

FINANCIAL REPORT
AUDITED
CITY OF MIDDLETOWN, NEW YORK
For the Year Ended December 31, 2019

Audited for:

Common Council
CITY OF MIDDLETOWN, NEW YORK

Audited By:
RBT CPAs, LLP
11 Racquet Road
Newburgh, NY 12550
(845) 567-9000

CITY OF MIDDLETOWN, NEW YORK

TABLE OF CONTENTS

FINANCIAL SECTION	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9 - 10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Total Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fiduciary Net Position	16
Notes to Basic Financial Statements	17 - 42

	<u>Page</u>
Required Supplementary Information	
Schedule of Changes in the City’s Total OPEB Liability and Related Ratios	43
Schedule of OPEB Contributions and Assumptions	44
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios	45
Schedule of Employer Contributions	46
Schedule of Revenues and Expenditures Compared to Budget – General Fund	47
Schedule of Revenues and Expenditures Compared to Budget – Community Development Fund	48
Schedule of Revenues and Expenditures Compared to Budget – Water Fund	49
Schedule of Revenues and Expenditures Compared to Budget – Sewer Fund	50
Other Supplementary Information	
Schedule of Indebtedness	51
Other Reporting Required by <i>Government Auditing Standards</i>	
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 <i>Government Auditing Standards</i>	52 – 53
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	54 – 55
Independent Auditor’s Report on Compliance for each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of State Transportation Assistance	56 – 57
Summary Schedule of Prior Year Audit Findings	58
Schedule of Expenditures of Federal Awards and State Transportation Assistance	59
Notes to the Schedule of Expenditures of Federal Awards and State Transportation Assistance	60 – 61
Schedule of Findings and Questioned Costs	62 – 64
Management Responses to Findings and Corrective Action Plan	65



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the Common Council
City of Middletown, New York
16 James Street
Middletown, NY 10940

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discreetly presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, New York (the "City"), as of and for the year ended December 31, 2019, 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 controls 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 an opinion 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 discreetly presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, New York as of December 31, 2019, and the respective changes in financial position thereof 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 comparisons, and schedules of changes in the City's total OPEB liability and related ratios, proportionate share of the net pension liability and related ratios, and employer contributions on pages 3 through 8 and 42 through 49 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the City of Middletown, New York's basic financial statements. The accompanying schedules of indebtedness and expenditures of federal awards and state transportation assistance, 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) and *Title 17, Part 43 of NYCRR* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules of indebtedness and expenditures of federal awards and state transportation assistance are 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 August 6, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

RBT CPAs, LLP

Newburgh, NY
August 6, 2020

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

The accompanying management discussion and analysis of the City of Middletown's (the "City") financial performance has been prepared to provide an overview of the City's financial activities for the year ended December 31, 2019. This discussion and analysis is only an introduction and should be read in conjunction with the City's financial statements.

Requests For Information

This report is designed to provide an overview of the City's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Janet Gallo, Deputy Treasurer, City of Middletown, 16 James Street, Middletown, New York 10940.

2019 Financial Highlights

- The City's net position (defined as assets plus deferred outflows less liabilities and deferred inflows) was a negative \$(56,787,919) at December 31.
- The governmental net position decreased by \$(2,093,550) for the year ending December 31.
- The City's other postemployment benefit liability was \$111,821,433 at year-end.
- At December 31, the proportionate share of the net pension liability for both retirement systems was included in total liabilities in the amount of \$7,002,546.
- As of the close of the year, the City's governmental funds reported an ending fund balance of \$13,508,216, a net decrease of \$(1,481,093) in comparison with the prior year.
- At the end of the year, unassigned fund balance for the General Fund was \$10,628,040.

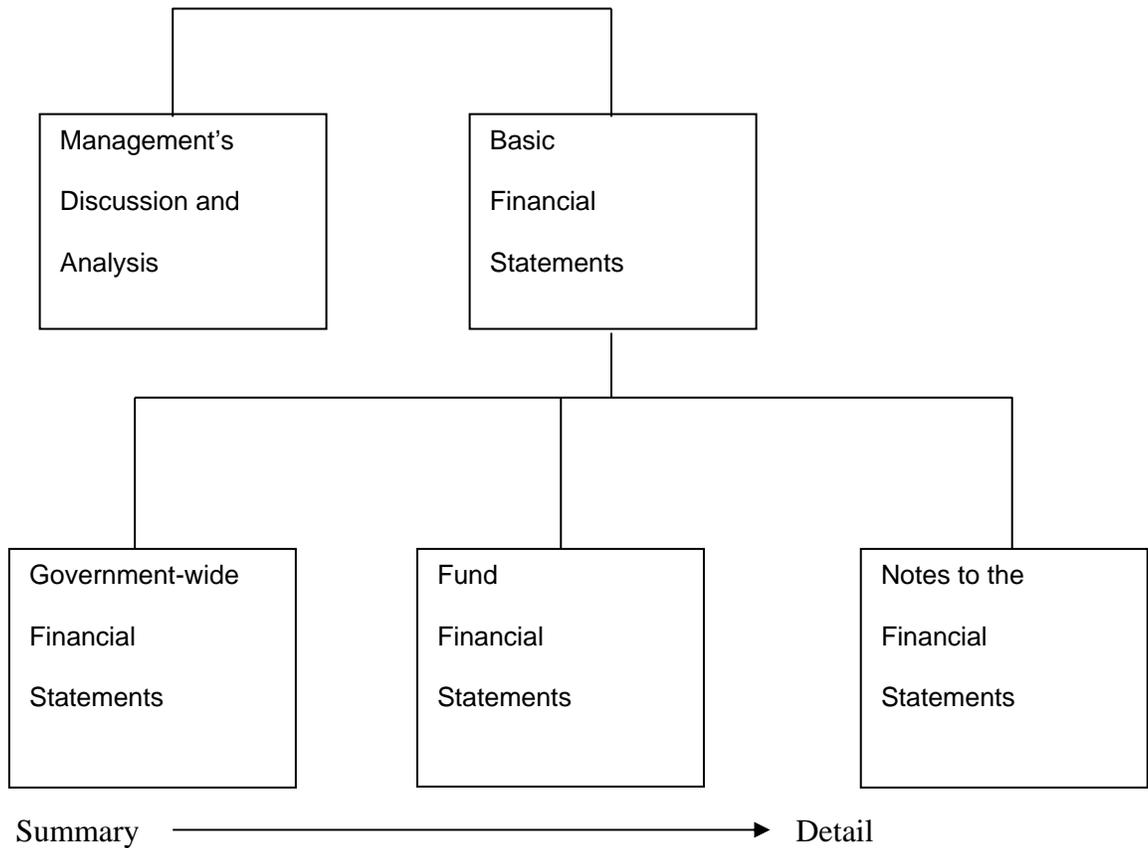
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City's financial position through the use of government-wide statements and fund financial statements. Each view will be explained in more detail following this narrative. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

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

Required Components of the City’s Basic Financial Statements

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City’s financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City’s government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements, they include: 1) the governmental and fiduciary fund statements and 2) reconciliations to the government-wide financial statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City’s finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City’s financial status as a whole.

The two government-wide statements report the City’s net position and how it has changed. Net position is the difference between the City’s total assets and total liabilities. Measuring net position is one way to gauge the City’s financial condition.

The governmental activities include most of the City’s basic services such as public safety, road maintenance and administration. Property taxes, sales tax, charges for services and state aid finance most of these activities.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a group of self-balancing accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in New York, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the New York State General Municipal Law and local finance law or the City's budget ordinance. All of the funds of the City are classified as governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in reconciliations that are a part of the fund financial statements.

Fiduciary Funds – The City acts in an agency capacity for assets that are ultimately transferred to others, such as guarantee and bid deposits. These funds are excluded from the government-wide financial statements because the City cannot use these assets to finance operations.

The City adopts an annual budget for certain funds as required by municipal law. The budget is a legally adopted document that incorporates input from the citizens and management of the City, and the decisions of City Council about which services to provide and how to pay for them. It also authorizes management to obtain funds from identified sources to finance these current period activities. The budgetary comparison demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The schedule shows four columns: 1) the original budget as adopted by City Council; 2) the final budget as amended by City Council; 3) the actual revenues, expenditures and ending balances; and 4) the variance between the final budget and actual revenues and expenditures. The schedule is presented as required supplementary information.

Notes to the Financial Statements

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS
GOVERNMENTAL ACTIVITIES
NET POSITION**

	2019	2018	\$	%
		Reclassified	Change	Change
Current Assets	\$ 68,582,762	\$ 68,145,555	\$ 437,207	0.64%
Capital Assets	114,327,330	110,477,370	3,849,960	3.48%
Total Assets	182,910,092	178,622,925	4,287,167	2.40%
Deferred Outflows of Resources	13,286,930	10,984,813	2,302,117	20.96%
Current Liabilities	37,236,895	36,772,123	464,772	1.26%
Long-Term Liabilities	188,204,335	183,667,165	4,537,170	2.47%
Total Liabilities	225,441,230	220,439,288	5,001,942	2.27%
Deferred Inflows of Resources	27,543,711	23,862,819	3,680,892	15.43%
Net Position:				
Net Investment in Capital Assets	22,035,012	19,737,921	2,297,091	11.64%
Restricted	5,309,303	2,047,131	3,262,172	159.35%
Unrestricted	(84,132,234)	(76,479,421)	(7,652,813)	-10.01%
Total Net Position	\$ (56,787,919)	\$(54,694,369)	\$ (2,093,550)	-3.83%

Management’s Explanation of Changes:

Total assets increased by over \$4.2 million, primarily resulting from the City’s capital projects’ activities. The City spent more than \$7.6 million in construction and related improvements, financed by issuing net new borrowings by a total of \$5.3 million and grants. Significant other changes to the City’s liabilities include an increase in its Other Postemployment Benefit Liability by nearly \$2.6 million and bond principal payments of \$4.1 million. The decrease in net position represents the results of this year’s activities. Certain items in the 2018 categories of net position have been reclassified to conform to this year’s presentation.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS
GOVERNMENTAL ACTIVITIES
CHANGES IN NET POSITION**

	2019		2018		\$	%
		%	Reclassified	%	Change	Change
Revenues:						
Program Revenues:						
Charges for Services	\$ 15,804,506	27.59%	\$ 15,568,649	26.13%	\$ 235,857	1.51%
Operating and Capital Grants	6,522,879	11.40%	9,228,425	15.49%	(2,705,546)	-29.32%
General Revenues:						
Property Taxes	20,369,284	35.58%	19,738,697	33.14%	630,587	3.19%
Other Taxes	1,048,615	1.83%	670,477	1.13%	378,139	56.40%
Use of money and property	644,629	1.13%	719,700	1.21%	(75,071)	-10.43%
Non-property taxes	11,509,197	20.10%	11,041,226	18.53%	467,971	4.24%
State and Other Aid	-	0.00%	1,423,449	2.39%	(1,423,449)	-100.00%
Insurance recoveries	811,096	1.42%	210,121	0.35%	600,975	286.01%
Other Revenues	549,462	0.96%	968,279	1.63%	(418,817)	-43.25%
Total Revenues	<u>57,259,668</u>	<u>100.00%</u>	<u>59,569,023</u>	<u>100.00%</u>	<u>(2,309,355)</u>	<u>-3.88%</u>
Expenses:						
General Government Support	9,278,105	15.63%	9,611,842	17.06%	(333,737)	-3.47%
Public Safety	24,227,165	40.82%	23,254,256	41.27%	972,909	4.18%
Transportation	3,981,640	6.71%	4,345,222	7.71%	(363,582)	-8.37%
Economic Assistance	1,564,815	2.64%	718,613	1.28%	846,202	117.75%
Culture and Recreation	3,654,023	6.16%	3,867,550	6.86%	(213,527)	-5.52%
Home and Community Service	14,708,064	24.78%	11,924,208	21.16%	2,783,856	23.35%
Interest on Long Term Debt	1,939,406	3.27%	2,626,447	4.66%	(687,041)	-26.16%
Total Expenses	<u>59,353,218</u>	<u>100.00%</u>	<u>56,348,138</u>	<u>100.00%</u>	<u>3,005,080</u>	<u>5.33%</u>
Increase/(Decrease) in Net Position	<u>\$ (2,093,550)</u>		<u>\$ 3,220,885</u>		<u>\$ (5,314,435)</u>	<u>-165.00%</u>

Management's Explanation of Changes:

In 2019, revenues decreased and expenses increased, resulting in the change from an increase in net position for 2018 to a decrease in net position for 2019. In general, the decrease in revenues resulted from a decrease in grant funding. Expenses increased due to the settlement of the CSEA union contract and an increase in benefit costs, primarily future health costs (OPEB). Certain items in the 2018 revenue categories have been reclassified to conform to this year's presentation.

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

Governmental Funds Financial Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the year.

The General Fund is the chief operating fund of the City. At the end of the current year, the unassigned fund balance of the General Fund was \$10,628,040. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 26.2 percent of total General Fund expenditures.

At December 31, 2019, the governmental funds of the City reported a combined fund balance of \$13,508,216, a 9.9 percent decrease from the prior year end. Included in this change in fund balance are decreases in the General, Water, Sewer, and Capital Projects Funds and increases in the Community Development, Debt Service, and Non-Major Governmental Funds.

General Fund Budgetary Highlights: During the year, the City revised the General Fund budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital Assets: The City's investment in capital assets for its governmental activities as of December 31, 2019 totaled \$114,327,330 (net of accumulated depreciation). These assets include land, buildings, improvements, machinery & equipment, infrastructure and construction-in-progress.

Debt: As of December 31, 2019, the City had total debt outstanding for its governmental activities of \$93,082,230. The debt is backed by the full faith and credit of the City. The City's debt increased by \$1,223,781 during the 2019 year, due to issuing additional Bond Anticipation Notes ("BANs") and a Serial Bond.

For more detailed information on capital assets and long-term debt, see the notes to the basic financial statements.

**CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	<u>Primary Government</u>		<u>Component</u>
	Governmental		Units
	Activities		
ASSETS			
Cash and Cash Equivalents	\$ 34,610,661	\$	201,630
Restricted Cash	5,056,595		-
Investments	112,933		-
Receivables (net)	6,857,002		10,000
Mortgage Loans Receivable	3,138,000		92,900
Due from Fiduciary Fund	6,324		-
Due from Other Governments	3,172,748		-
State and Federal Receivable	14,456,143		-
Prepaid Expenses	1,172,356		-
	<u>68,582,762</u>		<u>304,530</u>
Capital Assets, not being depreciated	23,720,555		326,942
Capital Assets being depreciated - net	90,606,775		-
Total Capital Assets, net (Note V)	<u>114,327,330</u>		<u>326,942</u>
Total Assets	<u>182,910,092</u>		<u>631,472</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension (Note VI)	6,995,589		-
OPEB (Note VII)	6,291,341		-
Total Deferred Outflows of Resources	<u>13,286,930</u>		<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>196,197,022</u>		<u>631,472</u>

See accompanying notes to basic financial statements.

**CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF NET POSITION - CONTINUED
DECEMBER 31, 2019**

	<u>Primary Government</u>	
	Governmental Activities	Component Units
LIABILITIES		
Accounts Payable	\$ 1,870,852	\$ 3,033
Accrued Liabilities	1,612,275	-
Other Liabilities	-	326,283
Due to Fiduciary Fund	254,785	-
Due to Other Governments	1,302,914	50,000
Bond Anticipation Notes (Note IX)	32,114,643	-
Service Award Liability (Note VIII)	81,426	-
Non-current liabilities:		
Due and Payable Within One Year:		
Bonds Payable (Note X)	2,775,820	-
Claims Payable (Note X)	148,000	-
Energy Performance Contract Payable (Note X)	796,814	-
Loans Payable (Note X)	142,000	-
Due and Payable More Than One Year:		
Bonds Payable (Note X)	46,643,661	-
Energy Performance Contract Payable (Note X)	9,961,380	-
Loans Payable (Note X)	835,000	-
Claims Payable (Note X)	5,134,706	-
Compensated Absences (Note X)	2,942,975	-
Net Pension Liability - ERS (Note VI)	1,904,952	-
Net Pension Liability - PFRS (Note VI)	5,097,594	-
Other Postemployment Benefits (Note VII)	111,821,433	-
Total Liabilities	<u>225,441,230</u>	<u>379,316</u>
DEFERRED INFLOWS OF RESOURCES		
Pension (Note VI)	3,383,930	-
Other Postemployment Benefits (Note VII)	11,593,521	-
Other	12,566,260	102,900
Total Deferred Inflows of Resources	<u>27,543,711</u>	<u>102,900</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>252,984,941</u>	<u>482,216</u>
NET POSITION		
Net Investment in Capital Assets	22,035,012	-
Restricted	5,309,303	-
Unrestricted	(84,132,234)	149,256
TOTAL NET POSITION	<u>\$ (56,787,919)</u>	<u>\$ 149,256</u>

See accompanying notes to basic financial statements.

**CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Revenues				Net (Expense)/Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
<u>FUNCTIONS/PROGRAMS</u>						
Primary Government:						
Governmental Activities:						
General Government	\$ 9,278,105	\$ 1,006,090	\$ 2,747,299	\$ -	\$ (5,524,716)	\$ -
Public Safety	24,227,165	75,407	60,901	551,984	(23,538,873)	-
Transportation	3,981,640	-	33,030	739,568	(3,209,042)	-
Economic Assistance and Opportunity	1,564,815	324,200	-	1,596,952	356,337	-
Culture and Recreation	3,654,023	647,087	39,664	-	(2,967,272)	-
Home and Community Services	14,708,064	13,751,722	291,775	461,706	(202,861)	-
Debt Interest	1,939,406	-	-	-	(1,939,406)	-
Total Primary Government	<u>\$ 59,353,218</u>	<u>\$ 15,804,506</u>	<u>\$ 3,172,669</u>	<u>\$ 3,350,210</u>	<u>(37,025,833)</u>	<u>-</u>
Component Units:						
Industrial Development Agency	\$ 8,009	\$ 19,630	\$ -	\$ -	-	11,621
Community Development Agency	313,273	363,923	-	-	-	50,650
Total Component Units	<u>\$ 321,282</u>	<u>\$ 383,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>62,271</u>
General Revenues:						
Real Property Taxes					19,562,424	-
Real Property Tax Items					806,860	-
Non Property Tax Items					11,509,197	-
Utility Taxes and Franchise Fees					803,911	-
Use of Money and Property					644,629	149
Fees, Fines, and Licenses					244,704	-
Sale of Property and Compensation for Loss					811,096	-
Miscellaneous					549,462	-
Total General Revenues					<u>34,932,283</u>	<u>149</u>
Change in Net Position					(2,093,550)	62,420
Net Position - Beginning					(54,694,369)	86,836
Net Position - Ending					<u>\$ (56,787,919)</u>	<u>\$ 149,256</u>

See accompanying notes to the financial statements.

**CITY OF MIDDLETOWN, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General Fund	Community Development Fund	Water Fund	Sewer Fund	Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Cash Equivalents	\$ 7,092,252	\$ 561,339	\$ 1,043,233	\$ 704,362	\$ 24,191,325	\$ 921,643	\$ 96,507	\$ 34,610,661
Restricted Cash	-	-	90,129	-	4,966,466	-	-	5,056,595
Investments	112,933	-	-	-	-	-	-	112,933
Receivables:								
Taxes	2,099,419	-	-	-	-	-	-	2,099,419
Charges for Services	-	-	2,029,787	1,431,818	-	-	-	3,461,605
Other	415,192	-	-	-	-	-	-	415,192
Mortgage Loans Receivable	1,145,278	1,992,722	-	-	-	-	-	3,138,000
Due from Other Funds (Note IV)	3,402,425	1,169	368,162	1,189,076	283	4,697,257	10,490	9,668,862
Due from Other Governments	2,978,426	-	188,094	-	-	-	6,228	3,172,748
State and Federal Receivable	552,348	28,925	-	-	13,874,870	-	-	14,456,143
Prepaid Expenses	781,339	219,450	62,397	50,789	56,345	-	2,036	1,172,356
Total Assets	\$ 18,579,612	\$ 2,803,605	\$ 3,781,802	\$ 3,376,045	\$ 43,089,289	\$ 5,618,900	\$ 115,261	\$ 77,364,514
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE								
LIABILITIES								
Accounts Payable	\$ 682,612	\$ 5,698	\$ 169,750	\$ 354,854	\$ 656,167	\$ -	\$ 1,771	\$ 1,870,852
Accrued Liabilities	642,169	-	92,896	43,286	246,341	-	3,900	1,028,592
Bond Anticipation Notes Payable (Note IX)	-	-	-	-	31,927,555	-	-	31,927,555
Due to Other Funds (Note IV)	646,853	45,739	1,086,775	1,329,934	6,797,371	-	10,651	9,917,323
Due to Other Governments	1,302,914	-	-	-	-	-	-	1,302,914
Total Liabilities	3,274,548	51,437	1,349,421	1,728,074	39,627,434	-	16,322	46,047,236
DEFERRED INFLOWS OF RESOURCES	3,548,375	1,992,722	-	-	12,080,877	187,088	-	17,809,062
FUND BALANCE								
Fund Balance (Deficit):								
Nonspendable	781,339	219,450	62,397	50,789	56,345	-	2,036	1,172,356
Restricted	189,056	-	153,781	-	4,966,466	-	-	5,309,303
Assigned Fund Balances:								
Assigned for Subsequent Year's Budget	158,254	-	46,841	178,101	-	-	-	383,196
Assigned for Fund Purposes	-	539,996	2,169,362	1,419,081	-	5,431,812	96,903	9,657,154
Unassigned	10,628,040	-	-	-	(13,641,833)	-	-	(3,013,793)
Total Fund Balance	11,756,689	759,446	2,432,381	1,647,971	(8,619,022)	5,431,812	98,939	13,508,216
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 18,579,612	\$ 2,803,605	\$ 3,781,802	\$ 3,376,045	\$ 43,089,289	\$ 5,618,900	\$ 115,261	\$ 77,364,514

See accompanying notes to the financial statements.

**CITY OF MIDDLETOWN, NEW YORK
RECONCILIATION OF THE TOTAL GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Total Governmental Funds	Long-Term Assets and Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
ASSETS				
Cash and Cash Equivalents	\$ 34,610,661	\$ -	\$ -	\$ 34,610,661
Restricted Cash	5,056,595	-	-	5,056,595
Investments	112,933	-	-	112,933
Receivables	5,976,216	880,786	-	6,857,002
Mortgage Loans Receivable	3,138,000	-	-	3,138,000
Due from Other Funds	9,668,862	-	(9,662,538)	6,324
Due from Other Governments	3,172,748	-	-	3,172,748
State and Federal Receivable	14,456,143	-	-	14,456,143
Prepaid Expenses	1,172,356	-	-	1,172,356
Capital Assets, Net	-	114,327,330	-	114,327,330
Deferred Outflows Pension	-	6,995,589	-	6,995,589
Deferred Outflows OPEB	-	6,291,341	-	6,291,341
Total Assets and Deferred Outflows	<u>\$ 77,364,514</u>	<u>\$ 128,495,046</u>	<u>\$ (9,662,538)</u>	<u>\$ 196,197,022</u>
LIABILITIES				
Accounts Payable	\$ 1,870,852	\$ -	\$ -	\$ 1,870,852
Accrued Liabilities	1,028,592	583,683	-	1,612,275
Bond Anticipation Notes Payable	31,927,555	187,088	-	32,114,643
Bonds Payable	-	49,419,481	-	49,419,481
Due to Other Funds	9,917,323	-	(9,662,538)	254,785
Due to Other Governments	1,302,914	-	-	1,302,914
Energy Performance Contract Payable (Note X)	-	10,758,194	-	10,758,194
Loans Payable	-	977,000	-	977,000
Judgments and Claims	-	5,282,706	-	5,282,706
Service Award Liability	-	81,426	-	81,426
Net Pension Liability - ERS	-	1,904,952	-	1,904,952
Net Pension Liability -PFRS	-	5,097,594	-	5,097,594
Compensated Absences	-	2,942,975	-	2,942,975
Other Postemployment Benefits	-	111,821,433	-	111,821,433
Deferred Inflows of Resources	17,809,062	(5,242,802)	-	12,566,260
Deferred Inflows of Resources Pension	-	3,383,930	-	3,383,930
Deferred Inflows of Resources OPEB	-	11,593,521	-	11,593,521
Total Liabilities and Deferred Inflows	<u>63,856,298</u>	<u>198,791,181</u>	<u>(9,662,538)</u>	<u>252,984,941</u>
Total Fund Balances	<u>13,508,216</u>	<u>(70,296,135)</u>	<u>-</u>	<u>(56,787,919)</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 77,364,514</u>	<u>\$ 128,495,046</u>	<u>\$ (9,662,538)</u>	<u>\$ 196,197,022</u>

See accompanying notes to the financial statements.

CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	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	\$ 19,519,402	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,519,402
Real Property Tax Items	806,860	-	-	-	-	-	-	806,860
Non-Property Taxes	11,792,968	-	-	-	-	-	-	11,792,968
Departmental Income	1,300,358	279,289	7,388,228	5,613,559	-	308,200	-	14,889,634
Intergovernmental Charges	609,483	-	-	-	-	-	-	609,483
Use of Money and Property	319,081	42,531	13,619	7,829	-	414,750	586	798,396
Licenses and Permits	317,689	-	15,235	1,900	-	-	-	334,824
Fines and Forfeitures	342,688	-	-	-	-	-	49,990	392,678
Sale of Property and Compensation for Loss	219,679	-	50	-	-	-	-	219,729
Miscellaneous	650,278	75	18,500	19,099	399,699	-	7,395	1,095,046
State Aid	3,317,151	-	291,775	-	2,910,574	-	33,030	6,552,530
Federal Aid	238,580	502,175	-	-	1,429,526	-	5,225	2,175,506
Total Revenues	39,434,217	824,070	7,727,407	5,642,387	4,739,799	722,950	96,226	59,187,056
Expenditures:								
General Government	5,377,535	-	807,053	466,116	31,143	-	-	6,681,847
Public Safety	12,211,850	-	-	-	1,090,000	-	45,417	13,347,267
Transportation	2,036,006	-	-	-	-	-	93,443	2,129,449
Economic Assistance and Opportunity	366,094	-	-	-	777,569	-	-	1,143,663
Culture and Recreation	2,230,942	-	-	-	555	-	-	2,231,497
Home and Community Services	2,432,175	544,873	2,748,234	3,384,142	330,879	-	-	9,440,303
Employee Benefits	13,450,316	76,569	955,907	694,819	-	-	20,534	15,198,145
Capital Outlay	335,269	-	51,345	243,440	7,645,993	-	-	8,276,047
Debt Service	1,262,344	-	740,832	106,230	-	4,026,925	-	6,136,331
Total Expenditures	39,702,531	621,442	5,303,371	4,894,747	9,876,139	4,026,925	159,394	64,584,549
Excess/(Deficiency) of Revenues Over Expenditures	(268,314)	202,628	2,424,036	747,640	(5,136,340)	(3,303,975)	(63,168)	(5,397,493)
Other Financing Sources/(Uses):								
BANs Redeemed from Appropriations	-	-	-	-	591,919	-	-	591,919
Proceeds from Obligations	-	-	-	-	3,324,481	-	-	3,324,481
Transfers In	1,281,000	-	-	275,136	14,875	4,026,925	77,010	5,674,946
Transfers Out	(984,461)	(185,061)	(2,514,385)	(1,715,903)	-	(275,136)	-	(5,674,946)
Total Other Financing Sources/(Uses)	296,539	(185,061)	(2,514,385)	(1,440,767)	3,931,275	3,751,789	77,010	3,916,400
Change in Fund Balances	28,225	17,567	(90,349)	(693,127)	(1,205,065)	447,814	13,842	(1,481,093)
Fund Balances - Beginning	11,728,464	741,879	2,522,730	2,341,098	(6,366,255)	3,936,296	85,097	14,989,309
Prior Period Adjustment (Note XIII)	-	-	-	-	(1,047,702)	1,047,702	-	-
Fund Balances - Restated	11,728,464	741,879	2,522,730	2,341,098	(7,413,957)	4,983,998	85,097	14,989,309
Fund Balances - Ending	\$ 11,756,689	\$ 759,446	\$ 2,432,381	\$ 1,647,971	\$ (8,619,022)	\$ 5,431,812	\$ 98,939	\$ 13,508,216

See accompanying notes to the financial statements.

CITY OF MIDDLETOWN, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2019

	Total Governmental Funds	Long-Term Revenue, Expenses	Capital Asset Transactions	Long-Term Debt Transactions	Reclassifications and Eliminations	Statement of Activities Totals
Revenues:						
Real Property Taxes	\$ 19,519,402	\$ 43,022	\$ -	\$ -	\$ -	\$ 19,562,424
Real Property Tax Items	806,860	-	-	-	-	806,860
Non Property Tax Items	11,792,968	-	-	-	-	11,792,968
Departmental Income	14,889,634	(269,443)	-	-	-	14,620,191
Intergovernmental Charges	609,483	-	-	-	-	609,483
Use of Money and Property	798,396	-	-	-	-	798,396
Licenses and Permits	334,824	-	-	-	-	334,824
Fines and Forfeitures	392,678	-	-	-	-	392,678
Sale of Property and Compensation for Loss	219,729	-	-	-	-	219,729
State Aid	6,552,530	(1,700,967)	-	-	-	4,851,563
Federal Aid	2,175,506	-	-	-	-	2,175,506
Miscellaneous	1,095,046	-	-	-	-	1,095,046
Total Revenues	59,187,056	(1,927,388)	-	-	-	57,259,668
Expenditures:						
General Government	6,681,847	(133,501)	396,750	-	2,333,009	9,278,105
Public Safety	13,347,267	(585,352)	906,039	-	10,559,211	24,227,165
Transportation	2,129,449	(61,616)	752,662	-	1,161,145	3,981,640
Economic Assistance and Opportunity	1,143,663	(20,539)	21,717	-	419,974	1,564,815
Culture and Recreation	2,231,497	(71,886)	155,703	-	1,338,709	3,654,023
Home and Community Services	9,440,303	(154,040)	2,193,216	-	3,228,585	14,708,064
Employee Benefits	15,198,145	3,842,488	-	-	(19,040,633)	-
Capital Outlay	8,276,047	-	(8,276,047)	-	-	-
Debt Service	6,136,331	(82,719)	-	(4,114,206)	-	1,939,406
Total Expenditures	64,584,549	2,732,835	(3,849,960)	(4,114,206)	-	59,353,218
Excess/(Deficiency) of Revenues Over Expenditures	(5,397,493)	(4,660,223)	3,849,960	4,114,206	-	(2,093,550)
Other Financing Sources/(Uses):						
BANS Redeemed from Appropriations	591,919	-	-	(591,919)	-	-
Proceeds from Obligations	3,324,481	-	-	(3,324,481)	-	-
Operating Transfers In	5,674,946	-	-	-	(5,674,946)	-
Operating Transfers Out	(5,674,946)	-	-	-	5,674,946	-
Total Other Financing Sources/(Uses)	3,916,400	-	-	(3,916,400)	-	-
Change in Fund Balances	\$ (1,481,093)	\$ (4,660,223)	\$ 3,849,960	\$ 197,806	\$ -	\$ (2,093,550)

See accompanying notes to the financial statements.

**CITY OF MIDDLETOWN, NEW YORK
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2019**

AGENCY FUNDS		
ASSETS		
Cash and Cash Equivalents	\$	754,622
Receivables		1,992
Due from General Fund		254,785
Total Assets	\$	1,011,399
LIABILITIES		
Due to Other Funds	\$	6,324
Escrow Funds Returnable and Other Liabilities		1,005,075
Total Liabilities	\$	1,011,399

See accompanying notes to the financial statements.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Middletown, New York (the "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 Common 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 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 the Governmental Accounting Standards Board (the "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 units are included in the City's reporting entity because of their operational or financial relationship with the City.

The Middletown Industrial Development Agency ("IDA") 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 IDA are appointed by the Common Council. IDA members have complete responsibility for management of the IDA and accountability for fiscal matters. The City is not liable for IDA bonds or notes. However, since the governing board of the IDA serves at the pleasure of the Common Council and, therefore, the primary government is considered to be able to impose its will on the IDA, the financial statements of the IDA 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 ("CDA") 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 CDA are appointed by the Common Council. CDA members have complete responsibility for management of the CDA and accountability for fiscal matters. The City is not liable for any CDA debt. However, since the governing board of the CDA serves at the pleasure of the Common Council and, therefore, the primary government is considered to be able to impose its will on the CDA, the financial statements of the CDA 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.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America for governmental units as established by the GASB. The notes to the financial statements are an integral part of the statements and are intended to be read with them.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenue.

The statement of activities demonstrates the degree to which the 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, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for the governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another 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.

The *Debt Service Fund* is provided to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and for financial resources that are being accumulated for principal and interest maturing in future years.

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.
- *Police Block Grant and Drug Seizure Funds* - The Police Block Grant and Drug Seizure Funds are used to account for the proceeds and use of police grants and drug seizures.

Fiduciary Funds are used to report assets which are held in a trust or agency capacity for others and are, therefore, not available to support City programs.

D. Component Units

The component units are presented on the basis of accounting that most accurately reflects its activities. The component units are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. The year-end for both component units is December 31.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of other postemployment benefits, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

F. Budgetary Data

The City's budget policies are as follows:

1. 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, Community Development, 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.
2. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all funds. Encumbrances are reported as assignments of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

G. Property Taxes

City real property taxes are levied annually on January 15 and become a lien on that date. Taxes are collected during the period February 1 to February 15 at face value and from February 16 to December 1 with interest added. 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.

H. Cash and Investments

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. The City's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The City is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

I. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material. All receivables recorded in the governmental fund balance sheet are expected to be collected within sixty days of year end.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Due To/From Other Funds

Amounts due to and due from within the same fund type have been eliminated in the Government-wide statements. See Note IV for a schedule detailing the interfund balances.

K. Inventories and Prepaid Items

Purchases of inventorable items are recorded as expenditures in the Governmental Funds at the time of purchase. Inventory-type items are considered immaterial and, consequently, are not provided in the Government-wide statements.

Prepaid items represent payments made by the City for which benefits extend beyond year end.

L. Capital Assets

Capital assets are reported at historical cost. The City depreciates capital assets using the straight line method over the estimated useful lives of the assets. Capitalization thresholds and estimated lives of assets reported in the Government-wide statements are as follows:

<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

M. Infrastructure

The City includes long-lived improvements to roads, property, and water systems as capital assets in the Government-wide statements. Infrastructure is reported at historical cost and is depreciated using the straight-line method over the estimated useful lives.

N. Vested Employee Benefits

City employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee may be entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. A liability for accrued vacation and sick time is reflected in the Government-wide statements under the heading “Compensated Absences.” See Note X.

The City’s employees participate in the New York State Employees’ Retirement System and New York State Police and Fire Retirement System. See Note VI.

In addition to providing pension benefits, the City provides health insurance coverage for retired employees. Substantially all of the City’s employees may become eligible for these benefits if they reach normal retirement age while working for the City and have at least 20 years of service. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year for the City. The City recognizes the cost of providing benefits by recording its share of insurance premiums as a governmental fund expenditure in the year paid. See Note VII.

O. Unemployment Insurance

City employees are covered by unemployment insurance. The City has chosen to discharge its liability to the New York State Unemployment Insurance Fund by means of the benefit reimbursement method. This is a dollar-for-dollar reimbursement to the Unemployment Insurance Fund for the benefits paid to former employees and charged to the City’s account. The City is exempt from federal unemployment insurance tax.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

P. Risk Retention

The City assumes the liability for most risk including, but not limited to, property damage and personal injury liability. The City purchases commercial insurance to mitigate these risks, subject to certain deductibles. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Q. Equity Classification

1. Government-wide Statements

Equity is defined as net position and displayed in three components:

- Net Investment in Capital Assets

Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- Restricted Net Position

Consists of net assets with constraints placed on the use either by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

- Unrestricted Net Position

The remaining portion of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

2. Fund Financial Statements

Equity is defined as fund balance and displayed in five fund balance classifications, which are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in the governmental funds:

Non-spendable:

Amounts that cannot be spent in the current period either because of their form or because they must be maintained intact. Prepaid expenses are non-spendable assets because, by definition, the money has already been spent.

Restricted:

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.

Various New York State statutes allow local governments to establish reserve funds for various purposes. Since the State regulates the establishment, funding and use of these reserves, the City has classified its reserve funds as restricted fund balance.

Committed:

Amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority (the Common Council) before the end of the year. The same level of formal action is required to remove the constraint.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Q. Equity Classification - Continued

2. Fund Financial Statements - Continued

Assigned:

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 its designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.

Unassigned:

Represents the residual amount of fund balance in the General Fund. In funds other than the General Fund, this classification should only be used to report a deficit balance.

3. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is the City's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements. Similarly, when an expenditure is incurred for which multiple classifications of fund balance are available the City's policy is to apply fund balance in the following order: restricted, committed, assigned, unassigned.

R. Interfund Transfers

The operations of the City give rise to certain transactions between funds, including transfers to provide services and construct assets. Interfund transfers within fund categories are eliminated for the Statement of Activities. A detailed description of the individual fund transfers that occurred during the year is provided in Note IV.

S. Subsequent Events

Management has evaluated subsequent events from December 31, 2019, through August 6, 2020, the date on which the financial statements were available to be issued.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The differences result primarily from the economic focus of the government-wide statements, compared with the current financial resources focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the City’s governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the Governmental Funds Balance Sheet.

The basic financial statements contain a detailed reconciliation of the items creating the differences between fund balance reported in the Governmental Funds Balance Sheet and Net Position reported on the Statement of Net Position.

- (1) The costs of building and acquiring capital assets (land, infrastructure, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the City as a whole, with their original costs capitalized and depreciation expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 183,803,217
Accumulated Depreciation	<u>(69,475,887)</u>
Capital Assets, Net	<u><u>\$ 114,327,330</u></u>

- (2) Long-term accounts receivable and interest payable are recognized in the government-wide statements under full accrual accounting; however, no accrual is recognized in the governmental fund statements for long-term receivables or interest that was not paid from current financial resources.

Accounts Receivable Adjustment	\$ 880,786
Interest Payable at December 31, 2019	<u>(583,682)</u>
	<u><u>\$ 297,104</u></u>

- (3) The governmental funds do not include long-term liabilities because they are not due and payable in the current period. However, these liabilities are reported in the Statement of Net Position because they represent economic liabilities. Balances at year end were:

Bonds Payable	\$ (49,419,481)
Loans Payable	(977,000)
BAN Premium	(187,088)
Compensated Absences Payable	(2,942,975)
Energy Performance Contract Payable	(10,758,194)
ERS & PFRS Pension Liability-Proportionate Share	(7,002,546)
Judgments and Claims	(5,282,706)
Service Award Liability	(81,426)
Other Postemployment Benefits	<u>(111,821,433)</u>
	<u><u>\$ (188,472,849)</u></u>

- (4) Deferred outflows and inflows related to pensions, other post-retirement benefits, grants, taxes and bond premiums are reported on the accrual basis in the Statement of Net Position, but on the modified accrual basis in the governmental funds. The adjustments between the two bases were:

Deferred Outflows of Resources	\$ 13,286,930
Deferred Inflows of Resources	<u>(9,734,649)</u>
	<u><u>\$ 3,552,281</u></u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities

Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories:

- Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds use a current financial resource measurement focus, whereas the Statement of Activities uses an economic resource measurement focus.
- Capital asset transaction differences include the difference between recording an expenditure for the purchase of capital assets in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.
- Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements when paid, whereas interest payments are recorded in the Statement of Activities as incurred and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

The basic financial statements contain a detailed reconciliation of the items creating the differences between the change in fund balance reported in the governmental fund statements and the change in net position reported in the Statement of Activities.

Total Revenues and Other Funding Sources

Total revenues reported in governmental funds	\$	59,187,056
Recognition of deferred property taxes and utility charges		43,022
Adjustment for revenue previously deferred at the fund level		(269,443)
Adjustment for grant revenue previously deferred at the fund level		(1,700,967)
Total revenues reported in the Statement of Activities	\$	57,259,668

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities

Total expenditures reported in governmental funds	\$ 64,584,549
In the Statement of Activities, certain operating expenses (workers compensation claims) are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.) This is the amount by which the liability for judgment and claims decreased during the year.	(1,026,934)
In the Statement of Activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.) This is the amount by which the liability for compensated absences increased during the year.	22,487
In the Statement of Activities, the expenses for other postemployment benefits are measured based on the actuarially determined annual required contribution (the "ARC") of the City. In the governmental funds, however, these expenditures are measured by the amount of financial resources used (essentially the amounts paid). This is the amount by which the ARC exceeded the amount of financial resources used during the year.	2,985,358
In the Statement of Activities, pension expense related to ERS and PFRS defined benefit plans is measured as the change in the City's proportionate shares of the net pension assets and liabilities as of the measurement dates for each plan. In the governmental funds however, these expenditures are recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. This is the amount by which pension expense was less than the amount of financial resources expended during the year.	834,643
Interest payable is recognized in the government-wide statements under full accrual accounting whereas it is recognized when paid in the governmental fund statements. This is the amount by which interest payable for the current year exceeds the interest payable for the prior year.	(82,719)
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 expenditures of \$8,276,047 exceeded depreciation expense of \$4,426,087 in the current year.	(3,849,960)
Repayment of principal is an expenditure in the governmental funds but reduces the long-term liability in the Statement of Net Position and does not affect the Statement of Activities. Interest payable is recognized in the government-wide statements under full accrual accounting. Interest is recognized when paid in the governmental fund statements.	(4,114,206)
Total expenses reported in the Statement of Activities	<u>\$ 59,353,218</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

III. CASH AND CASH EQUIVALENTS

At December 31, 2019, the carrying amount of the City’s cash and cash equivalents (cash, certificates of deposit and interest-bearing savings accounts) was \$40,420,428 and the related depository balances was \$41,752,213. In addition, the City maintained \$1,450 in cash on hand. Restricted cash included \$4,966,466 of unspent bond proceeds held by the Environmental Facilities Corporation. The City’s bank deposits at December 31, 2019, and during the year then ended, were entirely covered by FDIC Insurance or by pledged collateral held by the City’s agent bank in the City’s name.

IV. INTERFUND ACTIVITY

Interfund receivables and payables at December 31, 2019 were as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 3,402,425	\$ 646,853
Capital Projects	283	6,797,371
Community Development	1,169	45,739
Water	368,162	1,086,775
Sewer	1,189,076	1,329,934
Debt Service	4,697,257	-
Non-Major Governmental	10,490	10,651
Governmental Funds	9,668,862	9,917,323
Trust and Agency	254,785	6,324
TOTALS	<u><u>\$ 9,923,647</u></u>	<u><u>\$ 9,923,647</u></u>

Interfund revenues and expenditures at December 31, 2019 were as follows:

	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General	\$ 1,281,000	\$ 984,461
Capital Projects	14,875	-
Community Development	-	185,061
Water	-	2,514,385
Sewer	275,136	1,715,903
Debt Service	4,026,925	275,136
Non-Major Governmental	77,010	-
TOTALS	<u><u>\$ 5,674,946</u></u>	<u><u>\$ 5,674,946</u></u>

Interfund transfers were made for the following purposes:

- Principal and interest on debt
- Operating subsidies

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

V. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2019 were as follows:

	BALANCE JANUARY 1, 2019	ADDITIONS	(DISPOSALS)	RECLASS- IFICATIONS	BALANCE DECEMBER 31, 2019
Governmental Activities:					
Capital Assets, not being depreciated					
Land	\$ 5,784,728	\$ -	\$ -		\$ 5,784,728
Construction-in-progress	24,436,484	3,812,401	-	(10,313,058)	17,935,827
Total Capital Assets, not being depreciated	<u>30,221,212</u>	<u>3,812,401</u>	<u>-</u>	<u>(10,313,058)</u>	<u>23,720,555</u>
Capital Assets, being depreciated					
Buildings and Improvements	74,913,904	-	-	-	74,913,904
Improvements other than buildings	4,911,322	-	-	-	4,911,322
Infrastructure	36,504,761	1,301,409	-	10,313,058	48,119,228
Machinery and Equipment	31,636,714	3,162,237	(2,660,743)	-	32,138,208
Total Capital Assets being depreciated	<u>147,966,701</u>	<u>4,463,646</u>	<u>(2,660,743)</u>	<u>10,313,058</u>	<u>160,082,662</u>
Accumulated Depreciation for:					
Buildings and Improvements	(24,912,975)	(1,801,581)	-	-	(26,714,556)
Improvements other than buildings	(4,034,005)	(439,577)	-	-	(4,473,582)
Infrastructures	(12,437,277)	(1,155,587)	-	-	(13,592,864)
Machinery and Equipment	(26,326,286)	(1,029,342)	2,660,743	-	(24,694,885)
Total Accumulated Depreciation	<u>(67,710,543)</u>	<u>(4,426,087)</u>	<u>2,660,743</u>	<u>-</u>	<u>(69,475,887)</u>
Total Capital Assets being depreciated, net	<u>80,256,158</u>	<u>37,559</u>	<u>-</u>	<u>10,313,058</u>	<u>90,606,775</u>
Governmental Activities					
Capital Assets, net	<u>\$ 110,477,370</u>	<u>\$ 3,849,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,327,330</u>

Depreciation expense was charged to functional programs of the City as follows:

General Government	\$ 396,750
Public Safety	906,039
Transportation	752,662
Economic Assistance & Opportunity	21,717
Culture & Recreation	155,703
Home & Community Services	2,193,216
	<u>\$ 4,426,087</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VI. PENSION PLANS

Plan Description

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”). These are cost-sharing multiple-employer retirement systems (“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, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

The Systems are noncontributory except for Tier 3, 4, 5 and 6 employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976, who contribute 3% to 6% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of member payroll and employer contributions, used in computing the contributions required to be made by employers to the pension accumulation fund. An Eligible Tier 3 or 4 member with ten or more years of membership, or ten years credited service, will not be required to contribute to the Retirement System. Tier 5 and 6 members must continue to contribute throughout their employment.

The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

Plan Year Ending March 31	<i>ERS</i>	<i>PFRS</i>
2020	\$ 1,348,365	\$ 2,103,576
2019	\$ 1,224,242	\$ 2,231,792
2018	\$ 1,257,584	\$ 2,149,597

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

At December 31, 2019, the City reported liabilities of \$1,904,952 and \$5,097,594 for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of March 31, 2019 for ERS and PFRS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the Systems relative to the projected contributions of all participating members, as actuarially determined. This information was provided to the City by the ERS and PFRS Systems.

At March 31, 2019, the City's proportion of the ERS net pension liability was .02688600%. At March 31, 2018, the City’s proportion of the ERS net pension liability was .02797100%.

At March 31, 2019, the City’s proportion of the PFRS net pension liability was .30395960%. At March 31, 2018, the City’s proportion of the PFRS net pension liability was .29151070%.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VI. PENSION PLANS – CONTINUED

For the year ended December 31, 2019 the City recognized pension expense of \$1,334,132 for ERS and \$2,953,474 for PFRS. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

	Deferred Outflows of Resources		
	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
Differences between expected and actual experience	\$ 375,125	\$ 1,238,347	\$ 1,613,472
Changes of assumptions	478,827	1,852,092	2,330,919
Changes in proportion and difference between the City's contributions and proportionate share of contributions	304,136	158,106	462,242
City's contributions subsequent to the measurement date	1,011,274	1,577,682	2,588,956
Total	\$ 2,169,362	\$ 4,826,227	\$ 6,995,589

	Deferred Inflows of Resources		
	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
Differences between expected and actual experience	\$ 127,876	\$ 544,252	\$ 672,128
Net difference between projected and actual earnings on pension plan investments	488,916	1,020,924	1,509,840
Changes in proportion and difference between the City's contributions and proportionate share of contributions	104,398	1,097,564	1,201,962
Total	\$ 721,190	\$ 2,662,740	\$ 3,383,930

The City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>ERS</u>	<u>PFRS</u>
2020	\$ 468,017	\$ 633,400
2021	(324,569)	(446,347)
2022	14,309	(155,417)
2023	279,141	481,717
2024	-	72,452
	<u>\$ 436,898</u>	<u>\$ 585,805</u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VI. PENSION PLANS – CONTINUED

Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date.

Significant actuarial assumptions used in the valuations were as follows:

	ERS	PFRS
Measurement Date	March 31, 2019	March 31, 2019
Investment Rate of Return	7.00% compounded annually net of investment expense	7.00% compounded annually net of investment expense
Projected Salary Increases	4.2%	5.0%
Cost of Living Adjustments	1.3% Annually	1.3% Annually
Decrement Tables	April 1, 2010 - March 31, 2015 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation Rate	2.50%	2.50%
Mortality Improvement	Society of Actuaries Scale MP - 2014	Society of Actuaries Scale MP - 2014

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 by each of the target asset allocation percentages and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for both retirement systems are summarized below:

Measurement Date	ERS and PFRS	
	March 31, 2019	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	36%	4.55%
International equity	14%	6.35%
Private equity	10%	7.50%
Real estate	10%	5.55%
Absolute return strategies	2%	3.75%
Opportunistic portfolio	3%	5.68%
Real assets	3%	5.29%
Bonds and mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-indexed bonds	4%	1.25%
Total	<u>100%</u>	

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VI. PENSION PLANS – CONTINUED

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.0% for PFRS. 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. Based upon the 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.

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 ERS and PFRS net pension liabilities calculated using the discount rates referred to above, as well as what the City's proportionate share of each net pension asset/(liability) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate referred to above:

ERS	1% Decrease 6.00%	Current Assumption 7.00%	1% Increase 8.00%
Employer's Proportionate Share of the Net Pension Asset/(Liability)	\$ (8,328,756)	\$ (1,904,952)	\$ 3,491,498
PFRS	1% Decrease 6.00%	Current Assumption 7.00%	1% Increase 8.00%
Employer's Proportionate Share of the Net Pension Asset/(Liability)	\$(18,421,944)	\$ (5,097,594)	\$ 6,029,784

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2019, were as follows:

	Dollars in Thousands	
	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>
Employers' total pension liability	\$ (189,803,429)	\$ (34,128,100)
Plan net position	182,718,124	32,451,037
Employers' net pension liability	<u>\$ (7,085,305)</u>	<u>\$ (1,677,063)</u>
Ratio of plan net position to the employers' total pension liability	96.27%	95.09%

Prepaid Contributions to the Pension Plan

For ERS, employer contributions for the plan year ended March 31, 2020 were paid to the System in December 2019. Prepaid retirement contributions as of December 31, 2019 amounted to \$337,091.

For PFRS, employer contributions for the plan year ended March 31, 2020 were paid to the System in December 2019. Prepaid retirement contributions as of December 31, 2019 amounted to \$525,894.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VII. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City provides postemployment health insurance coverage to retired employees through a self-administered single employer plan in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the City's contractual agreements. A trust that meets the criteria in paragraph 4 of GASB Statement 75 has not been established.

Benefits Provided

The City's OPEB plan subsidizes the cost of healthcare to eligible retired employees and their spouses and dependent children. Eligibility is based on the respective rules of the New York State and Local Employees Retirement System as well as the provisions of the City's agreements with its employees. The following eligibility rules current apply to the City's employees:

Group	Age	Years of Service
Management/CSEA	55	10
Police/Fire	No requirement	20

Benefits Provided

Medical and prescription drug benefits are offered to retirees on a City-subsidized basis. Upon attaining age 65 or upon disability retirement, Medicare (Parts A and B) becomes the primary provider for hospital insurance and supplementary medical insurance, with the City's plan providing an additional layer of coverage. The City reimburses Medicare Part B premiums for retirees and their spouses, but not those of surviving spouses after the first year.

The benefit terms are dependent on which contract covers each employee. Contribution rates for new retirees are as follows:

Group	Provider Options	Age	City Contributions (Fixed)		Reimburse Part B Premium		
			Individual	Family	Individual	Spouse	Surviving Spouse
Management, CSEA, Police, and Fire	NYSHIP	Under 65	\$ 1,043	\$ 1,728	Y	Y	Y
		Over 65	\$ 403	\$ 769	Y	Y	Y

The City's contribution is equivalent to the portion of health insurance premiums paid that are allocated to retirees, estimated to be \$3,005,735 during the year ended December 31, 2019.

Employees Covered by Benefit Terms

At December 31, 2019, the following employees were covered by benefit terms:

Active employees	236
Retired	206
Total employees covered by benefit terms	<u>442</u>

Total OPEB Liability

The City obtained an actuarial valuation report as of December 31, 2019. The liability for other postemployment benefits was measured as of December 31, 2019 and totaled \$111,821,433.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VII. OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	3.00%
Projected Salary Increases, Including Wage Inflation	3.00%
Discount Rate	3.26%
Healthcare Cost Trend Rates	<p style="margin-left: 40px;">Pre-65: 8% for pharmacy, medical, dental and vision for 2019, reduced incrementally to an ultimate rate of 5% after 10 years</p> <p style="margin-left: 40px;">Post-65: Same</p>
Current Retiree's Share of Benefit Related Costs	Retirees pay based on specific cost sharing agreement
Future Retiree's Share of Benefit Related Costs	Retirees pay based on specific cost sharing agreement

- The discount rate was based on a review of the yield derived from the 20 Year High Grade Rate Index per S&P.
- Mortality Rates were based on RP-2014 mortality table experience with adjustments for mortality improvements based on the SOA Scale MP-2016.
- The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

Changes in the Total OPEB Liability during the year ended 12/31/19

Balance - Beginning	\$ 109,235,341
Changes for the Year:	
Service Cost	2,927,144
Interest	3,921,462
Difference between Expected and Actual Experience	(8,446,883)
Change in Assumptions	7,190,104
Benefit Payments	(3,005,735)
Net Changes	2,586,092
Balance - Ending	\$ 111,821,433

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VII. OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or higher than the current discount rate.

Sensitivity of the total OPEB Liability to Changes in the Discount Rate:

Sensitivity of the total OPEB Liability to Changes in the Discount Rate:			
	1% Decrease	Discount Rate	1% Increase
	2.26%	3.26%	4.26%
Total OPEB Liability	\$ 130,744,240	\$ 111,821,433	\$ 92,898,626

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or higher than the healthcare cost trend rate.

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trends:

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trends:			
	1% Decrease (7% decreasing to 4%)	Healthcare Cost Trend Rate (8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
Total OPEB Liability	\$ 92,300,399	\$ 111,821,433	\$ 135,204,018

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the City recognized OPEB expense of \$5,991,093. At December 31, 2019, the City reported the following deferred inflows of resources related to OPEB.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 11,593,521
Changes of Assumptions or other inputs	6,291,341	-
Total	\$ 6,291,341	\$ 11,593,521

City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2020. Other amounts recognized in the deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Year Ending December 31,	Amount
2020	\$ (857,513)
2021	(857,513)
2022	(857,513)
2023	(857,513)
2024	(857,513)
Thereafter	(1,014,615)
	\$ (5,302,180)

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VIII. FIRE SERVICE AWARDS PROGRAM

The City of Middletown established its defined contribution Service Award Program (referred to as a "LOSAP" - length of service award program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 2014 for the active volunteer firefighters of the Middletown Fire Department. The Program was established pursuant to Article 11-A of the New York State General Municipal Law. The Program provides municipally-funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteers. The City of Middletown ("Plan Sponsor") is the sponsor of the Program and the Program Administrator.

Under the Program, participating volunteers begin to be paid a service award upon attainment of the Program "entitlement age". The amount of the service award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the Program for performing active volunteer firefighter activities.

Participation, Vesting and Service Credit

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 attainment of entitlement age, upon death, or upon general disablement and after earning five years of service credit.

Benefits

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 Program. The Program also provides disability and death benefits.

Fiduciary Investment and Control

After the end of each calendar year, the fire department prepares and certifies a census listing of names of all persons who were active volunteer firefighters during the year and indicates which volunteers earned their year of service credit. The certified lists are delivered to the Council members for review and approval.

The City has retained Penflex, Inc. ("Penflex") to assist in the administration of the Program. The services provided by Penflex are described in the following paragraphs.

Based on the certified calendar year volunteer firefighter listings, Penflex determines and certifies in writing to the Council Members the amount of the service award to be paid to a participant or to a participant's designated beneficiary. As authorized by the City, Penflex then directs the paying agent to pay the service award. No service award benefit payment is made without the written certification from Penflex and written directive from the City.

Penflex bills the City of Middletown for the services it provides. Penflex invoices are authorized for payment by the Council members in the same manner as any other invoice presented to the City for payment. Penflex invoices are paid from the General Fund.

Article 11-A requires that Program assets be held in trust 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. The City created a Service Award Program Trust Fund through the adoption of a Trust Document, copies of which are available from Penflex.

Authority to invest the Program assets is vested in the Program Trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with the written investment policy statement adopted by the Council members.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

VIII. FIRE SERVICE AWARDS PROGRAM - CONTINUED

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. 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. The LOSAP investments are valued using level one inputs. The investments of the Program are accounted for in the General Fund and fund balance is restricted for this balance.

Receipts and Disbursements

Plan Net Position, January 1, 2019	\$	81,426
Changes During the Year:		
Plan Contributions (net of forfeitures)		22,530
Investment Income Earned		2,150
Realized and Unrealized Loss		13,858
Plan Administration Fees		(2,729)
Plan Benefit Withdrawals		<u>(4,302)</u>
Plan Net Position, December 31, 2019	\$	<u><u>112,933</u></u>

IX. SHORT-TERM DEBT

State law requires that Bond Anticipation Notes (“BANs”) issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The Schedule of Indebtedness includes a summary of the City’s outstanding bond anticipation notes as of December 31, 2019 totaling \$31,927,555.

Interest incurred on short-term debt during the year was as follows:

Interest Paid	\$	498,173
Less: Interest accrued - prior year		(161,189)
Plus: Interest accrued - current year		<u>132,990</u>
	\$	<u><u>469,974</u></u>

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

X. LONG-TERM DEBT

The City borrows money for various purposes, including acquiring land and equipment or constructing buildings and improvements. This borrowing enables the cost of these capital assets to be borne by the present and future taxpayers who benefit from the capital assets. The debt is backed by the full faith and credit of the City.

At December 31, 2019, the total long-term principal indebtedness outstanding of the City, including serial bonds, loans payable, and performance contract payable was \$61,154,675. See the Schedule of Indebtedness for details.

Interest incurred on long-term debt during the year was as follows:

Interest Paid	\$	1,523,953
Less: Interest accrued - prior year		(505,213)
Plus: Interest accrued - current year		450,692
		<u>450,692</u>
	<u>\$</u>	<u>1,469,432</u>

A. Energy Performance Contract Payable

The City, during 2016, entered into a \$12,546,493 contractual agreement to install energy saving equipment and/or to upgrade existing facilities to enhance performance. The agreement provides for semi-annual payments of \$509,657, 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. The principal and accrued interest balances were \$10,758,194 and \$97,938, respectively, at December 31, 2019.

B. Loans Payable

The Loans Payable represent advances 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 semi-annual installments, maturing through 2030.

Long-term liability balances and activity for the year are summarized below:

<u>FUND</u>	<u>Beginning Balance</u>	<u>Issued/ Earned</u>	<u>Redeemed/Pai d</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 48,695,000	\$ 3,324,481	\$ (2,600,000)	\$ 49,419,481	\$ 2,775,820
Energy Performance Contract Payable	11,538,481	-	(780,287)	10,758,194	796,814
Loans Payable	1,119,000	-	(142,000)	977,000	142,000
Other Non-current Liabilities					
Compensated Absences	2,920,488	22,487	-	2,942,975	-
Net Pension Liability	3,849,215	3,153,331	-	7,002,546	-
Claims Payable	6,309,640	-	(1,026,934)	5,282,706	148,000
Other Post Employment	109,235,341	2,586,092	-	111,821,433	-
Totals	<u>\$183,667,165</u>	<u>\$ 9,086,391</u>	<u>\$ (4,549,221)</u>	<u>\$188,204,335</u>	<u>\$ 3,862,634</u>

Activity for compensated absences is shown at net due to the impracticality of determining these amounts separately. Payments of compensated absences are dependent upon future factors and, therefore, the timing of such payments cannot be determined. Compensated absences are reflected as a long-term liability in the Statement of Net Position.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

X. LONG-TERM DEBT - CONTINUED

The following is a summary of the maturity of long-term indebtedness:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,714,634	\$ 1,910,146	\$ 5,624,780
2021	3,791,511	1,808,859	5,600,370
2022	3,253,746	1,702,447	4,956,193
2023	3,311,346	1,609,341	4,920,687
2024	3,113,319	1,520,239	4,633,558
2025-2029	16,255,792	6,212,212	22,468,004
2030-2034	13,492,146	3,801,966	17,294,112
2035-2039	11,134,100	1,430,236	12,564,336
2040-2044	2,534,100	127,750	2,661,850
2045-2049	553,981	-	553,981
	<u>\$ 61,154,675</u>	<u>\$ 20,123,196</u>	<u>\$ 81,277,871</u>

XI. CONTINGENCIES

Grant Funding

The City has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. Based on past audits, City administration believes disallowances, if any, will be immaterial.

Certiorari Proceedings

Open tax certiorari cases, which claim excessive assessed values, exist with several taxpayers. Claims allowed, if any, will result in a refund of property taxes previously collected by the City. Any such refunds resulting from adverse settlements will be provided for when determinable.

Authorized but Unissued Debt

The City currently has \$7,587,000,000 of authorized and unissued debt, including \$6,550,000 for water tank replacement, \$660,000 for CR108/78 round-a-bout and \$377,000 for the Black Dirt sewer line.

On July 16, 2019, the City authorized \$1,587,923 for the acquisition of a fire truck and \$60,000 for the purchase of property for a watershed expansion. Following the issuance of the Notes, the City will no longer have any authorized but unissued debt for these projects.

Judgments and Claims

A few claims against the City are presently pending for miscellaneous matters. Claims payable represents the City's estimate of future loss liabilities based on historical trends and other factors.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

XII. PROPERTY TAX ABATEMENTS

The City has 11 real property tax abatement agreements entered into by the City under Article 18-A of the real property tax law. These agreements provide for abatement of real property taxes in exchange for a payment in lieu of taxes (“PILOT”) in compliance with RPTL 412-A, Article V & XI of the Private Housing Finance Law, Title I of Article 18-A of NYS GML Exemption Policy.

The following provides information related to the PILOT agreements in effect for the year ended December 31, 2019:

<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 Apartments	\$2,628,100	\$ 84.46	\$ 221,972	\$ 85,934	\$ 136,038
2017	Bella Vista Apartments LP	626,500	84.46	52,915	30,400	22,515
2004	Tall Oaks/Pilgrim Woods	1,284,034	84.46	108,451	115,253	(6,802)
2006	Middletown Housing	1,704,000	84.46	143,921	48,516	95,405
2006	Park Hill Housing	702,000	84.46	59,292	67,943	(8,651)
2011	Sml Group 16-IDA	1,131,900	84.46	95,601	3,166	92,435
2013	Danza Lesser Grp-IDA	360,000	84.46	30,406	25,076	5,330
2015	Equilibrium Brewery 16-IDA	79,200	84.46	6,689	2,102	4,587
2014	Heritage Rest 16-IDA	206,600	84.46	17,450	3,847	13,603
2013	Southeast Towers 16-IDA	915,944	84.46	77,361	26,081	51,280
2017	Mill Street HDFC, Inc.	465,800	84.46	39,342	38,000	1,342
Total		<u>\$ 10,104,078</u>		<u>\$ 853,400</u>	<u>\$ 446,318</u>	<u>\$ 407,082</u>

XIII. PRIOR PERIOD ADJUSTMENTS

The City recorded a prior period adjustment of \$1,047,702 as of January 1, 2019 to reflect a residual equity transfer due to the closing of old capital projects.

XIV. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Management has advised staff to work remotely as a response to NYS on Pause regulations. Accordingly, while management cannot quantify the financial and any other impacts to the City as of August 6, 2020, management does not believe that a material impact on the City's financial position and results of future operations is reasonably possible.

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO BASIC FINANCIAL STATEMENTS**

XV. NEW ACCOUNTING PRINCIPLES

In January of 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of Statement No.84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is required to implement this standard for the year ending December 31, 2020 financial statements. The City has not evaluated the effect of GASB 84 on its financial statements.

In June 2017, GASB issued Statement 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City is required to implement this standard for the year ending December 31, 2022. The City has not evaluated the effect of GASB 87 on its financial statements.

In March 2018, GASB issued Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The City is required to implement this standard for the year ending December 31, 2020. The City is currently evaluating the effect of GASB 88 on its financial statements.

GASB has also issued Statements 86, 89 through 94, 96 and 97, none of which are expected to have any substantive effects on the City's net position. GASB Statement 95 extended the implementation date of several standards. The dates above are reflective of those changes.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

<u>Total OPEB Liability</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Service Cost	\$ 2,927,144	\$ 3,061,151
Interest	3,921,462	3,976,764
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(8,446,883)	(5,603,330)
Changes in Assumptions or Other Inputs	7,190,104	-
Benefit Payments	(3,005,735)	(2,902,008)
Net Change in Total OPEB Liability	<u>2,586,092</u>	<u>(1,467,423)</u>
Total OPEB liability - beginning	<u>109,235,341</u>	<u>110,702,764</u>
Total OPEB liability - ending ("a")	<u>\$ 111,821,433</u>	<u>\$ 109,235,341</u>
Plan Fiduciary net position		
Contributions - Employer	\$ 3,005,735	\$ 2,902,008
Net Investment Income	-	-
Benefit Payments	(3,005,735)	(2,902,008)
Administrative Expense	-	-
Net Change in Plan Fiduciary Net Position	<u>-</u>	<u>-</u>
Plan Fiduciary net position - beginning	-	-
Plan Fiduciary net position - ending ("b")	<u>\$ -</u>	<u>\$ -</u>
City's net OPEB liability - ending (a) - (b)	<u>\$ 111,821,433</u>	<u>\$ 109,235,341</u>
Plan Fiduciary net position as a percentage of the total OPEB liability	0%	0%
Covered Payroll	\$ 21,621,251	\$ 20,060,669
Total OPEB Liability as a percentage of covered payroll	517.18%	544.52%

Notes to Schedule:

Benefit Changes - None

Implied Subsidy - Approximately \$565,000 is included in Benefit Payments/Contributions

No assets are accumulated in a Trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

GASB 75 required that the past 10 years of information be presented. Due to the fact that 2018 was the year of implementation, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 75.

**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF OPEB CONTRIBUTIONS AND ASSUMPTIONS**

	2019	2018
Actuarially determined contribution (SC + 20 year amort NOL)	\$ 10,710,732	\$ 10,949,300
Contributions in relating to the actuarially determined contribution	3,005,735	2,902,008
Contribution Excess/(Deficiency)	<u>\$ (7,704,997)</u>	<u>\$ (8,047,292)</u>
Covered - employee Payroll	\$ 21,621,251	\$ 20,060,669
Contributions as a percentage of covered - employee payroll	13.90%	14.47%

Notes to Schedule:

Valuation date:	1/1/2019	1/1/2018
Census date:	12/31/2019	12/31/2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal	
Amortization method	N/A	
Amortization period	N/A	
Asset valuation method	Market	
Inflation	3.00%	
Participation rate	100%	
Healthcare cost trend rates	8% decreasing to 5% ultimate	
Salary increases	3.00%	
Retirement age	All: Rates from age 55	
Mortality	RP 2014 w/ MP2016 projection	
Investment rate of return	3.26%	3.64%

No assets are accumulated in a Trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

GASB 75 requires that the past 10 years of information be presented. Due to the fact that 2018 was the year of implementation, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 75.

CITY OF MIDDLETOWN, NEW YORK

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS

<u>Plan Year Ended</u>	<u>Proportion of the Net Pension Asset (Liability)</u>	<u>Proportionate Share of the Net Pension Asset (Liability)</u>	<u>Covered Payroll</u>	<u>Net Pension Asset (Liability) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
Employees' Retirement System					
3/31/2019	0.02688600%	\$ (1,904,952)	\$ 9,488,505	-20.08%	96.27%
3/31/2018	0.02797100%	\$ (902,750)	\$ 8,274,089	-10.91%	98.24%
3/31/2017	0.02828130%	\$ (2,657,370)	\$ 8,367,999	-31.76%	94.70%
3/31/2016	0.03083180%	\$ (4,948,598)	\$ 8,175,271	-60.53%	90.70%
3/31/2015	0.03182050%	\$ (1,074,975)	N/A	N/A	97.90%

<u>Plan Year Ended</u>	<u>Proportion of the Net Pension Asset (Liability)</u>	<u>Proportionate Share of the Net Pension Asset (Liability)</u>	<u>Covered Payroll</u>	<u>Net Pension Asset (Liability) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
Police and Fire Retirement System					
3/31/2019	0.30395960%	\$ (5,097,594)	\$ 9,618,781	-53.00%	95.09%
3/31/2018	0.29151070%	\$ (2,946,465)	\$ 9,971,614	-29.55%	96.93%
3/31/2017	0.28029260%	\$ (5,809,490)	\$ 9,426,515	-61.63%	93.50%
3/31/2016	0.29387340%	\$ (8,700,965)	\$ 8,922,571	-97.52%	90.20%
3/31/2015	0.30859950%	\$ (849,450)	N/A	N/A	99.00%

GASB 68 requires that the past 10 years of information be presented. Due to the fact that GASB 68 was recently implemented, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 68.

**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS**

<u>Plan Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered Payroll</u>	<u>Required Contributions as a Percentage Covered Payroll</u>
Employees' Retirement System					
3/31/2020	\$ 1,348,365	\$ 1,348,365	\$ -	\$ 8,622,518	15.64%
3/31/2019	\$ 1,224,242	\$ 1,224,242	\$ -	\$ 9,488,505	12.90%
3/31/2018	\$ 1,257,584	\$ 1,257,584	\$ -	\$ 8,274,089	15.20%
3/31/2017	\$ 1,222,457	\$ 1,222,457	\$ -	\$ 8,367,999	14.61%
3/31/2016	\$ 1,478,677	\$ 1,478,677	\$ -	\$ 8,175,271	18.09%

<u>Plan Year Ended</u>	<u>Contractually Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered Payroll</u>	<u>Required Contributions as a Percentage Covered Payroll</u>
Police and Fire Retirement System					
3/31/2020	\$ 2,103,576	\$ 2,103,576	\$ -	\$ 9,863,167	21.33%
3/31/2019	\$ 2,231,792	\$ 2,231,792	\$ -	\$ 9,618,781	23.20%
3/31/2018	\$ 2,149,597	\$ 2,149,597	\$ -	\$ 9,971,614	21.56%
3/31/2017	\$ 2,000,226	\$ 2,000,226	\$ -	\$ 9,426,515	21.22%
3/31/2016	\$ 1,819,078	\$ 1,819,078	\$ -	\$ 8,922,571	20.39%

GASB 68 requires that the past 10 years of information be presented. Due to the fact that GASB 68 was recently implemented, prior year information is not fully available for 10 years. The data will be accumulated over time and presented according to GASB 68.

CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original	Final	Actual Amounts Budget Basis	Variance with Final Budget
Revenues:				
Real Property Taxes	\$ 19,634,971	\$ 19,634,971	\$ 19,519,402	\$ (115,569)
Real Property Tax Items	616,000	616,000	806,860	190,860
Non Property Tax Items	12,170,000	12,170,000	11,792,968	(377,032)
Departmental Income	1,789,486	1,789,486	1,300,358	(489,128)
Intergovernmental Charges	-	-	609,483	609,483
Use of Money and Property	206,000	206,000	319,081	113,081
Licenses and Permits	259,500	259,500	317,689	58,189
Fines and Forfeitures	330,000	330,000	342,688	12,688
Sale of Property and Compensation for Loss	395,000	395,000	219,679	(175,321)
Miscellaneous	250,000	257,685	650,278	392,593
State Aid	3,571,746	3,643,533	3,317,151	(326,382)
Federal Aid	176,000	190,030	238,580	48,550
Total Revenues	39,398,703	39,492,205	39,434,217	(57,988)
Expenditures:				
General Government	4,829,576	6,455,833	5,377,535	1,078,298
Public Safety	12,579,319	12,699,884	12,211,850	488,034
Transportation	1,974,339	2,239,953	2,036,006	203,947
Economic Assistance and Opportunity	434,591	459,014	366,094	92,920
Culture and Recreation	2,484,829	2,624,558	2,230,942	393,616
Home and Community Services	2,320,438	2,698,712	2,432,175	266,537
Employee Benefits	13,629,389	13,868,389	13,450,316	418,073
Capital Outlay	332,450	619,764	335,269	284,495
Debt Service	2,220,121	2,220,121	1,262,344	957,777
Total Expenditures	40,805,052	43,886,228	39,702,531	4,183,697
Excess/(Deficiency) of Revenues Over Expenditures	(1,406,349)	(4,394,023)	(268,314)	4,125,709
Other Financing Sources (Uses):				
Operating Transfers In	1,281,000	1,281,000	1,281,000	-
Operating Transfers Out	-	-	(984,461)	(984,461)
Total Other Financing Sources/(Uses)	1,281,000	1,281,000	296,539	(984,461)
Net Change in Fund Balance	(125,349)	(3,113,023)	28,225	3,141,248
Appropriated Fund Balance	125,349	3,113,023	-	-
Total Change in Fund Balance	\$ -	\$ -	\$ 28,225	\$ 3,141,248

**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Original	Final	Actual Amounts Budget Basis	Variance with Final Budget
Revenues:				
Departmental Income	\$ 669,854	669,854	\$ 107,218	\$ (562,636)
Use of Money and Property	59,216	59,216	42,531	(16,685)
Miscellaneous	-	-	75	75
Federal aid	311,180	311,180	502,175	190,995
Total Revenues	1,040,250	1,040,250	651,999	(388,251)
Expenditures:				
Home and Community Services	766,932	766,932	372,802	394,130
Employee Benefits	82,873	82,873	76,569	6,304
Capital Outlay	1,256	1,256	-	1,256
Debt Service	189,189	189,189	-	189,189
Total Expenditures	1,040,250	1,040,250	449,371	590,879
Excess/(Deficiency) of Revenues Over Expenditures	-	-	202,628	202,628
Other Financing Sources (Uses):				
Operating Transfers Out - Debt Service	-	-	(185,061)	(185,061)
Total Other Financing Sources/(Uses)	-	-	(185,061)	(185,061)
Net Change in Fund Balance	\$ -	\$ -	\$ 17,567	\$ 17,567

CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
WATER FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original	Final	Actual Amounts Budget Basis	Variance with Final Budget
Revenues:				
Departmental Income	\$ 7,266,990	\$ 7,266,990	\$ 7,388,228	\$ 121,238
Use of Money and Property	2,000	2,000	13,619	11,619
Licenses and Permits	15,000	15,000	15,235	235
Sale of Property and Compensation for Loss	-	-	50	50
Miscellaneous	10,000	10,000	18,500	8,500
State aid	-	-	291,775	291,775
Total Revenues	7,293,990	7,293,990	7,727,407	433,417
Expenditures:				
General Government	563,987	579,224	807,053	(227,829)
Public Safety	15,180	15,420	-	15,420
Home and Community Services	2,517,096	3,650,881	2,748,234	902,647
Employee Benefits	934,965	985,705	955,907	29,798
Capital Outlay	116,000	125,800	51,345	74,455
Debt Service	2,466,788	2,467,622	740,832	1,726,790
Total Expenditures	6,614,016	7,824,652	5,303,371	2,521,281
Excess/(Deficiency) of Revenues Over Expenditures	679,974	(530,662)	2,424,036	2,954,698
Other Financing Sources (Uses):				
Operating Transfers Out	(819,000)	(819,000)	(2,514,385)	(1,695,385)
Total Other Financing Sources/(Uses)	(819,000)	(819,000)	(2,514,385)	(1,695,385)
Net Change in Fund Balance	(139,026)	(1,349,662)	(90,349)	1,259,313
Appropriated Fund Balance	139,026	1,349,662	-	(1,349,662)
Total Change in Fund Balance	\$ -	\$ -	\$ (90,349)	\$ (90,349)

CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original	Final	Actual Amounts Budget Basis	Variance with Final Budget
Departmental Income	\$ 5,207,140	\$ 5,207,140	\$ 5,613,559	\$ 406,419
Use of Money and Property	3,000	3,000	7,829	4,829
Licenses and Permits	16,000	16,000	1,900	(14,100)
Miscellaneous	1,500	1,500	19,099	17,599
Total Revenues	5,227,640	5,227,640	5,642,387	414,747
Expenditures:				
General Government	430,986	434,162	466,116	(31,954)
Public Safety	6,600	6,780	-	6,780
Home and Community Services	2,440,673	4,152,779	3,384,142	768,637
Employee Benefits	661,326	710,056	694,819	15,237
Capital Outlay	210,000	622,481	243,440	379,041
Debt Service	1,388,191	1,407,691	106,230	1,301,461
Total Expenditures	5,137,776	7,333,949	4,894,747	2,439,202
Excess/(Deficiency) of Revenues Over Expenditures	89,864	(2,106,309)	747,640	2,853,949
Other Financing Sources (Uses):				
Operating Transfers in	275,136	275,136	275,136	-
Operating Transfers Out	(462,000)	(462,000)	(1,715,903)	(1,253,903)
Total Other Financing Sources/(Uses)	(186,864)	(186,864)	(1,440,767)	(1,253,903)
Net Change in Fund Balance	(97,000)	(2,293,173)	(693,127)	1,600,046
Appropriated Fund Balance	97,000	2,293,173	-	(2,293,173)
Total Change in Fund Balance	\$ -	\$ -	\$ (693,127)	\$ (693,127)

OTHER SUPPLEMENTARY INFORMATION

**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2019**

	Date of Issue	Date of Final Maturity	Interest Rate	Outstanding Beginning of Fiscal Year	Issued During Fiscal Year	Paid During Fiscal Year	Refinanced During Fiscal Year	Outstanding End of Fiscal Year	Interest Paid During Fiscal Year	Interest Accrued at 12/31/2019	Due Within the Next Year
<u>BOND ANTICIPATION NOTES</u>											
DTC Series 2019 A Various Purpose	08/27/19	08/27/20	1.180%	\$ 9,825,000	\$ 631,377	\$ -	\$ (4,317,813)	\$ 6,138,564	\$ 183,890	\$ 25,352	\$ 6,138,564
DTC Series 2019 A Various Purpose	08/27/19	08/27/20	1.180%	16,558,644	1,647,923	(572,419)	(2,353,537)	15,280,611	314,283	63,109	15,280,611
EFC SRF Sewer Collection Improvements	09/29/16	09/29/21	0.000%	1,179,749	-	(19,500)	-	1,160,249	-	-	1,160,249
EFC - Black Dirt Sewer	04/27/17	04/27/20	0.000%	2,942,575	-	-	(2,942,575)	-	-	-	-
DTC 2019 Series B Various capital purposes	08/22/19	08/22/20	1.750%	-	2,000,000	-	-	2,000,000	-	12,736	2,012,736
DTC 2019 series B Various capital purposes	08/22/19	08/22/20	1.750%	-	2,763,571	-	-	2,763,571	-	17,599	2,781,170
EFC CWF Screw Pumps Project	08/01/19	08/01/22	0.000%	-	2,250,000	-	-	2,250,000	-	-	2,250,000
EFC DW SRF Water Storage Tanks	08/01/19	08/01/24	1.440%	-	2,334,560	-	-	2,334,560	-	14,194	2,348,754
TOTAL BOND ANTICIPATION NOTES				30,505,968	11,627,431	(591,919)	(9,613,925)	31,927,555	498,173	132,990	31,972,084
<u>PERFORMANCE CONTRACT PAYABLE</u>											
Energy Performance Contract	7/21/16	7/25/31	2.107%	11,538,481	-	(780,287)	-	10,758,194	239,027	97,938	796,814
TOTAL PERFORMANCE CONTRACT PAYABLE				11,538,481	-	(780,287)	-	10,758,194	239,027	97,938	796,814
<u>LOAN PAYABLE - SECTION 108</u>											
Housing and Urban Development	Various	7/25/30	2.21-7.66%	1,119,000	-	(142,000)	-	977,000	43,061	-	142,000
TOTAL LOAN PAYABLE - SECTION 108				1,119,000	-	(142,000)	-	977,000	43,061	-	142,000
<u>SERIAL BONDS</u>											
Water - EFC	07/02/14	05/16/23	3.920%	1,020,000	-	(190,000)	-	830,000	8,188	10,845	195,000
Series 2011	06/29/11	12/31/21	2.750%	1,645,000	-	(530,000)	-	1,115,000	48,025	12,612	550,000
Refunding of 2007 Bond	05/31/16	07/01/28	2.000%	3,145,000	-	(290,000)	-	2,855,000	62,900	28,550	295,000
Water Infrass. - EFC	07/21/11	04/01/38	4.270%	14,910,000	-	(585,000)	-	14,325,000	459,594	114,084	595,000
Public Improvement	08/15/17	08/15/37	2.000%	5,280,000	-	(205,000)	-	5,075,000	156,225	57,745	210,000
Sewer - EFC	05/01/12	11/01/42	2.520%	14,575,000	-	(515,000)	-	14,060,000	253,499	41,767	520,000
Public Improvement	02/20/14	02/15/39	3.750%	5,600,000	-	(175,000)	-	5,425,000	209,863	77,809	185,000
Sewer - EFC	08/20/15	04/02/36	4.540%	2,520,000	-	(110,000)	-	2,410,000	43,571	9,342	115,000
EFC Black Dirt Sewer-see PF statut. I/L bond	12/19/19	06/28/49	0.000%	-	3,324,481	-	-	3,324,481	-	-	110,820
TOTAL SERIAL BONDS				48,695,000	3,324,481	(2,600,000)	-	49,419,481	1,241,865	352,754	2,775,820
TOTAL INDEBTEDNESS				\$ 91,858,449	\$ 14,951,912	\$ (4,114,206)	\$ (9,613,925)	\$ 93,082,230	\$ 2,022,126	\$ 583,682	\$ 35,686,718

**OTHER REPORTING REQUIRED BY
GOVERNMENT AUDITING
STANDARDS**



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**

Members of the Common Council
City of Middletown, New York
16 James Street
Middletown, NY 10940

We have audited 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, the financial statements of the governmental activities, the aggregate discreetly presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, New York (the "City") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 6, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

City of Middletown, New York's Response to the Findings

The City of Middletown, New York's response to the findings identified in our audit is described in the accompanying management responses to findings and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, NY
August 6, 2020



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

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

Members of the Common Council
City of Middletown, New York
16 James Street
Middletown, New York 10940

Report on Compliance for Each Major Federal Program

We have audited the City of Middletown, New York's (the "City"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Middletown's major federal programs for the year ended December 31, 2019. 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, the 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, 2019.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency which is described in the accompanying schedule of findings and questioned costs as item 2019-003.

The City of Middletown, New York's response to the internal control over compliance finding identified in our audit is described in the accompanying management responses to findings and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, NY
August 6, 2020



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF STATE TRANSPORTATION ASSISTANCE

Members of the Common Council
City of Middletown, New York
16 James Street
Middletown, New York 10940

Report on Compliance for New York State Transportation Assistance Programs

We have audited the City of Middletown, New York’s (the “City”) compliance with the types of compliance requirements described in *Title 17, Part 43 of the New York Codes, Rules and Regulations (NYCRR)* that could have a direct and material effect on the City’s state transportation assistance program tested for the year ended December 31, 2019. The program tested is identified in the summary of auditor’s 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 programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the City’s state transportation assistance program tested 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 *Title 17, Part 43 of NYCRR*. Those standards and *Title 17, Part 43 of NYCRR* 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 the state transportation assistance program tested occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the state transportation assistance program tested. However, our audit does not provide a legal determination of the City’s compliance.

Opinion

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the state transportation assistance program tested for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to the state transportation assistance program tested. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the state transportation assistance program tested to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance in accordance with *Title 17, Part 43 of NYCRR*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state transportation assistance 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 state transportation assistance 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state transportation assistance program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-03 as a significant deficiency.

The City of Middletown, New York's response to the internal control over compliance findings identified in our audit is described in the accompanying management responses to findings and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 *Title 17, Part 43 of NYCRR*. Accordingly, this report is not suitable for any other purpose.

RBT CPAs, LLP

Newburgh, NY
August 6, 2020

**CITY OF MIDDLETOWN, NEW YORK
OTHER SUPPLEMENTARY INFORMATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2019**

Financial Statement Findings:

Finding 2018-001 Decentralized Capital Project Record-Keeping - Significant Deficiency

This finding is continuing for 2019.

Finding 2018-002 Accrual of Receivables and Payables - Significant Deficiency

This finding is continuing for 2019.

Finding 2018-003 Fixed Assets - Significant Deficiency

This finding is satisfied for 2019.

Finding 2018-004 Compensated Absences - Significant Deficiency

This finding is satisfied for 2019.

Finding 2018-005 Trust and Agency Liabilities - Significant Deficiency

This finding is satisfied for 2019.

Findings and Questioned Costs for Federal Awards:

**Finding 2018-007 Schedule of Expenditures of Federal Awards and State Transportation Assistance –
Reportable Non-Compliance**

This finding is continuing for 2019.

**CITY OF MIDDLETOWN, NEW YORK
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE TRANSPORTATION
ASSISTANCE
DECEMBER 31, 2019**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number/ NYSDOT Contract/ Reerence Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal/State Expenditures</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
DIRECT PROGRAM:				
* Community Development Block Grant/Entitlement Grants	14.218	N/A	\$ -	<u>\$ 621,442</u>
PASSED THROUGH ORANGE COUNTY:				
Hurricane Irene/Tropical Storm Lee Community Development Block Grant Disaster Recovery Grants	14.269	CDBG-DR1205	-	<u>749,177</u>
<u>US DEPARTMENT OF JUSTICE</u>				
DIRECT PROGRAMS:				
Bulletproof Vest Partnership Program	16.607	N/A	-	5,225
Public Safety Partnership and Community Policing Grants	16.710	N/A	-	<u>221,085</u>
<u>US DEPARTMENT OF TRANSPORTATION</u>				
DIRECT PROGRAMS:				
Highway Safety Cluster Occupant Protection Incentive Grants	20.602	N/A	-	<u>33,176</u>
PASSED THROUGH NEW YORK STATE				
Highway Planning and Construction Cluster Highway Planning and Construction	20.205	8756.99.321	-	149,730
Highway Planning and Construction	20.205	8757.07.121	-	162,748
Highway Planning and Construction	20.205		-	286,261
Highway Planning and Construction Cluster Total				<u>598,739</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ -</u>	<u>\$ 2,228,844</u>
<u>STATE TRANSPORTATION ASSISTANCE</u>				
New York State Department of Transportation:				
** CHIPS		N/A		\$ 773,933
Marchiselli Match - Federal Highway Projects		8757.07.121		30,515
TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED				<u>\$ 804,448</u>
* Major program				

**CITY OF MIDDLETOWN, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE TRANSPORTATION ASSISTANCE
DECEMBER 31, 2019**

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards and state transportation assistance (the “Schedule”) includes the Federal award activity of the City of Middletown under programs of the federal government for the year ended December 31, 2019. Federal awards received directly from the Federal agencies as well as Federal awards passed through other government agencies are included in the Schedule. The federal 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”). The state information included in this schedule presents the activity of all financial assistance programs provided by the New York Department of Transportation. 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 minimus indirect cost rate allowed under the Uniform Guidance. State matching share programs follow the federal guidance.

NOTE 3 – Loans Outstanding

The City had the following gross loan receivable balances outstanding at December 31, 2019, 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 for the Year Ended December 31, 2019</u>	<u>Amount Outstanding December 31, 2019</u>
Community Development Block Grant Program	14.218	<u>\$ 340,721</u>	<u>\$ 2,951,684</u>

NOTE 4 – Reconciliation to Financial Statements

The federal expenditures presented in the Schedule of Expenditures of Federal Awards and State Transportation Assistance (the “SEFA”) reconcile to the Federal revenue reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance as follows:

	<u>Federal</u>	<u>State</u>
Expenditures as reported in the SEFA:	\$ 2,228,844	\$ 804,448
Reconciling items:		
SEFA is reported on the basis of expenditures not revenues	(53,338)	-
Non-DOT State Aid	-	5,748,082
Federal and State aid as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u>\$ 2,175,506</u>	<u>\$ 6,552,530</u>

**CITY OF MIDDLETOWN, NEW YORK
 NOTES TO THE SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS AND STATE TRANSPORTATION ASSISTANCE
 DECEMBER 31, 2019**

NOTE 5 – Section 108 Loans

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 Community Development Block Grant (“CDBG”) allocations are required to be pledged as security for these loans, in order to be able to repay the loan without need for current or future CDBG mortgage dollars to be used for repayment.

The debt service requirements for loan repayment are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 142,000	\$ 2,676
2021	147,000	2,856
2022	112,000	2,169
2023	102,000	2,167
2024-2028	390,000	8,000
2029-2030	84,000	1,390
	<u>\$ 977,000</u>	<u>\$ 19,258</u>

**CITY OF MIDDLETOWN, NEW YORK
 SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
 DECEMBER 31, 2019**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Response</u> Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>Yes</u>	<u>X</u>	<u>No</u>
Significant deficiency(ies) identified that are not material weaknesses?	<u>X</u> <u>Yes</u>	<u>None Reported</u>	
Noncompliance material to the financial statements noted?	<u>Yes</u>	<u>X</u>	<u>No</u>

Federal Awards

Internal control over financial reporting:			
Material weakness(es) identified?	<u>Yes</u>	<u>X</u>	<u>No</u>
Significant deficiency(ies) identified that are not material weaknesses?	<u>X</u> <u>Yes</u>	<u>None Reported</u>	
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?	<u>X</u> <u>Yes</u>	<u>No</u>	

Identification of major programs:

CFDA Number(s)
14.218

Name of Federal Program or Cluster
Community Development Block Grant/Entitlement Grants

Dollar threshold to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee Yes

State Awards

Internal control over state transportation expended:			
Material weakness(es) identified?	<u>Yes</u>	<u>X</u>	<u>No</u>
Significant deficiency(ies) identified that are not material weaknesses?	<u>Yes</u>	<u>X</u>	<u>None Reported</u>
Type of auditors' report issued on compliance for programs tested:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with <i>Title 17, Part 43.2 of NYCRR</i> ?	<u>X</u> <u>Yes</u>	<u>No</u>	

Identification of program tested:

Consolidated Highway Improvement Program (CHIPS) N/A

**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
DECEMBER 31, 2019**

A. Financial Statement Findings

Significant Deficiencies

Finding 2019-001

Decentralized Capital Project Record-Keeping

- Condition: The City's Finance Department relies on other departments to control details of certain capital project revenues, including grant applications and supporting documentation.
- Criteria: The City's Finance Department is ultimately responsible for the City's accounting records.
- Cause: Certain supporting records for revenues and the related expenditures are kept outside the Finance Department.
- Effect: The process of reconciling the general ledger to those supporting records is made more complex by maintaining decentralized accounting records.
- Recommendation: RBT recognizes the need for operational departments to maintain records pertaining to revenues and expenditures pertinent to their departments. However, coordination between the Finance and other departments can be improved if the Finance Department has access to supporting records on the City's central network, as the transactions occur. For example, commitments of grant or funding awards, project budgets, drawdowns, and if based on expenditures, the listing of supporting expenditures and any final grant reports are readily and easily available.
- Management's Response: See corrective action plan.

Finding 2019-002

Accruals of Grants Receivable and Related Payables

- Condition: The City records its grant revenues generally on the cash basis, as in the past, and generally adjusts project revenues and related receivables at year-end.
- Criteria: Under the modified accrual basis, the City is required to accrue revenues due it under contracts and grants when eligible expenditures are incurred.
- Cause: There were several large projects in process at year-end where accruals had to be adjusted as a result of audit procedures.
- Effect: The City's financial statements, did not reflect all of its revenues and expenditures in accordance with the modified accrual basis. There is also the potential for inconsistent financial results if accruals are not recorded on a similar basis year over year.
- Recommendation: RBT recommends that the City include procedures in its system for closing the accounting year, which incorporates consideration of grant programs for amounts due on the modified accrual basis, verifying that expenditures are recorded in the year incurred and inquiry of City departments regarding the status of pending invoices.
- Management's Response: See corrective action plan.

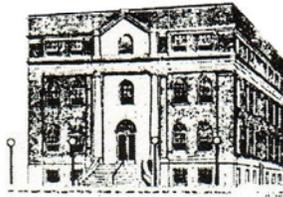
**CITY OF MIDDLETOWN, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN
DECEMBER 31, 2019**

B. Findings and Questioned Costs for Federal and Selected State Awards

Finding 2019-003	<i>Schedule of Expenditures of Federal Awards and State Transportation Assistance Preparation</i>
Condition:	The City did not prepare a complete and accurate Schedule of Expenditures of Federal Awards and State Transportation Assistance (“SEFA”).
Criteria:	The Schedule of Expenditures of Federal Awards and State Transportation Assistance is required to be prepared by the Auditee under federal and state regulations.
Cause:	Federal and state expenditures are not tracked in one central location. Reimbursements from funding sources are not always allocated accurately to federal and state revenue accounts when received.
Effect:	Total expenditures of federal awards and state transportation assistance reported on the SEFA as required for the single audit was not accurate, requiring additional research and audit adjustments.
Recommendation:	RBT recommends that the City obtain a clearer understanding of the SEFA and the preparation process such that the annual compilation of data is complete and accurate.
Management’s Response:	See corrective action plan.

Department of Finance

City of Middletown



Donald J Paris
Treasurer

16 James Street
Middletown, NY 10940-1587
Tel: (845) 346-4150
Fax: (845) 343-1101

September 8, 2020

Corrective Action Plan

Via E- Mail

Ms. Linda Hannigan
Director
RBT CPA's LLP
1 Racquet Road
Newburgh, NY 12550

Dear Ms. Hannigan:

Below please find the City's response to RBT's audit "findings"

2019-01 Finance records and Operating department's records were reconciled for year-end reporting. The City agrees that the process was cumbersome and will reconcile these periodically during the year.

2019-02 Finance agrees that the grant receivables and related payables were recorded on a cash basis as in the past. Based on RBT's guidance the City will adopt the "Modified Accrual Method"

2019-30 The City will reconcile state and federal revenues during the year insuring proper allocation at year-end.

Cordially,

A handwritten signature in cursive script that reads "D.J. Paris".

Copy: J. Rouis, J. Gallo, Mayor DeStefano

