

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

CITY OF MIDDLETOWN, NEW YORK

December 31, 2017

Audited for:

The Mayor and Members of the Common Council
CITY OF MIDDLETOWN, NEW YORK

Audited By:

RBT CPAs, LLP
11 Racquet Road
Newburgh, New York 12550
(845) 567-9000

CITY OF MIDDLETOWN, NEW YORK

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Page</u>
<u><i>Independent Auditor's Report</i></u>	1 - 2
<u><i>Management's Discussion and Analysis</i></u>	3 - 7
<u><i>Basic Financial Statements</i></u>	
Government-wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds	10
Reconciliation of the Total Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position – Fiduciary Funds	14
Notes to Basic Financial Statements	15 – 37
Independent Auditor's 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	38 – 39

<u>Required Supplementary Information</u>	<u>Page</u>
Schedule of Finding Progress – Other Post-Employment Benefits Plan December 31, 2017	40
Schedule of Proportionate Share of the Net Pension Liability – December 31, 2017	41
Schedule of Employer Contributions	42 – 43
Schedule of Revenues and Expenditures Compared to Budget – General Fund	44
Schedule of Revenues and Expenditures Compared to Budget – Community Development Fund	45
Schedule of Revenues and Expenditures Compared to Budget – Water Fund	46
Schedule of Revenues and Expenditures Compared to Budget – Sewer Fund	47
Schedule of Revenues and Expenditures Compared to Budget – Golden Area Fund	48
<u>Other Supplementary Information</u>	
Independent Auditor’s Report on Compliance for Each Major Federal Program: Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance	49 – 50
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52 - 53
Schedule of Findings and Questioned Costs	54



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the City Council
City of Middletown, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Middletown, New York, as of and for the year ended December 31, 2017, 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.

Auditor's 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 auditor's 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 entity'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 entity'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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Middletown, New York, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, other post-employment benefits plan schedule of funding progress, schedule of proportionate share of the net pension liability, and schedule of pension contributions, as listed in the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown's basic financial statements. 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* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the City of Middletown'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 solely 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 effectiveness of 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 of Middletown's internal control over financial reporting and compliance.

RBT CPAs, LLP

Newburgh, New York
June 27, 2018

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the City of Middletown offers readers of the City's financial statements this narrative overview and analysis of the financial position and activities of the City as of the year ended December 31, 2017. These management comments, written as of June 27, 2018, also provide the benefit of perspective on certain key development occurring after December 31, 2017, which, while they occurred subsequent to the close of the fiscal year, are nevertheless relevant to the reader's understanding of the City's current financial situation.

FINANCIAL HIGHLIGHTS OF 2017:

- On the government-wide financial statements, the assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,417,379. However, unrestricted net position, which is available to meet the ongoing obligations of the City, reflects a deficit of \$4,729,924 at December 31, 2017. The total net position increased by \$2,988,582 from the prior year. This increase 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 the required accrual of the City's other postemployment benefit cost in accordance with the provisions of GASB Statement No. 45 of \$5,340,000.
- 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, 2017, the City reported in its Statement of Net Position a liability of \$8,466,860 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 \$22,360,515, a decrease of \$3,954,501 over the prior year. There were decreases in the General Fund of \$461,211, Sewer Fund of \$194,799, Water Fund of \$38,866, Capital Project Fund of \$3,625,293, and Community Development Fund of \$28,178, offset by an increase Debt Service Fund of \$379,710 and other non-major funds of \$14,136.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,894,742, or 24% of total General Fund expenditures and other financing uses.
- At the end of the current fiscal year, the City had outstanding \$19,849,412 of bond anticipation notes issued for various purposes. These notes bear interest at an average of 2.17%. The proceeds were used to finance various capital projects.

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

These audited financial statements consist of six parts:

- 1) The Independent Auditor's report on our Financial Statements
- 2) Management's Discussion and Analysis
- 3) Government- Wide Financial statements
- 4) Fund Financial statements
- 5) Notes to the Financial statements
- 6) Supplementary Information

The basic financial statements present two different views of the City through the use of Government-wide statements and Fund financial statements. The Government-wide Financial Statements provide both short and long-term information about our City's financial status. The Fund financial statements focus on the activities of the individual components of the City government. These statements provide more detail than the government-wide statements.

The Notes to the financial statements and supplementary information provide additional information that is essential to a full understanding of the data provided in the government-wide and Fund financial statements.

1. Financial Analysis of our City as a whole

Governmental Activities:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets			
Non-Capital	\$ 63,359,941	\$ 44,752,447	\$ 18,607,494
Capital	100,198,038	90,507,390	9,690,648
Total Assets	<u>163,557,979</u>	<u>135,259,837</u>	<u>28,298,142</u>
Deferred outflows of resources	<u>8,969,846</u>	<u>15,819,951</u>	<u>(6,850,105)</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 172,527,825</u>	<u>\$ 151,079,788</u>	<u>\$ 21,448,037</u>
Liabilities			
Current	\$ 24,533,471	\$ 13,770,617	\$ 10,762,854
Non-Current	118,627,684	117,035,645	1,592,039
Total Liabilities	<u>143,161,155</u>	<u>130,806,262</u>	<u>12,354,893</u>
Deferred inflows of resources	<u>8,949,291</u>	<u>2,961,344</u>	<u>5,987,947</u>
Net Position			
Capital	17,147,640	34,682,670	(17,535,030)
Restricted and Unrestricted	3,269,739	(17,370,488)	20,640,227
Total Net Position	<u>20,417,379</u>	<u>17,312,182</u>	<u>3,105,197</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 172,527,825</u>	<u>\$ 151,079,788</u>	<u>\$ 21,448,037</u>

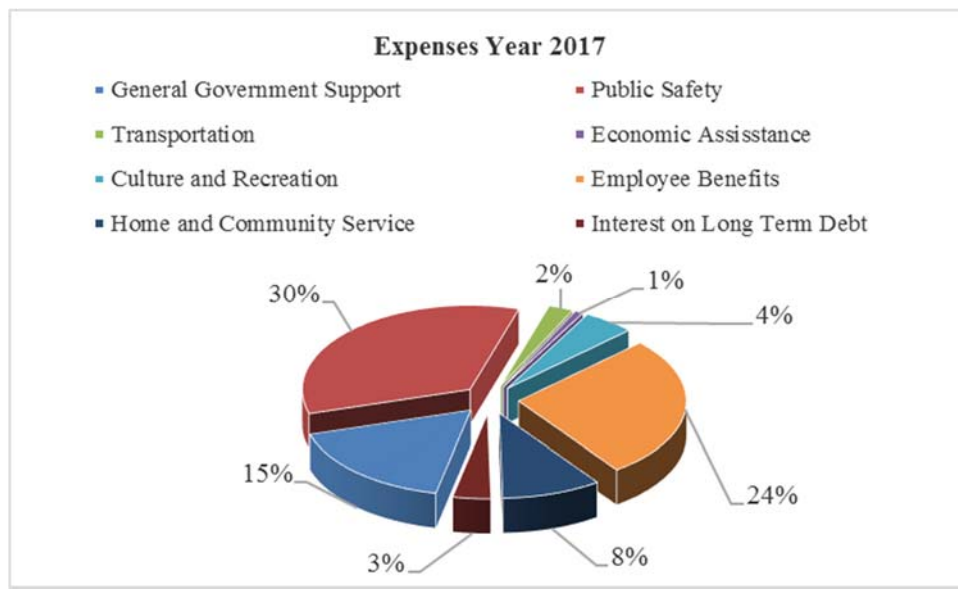
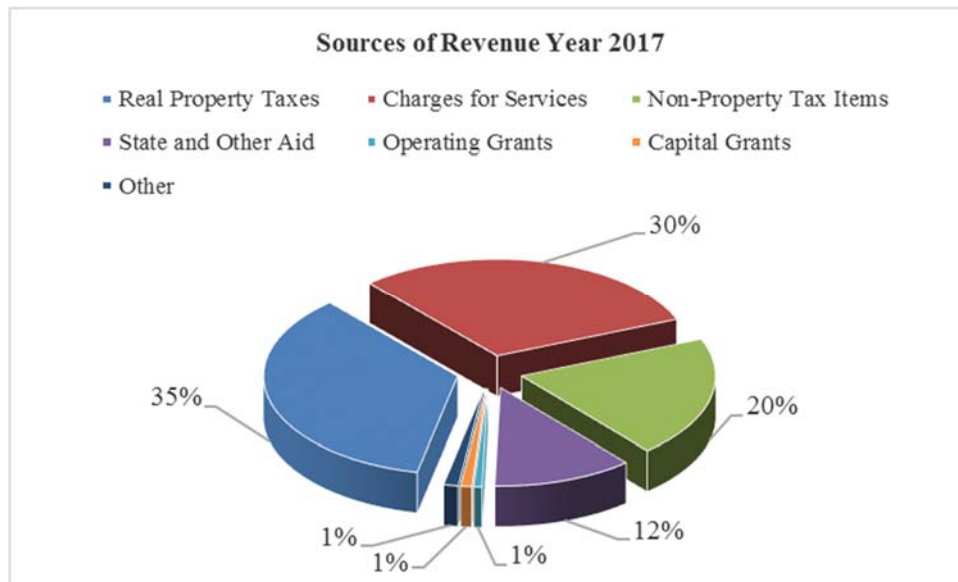
One of the components of net position is the investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens and consequently, these assets are not available for future spending. Although 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.

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

1. Financial Analysis of our City as a whole (continued)

Governmental Activities (Continued):			
Revenues	2017	2016	Change
Program			
Charges for Services	\$ 13,925,717	\$ 14,242,756	\$ (317,039)
Operating Grants	414,745	1,454,121	(1,039,376)
Capital Grants	4,609,251	906,768	3,702,483
General Revenues			
Property Taxes	20,874,161	17,716,770	3,157,391
Other Taxes	1,572,618	2,020,852	(448,234)
Use of money and property	149,887	11,533	138,354
Non-property taxes	10,246,011	10,398,299	(152,288)
State and Other Aid	6,913,842	3,026,023	3,887,819
Forgiveness of mortgage	-	(425,000)	425,000
Insurance recoveries	327,224	323,812	3,412
Other Revenues	247,879	203,852	44,027
Total Revenues	59,281,335	49,879,786	9,401,549
Expenses			
General Government Support	8,235,579	7,137,817	1,097,762
Public Safety	15,933,423	16,051,298	(117,875)
Transportation	2,065,341	2,462,178	(396,837)
Economic Assistance	398,759	428,324	(29,565)
Culture and Recreation	2,439,318	2,821,342	(382,024)
Employee Benefits	13,393,325	12,343,368	1,049,957
Home and Community Service	4,700,179	6,865,491	(2,165,312)
Utilities - Water	3,927,221	3,851,348	75,873
Utilities - Sewer	3,401,019	3,115,531	285,488
Interest on Long Term Debt	1,798,589	1,385,163	413,426
Total Expenses	56,292,753	56,461,860	(169,107)
Change in Net Position	2,988,582	(6,582,074)	9,570,656
Net Position, January 1, Restated	17,428,797	23,894,256	(6,465,459)
Net Position, December 31	\$ 20,417,379	\$ 17,312,182	\$ 3,105,197

**CITY OF MIDDLETOWN, NEW YORK
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS**



For the fiscal year ended December 31, 2017, revenues from governmental activities totaled \$59.3 million. Tax revenues (\$21.4 million), comprised of real property taxes, other tax items and non-property taxes, represent the largest revenue sources. Governmental activities' expenses of the City for the year ended December 31, 2017 totaled \$56.3 million. The largest components of these expenses are in the areas of public safety and employee benefits.

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The major changes in revenues and expenses are as follows:

Revenues:

- Real property taxes shown on the government- wide financial statements (full accrual basis) reflect an increase of collection of \$3,157,391 over the prior year, primarily due to the recognition of deferred tax revenues and changes in estimates.
- There was a significant increase in other revenues. Significantly, the City recognized \$2.3 million of a State grant of approximately \$2.7 million for the purchase of the federal courthouse located in the City.

Expenses:

- Overall, Government-Wide expenses decreased by \$169,107. The most significant changes related to a reduction of expenses in Home and Community Services due to changes in depreciation, OPEB, and claims liability expenses.
- General Government Services increased by \$1,097,762 driven by non-capitalizable capital project expenditures.
- Employee benefits saw an increase of \$1,049,957 due to escalating costs of OPEB expenses.

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$51,170,896. 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 2017 fiscal year, the City retired \$5,210,000 in principal on outstanding obligations and issued a BAN re-financing bond for \$5,400,896. 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, 2017**

	GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,319,872	\$ 107,134
Restricted cash	7,999,662	-
Investments	69,066	-
Receivables (net)	6,306,374	169,240
Mortgage Loans Receivable	3,662,023	-
Due from other governments	2,857,191	-
State and Federal Receivable	13,277,989	-
Prepaid expenses	867,763	279,582
Total current assets	<u>63,359,941</u>	<u>555,956</u>
Non-current assets:		
Capital Assets, Net	100,198,038	236,046
Total non-current assets	<u>100,198,038</u>	<u>236,046</u>
DEFERRED OUTFLOWS OF RESOURCES		
	8,969,846	-
Total Assets and Deferred Outflows of Resources	<u>\$ 172,527,825</u>	<u>\$ 792,002</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 3,169,411	\$ 7,398
Accrued liabilities	566,060	236,046
Accrued Interest	504,464	-
Due to other governments	444,124	50,000
Bond anticipation notes payable	19,849,412	-
Total current liabilities	<u>24,533,471</u>	<u>293,444</u>
Non-current liabilities:		
Due within one year	3,713,761	-
Due in more than one year	114,913,923	362,180
Total non-current liabilities	<u>118,627,684</u>	<u>362,180</u>
Total Liabilities	<u>143,161,155</u>	<u>655,624</u>
DEFERRED INFLOWS OF RESOURCES		
	8,949,291	-
NET POSITION		
Net Investment in Capital Assets	17,147,640	-
Restricted	7,999,662	-
Unrestricted	(4,729,924)	136,378
Total net position	<u>20,417,379</u>	<u>136,378</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 172,527,825</u>	<u>\$ 792,002</u>

See Notes to the Financial Statements

**CITY OF MIDDLETOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CHANGES IN NET POSITION PRIMARY GOVERNMENT	
					GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
Governmental Activities:						
General Government and support	\$ 8,235,579	\$ 416,835	\$ 53,844	\$ -	(7,764,900.68)	-
Public Safety	15,933,423	49,363	39,563	53,369	(15,791,127)	-
Transportation	2,065,341	-	21,135	-	(2,044,206)	-
Economic Assistance and Opportunity	398,759	676,030	-	4,051,331	4,328,602	-
Culture and Recreation	2,439,318	412,730	37,184	-	(1,989,404)	-
Home and Community Services	4,700,179	487,206	263,019	504,551	(3,445,403)	-
Utilities - Water	3,927,221	6,885,096	-	(0)	2,957,875	-
Utilities - Sewer	3,401,019	4,998,457	-	-	1,597,437	-
Employee Benefits	13,393,325	-	-	-	(13,393,325)	-
Debt Interest	1,798,589	-	-	-	(1,798,589)	-
Total governmental activities	\$ 56,292,753	\$ 13,925,717	\$ 414,745	\$ 4,609,251	(37,343,040)	-
Component Units:						
Industrial Development Agency	\$ 10,931	11,458	-	-	-	527
Community Development Agency	135,859	169,240	-	-	-	33,381
Total component units	\$ 146,790	\$ 180,698	\$ -	\$ -	\$ -	\$ 33,908
General revenues						
Taxes:						
Real property taxes					20,302,027	-
Real Property Tax Items					572,133	-
Non Property Tax Items					516,515	-
Franchise Fees					187,318	-
Licenses and Permits					477,122	-
Utility Tax					391,662	-
Payments from other governments					10,246,011	-
Unrestricted investment earnings					149,887	136
Special item-Gains on sale of property and compensation for loss					327,224	-
State Aid					6,913,842	-
Miscellaneous					247,879	-
Total general revenues, special items and transfers					40,331,622	136
Change in net position					2,988,582	34,044
Net position - beginning, before restatement					17,312,183	96,514
Prior period adjustment					116,614	5,820
Net position - beginning, restated					17,428,797	102,334
Net position - ending					\$ 20,417,379	\$ 136,378

See Notes to the Financial Statements

**CITY OF MIDDLETOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>GENERAL FUND</u>	<u>COMMUNITY DEVELOPMENT FUND</u>	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS								
Cash and cash equivalents	\$ 5,875,441	\$ 278,852	\$ 521,004	\$ 1,846,039	\$ 19,242,398	\$ 537,613	\$ 18,526	\$ 28,319,872
Restricted cash	145,189	-	150,000	-	7,599,142	-	105,331	7,999,662
Investments	69,066							69,066
Receivables:								
Taxes	1,992,681	-	-	-	-	-	-	1,992,681
Charges for Services	-	-	2,491,487	1,598,623	-	-	-	4,090,110
Other	222,058	-	-	1,527	-	-	-	223,585
Mortgage loans receivable	705,000	2,957,022	-	-	-	-	-	3,662,022
Due from other funds	782,068	-	273,674	255,626	120,000	2,970,615	25,137	4,427,120
Due from other governments	2,856,184	-	-	-	-	-	1,007	2,857,191
State and federal receivable	2,802,077	0	-	-	10,475,911	-	-	13,277,989
Prepaid expenses	766,605	-	55,669	45,490	-	-	-	867,763
Total assets	\$ 16,216,369	\$ 3,235,875	\$ 3,491,834	\$ 3,747,303	\$ 37,437,451	\$ 3,508,228	\$ 150,001	\$ 67,787,061
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
LIABILITIES								
Accounts payable	\$ 382,381	\$ 3,955	\$ 113,060	\$ 98,818	\$ 1,912,089	\$ -	\$ 1,996	\$ 2,512,299
Accrued liabilities	452,118	-	77,433	34,682	-	-	1,826	566,059
Retainage payable	-	-	-	-	657,112	-	-	657,112
Bond anticipation notes payable	-	-	-	-	19,849,412	-	-	19,849,412
Due to other funds	708,239	15,768	337,323	303,860	3,049,615	-	12,315	4,427,120
Due to other governments	444,124	-	-	-	-	-	-	444,124
Total liabilities	1,986,862	19,723	527,816	437,360	25,468,228	-	16,136	28,456,126
DEFERRED INFLOWS OF RESOURCES	3,422,971	2,957,022	-	-	10,590,427	-	-	16,970,420
FUND BALANCE								
Fund balance (deficit):								
Nonspendable	766,605	-	55,669	45,490	-	-	-	867,763
Restricted	145,189	-	150,000	-	7,599,142	-	105,331	7,999,662
Assigned	-	259,130	2,758,349	3,264,454	-	3,508,228	28,533	9,818,694
Unassigned	9,894,742	-	-	-	(6,220,346)	-	-	3,674,396
Total fund balance	10,806,536	259,130	2,964,018	3,309,943	1,378,796	3,508,228	133,864	22,360,515
Total liabilities, deferred inflows of resources and fund balance	\$ 16,216,369	\$ 3,235,875	\$ 3,491,834	\$ 3,747,303	\$ 37,437,451	\$ 3,508,228	\$ 150,001	\$ 67,787,061

See Notes to the Financial Statements

**CITY OF MIDDLETOWN, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total fund balance for governmental funds	\$ 22,360,515
Total net position 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.	100,198,038
Deferred outflows related to retirement liabilities are not reported in the funds	15,690,027
Deferred outflows related to bond refunding are not reported in the funds	224,484
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unearned or deferred in the funds but are reported as revenues. These pertain to deferred property taxes and other receivables.	10,974,493
Long-term liabilities, including bonds payable, compensated absences, judgement and claims, post-employment benefits, retirement liabilities, landfill remediation liabilities and capital leases are not due and payable in the current period and therefore are not reported in the funds, but are reported in the Statement of net position.	(125,564,370)
Deferred inflows of resources reported in the funds are measured differently at the government wide level.	(2,961,344)
Accrued interest and other accruals are not reported in the funds.	<u>(504,464)</u>
Total net position of governmental activities	<u>\$ 20,417,379</u>

CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:								
Real property taxes	\$ 18,563,858	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,563,858
Other tax items	572,133	-	-	-	-	-	-	572,133
Non-property taxes	10,824,992	-	-	-	-	-	-	10,824,992
Departmental income	1,018,567	262,583	6,842,268	4,988,452	-	657,800	-	13,769,671
Intergovernmental charges	100,407	-	-	-	-	-	-	100,407
Use of money and property	188,102	64,818	2,365	3,688	-	45,797	484	305,254
Licenses and permits	530,733	-	27,030	3,600	-	-	-	561,363
Fines and forfeitures	465,202	-	-	-	-	-	27,478	492,680
Sale of property and compensation for loss	150,506	-	1,009	-	-	-	-	151,515
State aid	5,611,696	-	-	-	1,267,415	-	21,135	6,900,246
Federal aid	159,492	506,339	(0)	-	78,801	-	11,040	755,672
Miscellaneous	287,307	300	19,263	16,347	3,423	-	5,103	331,742
Total Revenues	38,472,997	834,041	6,891,936	5,012,087	1,349,638	703,597	65,239	53,329,535
Expenditures:								
Current:								
General Government	7,147,459	-	514,114	422,401	10,971,669	-	-	19,055,643
Public Safety	11,974,454	-	-	-	-	-	29,309	12,003,764
Transportation	2,193,123	-	-	-	-	-	86,533	2,279,656
Economic Assistance and Opportunity	340,730	-	-	-	-	-	-	340,730
Culture and Recreation	2,061,605	589,040	-	-	-	-	-	2,650,645
Home and Community Services	2,078,801	-	2,434,262	2,208,518	-	-	-	6,721,581
Employee Benefits	13,302,797	79,858	931,313	732,641	-	-	10,670	15,057,279
Debt Service	819,601	-	234,817	59,125	-	4,358,839	-	5,472,382
Total Expenditures	39,918,569	668,898	4,114,506	3,422,685	10,971,669	4,358,839	126,512	63,581,679
Excess/(Deficiency) of Revenues Over Expenditures	(1,445,572)	165,143	2,777,429	1,589,402	(9,622,030)	(3,655,242)	(61,273)	(10,252,144)
Other Financing Sources/(Uses):								
Proceeds from Obligations	-	-	-	-	5,400,896	-	-	5,400,896
BANs redeemed from appropriations	-	-	-	-	539,633	-	-	539,633
Bond premium	-	-	-	-	54,559	140,255	-	194,814
Insurance recoveries	162,300	-	-	-	-	-	-	162,300
Transfers in	2,354,104	-	-	-	1,650	4,294,696	75,410	6,725,860
Transfers out	(1,532,043)	(193,321)	(2,816,295)	(1,784,201)	-	(400,000)	-	(6,725,860)
Total Other Financing Sources/(Uses)	984,361	(193,321)	(2,816,295)	(1,784,201)	5,996,738	4,034,952	75,410	6,297,644
Change in Fund Balances	(461,211)	(28,178)	(38,866)	(194,799)	(3,625,293)	379,710	14,136	(3,954,501)
Fund Balances - Beginning	11,202,480	287,308	2,990,374	3,504,742	4,965,252	3,128,518	119,728	26,198,402
Prior Period Adjustment (Note H)	65,267	-	12,510	-	38,837	-	-	116,614
Fund Balances - Beginning, Restated	11,267,747	287,308	3,002,884	3,504,742	5,004,089	3,128,518	119,728	26,315,016
Fund Balances - Ending	\$ 10,806,536	\$ 259,130	\$ 2,964,018	\$ 3,309,943	\$ 1,378,796	\$ 3,508,228	\$ 133,864	\$ 22,360,515

See Notes to the Financial Statements

**CITY OF MIDDLETOWN, NEW YORK
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balance - total governmental funds	\$ (3,954,501)
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	9,690,648
There are revenues in the statement of activities that do not provide current financial resources and therefore are not reported in the funds. These are deferred real property taxes and other long-term receivables.	5,789,500
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	(2,148,616)
Some expenses reported in the statement of activities, such as compensated absences and retirement do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(6,388,449)</u>
Net change in net position of governmental activities	<u>\$ 2,988,582</u>

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 372,783
Receivables	<u>3,365</u>
Total assets	<u><u>\$ 376,147</u></u>
LIABILITIES	
Escrow funds returnable and other liabilities	<u>\$ 376,147</u>
Total liabilities	<u>376,147</u>
NET POSITION	
Total liabilities and net position	<u><u>\$ 376,147</u></u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of 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:

1. The 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. However, since 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, the financial statements of the Agency have been included 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.

The Middletown Community Development Agency ("Agency") is a public benefit corporation created by State legislation to plan and implement programs involving the rehabilitation and revitalization of both the residential and commercial sectors of the City of Middletown, eliminate blight, foster economic growth, and provide other benefits to the City of Middletown. 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 any Agency debt. However, since 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, the financial statements of the Agency have been included as a discretely presented component unit. Complete financial statements may be obtained from the Middletown Community Development Agency, Economic and Community Development Office, 16 James Street, Middletown, NY 10940.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

2. Basic Financial Statements – Government-Wide 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 inter-fund activity has been removed from these statements, except for inter-fund services provided and used.

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.

3. Basic Financial Statements – 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, 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:

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

The following fund types are used by the City:

A. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the governmental funds of the City:

1. **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.
2. **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.
3. **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.
4. **Special Revenue Funds:**
 - 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.

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

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.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

C. Component Unit Year End

The component units are 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.

D. Fund Balance

Fund balance is presented in five different classifications which focus on the constraints imposed on resources in governmental funds, rather than on availability for appropriation. The classifications include: non-spendable, restricted, committed, assigned, and unassigned.

Non-spendable consists of assets that are inherently non-spendable 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. The Common Council is the decision-making authority that can, by action taken prior to the end of the fiscal year, commit fund balance.

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.

When resources are available from multiple classifications, the City spends funds in the following order: restricted, committed, assigned, unassigned.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

A. Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

B. Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

4. Financial Statement Amounts

A. Cash, Cash Equivalents and Certificates of Deposit

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 deposits and investment policies are governed by State statutes. The City has adopted its own written investment policy, which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The City is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit.

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.

B. Investments

Permissible investments include obligations of the U.S. Treasury, U.S. Agencies repurchase agreements and obligations of New York State or its political subdivisions, and accordingly, the City's policy provides for no credit risk on investments. The City follows the provisions of GASB Statement No. 72, "Fair Value Measurements and Application", which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 input has the highest reliability and is related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

C. Allowance for Un-collectible Accounts

Since the City generally collects past-due taxes through property sales, no provision has been made for any uncollectible accounts.

D. Mortgage Loans Receivable

Mortgages receivable consist of loans made by the City for City owned property. The loans have various maturity dates and interest rates.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

E. 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 back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

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

Land and construction-in-progress are not depreciated. Property, plant and equipment 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

F. 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 \$224,984 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.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

F. Deferred Outflows/Inflows of Resources (Continued)

The City reported deferred inflows of resources of \$1,738,169 for uncollected real property taxes in the General Fund and \$389,579 for 2018 property taxes collected in advance. The City also defers revenues resulting from future collections of mortgages receivable both in the General Fund and the Community Development Fund in the amounts of \$755,000 and \$2,957,022, respectively. The City has further deferred the recognition of revenues relating to reimbursable NYS grants, in both the General Fund and the Capital Projects Fund, amounting to \$540,222 and \$10,590,427, respectively. 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 and deferred inflows of resources in relation to its pension obligations. These amounts are detailed in the discussion of the City's pension plans in Note F.

G. 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 expended 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.

H. Property Taxes

The City approves the budget for the current year on the last working day of the previous year. Property taxes are levied on January 15, and collected from February 1 through December 1. Penalties and interest are assessed after February 15. Unpaid taxes are converted to tax sale certificates for a period of two years and then sold at auction.

Delinquent City school district taxes are turned over to the City for collection. The City collects payments on these unpaid school taxes until the following year's City tax sale. Any unpaid City school district taxes are included with unpaid City and county taxes on the tax sale certificates issued.

The City is permitted by the New York State Constitution - Article VIII - Local Finance, Section 10 to levy real property taxes up to a limit calculated in accordance with law.

This limit is based upon the most recent five-year average full valuation of taxable real property within the City. The City's maximum taxing power, as provided by the Constitution, is limited to two percent of this average full valuation. However, the City of Middletown, through its City Charter (Subpart AA), limits the amount to be raised by tax on real estate, in addition to providing for the interest on and the principal of all indebtedness, to an amount not to exceed one and one-half percent of average full valuation. 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 2017 was \$25,489,412 inclusive of exclusions, which exceeded the actual levy by \$6,793,597.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

I. Inter-fund Activity

Inter-fund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

J. Budgets

Pursuant to Article 6 of the Second Class Cities Law of the State of New York and its own charter, the City legally adopts calendar year budgets for the General, Water, Sewer and certain non-major governmental funds. Certain amendments to the original budget made during the year require the approval of the Common Council. Budgetary comparison schedules are presented as required supplementary information for governmental major funds that adopt budgets. Budgetary controls are established or adopted for the Capital Projects Fund on a project basis. Unused appropriation of the annually budgeted funds lapse at the end of the year.

K. 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 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.

L. Accumulated 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.

M. Risk of Loss

The City of Middletown assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are generally covered by the purchase of commercial insurance for losses in excess of specified limits. The City was self-insured during 2017 for risks below those limits.

Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated and the loss is not covered by the commercial insurance coverage described above. The City has estimated losses based on the above criteria and recorded that liability in the statement of net assets, as described in Note E.1.b.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 27, 2018.

NOTE B - Interfund Receivables, Payables and Transfers

The following is a summary of amounts due from and due to other funds and transfers as of and for the year ended December 31, 2017. These inter-fund balances have been eliminated as part of the aggregation of balances in the statement of net assets. Such balances arise through the use of a pooled cash disbursement account and the temporary funding of capital projects. Transfers are recorded for the reimbursement of expenses and the permanent funding of capital projects.

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 782,068	\$ 708,241
Capital Projects	120,000	3,049,615
Community Development	-	15,768
Water	273,674	337,323
Sewer	255,626	303,860
Non-Major Governmental	2,995,752	12,313
TOTALS	\$ 4,427,120	\$ 4,427,120
	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General	\$ 2,354,104	\$ 1,532,043
Capital Projects	1,650	-
Community Development	-	193,321
Water	-	2,816,295
Sewer	-	1,784,201
Non-Major Governmental	4,370,106	400,000
TOTALS	\$ 6,725,860	\$ 6,725,860

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE C – Capital Assets

The following describes the City’s capital assets:

	BALANCE JANUARY 1, 2017	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2017
Governmental activities:				
Land	\$ 4,027,917	\$ 285,796	\$ -	\$ 4,313,713
Construction-in-progress	4,915,409	8,914,374	-	13,829,783
Total Capital Assets, not being depreciated	<u>8,943,326</u>	<u>9,200,170</u>	<u>-</u>	<u>18,143,496</u>
Capital Assets, being depreciated				
Buildings and Improvements	72,559,689	2,354,215	-	74,913,904
Improvements other than buildings	4,476,985	434,337	-	4,911,322
Infrastructures	36,412,921	-	-	36,412,921
Machinery and Equipment	29,485,571	1,319,218	(864,511)	29,940,278
Total Capital Assets being depreciated	<u>142,935,166</u>	<u>4,107,770</u>	<u>(864,511)</u>	<u>146,178,425</u>
Less accumulated depreciation:				
Buildings and Improvements	(21,303,230)	(1,808,085)	-	(23,111,315)
Improvements other than buildings	(3,621,556)	(187,333)	-	(3,808,889)
Infrastructures	(11,006,105)	(769,782)	-	(11,775,887)
Machinery and equipment	(25,440,211)	(852,092)	864,511	(25,427,792)
Total accumulated depreciation	<u>(61,371,102)</u>	<u>(3,617,292)</u>	<u>864,511</u>	<u>(64,123,883)</u>
Total Capital Assets being depreciated, net	<u>81,564,064</u>	<u>490,478</u>	<u>-</u>	<u>82,054,542</u>
Governmental activities				
Capital assets, net	<u>\$ 90,507,390</u>	<u>\$ 9,690,648</u>	<u>\$ -</u>	<u>\$ 100,198,038</u>

*Depreciation was charged to governmental activities as follows:

General government support	\$ 351,112
Public safety	479,594
Transportation	169,625
Culture & recreation	135,032
Home & community service	2,092,531
Infrastructure	389,398
	<u>\$ 3,617,292</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE D – Short and Long-Term Liabilities

1. Types

A. Bonds and Installment Purchase Debt

The City borrows money in order to acquire or construct buildings and public improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These liabilities are considered general obligation debt, supported by the full faith and credit of the City. Short-term notes are recorded in the funds, while the long-term portion is only reflected in the government-wide statements. Current principal and interest payments are included in the expenditures of the debt service fund. The City has utilized 40.42% of its constitutional debt limit as of December 31, 2017, after adjustments for water and sewer debt.

B. Claims Payable

This liability represents an estimate of future loss liabilities based on historical trends and other factors.

C. Compensated Absence and Vacation Pay Obligations

The City has prepared an estimate of the value of earned but unused leave time which is payable from future resources.

D. Energy Performance Contract Payable

The City, during 2016, entered into a \$12,267,370 contractual agreement to install energy saving equipment and/or to upgrade existing facilities to enhance performance. The agreement provides for semi-annual payments of \$498,265, including interest at 2.107% through July 2031. The contract further provides that the savings in energy costs resulting from this modernization will equal or exceed the payment terms. There were no interest expenditures/expense charged in the fund financial statements or in the government-wide financial statements. The balance due at December 31, 2017 was \$12,030,090.

E. 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.

F. Other

The City also records estimates of the net pension liability (Note F) and other post-employment benefits obligations.

2. Description

A. Bond Anticipation Notes Payable

The bond anticipation notes (BANS) for the financing of sewer improvements were issued by the New York State Environmental Facilities Corporation (EFC) for accepted, eligible sewer project.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE D – Short and Long-Term Liabilities (Continued)

The bond anticipation notes payable as of December 31, 2017, are as follows:

PURPOSE	ORIGINAL YEAR OF ISSUE	MATURITY DATE	INTEREST RATE	ORIGINAL AMOUNT OF ISSUE	AMOUNT OUTSTANDING AT DECEMBER 31, 2017
Bond Anticipation Notes					
Street Improvement	2016	9/29/2021	2.000%	\$ 1,179,749	\$ 1,179,749
Downtown Revitalization Initiative	2017	9/20/2018	2.250%	9,700,000	9,700,000
Acquisition of Federal Courthouse	2017	8/29/2018	2.250%	6,027,088	6,027,088
Total Short-term				16,906,837	16,906,837
Black Dirt Sewer Project	2017	4/27/2020	0.000%	2,942,575	2,942,575
Total Bond Anticipation Notes				<u>\$ 19,849,412</u>	<u>\$ 19,849,412</u>

B. Serial Bonds and Other Long-Term Liabilities

Serial bonds are bonds which can be issued for up to the period of probable usefulness of the asset being financed. Other long-term liabilities include the financing of retirement contributions, long-term leases and compensated absences. Provisions are made in future budgets for the payment of such indebtedness. The following is a schedule of the City's serial bonds as of December 31, 2017:

PURPOSE	ORIGINAL ISSUE DATE	MATURITY DATE	INTEREST RATE	ORIGINAL AMOUNT OF ISSUE	AMOUNT OUTSTANDING AT DECEMBER 31, 2017
Water Purposes	2004	May 2023	3.775 - 4.475%	\$ 3,397,093	\$ 1,205,000
Refunding	2005	October 2017	4.870 - 4.917%	5,530,000	-
Environmental Facilities Corporation	2006	April 2036	4.221 - 4.861%	3,671,027	2,630,000
Public Improvement	2007	July 2028	4.000 - 5.000%	5,210,000	-
Environmental Facilities Corporation	2008	April 2038	4.270%	20,161,142	15,485,000
Refunding	2011	August 2021	2.500 - 3.000%	5,025,000	2,165,000
Environmental Facilities Corporation	2012	November 2042	0.775 - 4.269%	17,843,203	15,085,000
Public Improvement	2014	February 2039	2.500 - 5.000%	6,292,900	5,775,000
Refunding	2016	July 2028	2.000%	3,500,000	3,425,000
Refunding	2017	August 2037	2.000 - 3.125%	5,400,896	5,400,896
				<u>\$ 76,031,261</u>	<u>\$ 51,170,896</u>

3. Changes

Changes in bond anticipation notes payable for the year ended December 31, 2017, are as follows:

PURPOSE	BALANCE JANUARY 1, 2017	NEW ISSUE	REFINANCED/ PAYMENTS	BALANCE DECEMBER 31, 2017	AMOUNTS DUE WITHIN ONE YEAR
Bond Anticipation Notes					
Various Improvements	\$ 6,294,633	-	(6,294,633)	-	-
Street Improvement	1,179,749	-	-	1,179,749	1,179,749
Downtown Revitalization Initiative	-	9,700,000	-	9,700,000	9,700,000
Acquisition of Federal Courthouse	-	6,027,088	-	6,027,088	6,027,088
Total Short-term	7,474,382	15,727,088	(6,294,633)	16,906,837	16,906,837
Black Dirt Sewer Project	-	2,942,575	-	2,942,575	-
Totals	<u>\$ 7,474,382</u>	<u>\$ 18,669,663</u>	<u>\$ (6,294,633)</u>	<u>\$ 19,849,412</u>	<u>\$ 16,906,837</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE D – Short and Long-Term Liabilities (Continued)

B. Serial Bonds and Other Long-Term Liabilities

Interest expenditures of \$34,002 and \$11,629 were recorded in the fund financial statements in the General and Sewer Funds, respectively.

Interest expense of \$102,900 was recorded in the government-wide financial statements for governmental activities.

Changes in the City's long term liabilities during the year ended December 31, 2017, are summarized as follows:

<u>FUND</u>	<u>BALANCE</u>			<u>AMOUNTS</u>	
	<u>JANUARY 1,</u>	<u>INCREASE</u>	<u>(DECREASE)</u>	<u>BALANCE</u>	<u>DUE</u>
	<u>2017</u>			<u>DECEMBER 31,</u>	<u>WITHIN</u>
				<u>2017</u>	<u>ONE YEAR</u>
Bonds Payable	\$ 48,650,000	\$ 5,400,896	\$ (2,880,000)	\$ 51,170,896	\$ 2,475,896
Energy Performance Contract Payable	12,267,370	-	(237,280)	12,030,090	745,865
Loans Payable	1,395,000	-	(135,000)	1,260,000	141,000
Other non-current liabilities					
Compensated absences	3,420,565	88,386	-	3,508,951	351,000
Net Pension Liability	13,649,563		(5,182,703)	8,466,860	-
Claims Payable	5,849,698	-	(658,810)	5,190,888	-
Other Post Employment					
Benefit Obligations Payable	31,660,000	5,340,000	-	37,000,000	-
Totals	<u>\$ 116,892,196</u>	<u>\$ 10,829,282</u>	<u>\$ (9,093,793)</u>	<u>\$ 118,627,685</u>	<u>\$ 3,713,761</u>

Compensated absences and vacation pay are shown net, since it is impracticable to determine the changes separately. The financing of certain retirement liabilities and other post-employment benefit liabilities are allocated to governmental activities, as the proprietary funds have fully funded its retirement allocation and information to allocate other post-employment benefits to proprietary funds is not available.

4. Amortization

The annual requirements needed to amortize bonded debt as of December 31, 2017, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>December 31,</u>			
2018	\$ 2,475,896	\$ 1,991,903	\$ 4,467,799
2019	2,600,000	1,841,172	4,441,172
2020	2,665,000	1,765,595	4,430,595
2021	2,720,000	1,688,405	4,408,405
2022	2,200,000	1,602,765	3,802,765
2023-2027	10,810,000	6,702,216	17,512,216
2028-2032	10,555,000	4,568,099	15,123,099
2033-2037	11,920,000	2,372,123	14,292,123
2038-2042	5,225,000	426,311	5,651,311
	<u>\$ 51,170,896</u>	<u>\$ 22,958,588</u>	<u>\$ 74,129,484</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE E – Pension Plans

1. Plan Description

The City of Middletown participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (collectively the Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

2. Funding Policy

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 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.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE E – Pension Plans (Continued)

3. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the City reported a liability of \$2,657,370 for its proportionate share of the net pension liability of ERS and a liability of \$5,809,490 for its proportionate share of the net pension liability of PFRS. The net pension liability was measured as of March 31, 2017, 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, 2017, the City's proportion was .02828130% for ERS and .28029260% for PFRS which was a decrease of .0025505% for ERS and a decrease of .01358080% for PFRS from its proportions measured as of March 31, 2016.

For the year ended December 31, 2017, the City recognized pension expense in the government wide financial statements of \$1,557,241 for ERS and \$3,112,303 for PFRS.

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience - ERS	\$ 66,591	\$ 403,537
Differences between expected and actual experience - PFRS	762,105	1,003,751
Changes of assumptions - ERS	907,855	-
Changes of assumptions - PFRS	2,862,091	-
Net difference between projected and actual investment earnings on pension plan investments - ERS	530,784	-
Net difference between projected and actual investment earnings on pension plan investments - PFRS	867,639	-
Changes in proportion and differences between employer contributions and proportionate share of contributions - ERS	192,911	98,958
Changes in proportion and differences between employer contributions and proportionate share of contributions - PFRS	-	1,139,998
Employer contributions subsequent to the measurement date - ERS	943,188	-
Employer contributions subsequent to the measurement date - PFRS	1,612,198	-
Total	<u>\$ 8,745,362</u>	<u>\$ 2,646,244</u>

The amounts of \$1,257,584 and \$2,149,597 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, 2017. 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 December 31:</u>	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
2018	\$ 538,026	\$ 847,075	\$ 1,385,101
2019	\$ 538,026	\$ 847,075	\$ 1,385,101
2020	\$ 476,078	\$ 782,783	\$ 1,258,861
2021	\$ (356,484)	\$ (201,783)	\$ (558,267)
2022	\$ -	\$ 72,936	\$ 72,936

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE E – Pension Plans (Continued)

4. Actuarial Assumptions

The total pension liability at March 31, 2017, was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2016, valuation were as follows:

Inflation	2.5%
Salary increases - ERS	3.8%
Salary increases - PFRS	4.5%
Investment rate of return	7.0%
Cost of living adjustments	1.3%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return of the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	36%	4.55%
International equity	14%	6.35%
Private equity	10%	7.75%
Real estate	10%	5.80%
Absolute return strategies	2%	4.00%
Opportunistic portfolio	3%	5.89%
Real assets	3%	5.54%
Bonds and mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-indexed bonds	4%	1.50%

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE E – Pension Plans (Continued)

5. Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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.

6. Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
City's proportionate share of the net ERS pension liability/(asset)	\$ 8,487,112	\$ 2,657,370	\$ (2,271,667)
City's proportionate share of the net PFRS pension liability/(asset)	\$ 16,469,566	\$ 5,809,490	\$ (3,131,705)

7. Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of all employers as of March 31, 2017, were as follows:

	Dollars in Thousands	
	Employees' Retirement System	Police and Fire Retirement System
Employers' total pension liability	\$ (177,400,586)	\$ (31,670,483)
Plan net position	168,004,363	29,597,831
Employers' net pension liability	\$ (9,396,223)	\$ (2,072,652)
Ratio of plan net position to the employers' total pension liability	94.7%	93.5%

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE F – Post-employment Benefits

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 cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid, which is the accrual accounting perspective. In adopting the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years.

The Post-employment Benefits Liability as of December 31, 2017, is \$37,000,000, recorded in the Statement of Net Position – Governmental Activities.

1. Plan Description

The City provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the City. This plan is a single employer defined benefit plan, established by authority of the City Council and administered by the City. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at City Hall.

2. Funding Policy

Funded Status and Funding Progress: As of December 31, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$85,100,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$85,100,000. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

3. Annual Other Post-employment Benefit Cost

The City's OPEB cost amounted to \$7,400,000, and the increase in net OPEB obligation amounted to \$5,340,000, for the year ended December 31, 2017. The City's increase in net OPEB obligation was equal to the Annual Required Contribution (ARC) and certain adjustments, amounts actuarially determined in accordance with the parameters of GASB Statement 45 less the amount that the City paid in the current year for retirees. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs plus a past service cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

**CITY OF MIDDLETOWN, NEW YORK
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

NOTE F – Post-employment Benefits (Continued)

4. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 4.5% baseline discount rate.

The valuation assumes the following rates of increase in health care costs:

Year Ended December 31,	Health Care Cost Trend Rates
2018	7.00 %
2019	6.50
2020	6.00
2021	5.50
2022	5.00
2023	5.00
2024	5.00
2025+	5.00

NOTE G – Fire 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 is accounted for in the City’s financial statements within the General Fund. The annual services 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 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. Participants are fully vested upon attainments 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 received their service award, payable in the form of a lump sum payment equal to the participant’s 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 and from the General Fund. Separate financial statements are not issued by the program.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE G – Fire Service Awards Program (Continued)

Current membership in the Program is comprised of the following:

<u>Group</u>	<u>December 31, 2017</u>
Active - vested	7
Active - non-vested	43
Retirees and beneficiaries currently receiving benefits	4
Terminated members entitled to but not yet receiving benefits	0

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 their 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.

Assets Available for Benefits	<u>% of total</u>	
Money market funds	1.30%	\$ 898
Equity mutual funds	68.94%	47,614
Fixed income mutual funds	29.76%	<u>20,554</u>
 Total Assets at December 31, 2017		 <u>\$ 69,066</u>

The above investments are valued using level one inputs.

The City’s annual Program cost and the percentage of the annual Program cost contributed to the Plan for the current period 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>
2017	\$ 21,700	\$ 21,700	100.00%
2016	26,600	26,600	100.00%
2015	21,000	21,000	100.00%

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 \$26,666 is reported in the General Fund consisting of contributions of \$21,700, investment income of \$7,828, administrative fees of \$1,932, and distributions of \$658.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE H - Commitments and Contingencies

1. 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 are awaiting a decision in the PERB case.

2. Grant Programs

The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis.

Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

Note I – Property Tax Abatements

The City has twelve real property tax abatement agreements associated with housing development and redevelopment companies organized pursuant to Article V and Article XI of the private Housing Finance Law of the State of New York ("PHFL") for the purpose of creating or preserving affordable housing in the City, and/or through the City of Middletown IDA to encourage economic development in the City.

Generally, these agreements provide for a 100 percent abatement of real property taxes in exchange for a payment in lieu of taxes ("PILOT") based on a percentage of shelter rents, and continue until the property no longer provides the required affordable housing or no longer complies with the requirements of the PHFL (for the housing companies), or based on the IDA's determination of the appropriate economic development benefit resulting from the PILOT.

Copies of the agreements may be obtained from Donald J. Paris, Treasurer, 16 James Street, Room 13, Middletown, NY 10940 dparis@middletown-ny.com. Information relevant to disclosure of these agreements for the fiscal year ended December 31, 2017 is as follows:

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note I – Property Tax Abatements (Continued)

<u>Start Date</u>	<u>Agreement</u>	<u>Taxable Assessed Value</u>	<u>Tax Rate</u>	<u>Tax Value</u>	<u>PILOT Received</u>	<u>Taxed Abated</u>
2007	Overlook Apts	\$ 2,625,100	\$ 81.50	\$ 213,946	\$ 82,899	\$ 131,047
2006	Middletown Housing	1,704,000	81.50	138,876	46,632	92,244
2011	Sml Group 16-lda	1,136,200	81.50	92,600	3,142	89,458
2013	Danza Lesser Grp-lda	712,200	81.50	58,044	14,518	43,526
2015	Equilibrium Brewery 16-lda	52,000	81.50	4,238	1,963	2,275
2014	Heritage Rest 16-lda	223,100	81.50	18,183	3,812	14,371
2013	Southeast Towers 16-lda	915,944	81.50	74,649	24,853	49,796
	Various		81.50	329,342	292,248	-
	Paid to School District			-	(109,234)	-
Total		<u>\$ 7,368,544</u>		<u>\$ 929,878</u>	<u>\$ 360,833</u>	<u>\$ 422,717</u>

NOTE J – Prior Period Adjustment

In 2017, the following prior period adjustments were recorded to properly state fund balance and net position as of December 31, 2016:

<u>Location</u>	<u>Amount</u>	<u>Reason</u>	<u>Effect</u>
General Fund	\$65,267	Accounts receivable in prior year not recorded	Increase net position
Capital Projects Fund	38,837	Accounts receivable in prior year not recorded	Increase net position
Water Fund	12,510	Accounts receivable in prior year not recorded	Increase net position

NOTE K – New Reporting Standards

GASB has issued Statement 77, *Tax Abatement Disclosures*. This Statement requires governments to disclose in the notes certain information related to tax abatement agreements. GASB Statement 77 is effective for fiscal year 2017. The City has implemented Statement 77 as required.

GASB has issued Statement 80, *Blending Requirements for Certain Component Units – an Amendment of GASB 14, effective for the year ending December 31, 2017*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The Statement is effective for periods beginning after June 15, 2016. The implementation of this new standards did not have a significant impact on the City's 2017 financial statements.

GASB has issued Statement 81, *Irrevocable Split-Interest Agreements, effective for the year ending December 31, 2017*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognizes assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires recognition of assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The implementation of this new standards did not have a significant impact on the City's 2017 financial statements.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE K – New Reporting Standards (Continued)

GASB has issued Statement 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73, effective for the year ending December 31, 2017*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statement. The implementation of this new standards did not have a significant impact on the City's 2017 financial statements.

GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. The City has not evaluated the effect of GASB 83 on its financial statements.

GASB has issued Statement No. 86, *Certain Debt Extinguishment Issues*. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017. The City has not evaluated the effect of GASB 86 on its financial statements.

GASB has issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019. The City has not evaluated the effect of GASB 87 on its financial statements.



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

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

To the Mayor and Members of the City Council
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 as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Middletown's basic financial statements, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Middletown's internal control over financial reporting 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 of Middletown's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 of Middletown's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RBT CPAs, LLP

Newburgh, New York
June 27, 2018

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2017	\$ -	\$ 85,100,000	\$ 85,100,000	0.0%	\$ 19,980,000	426 %
January 1, 2016	-	80,840,000	80,840,000	0.0%	18,520,000	437
January 1, 2015	-	71,640,000	71,640,000	0.0%	17,910,000	400

CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

NYSLRS Pension Plan
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the ERS net pension liability	0.0282813%	0.0308318%	0.0318205%
City's proportion of the PFRS net pension liability	0.2802926%	0.2938734%	0.3085995%
City's proportionate share of the net pension liability - ERS	\$ 2,657,370	\$ 4,948,598	\$ 1,074,975
City's proportionate share of the net pension liability - PFRS	\$ 5,809,490	\$ 8,700,965	\$ 849,450
City's covered-employee payroll - ERS	\$ 9,288,547	\$ 7,867,777	\$ 7,931,227
City's covered-employee payroll - PFRS	\$ 10,691,453	\$ 8,666,308	\$ 8,335,503
City's proportionate share of the combined net pension liability as a percentage of its covered-employee payroll			
ERS	28.61%	62.90%	13.55%
PFRS	54.34%	100.40%	10.19%
Plan fiduciary net position as a percentage of the total pension liability			
ERS	94.70%	90.70%	97.90%
PFRS	93.50%	90.20%	99.00%

The amounts presented for each fiscal year were determined as of the System's measurement date

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF MIDDLETOWN, NEW YORK
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Employee Retirement System
 NYSLRS Pension Plan
 Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 1,257,584	\$ 1,222,457	\$ 1,478,677
Contributions in relation to the contractually required contribution	<u>1,257,584</u>	<u>1,222,457</u>	<u>1,478,677</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 9,288,547	\$ 7,996,398	\$ 8,175,271
Contributions as a percentage of covered-employee payroll	13.54%	15.29%	18.09%

The amounts presented for each fiscal year were determined as of the System's measurement date

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF MIDDLETOWN, NEW YORK
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Police and Fire Retirement System
 NYSLRS Pension Plan
 Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 2,149,597	\$ 2,000,226	\$ 1,819,078
Contributions in relation to the contractually required contribution	<u>2,149,597</u>	<u>2,000,226</u>	<u>1,819,078</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 10,691,453	\$ 8,830,589	\$ 8,922,571
Contributions as a percentage of covered-employee payroll	20.11%	22.65%	20.39%

The amounts presented for each fiscal year were determined as of the System's measurement date

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Real property taxes	\$ 18,695,815	\$ 18,695,815	\$ 18,563,858	\$ (131,957)
Real property tax items	600,000	600,000	572,133	(27,867)
Non property tax items	10,523,891	10,523,891	10,824,992	301,101
Departmental income	1,239,100	1,239,100	1,018,567	(220,533)
Intergovernmental charges	92,000	92,000	100,407	8,407
Use of money and property	181,000	181,000	188,102	7,102
Licenses and permits	335,500	335,500	530,733	195,233
Fines and forfeitures	405,000	414,000	465,202	51,202
Sale of property and compensation for loss	552,500	552,500	150,506	(401,994)
State aid	3,048,940	5,854,095	5,611,696	(242,399)
Federal aid	260,417	260,417	224,759	(35,658)
Miscellaneous	260,701	270,702	287,307	16,605
Total revenues	<u>36,194,864</u>	<u>39,019,020</u>	<u>38,538,264</u>	<u>(480,755)</u>
Appropriation of prior's year's fund balance	154,084	2,065,841	-	(2,065,841)
Total revenues and appropriated fund balance	<u>36,348,948</u>	<u>41,084,861</u>	<u>38,538,264</u>	<u>(2,546,596)</u>
EXPENDITURES AND ENCUMBRANCES				
Current:				
General government support	4,669,920	7,993,971	7,147,459	846,513
Public safety	11,652,818	12,369,319	11,974,454	394,864
Transportation	2,142,139	2,492,215	2,193,123	299,093
Economic assistance & opportunity	328,833	336,692	340,730	(4,038)
Culture and recreation	2,185,542	2,352,351	2,061,605	290,746
Home and community services	2,249,675	2,362,511	2,078,801	283,710
Employee benefits	13,092,773	13,138,170	13,302,797	(164,627)
Capital outlay	-	-	-	-
Debt service	849,308	861,691	819,601	42,091
Total expenditures and encumbrances	<u>37,171,008</u>	<u>41,906,921</u>	<u>39,918,569</u>	<u>1,988,351</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	(822,060)	(822,060)	(1,380,305)	(558,245)
Other financing sources (uses):				
Insurance recoveries	-	-	162,300	162,300
Operating transfers in	2,000,000	2,000,000	2,354,104	354,104
Operating transfers out	(1,177,940)	(1,177,940)	(1,532,043)	(354,103)
Total other financing sources	<u>822,060</u>	<u>822,060</u>	<u>984,361</u>	<u>162,301</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (395,944)</u>	<u>\$ (395,944)</u>

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET – COMMUNITY DEVELOPMENT
FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Departmental income	\$ 190,774	190,774	\$ 262,583	\$ 71,810
Use of money and property	64,122	64,122	64,818	696
Miscellaneous	-	-	300	300
Total revenues	<u>880,368</u>	<u>880,368</u>	<u>834,041</u>	<u>(46,328)</u>
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriated fund balance	<u>880,368</u>	<u>880,368</u>	<u>834,041</u>	<u>(46,328)</u>
EXPENDITURES AND ENCUMBRANCES				
Current:				
Home and community services	-	-	-	-
Employee benefits	78,199	80,403	79,858	545
Total expenditures and encumbrances	<u>682,910</u>	<u>685,008</u>	<u>668,898</u>	<u>16,110</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	197,458	195,360	165,143	(30,217)
Other financing sources (uses):				
Operating transfers out	(197,458)	(195,360)	(193,321)	2,039
Total other financing sources	<u>(197,458)</u>	<u>(195,360)</u>	<u>(193,321)</u>	<u>2,039</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,178)</u>	<u>\$ (28,178)</u>

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET – WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Departmental income	\$ 6,931,126	\$ 6,931,126	\$ 6,842,268	\$ (88,858)
Use of money and property	1,200	1,200	2,365	1,165
Licenses and permits	20,000	20,000	27,030	7,030
Sale of property and compensation for loss	-	-	1,009	1,009
Federal aid	-	-	12,510	12,510
Miscellaneous	-	-	19,263	19,263
Total revenues	<u>6,952,326</u>	<u>6,952,326</u>	<u>6,904,446</u>	<u>(47,880)</u>
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriated fund balance	<u>6,952,326</u>	<u>6,952,326</u>	<u>6,904,446</u>	<u>(47,880)</u>
EXPENDITURES AND ENCUMBRANCES				
Current:				
General government support	562,478	569,692	514,113	55,579
Home and community services	2,431,961	2,344,522	2,434,262	(89,739)
Employee benefits	911,529	949,351	931,313	18,038
Debt service	211,705	272,464	234,817	37,647
Total expenditures and encumbrances	<u>4,117,673</u>	<u>4,136,030</u>	<u>4,114,505</u>	<u>21,524</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	2,834,653	2,816,296	2,789,940	(26,356)
Other financing sources (uses):				
Operating transfers out	(2,834,653)	(2,816,296)	(2,816,296)	-
Total other financing sources	<u>(2,834,653)</u>	<u>(2,816,296)</u>	<u>(2,816,296)</u>	<u>-</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,356)</u>	<u>\$ (26,356)</u>

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET – SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Departmental income	\$ 5,088,727	\$ 5,088,727	\$ 4,988,452	\$ (100,275)
Use of money and property	1,500	1,500	3,688	2,188
Licenses and permits	15,000	15,000	3,600	(11,400)
Miscellaneous	1,500	1,500	16,347	14,847
Total revenues	<u>5,106,727</u>	<u>5,106,727</u>	<u>5,012,087</u>	<u>(94,640)</u>
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriated fund balance	<u>5,106,727</u>	<u>5,106,727</u>	<u>5,012,087</u>	<u>(94,640)</u>
EXPENDITURES AND ENCUMBRANCES				
Current:				
General government support	394,607	362,315	422,401	(60,086)
Home and community services	2,154,989	2,145,266	2,208,518	(63,252)
Employee benefits	663,427	756,163	732,641	23,522
Debt service	58,782	26,582	59,125	(32,543)
Total expenditures and encumbrances	<u>3,271,805</u>	<u>3,290,326</u>	<u>3,422,685</u>	<u>(132,359)</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	1,834,922	1,816,401	1,589,402	(226,999)
Other financing sources (uses):				
Operating transfers out	<u>(1,834,922)</u>	<u>(1,816,401)</u>	<u>(1,784,201)</u>	<u>32,200</u>
Total other financing sources	<u>(1,834,922)</u>	<u>(1,816,401)</u>	<u>(1,784,201)</u>	<u>32,200</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (194,799)</u>	<u>\$ (194,799)</u>

**CITY OF MIDDLETOWN, NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET – GOLDEN AREA FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
State aid	\$ 22,935	\$ 22,935	\$ 21,135	\$ (1,800)
Federal aid	-	-	-	-
Miscellaneous	5,500	5,500	5,103	(397)
Total revenues	<u>28,435</u>	<u>28,435</u>	<u>26,238</u>	<u>(2,197)</u>
EXPENDITURES AND ENCUMBRANCES				
Current:				
Transportation	92,617	92,617	86,533	6,084
Employee benefits	11,228	11,228	10,670	558
Total expenditures and encumbrances	<u>103,845</u>	<u>103,845</u>	<u>97,203</u>	<u>6,642</u>
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,444</u>	<u>\$ 4,444</u>

OTHER SUPPLEMENTARY INFORMATION



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE

To the Mayor and
Members of the Common Council
City of Middletown
Middletown, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Middletown, New York's 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 of Middletown's major federal programs for the year ended December 31, 2017. The City of Middletown'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 City of Middletown, New York'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 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 of Middletown, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Middletown, New York's compliance

Opinion on Each Major Federal Program

In our opinion, City of Middletown, New York 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City of Middletown, New York 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 of Middletown, New York'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 of Middletown, New York'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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in Internal Control over Compliance that we consider to be a material weakness. 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.

RBT CPAs, LLP

Newburgh, New York
June 27, 2018

**CITY OF MIDDLETOWN, NEW YORK
 OTHER SUPPLEMENTARY INFORMATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 DECEMBER 31 ,2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal/State Expenditures</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
DIRECT PROGRAMS:				
CDBG-Entitlement	14.218	N/A	\$ -	\$ 668,898
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
DIRECT PROGRAMS:				
* Support Mentoring Program	93.276	N/A	-	117,330
<u>US DEPARTMENT OF HOMELAND SECURITY</u>				
PASSED THROUGH STATE DHSES:				
* Disaster Grants - Public Assistance	97.036	N/A	-	78,801
Homeland Security Grant Program	97.067	N/A	-	42,329
TOTAL FEDERAL AWARDS EXPENDED			\$ -	\$ 907,358

* Major program

N/A - Not applicable or not available

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
DECEMBER 31, 2017**

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the Federal award activity of the City of Middletown under programs of the federal government for the year ended December 31, 2017. 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 costs rate allowed under the Uniform Guidance.

NOTE 3 – Loans Outstanding

The City has the following loan balances outstanding at December 31, 2017, which were originally funded with federal awards. Loans made during the year are included in the federal expenditures presented in the schedule:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures December 31, 2017</u>	<u>Amount Outstanding December 31, 2017</u>
Community Development Block Grant Program	14.218	\$ 387,459	\$ 3,915,984

NOTE 4 – Reconciliation to Financial Statements

The federal expenditures presented in the Schedule of Expenditures of Federal Awards reconcile to the Federal revenue reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance as follows:

Federal expenditures as reported in the SEFA:	\$ 907,358
Reconciling items:	
SEFA is reported on the basis of expenditures not revenues	<u>(151,686)</u>
Federal aid as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u>\$ 755,672</u>

**CITY OF MIDDLETOWN, NEW YORK
 NOTES TO THE SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS
 DECEMBER 31, 2017**

NOTE 5 – Section 108 Loan

The City has obtained loans through HUD for the purposes of issuing federally guaranteed loans to local businesses in order to stimulate revitalization of local neighborhoods, and to inspire private economic activity. Current and future CDBG allocations are required to be pledged as security for these loans, to be able to repay the loan without need for current or future CDBG dollars to be used for repayment.

The following debt service requirements for loan repayment are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 141,000	\$ 2,753
2019	142,000	3,066
2020	142,000	3,191
2021	147,000	3,394
2022	112,000	2,388
2023-2027	450,000	9,492
2028-2030	126,000	2,064
	<u>\$ 1,260,000</u>	<u>\$ 26,348</u>

**CITY OF MIDDLETOWN, NEW YORK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS

	<u>Response</u>
Financial Statements	
Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not material weaknesses?	No
Noncompliance material to the financial statements noted?	No
Federal Awards	
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
Identification of major programs:	
<u>Name of Federal Program</u>	<u>CFDA Numbers</u>
Support Mentoring Program	93.276
Disaster Grants - Public Assistance	97.036
Dollar threshold to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported