to Financial Statements (Continued)  
December 31, 2015

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

*Restricted for Fire Service Awards* - the component of net position that reports the amounts restricted for the Length of Service Awards Program for volunteer firefighters established pursuant to Article 11-A of General Municipal Law of the State of New York.

*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, 2015

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

**L. Fund Balances**

	2015							2014								
	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Nonspendable																
Prepaid expenditures	\$ 719,978	\$ -	\$ 65,578	\$ 50,938	\$ -	\$ -	\$ -	\$ 836,492	\$ 780,364	\$ -	\$ 55,761	\$ 46,243	\$ -	\$ -	\$ -	\$ 882,368
Restricted																
Tax stabilization	8,335	-	-	-	-	-	-	8,335	8,333	-	-	-	-	-	-	8,333
Unemployment benefits	85,975	-	-	-	-	-	-	85,975	85,975	-	-	-	-	-	-	85,975
Future capital projects	40,000	-	150,000	-	-	-	-	190,000	40,000	-	150,000	-	-	-	-	190,000
Fire service awards	18,987	-	-	-	-	-	-	18,987	-	-	-	-	-	-	-	-
Trusts	-	-	-	-	-	-	113,668	113,668	-	-	-	-	-	-	89,392	89,392
Debt service	-	-	-	-	-	2,854,521	-	2,854,521	-	-	-	-	-	3,523,086	-	3,523,086
Total Restricted	153,297	-	150,000	-	-	2,854,521	113,668	3,271,486	134,308	-	150,000	-	-	3,523,086	89,392	3,896,786
Assigned																
Purchases on order																
General government support	405,729	-	12,358	-	-	-	-	418,087	-	-	-	-	-	-	-	-
Public safety	152,986	-	108	197	-	-	-	153,291	-	-	-	-	-	-	-	-
Home and community services	249,062	-	204,284	98,065	-	-	-	551,411	-	-	-	-	-	-	-	-
	807,777	-	216,750	98,262	-	-	-	1,122,789	-	-	-	-	-	-	-	-
Subsequent year's expenditures	298,511	-	-	-	-	600,000	-	898,511	421,475	-	-	-	-	750,000	-	1,171,475
Major Funds	-	34,610	2,599,668	3,594,687	-	-	-	6,228,965	-	120,668	2,493,261	3,469,644	-	-	-	6,083,573
Non-Major - Golden Area	-	-	-	-	-	-	22,123	22,123	-	-	-	-	-	-	5,190	5,190
Total Assigned	1,106,288	34,610	2,816,418	3,692,949	-	600,000	22,123	8,272,388	421,475	120,668	2,493,261	3,469,644	-	750,000	5,190	7,260,238
Unassigned	7,032,529	-	-	-	(3,200,323)	-	-	3,832,206	6,122,761	-	-	-	(2,771,177)	-	-	3,351,584
Total Fund Balances (Deficits)	\$ 9,012,092	\$ 34,610	\$ 3,031,996	\$ 3,743,885	\$ (3,200,323)	\$ 3,454,521	\$ 135,791	\$ 16,212,572	\$ 7,458,908	\$ 120,668	\$ 2,699,022	\$ 3,515,887	\$ (2,771,177)	\$ 4,273,086	\$ 94,582	\$ 15,390,976

## City of Middletown, New York

Notes to Financial Statements (Continued)  
December 31, 2015

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### **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.

Purchases on order are assigned and represent the City's intention to honor the contracts in process at year-end. The subsequent year's appropriation will be amended to provide authority to complete the transactions.

Subsequent year's expenditures represent that at December 31, 2015, 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.

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. The arbitration was dismissed in favor of the City and the parties have until July 18, 2016 to submit briefs on the PERB case.

## City of Middletown, New York

Notes to Financial Statements (Concluded)  
December 31, 2015

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

#### **B. Risk Management**

The City maintains various conventional liability insurance policies to provide against potential losses. The general liability policy provides coverage of \$1 million per occurrence and \$3 million in the aggregate. The police professional liability and the public officials liability policies each provide coverage of \$1 million per occurrence. The umbrella policy provides coverage of \$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.

### **Note 5 - Subsequent Events**

The City, on February 18, 2016 issued bond anticipation notes in the amount of \$6,294,633. The notes are due on February 17, 2017, with interest at 1.75%. The proceeds were used to renew portions of bond anticipation notes outstanding at December 31, 2015.

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**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, 2013	\$ -	\$ 68,700,000	\$ 68,700,000	- %	\$ 18,260,000	376.23 %
January 1, 2014	-	68,680,000	68,680,000	-	16,475,000	416.87
January 1, 2015	-	71,640,000	71,640,000	-	17,910,000	400.00

**City of Middletown, New York**

Required Supplementary Information - Schedule of the  
City's Proportionate Share of the Net Pension Liability  
New York State and Local Employees' Retirement System  
Last Ten Fiscal Years (1)

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	<u>2015</u>
City's proportion of the net pension liability (asset)	<u>0.0318205%</u>
City's proportionate share of the net pension liability (asset)	<u>\$ 1,074,975</u>
City's covered employee payroll	<u>\$ 7,931,227</u>
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	<u>13.55%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>97.90%</u>

Note - The amounts presented for each fiscal year were determined as of the March 31 measurement date within the current fiscal year.

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**City of Middletown, New York**

Required Supplementary Information - Schedule of Contributions  
New York State and Local Employees' Retirement System  
Last Ten Fiscal Years (1)

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	<u>2015</u>
Contractually required contribution	\$ 1,478,677
Contributions in relation to the contractually required contribution	<u>(1,478,677)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered employee payroll	<u>\$ 8,175,271</u>
Contributions as a percentage of covered-employee payroll	<u>18.09%</u>

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**City of Middletown, New York**

Required Supplementary Information - Schedule of the  
City's Proportionate Share of the Net Pension Liability  
New York State and Local Police and Fire Retirement System  
Last Ten Fiscal Years (1)

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	<u>2015</u>
City's proportion of the net pension liability (asset)	<u>0.3085995%</u>
City's proportionate share of the net pension liability (asset)	<u>\$ 849,450</u>
City's covered employee payroll	<u>\$ 8,335,503</u>
City's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	<u>10.19%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>99.00%</u>

Note - The amounts presented for each fiscal year were determined as of the March 31 measurement date within the current fiscal year.

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**City of Middletown, New York**

Required Supplementary Information - Schedule of Contributions  
New York State and Local Police and Fire Retirement System  
Last Ten Fiscal Years (1)

---

	<u>2015</u>
Contractually required contribution	\$ 1,819,078
Contributions in relation to the contractually required contribution	<u>(1,819,078)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered employee payroll	<u>\$ 8,922,571</u>
Contributions as a percentage of covered-employee payroll	<u>20.39%</u>

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

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**City of Middletown, New York**

General Fund  
Comparative Balance Sheet  
December 31,

	2015	2014
<b>ASSETS</b>		
Cash and equivalents	\$ 4,646,922	\$ 5,800,402
Restricted Investments	18,987	-
Taxes receivable		
City and County taxes	1,461,137	1,339,106
School district taxes	384,274	82,947
Tax sale certificates	1,228,745	1,574,417
Property acquired for taxes	1,795,688	1,527,230
	4,869,844	4,523,700
Allowance for uncollectible taxes	(1,795,688)	(1,527,230)
	3,074,156	2,996,470
Other receivables		
Mortgages	802,500	627,500
Accounts	301,943	283,040
State and Federal aid	253,099	544,854
Due from other governments	2,555,443	2,569,710
Due from other funds	2,648,515	1,497,700
	6,561,500	5,522,804
Prepaid expenditures	719,978	780,364
Total Assets	<u>\$ 15,021,543</u>	<u>\$ 15,100,040</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 564,237	\$ 517,708
Accrued liabilities	315,983	42,779
Due to State and Federal governments	56,179	68,782
Due to County for tax levy	279,915	245,895
Due to school district	940,069	1,777,882
Due to other funds	562,338	1,468,142
Unearned revenues	802,500	727,255
Total Liabilities	3,521,221	4,848,443
Deferred inflows of resources		
Deferred tax revenues	2,488,230	2,792,689
Total Liabilities and Deferred Inflows of Resources	<u>6,009,451</u>	<u>7,641,132</u>
Fund balance		
Nonspendable	719,978	780,364
Restricted	153,297	134,308
Assigned	1,106,288	421,475
Unassigned	7,032,529	6,122,761
Total Fund Balance	<u>9,012,092</u>	<u>7,458,908</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 15,021,543</u>	<u>\$ 15,100,040</u>

**City of Middletown, New York**

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

	2015			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Real property taxes	\$ 18,182,537	\$ 18,182,537	\$ 18,161,500	\$ (21,037)
Other tax items	530,000	530,000	682,031	152,031
Non-property taxes	10,269,730	10,269,730	9,982,059	(287,671)
Departmental income	1,089,810	1,124,810	1,249,249	124,439
Intergovernmental charges	91,000	91,000	102,844	11,844
Use of money and property	209,000	209,000	177,738	(31,262)
Licenses and permits	257,500	257,500	363,624	106,124
Fines and forfeitures	405,000	405,000	374,492	(30,508)
Sale of property and compensation for loss	5,000	5,000	3,697	(1,303)
State aid	3,031,000	3,063,229	3,388,096	324,867
Federal aid	93,750	135,000	480,359	345,359
Miscellaneous	104,500	285,995	109,746	(176,249)
<b>Total Revenues</b>	<b>34,268,827</b>	<b>34,558,801</b>	<b>35,075,435</b>	<b>516,634</b>
<b>EXPENDITURES</b>				
Current				
General government support	4,754,555	5,470,714	4,860,661	610,053
Public safety	11,410,848	11,723,136	10,894,893	828,243
Transportation	2,284,249	2,589,177	2,335,318	253,859
Economic opportunity and development	422,347	433,417	426,927	6,490
Culture and recreation	2,092,602	2,236,075	2,047,091	188,984
Home and community services	2,259,685	2,785,221	1,996,378	788,843
Employee benefits	12,607,556	12,607,556	12,061,901	545,655
Debt service				
Interest	57,590	57,590	57,590	-
<b>Total Expenditures</b>	<b>35,889,432</b>	<b>37,902,886</b>	<b>34,680,759</b>	<b>3,222,127</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,620,605)	(3,344,085)	394,676	3,738,761
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance recoveries	100,000	100,000	297,722	197,722
Sale of real property	350,000	350,000	86,000	(264,000)
Transfers in	2,269,000	2,269,000	2,519,000	250,000
Transfers out	(1,519,870)	(2,048,282)	(1,744,214)	304,068
<b>Total Other Financing Sources</b>	<b>1,199,130</b>	<b>670,718</b>	<b>1,158,508</b>	<b>487,790</b>
<b>Net Change in Fund Balance</b>	<b>(421,475)</b>	<b>(2,673,367)</b>	<b>1,553,184</b>	<b>4,226,551</b>
<b>FUND BALANCE</b>				
Beginning of Year	421,475	2,673,367	7,458,908	4,785,541
End of Year	\$ -	\$ -	\$ 9,012,092	\$ 9,012,092

2014

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 17,891,632	\$ 17,891,632	\$ 16,745,558	\$ (1,146,074)
530,000	530,000	698,714	168,714
10,269,730	10,269,730	9,892,338	(377,392)
1,053,871	1,151,371	1,134,619	(16,752)
97,000	97,000	135,011	38,011
212,000	212,000	190,395	(21,605)
252,500	252,500	334,400	81,900
403,000	403,000	349,006	(53,994)
135,000	135,000	95,179	(39,821)
3,021,600	3,214,408	3,226,819	12,411
174,750	281,700	504,115	222,415
116,500	221,237	234,882	13,645
<u>34,157,583</u>	<u>34,659,578</u>	<u>33,541,036</u>	<u>(1,118,542)</u>
4,926,192	5,650,296	4,777,505	872,791
11,396,839	11,682,091	10,842,759	839,332
2,064,130	2,367,334	2,177,876	189,458
366,295	386,624	385,779	845
1,798,474	2,193,835	2,120,786	73,049
2,229,703	2,447,682	2,073,026	374,656
12,914,150	12,711,869	12,179,131	532,738
-	69,101	69,101	-
<u>35,695,783</u>	<u>37,508,832</u>	<u>34,625,963</u>	<u>2,882,869</u>
<u>(1,538,200)</u>	<u>(2,849,254)</u>	<u>(1,084,927)</u>	<u>1,764,327</u>
50,000	50,000	304,378	254,378
750,000	750,000	51,500	(698,500)
2,121,117	1,996,924	1,996,914	(10)
<u>(1,382,917)</u>	<u>(2,262,932)</u>	<u>(2,294,276)</u>	<u>(31,344)</u>
<u>1,538,200</u>	<u>533,992</u>	<u>58,516</u>	<u>(475,476)</u>
-	(2,315,262)	(1,026,411)	1,288,851
-	2,315,262	8,485,319	6,170,057
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,458,908</u>	<u>\$ 7,458,908</u>

City of Middletown, New York

General Fund

Schedule of Revenues and Other Financing Sources Compared to Budget

Year Ended December 31, 2015

(With Comparative Actuals for 2014)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2014 Actual
<b>REAL PROPERTY TAXES</b>	\$ 18,182,537	\$ 18,182,537	\$ 18,161,500	\$ (21,037)	\$ 16,745,558
<b>OTHER TAX ITEMS</b>					
Payments in lieu of taxes	300,000	300,000	409,696	109,696	347,280
Interest and penalties - Taxes	230,000	230,000	272,335	42,335	301,434
Gain on sale of property acquired for taxes	-	-	-	-	50,000
	530,000	530,000	682,031	152,031	698,714
<b>NON-PROPERTY TAXES</b>					
Non-property tax distribution from County	9,494,730	9,494,730	9,236,909	(257,821)	9,139,368
Franchise fees - Cable TV	375,000	375,000	355,373	(19,627)	360,174
Utilities gross receipts taxes	400,000	400,000	389,777	(10,223)	392,796
	10,269,730	10,269,730	9,982,059	(287,671)	9,892,338
<b>DEPARTMENTAL INCOME</b>					
Treasurer	91,000	91,000	105,760	14,760	89,716
City Clerk fees	6,500	6,500	7,684	1,184	5,710
Tax sale advertising	10,000	10,000	55,166	45,166	98,634
Police Department fees	7,000	7,000	7,474	474	8,220
Vital statistics	25,000	25,000	27,569	2,569	27,754
Public works service fee	90,000	90,000	87,402	(2,598)	70,397
Building department fees	205,000	205,000	230,700	25,700	217,090
Parks and recreation fees	15,000	25,000	38,998	13,998	13,517
Pool fees	16,000	16,000	22,405	6,405	19,568
Day camp fees	90,000	90,000	89,326	(674)	92,789
Special recreation program fees	40,750	40,750	50,221	9,471	43,086
Zoning board fees	2,000	2,000	1,350	(650)	850
Planning Board fees	16,000	16,000	39,191	23,191	15,464
Tax collection fees	100,000	100,000	82,982	(17,018)	75,843
Paramount Theatre	30,000	30,000	35,772	5,772	32,866
Movie and theatre ticket sales	280,000	305,000	286,921	(18,079)	231,694
Other departmental fees	65,560	65,560	80,328	14,768	91,421
	1,089,810	1,124,810	1,249,249	124,439	1,134,619

**INTERGOVERNMENTAL CHARGES**

Charges for services to other governments	91,000	91,000	102,844	11,844	135,011
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**USE OF MONEY AND PROPERTY**

Earnings on investments	7,000	7,000	5,174	(1,826)	5,015
Rentals of real property	202,000	202,000	172,448	(29,552)	185,316
Commissions	-	-	116	116	64
	<u>209,000</u>	<u>209,000</u>	<u>177,738</u>	<u>(31,262)</u>	<u>190,395</u>

**LICENSES AND PERMITS**

Business and occupational licenses	55,000	55,000	49,655	(5,345)	53,465
Bingo licenses	1,500	1,500	2,385	885	1,357
Dog licenses	14,000	14,000	14,385	385	15,305
Other licenses	6,000	6,000	7,740	1,740	4,865
Building permits	175,000	175,000	283,169	108,169	254,133
Other permits	6,000	6,000	6,290	290	5,275
	<u>257,500</u>	<u>257,500</u>	<u>363,624</u>	<u>106,124</u>	<u>334,400</u>

**FINES AND FORFEITURES**

Fines and forfeited bail	400,000	400,000	369,815	(30,185)	342,106
Dog pound fees	5,000	5,000	4,677	(323)	6,900
	<u>405,000</u>	<u>405,000</u>	<u>374,492</u>	<u>(30,508)</u>	<u>349,006</u>

**29 SALE OF PROPERTY AND  
COMPENSATION FOR LOSS**

Sale of equipment	-	-	3,121	3,121	12,289
Sale of scrap	5,000	5,000	576	(4,424)	4,236
Sale of timber	-	-	-	-	78,654
	<u>5,000</u>	<u>5,000</u>	<u>3,697</u>	<u>(1,303)</u>	<u>95,179</u>

**STATE AID**

Per capita	2,700,000	2,700,000	2,705,826	5,826	2,705,826
Mortgage tax	250,000	250,000	449,121	199,121	258,172
Youth programs	24,000	24,000	20,091	(3,909)	20,000
Police - DWI	7,000	12,653	19,570	6,917	22,690
Police - Child Safety	-	1,600	1,001	(599)	1,303
Court facilities aid	50,000	50,000	36,274	(13,726)	34,473
Traffic enforcement grant	-	9,750	9,267	(483)	8,668
Impact grant	-	-	-	-	46,514
Disaster assistance	-	-	119,686	119,686	98,628
Pool improvements	-	-	-	-	30,545
Other	-	15,226	27,260	12,034	-
	<u>3,031,000</u>	<u>3,063,229</u>	<u>3,388,096</u>	<u>324,867</u>	<u>3,226,819</u>

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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, 2015

(With Comparative Actuals for 2014)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2014 Actual
<b>FEDERAL AID</b>					
Police block grant	\$ -	\$ -	\$ 14,295	\$ 14,295	\$ 1,674
Disaster assistance	-	-	359,055	359,055	295,885
Homeland Security Grant	-	-	9,000	9,000	49,405
Drug Free Communities Support Grant	93,750	135,000	98,009	(36,991)	157,151
	<u>93,750</u>	<u>135,000</u>	<u>480,359</u>	<u>345,359</u>	<u>504,115</u>
<b>MISCELLANEOUS</b>					
Refund of prior year's expenditures	75,000	75,000	(31,774)	(106,774)	99,389
Teen violence	22,000	22,000	25,268	3,268	22,450
Other	7,500	188,995	116,252	(72,743)	113,043
	<u>104,500</u>	<u>285,995</u>	<u>109,746</u>	<u>(176,249)</u>	<u>234,882</u>
<b>TOTAL REVENUES</b>	<u>34,268,827</u>	<u>34,558,801</u>	<u>35,075,435</u>	<u>516,634</u>	<u>33,541,036</u>
<b>OTHER FINANCING SOURCES</b>					
Insurance recoveries	100,000	100,000	297,722	197,722	304,378
Sale of real property	350,000	350,000	86,000	(264,000)	51,500
Transfers in					
Debt Service Fund	750,000	750,000	750,000	-	604,017
Water Fund	930,000	930,000	930,000	-	826,989
Sewer Fund	589,000	589,000	589,000	-	501,334
Capital Projects Fund	-	-	250,000	250,000	64,574
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>2,719,000</u>	<u>2,719,000</u>	<u>2,902,722</u>	<u>183,722</u>	<u>2,352,792</u>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<u>\$ 36,987,827</u>	<u>\$ 37,277,801</u>	<u>\$ 37,978,157</u>	<u>\$ 700,356</u>	<u>\$ 35,893,828</u>

City of Middletown, New York

General Fund  
 Schedule of Expenditures and Other Financing Uses Compared to Budget  
 Year Ended December 31, 2015  
 (With Comparative Actuals for 2014)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2014 Actual
<b>GENERAL GOVERNMENT SUPPORT</b>					
Common Council	\$ 341,609	\$ 345,678	\$ 330,989	\$ 14,689	\$ 330,335
Board of Estimate and Apportionment	200	200	-	200	64
Mayor	174,804	175,706	167,757	7,949	192,557
Finance	568,514	575,103	559,227	15,876	545,600
Data processing	22,395	22,395	16,923	5,472	17,424
Assessor	304,854	308,750	296,282	12,468	281,405
Costs of tax sale	70,000	70,000	67,832	2,168	77,890
Corporation Counsel	400,677	497,665	471,869	25,796	353,825
Bond and note expense	9,836	9,836	9,836	-	22,458
Civil service	113,431	116,550	102,399	14,151	115,730
Engineer	7,000	63,685	23,844	39,841	8,473
Elections	58,000	58,000	23,244	34,756	48,740
Board of Ethics	250	250	-	250	-
Public works administration	816,020	914,252	862,239	52,013	834,618
Maintenance department	654,415	704,665	623,522	81,143	599,400
Purchase of land	-	210,000	-	210,000	-
Liability insurance	897,479	897,205	889,346	7,859	806,698
Judgments and claims	30,000	-	210,000	(210,000)	17,493
Refunds and cancellations of taxes	100,000	40,424	12,681	27,743	30,941
Taxes on City property	98,000	108,395	106,127	2,268	111,027
Audit and accounting services	33,333	33,333	28,514	4,819	29,109
Metropolitan Commuter Transit Association tax	53,738	53,738	49,837	3,901	52,328
Disaster assistance	-	264,884	8,193	256,691	251,048
Labor negotiations	-	-	-	-	50,342
	<u>4,754,555</u>	<u>5,470,714</u>	<u>4,860,661</u>	<u>610,053</u>	<u>4,777,505</u>
<b>PUBLIC SAFETY</b>					
Police Department	8,538,970	8,756,811	8,291,975	464,836	8,214,098
Fire Department	2,855,078	2,945,832	2,584,952	360,880	2,615,871
Public safety programs	16,800	20,493	17,966	2,527	12,790
	<u>11,410,848</u>	<u>11,723,136</u>	<u>10,894,893</u>	<u>828,243</u>	<u>10,842,759</u>

**TRANSPORTATION**

Street maintenance	1,379,812	1,345,610	1,159,900	185,710	1,275,626
Snow and ice control	465,552	736,217	678,790	57,427	461,381
Street lighting	438,885	507,350	496,628	10,722	440,869
	<u>2,284,249</u>	<u>2,589,177</u>	<u>2,335,318</u>	<u>253,859</u>	<u>2,177,876</u>

**ECONOMIC OPPORTUNITY AND DEVELOPMENT**

Economic development	132,363	139,676	138,903	773	127,504
Veterans' Service Agency	1,000	1,000	1,000	-	1,000
Senior citizen's programs	288,984	292,741	287,024	5,717	257,275
	<u>422,347</u>	<u>433,417</u>	<u>426,927</u>	<u>6,490</u>	<u>385,779</u>

**CULTURE AND RECREATION**

General recreation	954,906	1,027,612	1,005,325	22,287	899,581
Parks	454,508	521,759	462,683	59,076	573,187
Playgrounds	59,800	43,681	35,003	8,678	44,598
Swimming pools	150,102	125,617	124,296	1,321	173,466
Community center	26,920	24,920	21,140	3,780	18,510
Day camp	80,700	80,700	80,473	227	74,747
Tennis program	9,000	4,854	4,854	-	4,128
Special programs	256,414	256,780	186,205	70,575	203,436
Middletown cares	93,752	143,652	120,662	22,990	123,333
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	2,950	50	2,300
	<u>2,092,602</u>	<u>2,236,075</u>	<u>2,047,091</u>	<u>188,984</u>	<u>2,120,786</u>

**HOME AND COMMUNITY SERVICES**

Zoning Board of Appeals	1,000	547	547	-	1,031
Planning Board	1,000	991	991	-	1,003
Academy Avenue School	85,730	92,790	70,941	21,849	78,616
Waste collection	2,096,785	2,087,587	1,726,198	361,389	1,883,823
Street cleaning	23,170	23,170	20,737	2,433	20,819
Demolition of buildings	50,000	159,183	156,411	2,772	57,055
Beautification	-	418,953	20,504	398,449	3,960
Senate initiative	2,000	2,000	49	1,951	1,064
Nutrition for the elderly	-	-	-	-	25,655
	<u>2,259,685</u>	<u>2,785,221</u>	<u>1,996,378</u>	<u>788,843</u>	<u>2,073,026</u>

(Continued)

City of Middletown, New York

General Fund  
 Schedule of Expenditures and Other Financing Uses Compared to Budget (Continued)  
 Year Ended December 31, 2015  
 (With Comparative Actuals for 2014)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2014 Actual
<b>EMPLOYEE BENEFITS</b>					
State retirement	\$ 957,399	\$ 1,294,399	\$ 1,074,299	\$ 220,100	\$ 1,143,455
Police and fire retirement	2,177,092	1,840,092	1,839,495	597	2,254,645
Fire service awards program	52,500	52,500	2,013	50,487	-
Social security	1,209,060	1,209,060	1,078,324	130,736	1,138,596
Workers' compensation benefits	2,565,414	2,637,306	2,620,097	17,209	2,393,333
Health, dental and optical insurance	5,391,772	5,363,875	5,341,882	21,993	5,062,883
Welfare fund	77,875	77,875	71,291	6,584	75,383
Unused sick leave	80,000	39,122	12,334	26,788	85,530
Unemployment benefits	47,416	41,334	7,985	33,349	13,878
Disability insurance	48,528	48,528	10,716	37,812	10,993
Meal allowance	500	3,465	3,465	-	435
	<u>12,607,556</u>	<u>12,607,556</u>	<u>12,061,901</u>	<u>545,655</u>	<u>12,179,131</u>
<b>DEBT SERVICE</b>					
Interest					
Bond anticipation notes	57,590	57,590	57,590	-	69,101
	<u>57,590</u>	<u>57,590</u>	<u>57,590</u>	<u>-</u>	<u>69,101</u>
<b>TOTAL EXPENDITURES</b>	<u>35,889,432</u>	<u>37,902,886</u>	<u>34,680,759</u>	<u>3,222,127</u>	<u>34,625,963</u>
<b>OTHER FINANCING USES</b>					
Transfers out					
Capital Projects Fund	398,649	927,061	622,994	304,067	1,297,723
Debt Service Fund	1,121,221	1,121,221	1,121,220	1	996,553
	<u>1,519,870</u>	<u>2,048,282</u>	<u>1,744,214</u>	<u>304,068</u>	<u>2,294,276</u>
<b>TOTAL OTHER FINANCING USES</b>	<u>1,519,870</u>	<u>2,048,282</u>	<u>1,744,214</u>	<u>304,068</u>	<u>2,294,276</u>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ 37,409,302</u>	<u>\$ 39,951,168</u>	<u>\$ 36,424,973</u>	<u>\$ 3,526,195</u>	<u>\$ 36,920,239</u>

**City of Middletown, New York**

Community Development Fund  
Comparative Balance Sheet  
December 31,

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 323,532	\$ 420,751
Receivables		
Accounts	5,933	4,662
Loans receivable, net of allowance for uncollectible amounts of \$1,230,504 in 2015 and \$1,226,067 in 2014	2,544,862	2,883,477
Due from other funds	403	360
	<u>2,551,198</u>	<u>2,888,499</u>
Total Assets	<u>\$ 2,874,730</u>	<u>\$ 3,309,250</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accrued liabilities	\$ 11,097	\$ 12,226
Due to other funds	284,161	292,879
Unearned revenues	2,544,862	2,883,477
	<u>2,840,120</u>	<u>3,188,582</u>
Total Liabilities	2,840,120	3,188,582
Fund balance		
Assigned	<u>34,610</u>	<u>120,668</u>
Total Liabilities and Fund Balance	<u>\$ 2,874,730</u>	<u>\$ 3,309,250</u>

**City of Middletown, New York**

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

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	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>		
Departmental income	\$ 412,746	\$ 621,377
Use of money and property	410	538
Federal aid	<u>490,664</u>	<u>419,619</u>
 Total Revenues	 903,820	 1,041,534
 <b>EXPENDITURES</b>		
Current		
Home and community services	<u>786,596</u>	<u>1,013,168</u>
 Excess of Revenues Over Expenditures	 117,224	 28,366
 <b>OTHER FINANCING USES</b>		
Transfers out	<u>(203,282)</u>	<u>(207,875)</u>
 Net Change in Fund Balance	 (86,058)	 (179,509)
 <b>FUND BALANCE</b>		
Beginning of Year	<u>120,668</u>	<u>300,177</u>
 End of Year	 <u>\$ 34,610</u>	 <u>\$ 120,668</u>

**City of Middletown, New York**

Water Fund  
Comparative Balance Sheet  
December 31,

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 1,607,168	\$ 460,571
Receivables		
Accounts	7,375	19,789
Water rents, net of allowance for uncollectible amounts of \$194,883 in 2015 and \$229,532 in 2014	2,576,109	2,776,145
Due from other funds	92,709	336,355
	<u>2,676,193</u>	<u>3,132,289</u>
Prepaid expenditures	65,578	55,761
Total Assets	<u>\$ 4,348,939</u>	<u>\$ 3,648,621</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 205,275	\$ 399,296
Accrued liabilities	63,827	56,979
Due to other funds	1,047,841	493,324
Total Liabilities	<u>1,316,943</u>	<u>949,599</u>
Fund balance		
Nonspendable	65,578	55,761
Restricted	150,000	150,000
Assigned	2,816,418	2,493,261
Total Fund Balance	<u>3,031,996</u>	<u>2,699,022</u>
Total Liabilities and Fund Balance	<u>\$ 4,348,939</u>	<u>\$ 3,648,621</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,

	2015			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Departmental income	\$ 6,595,404	\$ 6,595,404	\$ 6,654,340	\$ 58,936
Use of money and property	1,000	1,000	530	(470)
Licenses and permits	10,000	10,000	22,009	12,009
Sale of property and compensation for loss	-	-	1,350	1,350
State aid	-	-	1,516	1,516
Federal aid	-	100,629	4,548	(96,081)
Miscellaneous	2,500	2,500	2,919	419
<b>Total Revenues</b>	<u>6,608,904</u>	<u>6,709,533</u>	<u>6,687,212</u>	<u>(22,321)</u>
<b>EXPENDITURES</b>				
Current				
General government support	464,968	725,189	682,756	42,433
Home and community services	2,504,006	2,579,969	2,255,822	324,147
Employee benefits	876,785	910,680	890,668	20,012
Debt service				
Interest	2,200	1,761	-	1,761
<b>Total Expenditures</b>	<u>3,847,959</u>	<u>4,217,599</u>	<u>3,829,246</u>	<u>388,353</u>
<b>Excess of Revenues Over Expenditures</b>	<u>2,760,945</u>	<u>2,491,934</u>	<u>2,857,966</u>	<u>366,032</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(2,760,945)	(2,770,945)	(2,524,992)	245,953
<b>Total Other Financing Uses</b>	<u>(2,760,945)</u>	<u>(2,770,945)</u>	<u>(2,524,992)</u>	<u>245,953</u>
<b>Net Change in Fund Balance</b>	-	(279,011)	332,974	611,985
<b>FUND BALANCE</b>				
Beginning of Year	-	279,011	2,699,022	2,420,011
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,031,996</u>	<u>\$ 3,031,996</u>

2014

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 6,661,296	\$ 6,661,296	\$ 6,414,527	\$ (246,769)
1,000	1,000	491	(509)
10,000	10,000	9,093	(907)
-	-	1,098	1,098
-	-	-	-
-	133,490	-	(133,490)
2,000	2,000	3,303	1,303
<u>6,674,296</u>	<u>6,807,786</u>	<u>6,428,512</u>	<u>(379,274)</u>
474,712	654,453	455,209	199,244
2,659,256	2,855,778	2,585,232	270,546
852,851	955,862	905,968	49,894
49,208	14,908	23,712	(8,804)
<u>4,036,027</u>	<u>4,481,001</u>	<u>3,970,121</u>	<u>510,880</u>
<u>2,638,269</u>	<u>2,326,785</u>	<u>2,458,391</u>	<u>131,606</u>
-	55,955	55,955	-
<u>(2,638,269)</u>	<u>(2,612,762)</u>	<u>(2,081,125)</u>	<u>531,637</u>
<u>(2,638,269)</u>	<u>(2,556,807)</u>	<u>(2,025,170)</u>	<u>531,637</u>
-	(230,022)	433,221	663,243
-	230,022	2,265,801	2,035,779
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,699,022</u>	<u>\$ 2,699,022</u>

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**City of Middletown, New York**

Sewer Fund  
Comparative Balance Sheet  
December 31,

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 2,897,092	\$ 2,362,878
Receivables		
Sewer rents, net of allowance for uncollectible amounts of \$140,402 in 2015 and \$181,816 in 2014	1,722,515	1,815,016
Due from other funds	<u>73,163</u>	<u>294,655</u>
	<u>1,795,678</u>	<u>2,109,671</u>
Prepaid expenditures	<u>50,936</u>	<u>46,243</u>
Total Assets	<u>\$ 4,743,706</u>	<u>\$ 4,518,792</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 136,794	\$ 226,872
Accrued liabilities	45,391	44,011
Due to other funds	<u>817,636</u>	<u>732,022</u>
Total Liabilities	<u>999,821</u>	<u>1,002,905</u>
Fund balance		
Nonspendable	50,936	46,243
Assigned	<u>3,692,949</u>	<u>3,469,644</u>
Total Fund Balance	<u>3,743,885</u>	<u>3,515,887</u>
Total Liabilities and Fund Balance	<u>\$ 4,743,706</u>	<u>\$ 4,518,792</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,

	2015			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Departmental income	\$ 4,805,877	\$ 4,805,877	\$ 4,930,243	\$ 124,366
Use of money and property	1,000	1,000	1,007	7
Licenses and permits	600	600	13,010	12,410
State aid	-	-	825	825
Federal aid	-	-	2,475	2,475
Miscellaneous	1,000	1,000	25,839	24,839
<b>Total Revenues</b>	<b>4,808,477</b>	<b>4,808,477</b>	<b>4,973,399</b>	<b>164,922</b>
<b>EXPENDITURES</b>				
Current				
General government support	347,621	325,070	321,696	3,374
Home and community services	1,990,121	2,174,000	1,933,159	240,841
Employee benefits	651,492	684,195	679,043	5,152
Debt service				
Interest	45,806	45,806	16,450	29,356
<b>Total Expenditures</b>	<b>3,035,040</b>	<b>3,229,071</b>	<b>2,950,348</b>	<b>278,723</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,773,437</b>	<b>1,579,406</b>	<b>2,023,051</b>	<b>443,645</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(1,773,437)	(1,779,437)	(1,795,053)	(15,616)
<b>Total Other Financing Uses</b>	<b>(1,773,437)</b>	<b>(1,779,437)</b>	<b>(1,795,053)</b>	<b>(15,616)</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(200,031)</b>	<b>227,998</b>	<b>428,029</b>
<b>FUND BALANCE</b>				
Beginning of Year	-	200,031	3,515,887	3,315,856
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,743,885</u>	<u>\$ 3,743,885</u>

2014

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 4,619,994	\$ 4,619,994	\$ 4,428,966	\$ (191,028)
4,000	4,000	1,073	(2,927)
400	400	500	100
-	30,000	15,000	(15,000)
-	-	-	-
1,000	1,000	1,231	231
4,625,394	4,655,394	4,446,770	(208,624)
359,328	340,211	328,567	11,644
1,941,903	2,117,614	1,956,823	160,791
564,377	715,723	705,014	10,709
60,314	22,144	32,749	(10,605)
2,925,922	3,195,692	3,023,153	172,539
1,699,472	1,459,702	1,423,617	(36,085)
-	31,232	31,232	-
(1,699,472)	(1,679,727)	(1,635,847)	43,880
(1,699,472)	(1,648,495)	(1,604,615)	43,880
-	(188,793)	(180,998)	7,795
-	188,793	3,696,885	3,508,092
\$ -	\$ -	\$ 3,515,887	\$ 3,515,887

**City of Middletown, New York**

Capital Projects Fund  
Comparative Balance Sheet  
December 31,

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 6,587,045	\$ 6,411,811
Restricted investments	409,023	672,369
Receivables		
Accounts	120,000	-
State and Federal aid	31,049	75,482
Due from other funds	400,406	908,114
	<u>551,455</u>	<u>983,596</u>
Total Assets	<u>\$ 7,547,523</u>	<u>\$ 8,067,776</u>
<b>LIABILITIES AND FUND DEFICIT</b>		
Liabilities		
Accounts payable	\$ 152,208	\$ 111,401
Retained percentages	99,778	99,778
Due to other funds	3,230,513	3,008,725
Unearned revenues	215,008	215,008
Bond anticipation notes payable	7,050,339	7,404,041
Total Liabilities	10,747,846	10,838,953
Fund deficit		
Unassigned	<u>(3,200,323)</u>	<u>(2,771,177)</u>
Total Liabilities and Fund Deficit	<u>\$ 7,547,523</u>	<u>\$ 8,067,776</u>

**City of Middletown, New York**

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

	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>		
State aid	\$ 663,306	\$ 759,692
Federal aid	301,425	744,139
Miscellaneous	144,000	(24,820)
	<u>1,108,731</u>	<u>1,479,011</u>
<b>EXPENDITURES</b>		
Capital outlay	<u>1,935,871</u>	<u>2,576,112</u>
Deficiency of Revenues Over Expenditures	<u>(827,140)</u>	<u>(1,097,101)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Bonds issued	-	6,292,900
Transfers in	647,994	1,374,251
Transfers out	<u>(250,000)</u>	<u>(151,761)</u>
Total Other Financing Sources	<u>397,994</u>	<u>7,515,390</u>
Net Change in Fund Balance	(429,146)	6,418,289
<b>FUND DEFICIT</b>		
Beginning of Year	<u>(2,771,177)</u>	<u>(9,189,466)</u>
End of Year	<u>\$ (3,200,323)</u>	<u>\$ (2,771,177)</u>

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**City of Middletown, New York**

Debt Service Fund  
Comparative Balance Sheet  
December 31,

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 708,353	\$ 1,286,604
Due from other funds	<u>2,746,168</u>	<u>2,986,482</u>
 Total Assets	 <u>\$ 3,454,521</u>	 <u>\$ 4,273,086</u>
 <b>FUND BALANCE</b>		
Restricted	\$ 2,854,521	\$ 3,523,086
Assigned	<u>600,000</u>	<u>750,000</u>
 Total Fund Balance	 <u>3,454,521</u>	 <u>4,273,086</u>
 Total Liabilities and Fund Balance	 <u>\$ 3,454,521</u>	 <u>\$ 4,273,086</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,

	2015			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Use of money and property	\$ -	\$ -	\$ 3,501	\$ 3,501
Miscellaneous	-	-	191,280	191,280
Total Revenues	-	-	194,781	194,781
<b>EXPENDITURES</b>				
Debt service				
Principal				
Bonds	2,687,899	2,657,899	2,687,899	(30,000)
Loans	135,000	135,000	135,000	-
	2,822,899	2,792,899	2,822,899	(30,000)
Interest				
Bonds	1,448,704	1,478,704	1,472,712	5,992
Loans	68,282	68,282	68,282	-
	1,516,986	1,546,986	1,540,994	5,992
Total Expenditures	4,339,885	4,339,885	4,363,893	(24,008)
Deficiency of Revenues Over Expenditures	(4,339,885)	(4,339,885)	(4,169,112)	170,773
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	4,339,885	4,339,885	4,100,547	(239,338)
Transfers out	(750,000)	(750,000)	(750,000)	-
Total Other Financing Sources	3,589,885	3,589,885	3,350,547	(239,338)
Net Change in Fund Balance	(750,000)	(750,000)	(818,565)	(68,565)
<b>FUND BALANCE</b>				
Beginning of Year	750,000	750,000	4,273,086	3,523,086
End of Year	\$ -	\$ -	\$ 3,454,521	\$ 3,454,521

2014

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 4,819	\$ 4,819
-	-	359,765	359,765
-	-	364,584	364,584
2,468,203	2,468,203	2,468,203	-
135,000	135,000	135,000	-
2,603,203	2,603,203	2,603,203	-
1,299,648	1,415,988	1,414,351	1,637
72,875	72,875	72,875	-
1,372,523	1,488,863	1,487,226	1,637
3,975,726	4,092,066	4,090,429	1,637
(3,975,726)	(4,092,066)	(3,725,845)	366,221
3,975,726	4,092,066	3,516,549	(575,517)
(604,017)	(604,017)	(604,017)	-
3,371,709	3,488,049	2,912,532	(575,517)
(604,017)	(604,017)	(813,313)	(209,296)
604,017	604,017	5,086,399	4,482,382
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,273,086</u>	<u>\$ 4,273,086</u>

**City of Middletown, New York**

Non-Major Governmental Funds

Combining Balance Sheet

December 31, 2015

(With Comparative Totals for 2014)

	Golden Area	Special Purpose	Total Non-Major Governmental Funds	
			2015	2014
<b>ASSETS</b>				
Cash and equivalents	\$ 42,945	\$ 113,668	\$ 156,613	\$ 118,473
Receivables				
Due from other governments	2,165	-	2,165	8,122
Due from other funds	1,049	-	1,049	4,248
	<u>3,214</u>	<u>-</u>	<u>3,214</u>	<u>12,370</u>
Total Assets	<u>\$ 46,159</u>	<u>\$ 113,668</u>	<u>\$ 159,827</u>	<u>\$ 130,843</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 3,061	\$ -	\$ 3,061	\$ 2,960
Accrued liabilities	1,051	-	1,051	479
Due to other funds	19,924	-	19,924	32,822
Total Liabilities	<u>24,036</u>	<u>-</u>	<u>24,036</u>	<u>36,261</u>
Fund balances				
Restricted	-	113,668	113,668	89,392
Assigned	22,123	-	22,123	5,190
Total Fund Balances	<u>22,123</u>	<u>113,668</u>	<u>135,791</u>	<u>94,582</u>
Total Liabilities and Fund Balances	<u>\$ 46,159</u>	<u>\$ 113,668</u>	<u>\$ 159,827</u>	<u>\$ 130,843</u>

**City of Middletown, New York**

Non-Major Governmental Funds  
 Combining Statement of Revenues, Expenditures and Changes  
 in Fund Balances  
 Year Ended December 31, 2015  
 (With Comparative Totals for 2014)

	Golden Area	Special Purpose	Total Non-Major Governmental Funds	
			2015	2014
<b>REVENUES</b>				
Departmental income	\$ 92,356	\$ -	\$ 92,356	\$ 87,147
Use of money and property	-	22	22	72
Miscellaneous	15,847	81,753	97,600	66,739
<b>Total Revenues</b>	<b>108,203</b>	<b>81,775</b>	<b>189,978</b>	<b>153,958</b>
<b>EXPENDITURES</b>				
Current				
Public safety	-	57,499	57,499	43,189
Culture and recreation	91,270	-	91,270	106,240
<b>Total Expenditures</b>	<b>91,270</b>	<b>57,499</b>	<b>148,769</b>	<b>149,429</b>
<b>Excess of Revenues Over Expenditures</b>	<b>16,933</b>	<b>24,276</b>	<b>41,209</b>	<b>4,529</b>
<b>FUND BALANCES</b>				
Beginning of Year	5,190	89,392	94,582	90,053
End of Year	\$ 22,123	\$ 113,668	\$ 135,791	\$ 94,582

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**City of Middletown, New York**

Golden Area Fund  
Comparative Balance Sheet  
December 31,

---

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	\$ 42,945	\$ 27,770
Receivables		
Due from other governments	2,165	8,122
Due from other funds	<u>1,049</u>	<u>4,248</u>
	<u>3,214</u>	<u>12,370</u>
Total Assets	<u>\$ 46,159</u>	<u>\$ 40,140</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 3,061	\$ 1,649
Accrued liabilities	1,051	479
Due to other funds	<u>19,924</u>	<u>32,822</u>
Total Liabilities	24,036	34,950
Fund balance		
Assigned	<u>22,123</u>	<u>5,190</u>
Total Liabilities and Fund Balance	<u>\$ 46,159</u>	<u>\$ 40,140</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,

	2015			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Departmental income	\$ 94,062	\$ 94,062	\$ 92,356	\$ (1,706)
Use of money and property	-	-	-	-
Miscellaneous	18,200	18,200	15,847	(2,353)
Total Revenues	112,262	112,262	108,203	(4,059)
<b>EXPENDITURES</b>				
Current				
Culture and recreation	112,262	112,262	91,270	20,992
Excess (Deficiency) of Revenues Over Expenditures	-	-	16,933	16,933
<b>FUND BALANCE</b>				
Beginning of Year	-	-	5,190	5,190
End of Year	\$ -	\$ -	\$ 22,123	\$ 22,123

2014

Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ 90,317	\$ 90,317	\$ 87,147	\$ (3,170)
-	-	40	40
15,562	15,562	11,232	(4,330)
105,879	105,879	98,419	(7,460)
105,879	106,241	106,240	1
-	(362)	(7,821)	(7,459)
-	362	13,011	12,649
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,190</u>	<u>\$ 5,190</u>

City of Middletown, New York

Special Purpose Fund  
Comparative Balance Sheet  
December 31,

---

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and equivalents	<u>\$ 113,668</u>	<u>\$ 90,703</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ -	\$ 1,311
Fund balance		
Restricted	<u>113,668</u>	<u>89,392</u>
Total Liabilities and Fund Balance	<u>\$ 113,668</u>	<u>\$ 90,703</u>

**City of Middletown, New York**

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

---

	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>		
Use of money and property	\$ 22	\$ 32
Miscellaneous	<u>81,753</u>	<u>55,507</u>
Total Revenues	81,775	55,539
<b>EXPENDITURES</b>		
Current		
Public safety	<u>57,499</u>	<u>43,189</u>
Excess of Revenues Over Expenditures	24,276	12,350
<b>FUND BALANCE</b>		
Beginning of Year	<u>89,392</u>	<u>77,042</u>
End of Year	<u>\$ 113,668</u>	<u>\$ 89,392</u>

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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

**Independent Auditors' Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Middletown, New York ("City") as of and for the year ended December 31, 2015, 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 31, 2016.

**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.

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**

Harrison, New York

May 31, 2016



**Report on Compliance For Each Major Federal Program and Report on  
Internal Control Over Compliance Required by  
The Uniform Guidance**

**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 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, 2015. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance"). Those standards and the Uniform Guidance 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, 2015.

## **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**

Harrison, New York

May 31, 2016

City of Middletown, New York

Schedule of Expenditures of Federal Awards  
Year Ending December 31, 2015

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number (1)</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Sub- Recipients</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		\$ -	\$ 490,664
<u>U.S. Department of Justice</u>				
Direct Program Bulletproof Vest Partnership Program	16.607		-	3,700
<u>U.S. Department of Health and Human Services</u>				
Direct Program Support Mentoring Program	93.276		-	98,009
<u>U.S. Department of Homeland Security</u>				
Indirect Programs Passed through the Division of Homeland Security and Emergency Services (DHSES)				
Disaster Grants- Public Assistance	97.036		-	667,503
Homeland Security Grant Program	97.067		-	19,595
Total Department of Homeland Security			-	687,098
Total Expenditures of Federal Awards			\$ -	\$ 1,279,471

(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, 2015

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### **Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Middletown ("City") under programs of the federal government for the year ended December 31, 2015. 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance"). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**City of Middletown, New York**

Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2015

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None

**City of Middletown, New York**

Schedule of Findings and Questioned Costs  
Year Ended December 31, 2015

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

***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_ Yes    X No  
\_\_\_ Yes    X None reported

Noncompliance material to financial statements Noted?

\_\_\_ Yes    X No

***Federal Awards***

Internal control over major Federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_ Yes    X No  
\_\_\_ Yes    X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_ Yes    X No

Identification of major Federal programs

CFDA Number(s)

Name of Federal Program or Cluster

97.036

Disaster Grants – Public Assistance

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

\$750,000  
X Yes    \_\_\_ No

**City of Middletown, New York**

Schedule of Findings and Questioned Costs (Concluded)  
Year Ended December 31, 2015

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**Section II - Financial Statement Findings**

None

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

None