

Comprehensive Annual Financial Report

City of Middletown Connecticut

Fiscal Year Ended June 30, 2017



Office of the Director of Finance

Comprehensive Annual Financial Report

of the

City of Middletown Connecticut

FISCAL YEAR ENDED JUNE 30, 2017

Carl Erlacher, CPA
Director of Finance and
Revenue Services

**CITY OF MIDDLETOWN, CONNECTICUT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Introductory Section

PRINCIPAL OFFICIALS

City of Middletown, Connecticut

ELECTED OFFICIALS

Daniel T. Drew, Mayor
Quentin Phipps, Treasurer

Elizabeth Santangelo (D)
Registrar of Voters

David Bauer (R)
Registrar of Voters

COMMON COUNCIL

Eugene P. Nocera
Thomas J. Serra
Mary A. Bartolotta
Gerald E. Daley
Robert P. Santangelo
Carl R. Chisem

Robert Blanchard
Grady L. Faulkner, Jr.
Sebastian N. Giuliano
Philip J. Pessina
Deborah A. Kleckowski
Linda Salafia

BOARD OF EDUCATION

Christopher R. Drake, Chairman

Cheryl A. P/ McClellan, Vice-Chair
Secretary
Anita Dempsey White
Edward Ford, Jr.
Deborah Cain

Marilyn S. Rios,
Jonathan Pulino
Lisa Loomis
Sean T. King

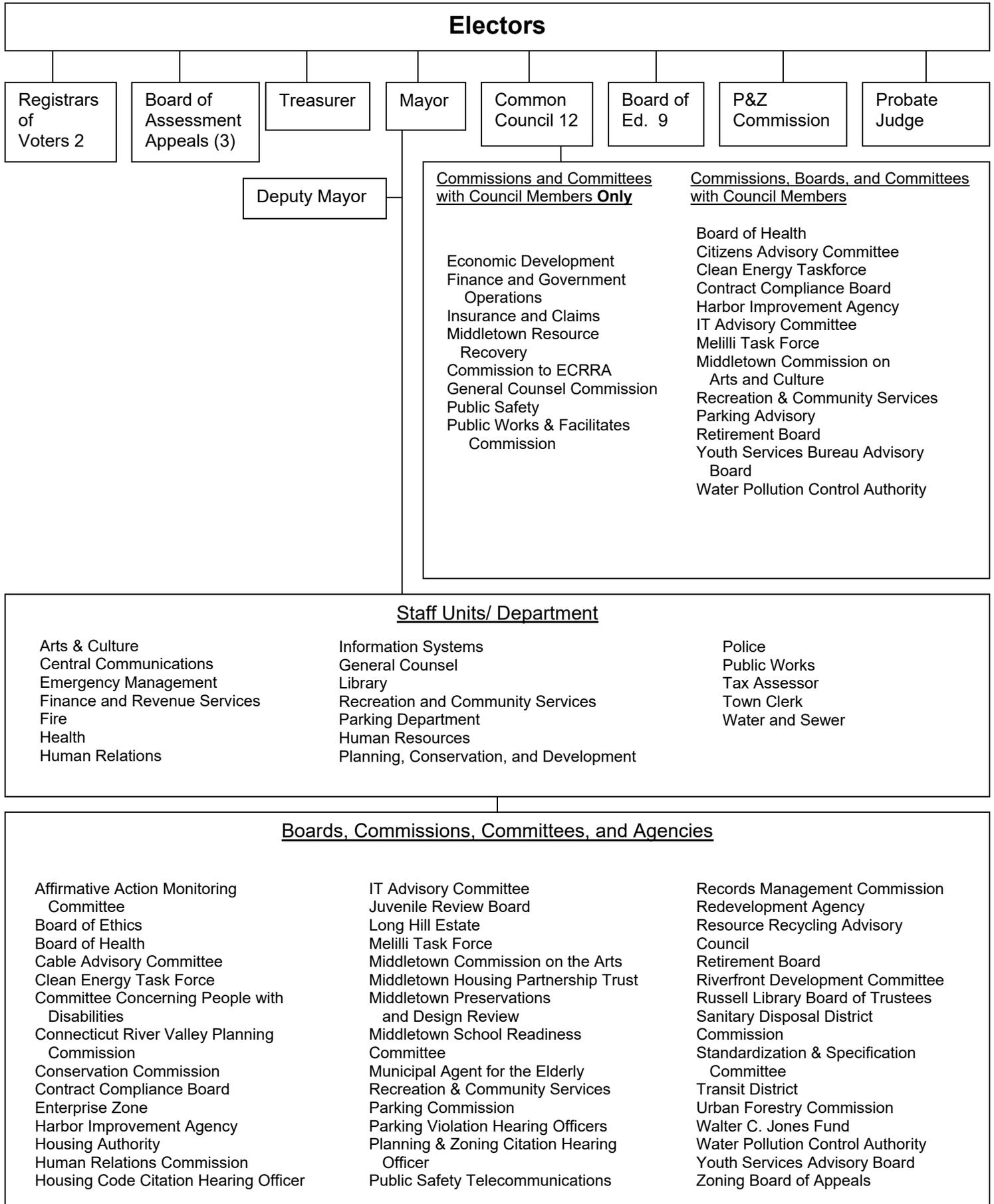
Dr. Michael T. Conner, Superintendent of Schools

DIRECTORS

Town Clerk
Director of Finance and Revenue Services
Chief of Fire
Chief of Police
Director of Health
Director Recreation and Community Services
Director of Public Works
Acting Director of Water and Sewer
Director of Human Resources
Director of Human Relations
Director of Parking
General Counsel
Tax Assessor
Planning Conservation and Development
Interim Russell Library Director

Linda Bettencourt
Carl Erlacher
Robert Kronenberger
William McKenna
Joseph A. Havlicek, MD
Catherine Lechowicz
William Russo
Bob Young
Thomas Tokarz
Faith M. Jackson
Geen Thazhampallath
Brigham Smith
Damon Braasch
Michiel Wackers
Brandie Doyle

City of Middletown Organization of Governance





City of Middletown

FINANCE DEPARTMENT
245 DeKoven Drive Middletown, CT 06457
TEL: (860) 638-4880 FAX: (860) 638-1980

December 30, 2017

Honorable Mayor and Common Council
City of Middletown
Middletown, Connecticut

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Middletown (the City) for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects; and are reported in a manner to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections: introductory, financial and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the management's discussion and analysis (MD&A), basic financial statements, required supplementary information, and the combining and individual fund statements and schedules, as well as the auditors' report. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual single audit in conformity with the provisions of the Federal Single Audit Act and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Information related to this single audit, including the schedule of expenditures of federal awards, findings and recommendations, and auditors' reports on the internal control over financial reporting and compliance with applicable laws and regulations are issued under separate cover and are not included in this report. The City is also required to undergo a State single audit. Information related to this State single audit will be issued separately.

The Eastern Connecticut Regional Resource Recovery Authority (ECRRA) and Long Hill Estate Authority have been included as discretely presented component units in the City's report in accordance with generally accepted accounting principles. As more fully explained in Note 11, ECRRA is a regional authority formed to provide solid waste disposal and resource recovery system. At June 30, 2017, Middletown is the only member.

The Long Hill Estate Authority was established by ordinance to operate and maintain the former Wadsworth/Cenacle property. The Authority is a public body politic and corporate formed in accordance with Connecticut General Statutes.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Middletown's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

Middletown was settled in 1650 and incorporated as a Town in 1651. The City and Town were consolidated in 1923 and the 1st and 2nd taxing districts and two school districts were consolidated in 1959. The City covers an area of 42.9 square miles located on the west bank of the Connecticut River, fifteen miles south of Hartford. The City is traversed by Interstate 91 and State Highways Number 9, 17, 66, 72, 155, 157 and 217. Bus transportation linking Middletown with other communities is provided by commercial companies as is an intra-city bus service. Freight service is provided by Conrail, light shipping up the Connecticut River and various motor common carriers.

The City operates under a Charter first granted in 1874 and subsequently revised. The most recent revision became effective November 4, 2014. The City is governed by a strong Mayor and twelve-member Common Council. The Mayor is the chief executive officer of the City. In addition to the City's line departments, there is a Sanitary District Commission, Water and Sewer Commission, a Parking Authority and a Housing Authority. A director of Finance administers the financial affairs of the City.

The City provides a full range of services, which include; general government services such as finance, personnel, City and Town clerk, legal; public safety, which includes fire and police protection; public works for the management, care and maintenance of all public buildings, public roadways, City vehicles and various construction activities; water treatment and distribution; sanitary sewer for the collection and treatment of wastewater, sanitation for the solid waste disposal, which includes recycling; and education, which is under the control of the elected Board of Education, operates the eleven school elementary and secondary education system with a capacity of 6,029.

City of Middletown Economic Development

The City of Middletown economic development division operates within the Department of Planning, Conservation and Development. Its mission is to stimulate development in the City, assist City businesses in expanding, and attracting businesses from outside of Middletown all in an effort to grow the tax base, facilitate job creation and generally improve the quality of life for Middletown residents and businesses.

Approach

Economic development is built on relationships and partnerships. The City's efforts are supported by engaging with partners such as:

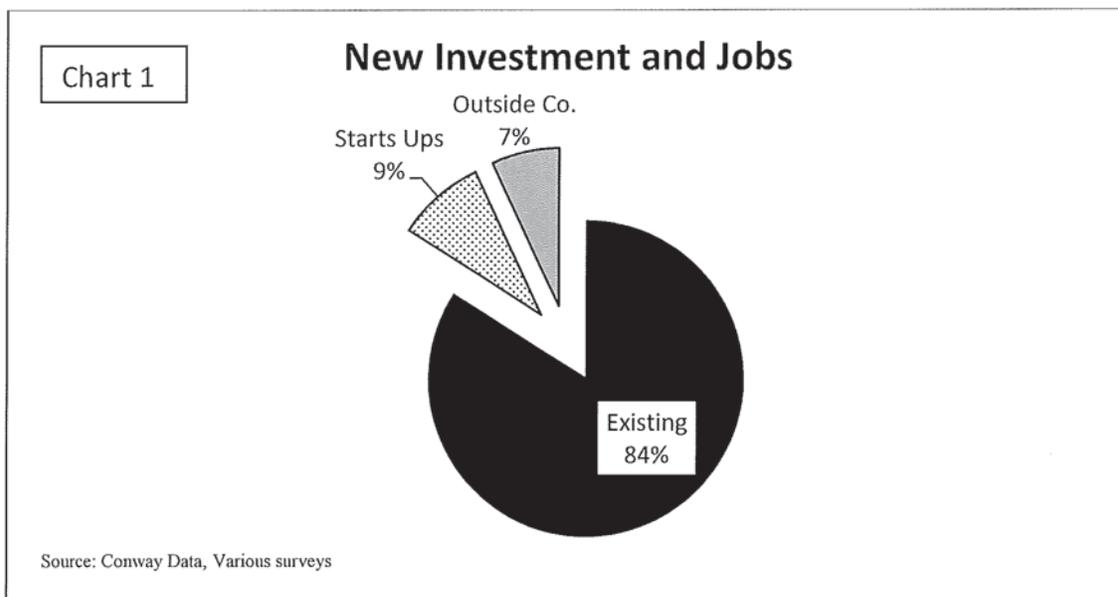
- The Middlesex County Chamber of Commerce, Connecticut's largest
- Middletown Small Business Development Center
- State of Connecticut Department of Economic and Community Development
- State of Connecticut Department of Labor
- Workforce Alliance
- Wesleyan University
- Middlesex Community College
- Eversource Energy
- Downtown Business District
- Commercial Brokers, Property Owners and Developers
- Connecticut Economic Resources Center

These partnerships provide services to City businesses that help them grow. They also bring in leads for businesses considering moving to Middletown.

The City also builds relationships via memberships in professional groups such as the Connecticut Planning Association, Northeast Economic Development Association, Connecticut Economic Developers Association, International Council of Shopping Centers and CCIM, among others. These relationships help City staff build a network of contacts which include real estate investors, commercial brokers, subject matter experts, and other professionals engaged in development and planning from whom we can learn best practices and make contacts with property owners and potential investors.

Business Retention and Expansion

National surveys show the vast majority of new investment and jobs in any community come from existing businesses, entrepreneurs and start-ups. Few come from outside the community (Chart 1).



Given this data, City staff invests most of its time with existing businesses, entrepreneurs and start-ups. Staff visits existing businesses on a continuing basis to determine how the City can address local issues or to help them grow. For entrepreneurs, staff works with our partners to help them with typical start-up issues such as business plans, hiring and marketing. The City uses its service provider network to help businesses with utility, real estate and training, financing opportunities and the like.

For example, in 2017, the City partnered with the Middlesex County Chamber, Wesleyan University, Middlesex Community College and local entrepreneurs to compete for an Innovation Places grant being offered by the State of Connecticut. This was a statewide competition among cities and towns to receive 3-year grants to support growing local micro-businesses, start-ups, home-based businesses and entrepreneurs. While Middletown was not chosen for a grant, the team has forged ahead with programming and meetings with the goal of creating a co-working and collaborative space where these companies can network and support each other.

The City also owns a former factory building which serves as a low-cost incubator for small businesses. The 165,000 sf building currently houses 25 businesses which, together, have more than 100 employees. In the FY ending June 30, 2017, rents from the building totaled more than \$376,000, of which \$200,000 was returned to the General Fund.

Business Recruitment

The City also engages in recruiting businesses from outside the region. Our partners like the Chamber of Commerce, State agencies and commercial brokers and property owners bring businesses and developers to the City where staff actively tries to address their location needs. Once they have decided to invest in Middletown, we make our land use approval processes as easy as possible to give them a smooth transition here. The staff regularly reaches out to site selection consultants, businesses, corporate real estate professionals and brokers to inform them of development opportunities in Middletown by attending real estate trade shows, forums and conferences.

Easy Development Processes

Middletown has built a reputation across the State for being a community which is easy to work with. To that end, on our website, for example, we have:

- Nearly all development related applications and procedures
- The City's GIS system
- Tax Assessor's database
- A history of studies and reports on the City of Middletown
- Records of City proceedings going back decades
- Information on City development incentives
- Links to partners and assistance providers
- Links to available commercial and industrial properties

Staff from all departments that approve projects meets as a team with project developers prior to their submitting applications to show them how their project can get approved.

Growing the Tax Base

The City continues to grow the tax base through marketing available land and buildings and reclaiming brownfields for redevelopment. The City leverages Federal, State and Foundation grants with City and private sector financing to fund various economic development initiatives such as environmental assessments, brownfield clean-up and open space purchasing. This is a list of grants and their source the City was awarded since 2000 which total nearly \$37 Million. Most are for planning, environmental assessment and remediation.

Year	Total	Federal	State	Other
2017	\$206,000		\$206,000	
2015	\$ 1,449,112	\$ 405,851	\$ 1,043,261	
2014	\$3,828,225	\$414,475	\$3,413,750	
2013	\$573,004	\$419,044		\$154,000
2012	\$598,165	\$598,165		
2011	\$880,276	\$380,276	\$450,000	\$50,000
2010	\$875,228	\$854,428	\$10,000	\$10,800
2009	\$20,468,342	\$19,933,942	\$530,000	\$4,400
2008	\$927,345	\$407,345	\$520,000	
2007	\$487,490	\$487,490		
2006	\$682,094	\$417,094	\$265,000	
2005	\$661,146	\$658,989		\$2,157.80

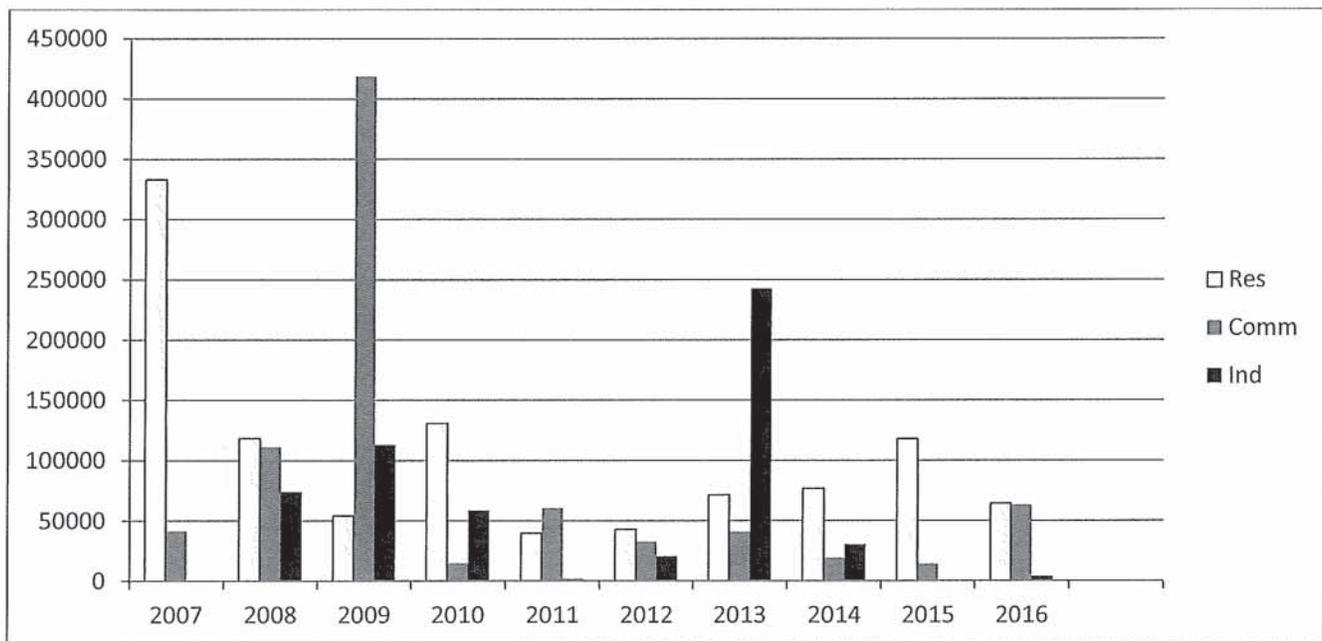
2004	\$838,000	\$536,000	\$300,000	\$2,000
2003	\$1,362,383	\$745,000	\$617,383	
2002	\$571,800	\$570,000		\$1,800
2001	\$1,624,750	\$603,000	\$1,021,750	
2000	\$916,250	\$510,000	\$406,250	

Results

The City's economic development efforts have yielded positive results over the last 10 years as seen in the following charts.

- Positive growth in new square footage
- 2.4% CAGR in net taxable grand list
- 3.2% CAGR in property tax revenues
- Minimal increases in the mill rate

New Construction (Sq Ft) by Year



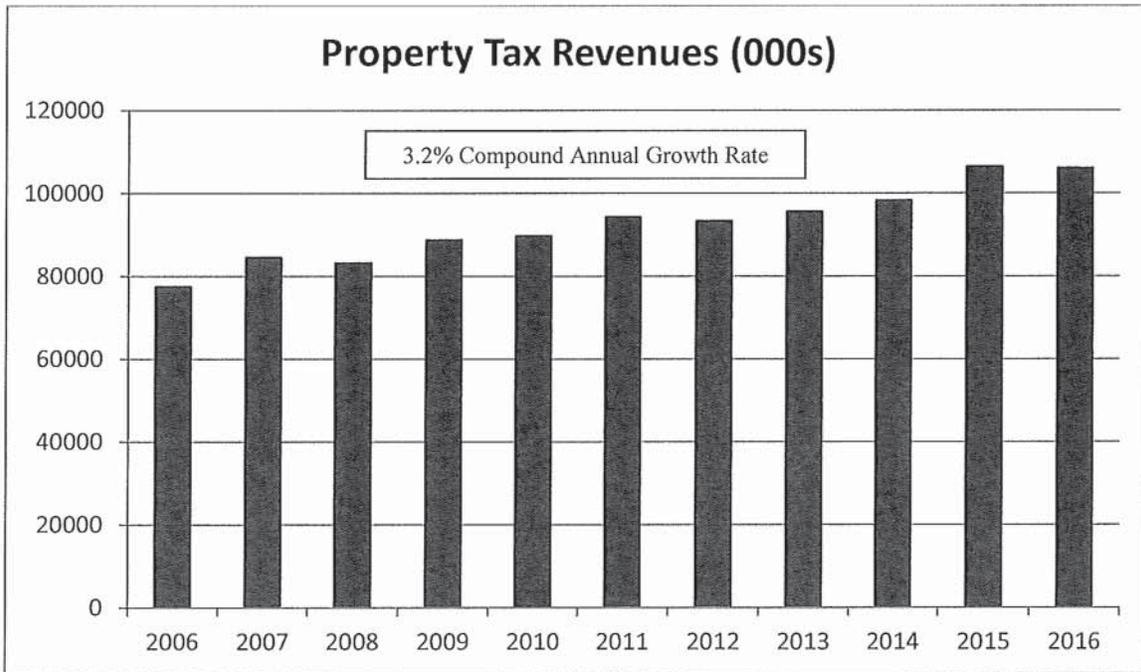
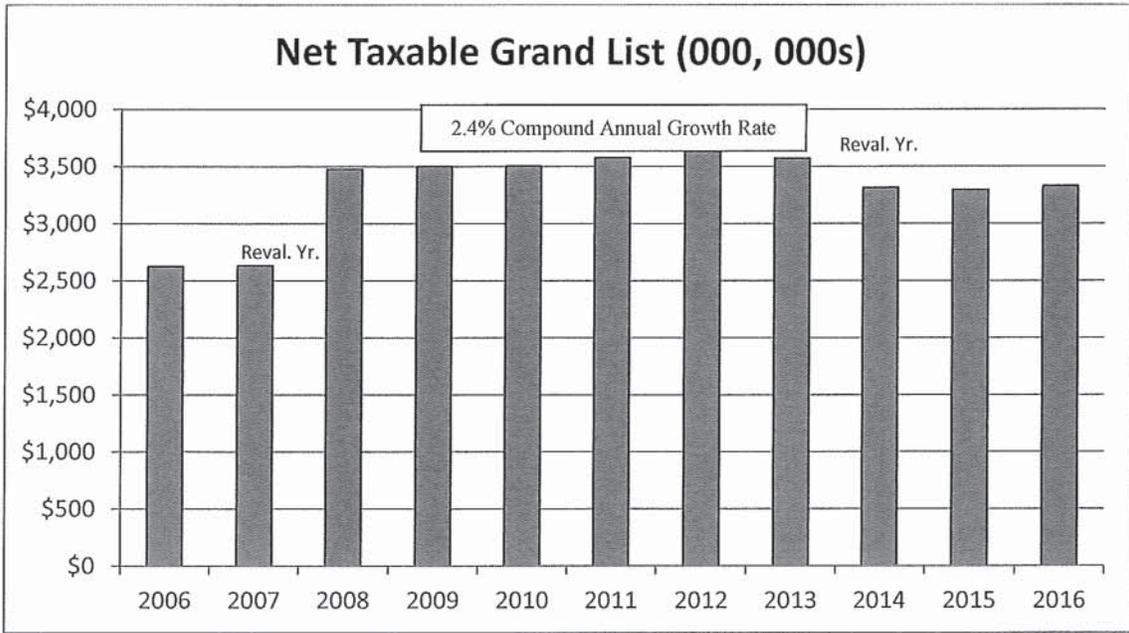
Major completed projects over the last several years include:

WinWholesale:	200,000 sf, warehouse
Electrical Wholesalers:	30,000 sf, office
Shelco Filters:	19,900 sf, manufacturing space
A&A Office Supply:	12,000 sf, Corporate HQ, distribution
Jarvis Products:	20,000 sf, manufacturing expansion

FedEx Ground Package Systems, Inc. continues to construct its 535,000 sf distribution hub on the former site of Aetna's office building. The company proposes to create more than 500 new jobs. It is on schedule to be fully functional on October 1, 2018.

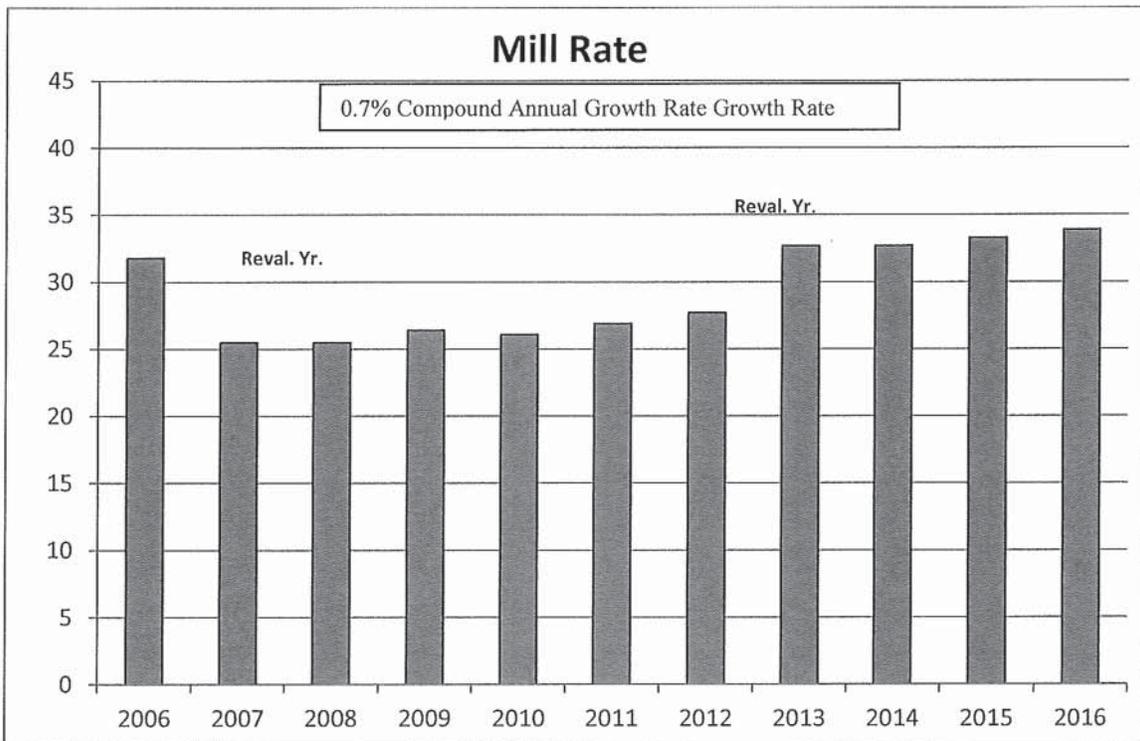
Pegasus Manufacturing has received approvals for a 30,000 square foot expansion to its aerospace parts manufacturing plant.

Pratt & Whitney Aircraft has started constructing a 31,000 manufacturing building.



Note: These do not include Non-major Governmental Funds.

The steady growth in the grand list has kept mill rate increases to a minimum.



Note: The rates do not include Fire District Mill Rates.

Other Projects/Studies

The City of Middletown continues to uncover new development opportunities.

They include:

- Riverfront:** In 2014, the State of Connecticut awarded the City \$2.6 million to assess and clean up the City's Water Treatment Plant along the Connecticut River. The Water and Sewer Department installed a connecting line to the Mattabasset District treatment plant in Cromwell. It is constructing a new pump house that will be completed in 2018. These projects will allow the department to remove the City's treatment plant and create a 1.5 mile long riverfront park with amenities. The park will bring in visitors from all over the region.
- Downtown:** Hajjar Management is constructing a 92-unit, market rate apartment and commercial project in downtown. It is scheduled to be complete in the fall of 2018. Six new restaurants opened downtown to bring the total restaurant count, in downtown, to 60. The Community Health Center has started constructing a 31,000 square foot office one block from Main Street.
- Downtown sites:** The City is facilitating discussions between developers and owners of underutilized properties downtown. The plan is to create more housing, population and income downtown.
- Recruiting:** Businesses continue to find Middletown an attractive place to invest. The City successfully recruited three international engineering firms to office space in downtown. They brought nearly 200 engineers to the City. National known independent book seller, R.J. Julia Booksellers, partnered with Wesleyan University to open a new bookstore that combines a Julia's traditional bookstore with Wesleyan's student bookstore and "grown", an organic restaurant.

Department Focus

The Department of Finance and Revenue Service has completed the process of implementing an ADMINS Unified Community software system for all City departments including the Board of Education. This system has been implemented over time and includes programs for budgeting, purchasing, payables, receivables, payroll and general ledger. The staff continues to strive to automate many aspects of the department and continues to work with user departments to implement positive changes which will benefit the entire City.

Financial Information

The Department of Finance is organized into six divisions: Administration, Accounting and Budgeting, Purchasing, Payroll, Tax Collection, Debt and Cash Management. The City's accounting system is an automated, integrated financial management system comprising payroll, accounts payable, general ledger, and budgetary control. It is organized and operated on a fund basis. Each fund is a distinct and self-balancing accounting entity.

Internal Controls

All financial transactions are subject to pre-audit before processing as well as to an annual post-audit by an independent auditing firm selected by the City Council. Financial policies and procedures prescribed by the Director of Finance for the various departments are monitored by the Accounting and Budgeting Division of the Department.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Activities of the general fund and certain special revenue funds are included in the annual appropriated budget. Project-length financial plans are adopted for the other special revenue funds and capital projects funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is made at the sub-function level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of sub-function balances are not released until additional appropriations are made available. Open encumbrances are reported in funds statements as reservation of fund balance at June 30, 2017.

Other Information

Independent Audit

The City Charter requires an annual audit of the books of account, financial records and transactions of all administrative departments of the City by independent certified public accountants selected by the City Council. This requirement has been complied with and the auditors' report has been included in this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Middletown for its comprehensive annual financial report for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgment

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I should like to express my appreciation to all members of the Department who assisted and contributed to its preparation. I should also like to thank the Mayor, the Finance and Government Operations Commission, the members of the City Council, and the Finance Department's Staff for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in blue ink that reads "Carl R. Erlacher, CPA". The signature is written in a cursive style.

Carl R. Erlacher, CPA
Director of Finance and Revenue Services



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Middletown
Connecticut**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Financial Section

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Honorable Mayor and Members of the Common Council
City of Middletown, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Middletown, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note 12 to the financial statements, during the fiscal year ended June 30, 2017, the City adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison information on pages 64 through 66 and the pension and OPEB schedules on pages 67 through 73 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown, Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and 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 or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the City of Middletown, Connecticut as of and for the year ended June 30, 2016 (not presented herein), and have issued our report thereon dated December 30, 2016, which contained unmodified opinions on the respective financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information. The accompanying General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows as of and for the year ended June 30, 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 2016 financial statements. The accompanying General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows have been subjected to the auditing procedures applied in the audit of the 2016 basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund balance sheet and Internal Service Funds statements of net position, revenues, expenses and changes in net position and cash flows are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2016.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017 on our consideration of the City of Middletown, Connecticut'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Middletown, Connecticut's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Middletown, Connecticut's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 29, 2017

CITY OF MIDDLETOWN, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This discussion and analysis of the City of Middletown, Connecticut's (City) financial performance is provided by management to provide an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read this MD&A in conjunction with the transmittal letter and the City's financial statements, Exhibits I to IX.

FINANCIAL HIGHLIGHTS

- Net position of the City's governmental activities decreased by \$10.4 million, or 3.1 percent.
- During the year, the City had expenses that were \$10.4 million more than the \$223.8 million generated in tax and other revenues for governmental programs.
- Total cost of all of the City's programs was \$234.2 million with no new programs added this year.
- The General Fund reported a fund balance this year of \$30.9 million.
- The resources available for appropriation exceeded budgetary estimates by \$3.2 million for the General Fund. Expenditures were kept within spending limits by 1.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (Exhibits I and II, respectively) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements are presented in Exhibit III to IX. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements

The analysis of the City as a whole begins on Exhibit I and II. The statement of net position and the statement of activities report information about the City as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. The City's net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets, to assess the overall health of the City.

In the statement of net position and the statement of activities, we divide the City into two types of activities:

- *Governmental activities* - Most of the City's basic services are reported here, including education, public safety, public works, human resources, culture and recreation, employee benefits and insurance, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
- *Component units* - The City includes two separate legal entities in its report; the Eastern Connecticut Resource Recovery Authority (ECRRA), and the Long Hill Estate Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by Charter. However, the City Council establishes many other funds to help control and manage financial activities for particular purposes (like the Fire District, Water Fund, Sewer Fund and Sanitation Fund) or to show that it is meeting legal responsibilities for using grants, and other money (like grants received from the Clean Water Fund, Block Grants and Special Education Grants). The City's funds are divided into three categories; governmental, proprietary and fiduciary.

- *Governmental funds (Exhibits III and IV)* - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- *Proprietary funds (Exhibits V, VI and VII)* - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. Internal service funds (the component of proprietary funds) are used to report activities that provide services for the City's other programs and activities - such as the City's Medical, Workers Compensation and Property and Liability Funds.
- *Fiduciary funds (Exhibits VIII and IX)* - The City is the trustee, or fiduciary, for its employees' pension plans. All of the City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position decreased from a year ago from \$351.9 million to \$341.4 million. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental activities.

TABLE 1
NET POSITION
(In Thousands)

	Governmental Activities	
	2017	2016
Current assets	\$ 135,902	\$ 114,444
Capital assets, net of accumulated depreciation	<u>382,577</u>	<u>377,862</u>
Total assets	<u>518,479</u>	<u>492,306</u>
Deferred outflows of resources	<u>19,587</u>	<u>41,072</u>
Long-term liabilities outstanding	171,880	157,479
Other liabilities	<u>29,648</u>	<u>27,239</u>
Total liabilities	<u>201,528</u>	<u>184,718</u>
Deferred inflows of resources	<u>5,538</u>	<u>7,262</u>
Net Position:		
Net investment in capital assets	263,979	269,612
Restricted	1,309	1,234
Unrestricted	<u>65,712</u>	<u>70,552</u>
Total Net Position	<u>\$ 331,000</u>	<u>\$ 341,398</u>

Net position of the City's governmental activities decreased by 3.1 percent (\$331.0 million compared to \$341.4 million). Decrease in net position is mainly attributable to the decrease in net OPEB obligation. Capital assets increased by \$4.7 million while long-term liabilities increased by \$6.2 million. The City's has an aggressive debt repayment philosophy which results in the rapid payment for capital asset additions.

TABLE 2
CHANGE IN NET POSITION
(In Thousands)

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 21,250	\$ 22,711
Operating grants and contributions	54,565	49,251
Capital grants and contributions	5,224	4,854
General revenues:		
Property taxes	121,492	115,937
Grants and contributions not restricted to specific programs	14,019	12,650
Unrestricted investment earnings	495	217
Other general revenues	5,982	4,323
Total revenues	<u>223,027</u>	<u>209,943</u>
Program expenses:		
General government	17,404	17,150
Public safety	39,394	40,453
Public works	14,509	13,161
Health and human services	1,686	1,601
Culture and recreation	5,749	5,641
Employee benefits and insurance	18,980	15,781
Education	119,861	112,623
Sewer	7,561	6,073
Water	4,087	3,841
Sanitation	1,827	1,662
Interest on long-term debt	2,367	2,501
Total program expenses	<u>233,425</u>	<u>220,487</u>
Increase (Decrease) in Net Position	(10,398)	(10,544)
Net Position at Beginning of Year	<u>341,398</u>	<u>351,942</u>
Net Position at End of Year	<u>\$ 331,000</u>	<u>\$ 341,398</u>

The City's total revenues were \$223.8 million. The total cost of all programs and services was \$234.2 million. Our analysis below considers the operations of governmental activities.

Governmental Activities

More than 54.3 percent of the revenues were derived from property taxes, followed by 24.7 percent from operating grants, then 9.5 percent from charges for services.

Major revenue factors included:

- Property tax revenues recorded for fiscal year 2017 reflects an increase in the City's tax rate and virtually no change in the total assessed value of all taxable property.
- Operating Grants and contributions increased by 6.1 million mainly attributable to increased education grants received from the State of Connecticut.
- Capital grants increased by .4 million, which is mainly due to the continuing Clean Water Projects under construction.

For governmental activities, more than 51.4 percent of the City's expenses relate to education, 16.9 percent relate to public safety, general government (7.5 percent), employee benefits and insurance (8.1 percent), and public works (6.2 percent).

Major expense factors include:

- Increases in total program expenses is attributable to an increase in public safety expenses mainly due to a decrease in accruals for various liabilities including pension.
- The cost of education services increased due to accrual basis changes in other post-employment benefits and the expenses related to state teachers retirement plan.

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

As the City completed the year, its governmental funds (as presented in the balance sheet - Exhibit III) reported a combined fund balance of \$41.6 million, which is an increase from last year's total of \$5.4 million. The fund balance for the Capital Project's Fund decreased by \$6.1 million dollars mainly due to issuance of debt.

General Fund Budgetary Highlights

Tax collections were favorable by \$1.8 million primarily due to continued increase in delinquent tax collections. Charges for services were favorable by \$.6 million with the majority of this coming from increased activity with police extra duty.

Under the intergovernmental section, the City experienced a favorable revenue variance of \$.1 million which is mainly due to accurate budgeting.

The aforementioned items, when combined with the planned use of fund balance to minimize the annual tax impact to City residents, resulted in completing the June 30, 2017 year with an unassigned fund balance of \$24.7 million.

The City continues to experience a variety of favorable events, most related to a planned expenditure cut back, that favorably impacted expenses during the fiscal year.

These events include:

	(in thousands)	
General government	\$	431
Public safety		286
Public works		47
Parks and recreation		31
Other		<u>721</u>
Total	\$	<u><u>1,516</u></u>

The City's General Fund balance of \$30.9 million reported on Exhibit III differs from the General Fund's budgetary fund balance of \$29.5 million. This is principally because budgetary fund balance includes \$1.4 million of outstanding encumbrances at year end which are reported as expenditures for budgetary purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the City had \$382.6 million invested in a broad range of capital assets, including land, buildings, park facilities, vehicles and equipment, roads, bridges, and water and sewer lines - Table 3.

TABLE 3
CAPITAL ASSETS AT YEAR-END (Net of Depreciation)
(In Millions)

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Land	\$ 18.7	\$ 18.7
Infrastructure	128.2	131.8
Buildings and improvements	141.2	146.1
Machinery, equipment and building contents	11.9	11.7
Construction in progress	<u>82.6</u>	<u>69.6</u>
Total	<u><u>\$ 382.6</u></u>	<u><u>\$ 377.9</u></u>

The City capital assets increase for 2017 is mainly attributable to continued clean water projects and other various projects throughout the City.

More detailed information about the City's capital assets is presented in Notes 1 and 5 to the financial statements.

Long-Term Debt

At June 30, 2017, the City had \$92.6 million in bonds outstanding versus \$86.4 million last year, an increase of 7.2 percent - as shown in Table 4.

TABLE 4
OUTSTANDING DEBT, at Year-End
(In Millions)

	Governmental Activities	
	2017	2016
General Obligation Bonds	\$ 92.6	\$ 86.4

The City's general obligation bond rating continues to carry a AAA rating with Standard & Poor's Rating Services. The State limits the amount of general obligation debt that towns can issue based on formula determined under State Statutes based on type of debt and tax base. The City's outstanding general obligation debt is significantly below this \$876 million state-imposed limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City is currently 4.2 percent compared with the prior year of 5.7 percent.

The appropriation for expenditures totaled \$157.8 million in the adopted budget for the 2017-2018 fiscal year representing an increase of 2.0 percent compared to the final amended budget for fiscal year ended June 30, 2017. The City is anticipating using \$4.8 million of assigned General Fund fund balance to balance budgeted operations for the 2017-2018 fiscal year.

The City's elected and appointed officials considered many factors when establishing the tax mill rate of 42.4 for the adopted budget for the 2017-2018 fiscal year. There was an increase of 2.9% from the mill rate established for the 2016-2017 fiscal year.

The City, while cautiously optimistic, is quite concerned about the State of Connecticut budget and the impact balancing the State budget may have on the City. Approximately one-fourth of the City's budget revenues are derived from revenues received from the State of Connecticut. The vast majority of the State revenues come to the City in the form of Educational Cost Sharing Grants (ECS) which provide a direct subsidy to the local school system.

This is a difficult year for the State of Connecticut due to shortfalls in State revenues resulting from the current state of our economy. Section 52 of Public Act 02-1 allows the Governor, on or after October 1, 2002, to reduce certain allotments, including grants to municipalities, by up to 5 percent. Any State reduction over \$750,000 would result in a budget revenue shortfall and would reduce the City's undesignated General Fund fund balance and/or increase the property tax rate in fiscal year 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, City of Middletown, 245 DeKoven Drive, Middletown, Connecticut 06457.

Basic Financial Statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION
JUNE 30, 2017
(In Thousands)

	Primary Governmental Activities	Component Units	
		ECRRA	Long Hill Estate
Assets:			
Cash and cash equivalents	\$ 66,961	\$ 814	\$ 693
Investments	11,509		116
Receivables, net	19,727	2,596	
Inventories	39		
Net pension asset	37,666		
Other assets		309	
Restricted assets:			
Cash and cash equivalents		8,783	
Investments		11,134	
Capital assets:			
Assets not being depreciated	101,337		
Assets being depreciated, net	281,240	42,429	
Total assets	<u>518,479</u>	<u>66,065</u>	<u>809</u>
Deferred Outflows of Resources:			
Deferred outflows related to pension	<u>19,587</u>		
Liabilities:			
Accounts and other payables	13,397	3,997	24
Unearned revenue	683		303
Note payable	15,568		
Noncurrent liabilities:			
Due within one year	19,889	11,694	
Due in more than one year	151,991	26,909	
Total liabilities	<u>201,528</u>	<u>42,600</u>	<u>327</u>
Deferred Inflows of Resources:			
Deferred inflows related to pension	<u>5,538</u>		
Net Position:			
Net investment in capital assets	263,979	14,960	
Restricted for:			
Debt service		8,783	
Trust purposes:			
Expendable	72		
Nonexpendable	1,237		
Unrestricted	<u>65,712</u>	<u>(278)</u>	<u>482</u>
Total Net Position	<u>\$ 331,000</u>	<u>\$ 23,465</u>	<u>\$ 482</u>

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Primary	Component Units	
					Governmental Activities	ECRRA	Long Hill Estate
Primary Government:							
Governmental activities:							
General government	\$ 17,404	\$ 4,046	\$ 121	\$	\$ (13,237)	\$	\$
Public safety	39,394	1,715	1,772		(35,907)		
Public works	14,509	387	91	5,147	(8,884)		
Health and human resources	1,686		66		(1,620)		
Culture and recreation	5,749	752	175	77	(4,745)		
Employee benefits and insurance	18,980				(18,980)		
Education	119,861	541	52,340		(66,980)		
Sewer	7,561	7,441			(120)		
Water	4,087	4,527			440		
Sanitation	1,827	1,841			14		
Interest on long-term debt	2,367				(2,367)		
Total Primary Government - Governmental Activities	\$ 233,425	\$ 21,250	\$ 54,565	\$ 5,224	(152,386)	-	-
Component Units:							
ECRRA	\$ 22,896	\$ 30,302	\$	\$		7,406	
Long Hill Estate	534	647		1			114
Total Component Units	\$ 23,430	\$ 30,949	\$ -	\$ 1	-	7,406	114
General revenues:							
Property taxes					121,492		
Grants and contributions not restricted to specific programs					14,019		
Unrestricted investment earnings					495	627	2
Miscellaneous					5,982		
Total general revenues					141,988	627	2
Change in net position					(10,398)	8,033	116
Net Position at Beginning of Year					341,398	15,432	366
Net Position at End of Year					\$ 331,000	\$ 23,465	\$ 482

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017
(In Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 19,175	\$ 80	\$ 12,345	\$ 16,116	\$ 47,716
Investments	10,280			1,229	11,509
Receivables, net	6,259		5,459	4,887	16,605
Due from other funds	6,700				6,700
Inventories				39	39
Total Assets	<u>\$ 42,414</u>	<u>\$ 80</u>	<u>\$ 17,804</u>	<u>\$ 22,271</u>	<u>\$ 82,569</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts and other payables	\$ 6,095	\$	\$ 4,064	\$ 1,906	\$ 12,065
Due to other funds			6,293	407	6,700
Note payable			15,568		15,568
Unearned revenue				683	683
Total liabilities	<u>6,095</u>	<u>-</u>	<u>25,925</u>	<u>2,996</u>	<u>35,016</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	<u>5,378</u>			<u>603</u>	<u>5,981</u>
Fund Balances:					
Nonspendable				39	39
Restricted		80		4,081	4,161
Committed				15,235	15,235
Assigned	6,230				6,230
Unassigned	24,711		(8,121)	(683)	15,907
Total fund balances	<u>30,941</u>	<u>80</u>	<u>(8,121)</u>	<u>18,672</u>	<u>41,572</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 42,414</u>	<u>\$ 80</u>	<u>\$ 17,804</u>	<u>\$ 22,271</u>	<u>\$ 82,569</u>

(Continued on next page)

CITY OF MIDDLETOWN, CONNECTICUT
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2017
(In Thousands)

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position (Exhibit I) are different because of the following:

Fund balances - total governmental funds	\$	41,572
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$	656,396
Less accumulated depreciation		<u>(273,819)</u>
Net capital assets		382,577
Other long-term assets and deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:		
Net pension asset		37,666
Property tax receivables greater than 60 days		5,981
Interest receivable on property taxes		2,466
Interest receivable on water, sewer and sanitation		657
Deferred outflows related to pension		19,587
Internal service funds are used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net position.		
		10,880
Long-term liabilities, including bonds payable and deferred inflows of resources, are not due and payable in the current period and therefore, are not reported in the funds:		
Bonds and notes payable		(92,642)
Interest payable on bonds and notes		(917)
Compensated absences		(7,823)
OPEB obligation		(53,078)
Bond premium		(10,388)
Deferred inflows related to pension		<u>(5,538)</u>
Net Position of Governmental Activities (Exhibit I)	\$	<u><u>331,000</u></u>

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 109,846	\$	\$	\$ 10,953	\$ 120,799
Licenses and permits	1,378				1,378
Intergovernmental	45,596		2,617	24,954	73,167
Charges for services	4,752			14,308	19,060
Investment income	209			257	466
Miscellaneous	4,574		1,076	1,652	7,302
Total revenues	<u>166,355</u>	<u>-</u>	<u>3,693</u>	<u>52,124</u>	<u>222,172</u>
Expenditures:					
Current:					
General government	9,948	309		852	11,109
Public safety	16,017			12,019	28,036
Public works	4,995				4,995
Health and human resources	1,628			34	1,662
Culture and recreation	5,238			442	5,680
Employee benefits and insurance	20,680				20,680
Education	93,117			22,961	116,078
Sewer				7,620	7,620
Water				4,040	4,040
Sanitation				1,826	1,826
Capital outlay	93		16,566	4,166	20,825
Debt service:					
Principal retirement		12,712			12,712
Interest and fiscal charges		3,415			3,415
Total expenditures	<u>151,716</u>	<u>16,436</u>	<u>16,566</u>	<u>53,960</u>	<u>238,678</u>
Excess (Deficiency) of Revenues over Expenditures	<u>14,639</u>	<u>(16,436)</u>	<u>(12,873)</u>	<u>(1,836)</u>	<u>(16,506)</u>
Other Financing Sources (Uses):					
Bond and serial notes			19,000		19,000
Bond premium	2,862				2,862
Transfers in	521	16,434		1,640	18,595
Transfers out	(14,889)		(71)	(3,599)	(18,559)
Total other financing sources (uses)	<u>(11,506)</u>	<u>16,434</u>	<u>18,929</u>	<u>(1,959)</u>	<u>21,898</u>
Net Change in Fund Balances	3,133	(2)	6,056	(3,795)	5,392
Fund Balances at Beginning of Year	<u>27,808</u>	<u>82</u>	<u>(14,177)</u>	<u>22,467</u>	<u>36,180</u>
Fund Balances at End of Year	<u>\$ 30,941</u>	<u>\$ 80</u>	<u>\$ (8,121)</u>	<u>\$ 18,672</u>	<u>\$ 41,572</u>

(Continued on next page)

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$	5,392
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Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	16,504
Depreciation expense	(11,569)

The statement of activities reports losses arising from the trade-in of existing capital assets to acquire new capital assets. Conversely governmental funds do not report any gain or loss on a trade-in of capital assets.	(220)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

Property tax receivable - accrual basis change	454
Property tax interest and lien revenue - accrual basis change	238
Water, sewer, sanitation interest receivable - accrual change	73
Change in deferred outflows related to pension	(21,485)
Change in deferred inflows related to pension	1,724

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond principal payments	12,712
Issuance of bonds and notes	(19,000)
Premium on bonds	(2,862)

Change in net pension asset	11,044
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(723)
OPEB obligation	(5,480)
Bond premium amortization	1,133
Accrued interest	(85)

Internal service funds are used by management to charge costs to individual funds. The net revenue of certain activities of internal services funds is reported with governmental activities.	<u>1,752</u>
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Change in Net Position of Governmental Activities (Exhibit II)	<u>\$</u>	<u>(10,398)</u>
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The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017
(In Thousands)

	Governmental Activities
	Internal Service Funds
Assets:	
Cash and cash equivalents	\$ <u>19,245</u>
Liabilities:	
Current liabilities:	
Accounts and other payables	416
Unpaid claims - current	<u>2,561</u>
Total current liabilities	2,977
Noncurrent liabilities:	
Unpaid claims - noncurrent	<u>5,388</u>
Total liabilities	<u>8,365</u>
Net Position:	
Unrestricted	\$ <u><u>10,880</u></u>

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	Governmental Activities Internal Service Funds
Operating Revenues:	
Charges for services	\$ 23,791
Other	3,494
Total operating revenues	<u>27,285</u>
Operating Expenses:	
Benefit payments	9,888
Administration	948
Insurance	14,748
Total operating expenses	<u>25,584</u>
Operating Income (Loss)	1,701
Nonoperating Revenue:	
Income on investments	<u>87</u>
Income Before Transfers	1,788
Transfers Out	<u>(36)</u>
Change in Net Position	1,752
Net Position at Beginning of Year	<u>9,128</u>
Net Position at End of Year	<u>\$ 10,880</u>

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities:	
Interfund services provided or used	\$ 23,791
Cash received for insurance reimbursements	3,494
Cash paid to vendors	(25,044)
Net cash provided by (used in) operating activities	<u>2,241</u>
Cash Flows from Noncapital Financing Activities:	
Transfers to other funds	(36)
Cash Flows from Investing Activities:	
Income on investments	<u>87</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,292
Cash and Cash Equivalents at Beginning of Year	<u>16,953</u>
Cash and Cash Equivalents at End of Year	<u>\$ 19,245</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 1,701
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Increase (decrease) in vouchers and other payables	<u>540</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 2,241</u>

The accompanying notes are an integral part of the financial statements

CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 7,147	\$ 2,812
Investments:		
Certificate of deposits		38
U.S. government securities	32,626	
Corporate bonds	111,954	
Common stock	96,243	
Mutual funds	164,351	
Receivables:		
Accrued investment income	863	
Total assets	<u>413,184</u>	<u>\$ 2,850</u>
Liabilities:		
Vouchers and other payables	222	\$
Due to student groups and others		<u>2,850</u>
Total liabilities	<u>222</u>	<u>\$ 2,850</u>
Net Position:		
Net Position Restricted for Pension and OPEB Benefits	<u>\$ 412,962</u>	

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	Pension and Other Employee Benefit Trust Funds
Additions:	
Contributions:	
Employer	\$ 12,931
Plan members	2,488
Other	10
Total contributions	<u>15,429</u>
Investment income (loss):	
Net change in fair value of investments	40,421
Interest and dividends	5,512
Total investment gain	<u>45,933</u>
Investment fees	<u>(797)</u>
Net investment income (loss)	<u>45,136</u>
Total additions	<u>60,565</u>
Deductions:	
Benefits	24,830
Other	
Total deductions	<u>24,830</u>
Net Increase (Decrease)	35,735
Net Position at Beginning of Year	<u>377,227</u>
Net Position at End of Year	<u>\$ 412,962</u>

The accompanying notes are an integral part of the financial statements

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Middletown, Connecticut (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the City are described below.

A. Reporting Entity

The City was incorporated in 1651. Its legal authority is derived from a Charter granted in 1874 that has been subsequently revised, most recently in 2014. The City operates under a Council-Mayor form of government. Services provided include education, water, sewer, refuse, streets and drainage, recreation and parks, police and fire, planning and zoning, community development and human resources.

Discretely Presented Component Units

The Eastern Connecticut Resource Recovery Authority (ECRRA) has been included in the City's reporting as a proprietary fund type in accordance with GAAP. As more fully explained in Note 11, ECRRA is a regional authority formed to provide solid waste disposal and a resource recovery system. At June 30, 2017, the City is the only member and accordingly, ECRRA is fiscally dependent because the City is responsible for paying ECRRA's debt and it is under the City's control. Additionally, ECRRA's financial position and operations are material to the financial statements of the City. Separate financial statements of ECRRA are available from the City's Office of the Mayor.

The Long Hill Estate Authority (Authority) has been included in the City's reporting as a governmental fund type in accordance with GAAP. The Authority was established by ordinance to operate and maintain the former Wadsworth/Cenacle property. The City will maintain ownership of the facility and retire the debt issued to make renovations. The City Council appoints the Authority's nine-member board and, although the Authority is legally separate from the City, it is fiscally dependent upon the City because the City is responsible for paying the Authority's debt. Separate financial statements of the Authority are available from the Authority's offices, 421 Wadsworth Street.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the City is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise 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, as are the proprietary fund and pension trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, charges for services, 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 fiscal period. Only the portion of special assessments receivable due within the current fiscal 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.

The City reports the following major governmental funds:

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

The Debt Service Fund accounts for the payment of principal and interest on long-term debt of the City.

The Capital Project Fund accounts for financial resources to be used for the acquisition or construction of major capital assets.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for the risk management activity of the City.

The Pension and Other Employee Benefit Trust Funds account for the activities of the defined benefit pension plans and Other Post Employment Benefits Trust Fund, which accumulate resources for pension and health benefit payments to qualified employees upon retirement.

The Agency Funds are used to account for assets held by the City in an agent capacity for individuals, private organizations or other governments. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds include Escrow Account Fund and Board of Education Activity Fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between certain City's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 property taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges to customers for risk management. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned

D. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City, ECRRA and Long Hill Estate to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and certain other investments as described in Note 3.

Investments for the City, as well as for its component units, are reported at fair value.

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

E. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles. Allowances for uncollectibles are computed based on historical data. Property taxes allowance represents 2.2% of outstanding amounts.

Real, personal and motor vehicle property taxes are levied on the assessed value at the rate enacted by the Common Council in the annual budget ordinance.

Property taxes are levied on all assessed property on the Grand List of October 1 prior to the beginning of the fiscal year and are billed on the following July 1 and January 1. Taxes are overdue on August 1 and February 1. Interest at the rate of 1-1/2% per month accrues on all overdue taxes. If taxes are unpaid as of June 30, following the payable date, a lien is placed on the real property. Property assessments are made at 70% of the market value.

Property tax revenues are recognized when they become measurable and available. Available means then due, or past due and collectible within 60 days of the end of the current period.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. Restricted Assets

Because of certain bond covenants, ECRRA is required to establish and maintain prescribed amounts of resources (consisting of cash and cash equivalents) that can be used only for servicing outstanding debt and other indenture requirements.

H. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	25
Infrastructure	35-70
Equipment	15
Vehicles	7
Office equipment	7
Computer equipment	7

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows related to pension. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The City reports a deferred inflow of resources related to pensions. A deferred inflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees). For governmental funds, the City reports unavailable revenue, which arises only under the modified accrual basis of accounting. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

J. Net Pension Asset

The net pension asset is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension asset), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension asset is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

K. Net OPEB Obligation

The net OPEB obligation represents the cumulative difference between the annual OPEB cost and the City's contributions to the plan. These amounts are calculated on an actuarial basis and are recorded as noncurrent liabilities in the government-wide financial statements.

L. Termination Benefits

Sick Leave and Vacation Benefits

Employees may accumulate a limited amount of vested vacation and unused sick leave. At year end, accumulated vacation and unused sick leave was valued at \$7,823. The General Fund generally funds the cost associated with compensated absences.

M. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any significant applicable bond premium or discount. Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditure.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Fund Equity

Equity in the government-wide financial statements is defined as "net position" and is classified in the following categories:

Net Invested in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted

Net position is restricted because they are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This component consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)**

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance

This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance

This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance

This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (City of Middletown Town Council). A commitment of fund balance and any subsequent modifications or rescission requires a resolution of the City of Middletown Town Council.

Assigned Fund Balance

This represents amounts constrained for the intent to be used for a specific purpose by the Board of Finance, which has been delegated authority to assign amounts by City Charter.

Unassigned Fund Balance

This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

O. Accounting 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 disclosures 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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City has an annual operating budget for the General Fund and budgets for certain Special Revenue Funds: Fire District Fund, Sanitary Disposal District Fund, Water Fund and Sewage Disposal Fund.

The City Charter requires the Mayor to submit a recommended operating budget for the General Fund and selected Special Revenue Funds to the Common Council by April 1. The budget provides a financial plan for the year and contains estimates of anticipated revenues and proposed expenditures. After public hearings a final budget is adopted by the Common Council by May 15.

The budget allocations among the various organizational units, as revised by the Common Council through year-end, are included in the budget-to-actual comparisons. Total budgeted expenditures in the budget-to-actual comparison agree with the Common Council appropriations. These budgetary comparisons are made at the sub-function level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of sub-function balances are not released until additional appropriations are made available.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

Any revisions that alter the total expenditures of any department of the General Fund must be approved by the City Council. In addition, any revisions that alter the total budget of Special Revenue funds must be approved by the City Council. During the year General Fund appropriations increased in the amount of \$1,910. All budget amendments were processed in accordance with Charter provisions.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Deficit Fund Equity

The City has the following fund deficits at June 30, 2017:

	<u>Amount</u>
Capital Projects Fund*	\$ 8,121
Nonmajor Governmental Funds:	
Special Revenue Funds:	
School Cafeteria Fund **	644

* Deficit will be eliminated with future bond proceeds

** Deficit will be eliminated through future appropriations

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies; (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

Deposits

Deposit Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposit will not be returned. The City does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by the Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository’s risk based capital ratio.

City

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$54,569 of the City’s bank balance of \$56,340 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 48,937
Uninsured and collateral held by the pledging bank’s trust department, not in the City’s name	<u>5,632</u>
Total Amount Subject to Custodial Credit Risk	<u>\$ 54,569</u>

Long Hill Estate Authority

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$831 of the Authority’s bank balance of \$834 was insured or collateralized.

Cash Equivalents

City

At June 30, 2017, the City’s cash equivalents amounted to \$20,978. The following table provides a summary of the City’s cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	<u>Standard & Poor’s</u>	<u>Fitch Ratings</u>
State Short-Term Investment Fund (STIF)	AAAm	
GYL Financial Synergies*		

*Not rated

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

ECRRA

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2017, ECRRA's cash equivalents amounted to \$9,597. ECRRA's cash equivalents are primarily bank and government instruments that are not rated by nationally recognized statistical rating organizations.

Investments

City

As of June 30, 2017, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
		<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
Interest-bearing investments:				
Certificates of deposit	\$ 10,318	\$ 10,318	\$	\$
U.S. government securities	32,625		4,442	28,183
Corporate bonds	<u>111,954</u>	<u>3,405</u>	<u>67,048</u>	<u>41,501</u>
Total	154,897	\$ <u>13,723</u>	\$ <u>71,490</u>	\$ <u>69,684</u>
Other Investments:				
Mutual funds	165,436			
Common stock	<u>96,388</u>			
Total Investments	\$ <u>416,721</u>			

*Subject to coverage by Federal Depository Insurance and collateralization.

Long Hill Estate Authority

As of June 30, 2017, the Authority had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
Interest-bearing investments:					
Certificates of Deposit	*	\$ <u>116</u>	\$ <u>116</u>	\$ -	\$ -

* Subject to coverage by Federal Depository Insurance and collateralization.

**CITY OF MIDDLETOWN, CONNECTICUT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017
 (IN THOUSANDS)**

ECRRA

As of June 30, 2017, ECRRA had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
Interest-bearing investments:					
MBIA Investment Agreements	*	\$ <u>11,334</u>	\$ _____	\$ <u>11,334</u>	\$ _____

* Subject to coverage by Federal Depository Insurance and collateralization.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments

As indicated above, State Statutes limit the investment options of cities and towns. The City has no investment policy that would further limit its investment choices. The following table provides a summary of the City's investments (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

City

<u>Average Rating</u>	<u>Corporate Bonds</u>	<u>U.S. Government Securities</u>	<u>Certificate of Deposit</u>
Aaa	\$ 3,231	\$ 32,625	\$
Aa1	1,747		
Aa2	5,715		
Aa3	6,275		
A1	22,192		
A2	11,619		
A3	21,061		
Baa1	8,886		
Baa2	3,042		
Baa3	3,965		
Ba1	915		
Ba2	615		
Ba3	1,657		
B1	1,222		
B2	1,316		
B3	1,208		
Caa1	974		
Caa2	224		
Caa3	41		
Unrated	<u>16,049</u>	<u> </u>	<u>10,318</u>
	<u>\$ 111,954</u>	<u>\$ 32,625</u>	<u>\$ 10,318</u>

Concentration of Credit Risk

The City's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the City's total investments.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the City or that sells investments to or buys them for the City), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2017, the City's investments, other than open-end mutual funds and other pooled accounts that are not categorized as to custodial credit risk, were uninsured and unregistered securities held by the counterparty, or by its trust department or agent, and were not in the City's name.

CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017
(IN THOUSANDS)

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements); followed by quoted prices in inactive markets or for similar assets or with observable inputs (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements). The City has the following recurring fair value measurements as of June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level:				
U.S. Government Securities	\$ 32,625	\$ 32,625	\$	\$
Corporate Bonds	111,954	111,954		
Common Stock	96,388	96,388		
Mutual Funds	165,436	165,436		
Total Investments by Fair Value Level	<u>\$ 406,403</u>	<u>\$ 406,403</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

4. RECEIVABLES

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 6,149	\$	\$ 654	\$ 6,803
Interest*			863	863
Accounts and other	230		3,114	3,344
Intergovernmental		5,459	1,119	6,578
Gross receivables	<u>6,379</u>	<u>5,459</u>	<u>5,750</u>	<u>17,588</u>
Less allowance for uncollectibles	<u>120</u>			<u>120</u>
Total Net Receivables	<u>\$ 6,259</u>	<u>\$ 5,459</u>	<u>\$ 5,750</u>	<u>\$ 17,468</u>

* Does not include interest on property taxes \$2,466 and interest on water, sewer and sanitation receivables \$657.

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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,653	\$ 115	\$ (22)	\$ 18,746
Construction in progress	69,598	14,604	(1,611)	82,591
Total capital assets not being depreciated	<u>88,251</u>	<u>14,719</u>	<u>(1,633)</u>	<u>101,337</u>
Capital assets being depreciated:				
Buildings	244,658	129	(228)	244,559
Machinery, equipment and building contents	32,860	2,096	(1,019)	33,937
Infrastructure	275,392	1,193	(22)	276,563
Total capital assets being depreciated	<u>552,910</u>	<u>3,418</u>	<u>(1,269)</u>	<u>555,059</u>
Less accumulated depreciation for:				
Buildings	(98,544)	(4,977)	172	(103,349)
Machinery, equipment and building contents	(21,192)	(1,747)	857	(22,082)
Infrastructure	(143,563)	(4,845)	20	(148,388)
Total accumulated depreciation	<u>(263,299)</u>	<u>(11,569)</u>	<u>1,049</u>	<u>(273,819)</u>
Total capital assets being depreciated, net	<u>289,611</u>	<u>(8,151)</u>	<u>(220)</u>	<u>281,240</u>
Governmental Activities Capital Assets, Net	<u>\$ 377,862</u>	<u>\$ 6,568</u>	<u>\$ (1,853)</u>	<u>\$ 382,577</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 3,399
Public safety	850
Public works	5,014
Education	<u>2,306</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 11,569</u>

CITY OF MIDDLETOWN, CONNECTICUT
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Construction Commitments

The City has active construction projects as of June 30, 2017. The projects include roads, bridges, water and sewer lines and school building improvements. At year end the City's commitments with contractors are as follows:

	<u>Spent-to-Date</u>	<u>Project Balance</u>
City Public Parking Improvement Construction	\$ 534	\$ 65
Parking Public Safety/Security Improve	501	99
Plan, Design, Cons, Portable Water Infrastructure	563	187
Middletown Youth Soccer	353	2
Athletic Fields/Parks	8,996	24,454
Military Museum	263	37
Eckersley Hall	744	6
Rehab Main St. Water Main N of Wash	1,679	251
CSO 2007 BI Sewer/Separation	5,734	2,886
Design Acquire/Constr W/Mattabassett	35,357	1,643
Eckersley Hall-Plan, Impr,Const, Restore	4,426	424
Wesleyan Tennis Courts	749	1
Dingwall-Horan Firearm Design and Construction	5	745
Dingwall Firearm Enviro Remediation	-	750
2007 Road Improv. Bond	9,815	160
Water and Sewer Improvements	4,091	409
Plan, Design, Construct Replace W&S Mains	207	4,048
Water Planning Improvements	209	41
Installation of Water System (SCADA)	242	8
John S. Roth Treatment Plant Improvements	74	236
Sewer System Pump Station	461	9
Charles Bacon Plant Improvements Water	532	193
Integrated Public Safety Software	744	1
Information Technology Infrastructure	741	4
Acquisition/Implement Technology Project	442	14
Information Technology System & Devices	593	32
Pur/Install Telephone System City BLDGS	635	50
City Info Technology Storage Infrastructure	693	43
CNR Ordinance 2012-2013	536	49
CNR Ordinance 13/14	748	2
CNR Ordinance 2014-2015	715	8
CNR Ordinance 2015-2016	594	133
CNR Ordinance 2016-2017	722	28
Radio Communications Upgrades	9,871	2,229
Sidewalks, Curbing & Driveway Aprons	78	422
Citywide Streets Poles & Equip	1,125	25
2013 Road, Sidewalk & PW Facilities	6,894	8,306
Keigwin Middle Sch Parking Lot	416	34
Keigwin Middle Sch Fire Alarm System	161	4
Asbestos Abatement/Woodrow Wilson Middle	372	63
Woodrow Wilson Middle	744	5
Wired & Wireless Network MHS	330	13
Powerschool Info Sys Mdtwn Schools	134	1
Jackson Street Bridge	122	158
Renovation & Improve Russell Library	692	57
Physical Inspect & Reval Real Property	723	27
Sanitary Sewers	1,882	618
Road Bond 2005	9,450	400
Mill Street Bridge	1,476	261
Rehab Sani S&W Infrastructure/Middle St.	1,231	69
2011 Road Bond	11,062	3,108
Plan, Design, Const, Repl, Sani Sewer Infrass	307	193
BI Force Main & Pump Station w/Mattabasset	1,207	1,793
Combined Sewer Overflow Separation	177	7,573
Mattabassett Regionalization Project	13,087	1,913
Waterline Improv. Arrigoni Bridge	327	23
CSO Road Improvement	7,338	2,562
2001 Road Improvement Bond	6,745	55
Open Space	2,984	16
Middletown High School BI	106,549	101
Security Measures at City Hall	630	120
Web Base Security Sys School Citywide	710	40
Purchase Vehicles & Related Equipment	608	49
	<u>270,130</u>	<u>67,256</u>
Total	\$ <u>270,130</u>	\$ <u>67,256</u>

**CITY OF MIDDLETOWN, CONNECTICUT
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The commitments are being financed as follows:

School projects are financed by bonds and grants from the State Department of Education.

Sewer projects are financed by grants and 2% loans from the State Department of Environmental Protection.

Other projects are primarily funded by City general obligation bonds.

Discretely Presented Component Units

Activity for ECRRA for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and systems	\$ 109,901	\$	\$	\$ 109,901
Less accumulated depreciation for:				
Buildings and systems	<u>(64,329)</u>	<u>(3,143)</u>	<u> </u>	<u>(67,472)</u>
ECRRA Capital Assets, Net	<u>\$ 45,572</u>	<u>\$ (3,143)</u>	<u>\$ -</u>	<u>\$ 42,429</u>

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2017, the amounts due to and from other funds were as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 6,700	\$
Nonmajor - Special Revenue Funds:		
Special Grants		407
Capital Projects Fund	<u> </u>	<u>6,293</u>
Total	<u>\$ 6,700</u>	<u>\$ 6,700</u>

The above balances represent temporary advances for operating cash requirements.

**CITY OF MIDDLETOWN, CONNECTICUT
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Interfund transfers:

	Transfers In			
	General Fund	Debt Service Fund	Nonmajor Governmental	Total
Transfers out:				
General Fund	\$	\$ 13,249	\$ 1,640	\$ 14,889
Nonmajor Governmental	485	3,114		3,599
Capital Projects		71		71
Internal Service Funds	36			36
Total Transfers Out	\$ 521	\$ 16,434	\$ 1,640	\$ 18,595

Transfers are for regularly recurring operational transfers. Interfund transfers are used to 1) to move revenues from the General Fund, Nonmajor Governmental Funds and Capital Project Funds to the Debt Service Fund to pay for principal and interest on debt, and 2) to supplement revenues to other funds such as General Fund and Nonmajor Governmental Funds as approved by Town Council.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 86,354	\$ 19,000	\$ 12,712	\$ 92,642	\$ 13,271
Unamortized bond premium	8,659	2,862	1,133	10,388	1,318
Total bonds payable	95,013	21,862	13,845	103,030	14,589
Compensated absences	7,100	723		7,823	2,739
OPEB obligation	47,598	5,480		53,078	
Risk management	7,768	15,627	15,446	7,949	2,561
Total Governmental Activities Long-Term Liabilities	\$ 157,479	\$ 43,692	\$ 29,291	\$ 171,880	\$ 19,889

Governmental fund liabilities for bonds are liquidated by the Debt Service Fund, which is funded primarily from the General Fund. Compensated absences and other post-employment benefits of the governmental activities are liquidated primarily by the General Fund. Claims are liquidated by the Internal Service Funds, but primarily funded by the General Fund.

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Note Payable

The City has a note payable at June 30, 2017 of \$15,568, which was issued for the construction of the Mattabassett Project. The note carries a 2% interest rate and the principal becomes payable upon the permanent refinancing of the note payable.

The annual requirements to amortize bonds payable as of June 30, 2017, are as follows:

<u>Due Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 13,271	\$ 3,784	\$ 17,055
2019	12,373	3,261	15,634
2020	11,068	2,864	13,932
2021	11,068	2,452	13,520
2022	9,863	1,961	11,824
2023-2027	32,575	4,001	36,576
2028-2032	2,399	103	2,502
2033	25		25
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 92,642</u>	<u>\$ 18,426</u>	<u>\$ 111,068</u>

**CITY OF MIDDLETOWN, CONNECTICUT
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Bonds payable at June 30, 2017 are comprised of the following:

<u>Date</u>	<u>Purpose</u>	<u>Rate %</u>	<u>Original Issue</u>	<u>Debt Outstanding</u>	<u>Date of Fiscal Year Maturity</u>
4/30/1998	Clean Water Fund	2%	\$ 1,832	\$ 27	2018
4/30/2002	Clean Water Fund	2%	3,526	751	2022
6/30/2006	Clean Water Fund	2%	1,574	630	2025
3/15/2007	General Purpose	3.875-4%	7,741	774	2018
3/15/2007	Water	3.875-4%	800	80	2018
3/15/2007	Sewer	3.875-4%	2,309	231	2018
3/15/2007	Schools	3.875-4%	16,850	1,685	2018
3/15/2008	General Purpose	3.25-4.5%	3,814	763	2019
3/15/2008	Water	3.25-4.5%	36	7	2019
3/15/2008	Sewer	3.25-4.5%	860	172	2019
3/15/2008	Schools	3.25-4.5%	8,340	1,668	2019
8/31/2008	Clean Water Fund	2%	1,975	934	2025
4/15/2010	General Purpose	3-5%	6,248	2,499	2021
4/15/2010	Water	3-5%	2,708	1,083	2021
4/15/2010	Sewer	3-5%	892	357	2021
4/15/2010	Schools	3-5%	1,052	421	2021
4/1/2011	General Purpose	2-4%	7,712	3,856	2022
4/1/2011	Water	2-4%	1,056	528	2022
4/1/2011	Sewer	2-4%	132	66	2022
4/10/2013	General Purpose	2-4%	24,323	17,017	2024
4/10/2013	Water	2-4%	1,787	1,250	2024
4/10/2013	Sewer	2-4%	1,030	721	2024
4/10/2013	Schools	2-4%	760	532	2024
9/30/2013	Clean Water Fund	2%	1,993	1,520	2033
3/18/2015	General Purpose	2-5%	22,837	20,556	2026
3/18/2015	Water	2-5%	4,013	3,609	2026
3/18/2015	Sewer	2-5%	2,992	2,691	2026
3/18/2015	Schools	2-5%	2,458	2,214	2026
4/14/2016	General Purpose	3-4%	7,000	7,000	2027
4/12/2017	General Purpose	3-5%	19,000	19,000	2028
			<u>\$ 157,650</u>	<u>\$ 92,642</u>	

Bonds authorized and unissued amounted to \$69.4 million at June 30, 2017.

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The total of the City’s indebtedness does not exceed the legal debt limitation of \$876 million. The limitation is seven times the base of annual receipts from taxation as defined.

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
General purpose	\$ 281,795	\$ 122,123	\$ 159,672
Schools	563,590	7,081	556,509
Sewer	469,659	40,776	428,883
Urban Renewal	407,037		407,037
Pension deficit	375,727		375,727

ECRRA long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable:					
Revenue bonds	\$ 49,709	\$	\$ 10,780	\$ 38,929	\$ 11,825
Less deferred amounts for issuance discounts	(457)		(131)	(326)	(131)
Business-Type Activity Long-Term Liabilities	\$ <u>49,252</u>	\$ <u>-</u>	\$ <u>10,649</u>	\$ <u>38,603</u>	\$ <u>11,694</u>

ECRRA bonded debt at June 30, 2017 amounted to \$38,929. The following schedule reflects debt service requirements for each 12-month period ending January 1:

<u>Due Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 11,825	\$ 2,224	\$ 14,049
2019	12,935	1,549	14,484
2020	<u>14,169</u>	<u>810</u>	<u>14,979</u>
Total	\$ <u>38,929</u>	\$ <u>4,583</u>	\$ <u>43,512</u>

**CITY OF MIDDLETOWN, CONNECTICUT
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8. RESTRICTED ASSETS

The balances of the restricted asset accounts for ECRRA are as follows:

Construction Funds	\$	434
Debt Service Reserve Fund		11,134
Interest Funds		1,585
Sinking Fund		5,945
Special Reserve Fund		<u>819</u>
 Total Restricted Assets	 \$	 <u><u>19,917</u></u>

9. FUND BALANCE

The component of fund balance for the governmental funds at June 30, 2017 are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
Inventory	\$	\$	\$	\$ 39	\$ 39,000
Restricted for:					
Grants				2,772	2,772
Permanent funds				1,309	1,309
Debt service		80			80
Committed to:					
Fire District				1,042	1,042
Sanitary Disposal District				998	998
Water distribution operations				5,236	5,236
Landfill waste and recycling				296	296
Sewer operations				2,804	2,804
Sewage disposal				2,297	2,297
Police benevolence				3	3
Library				54	54
Parking District				187	187
Capital projects				2,317	2,317
Assigned to:					
General government encumbrances	717				717
Public safety encumbrances	100				100
Public works encumbrances	128				128
Health and human resources encumbrances	13				13
Culture and recreation encumbrances	70				70
Education encumbrances	400				400
Assigned for subsequent year's budget	4,802				4,802
Unassigned	<u>24,711</u>		<u>(8,121)</u>	<u>(683)</u>	<u>15,907</u>
Total Fund Balances	<u>\$ 30,941</u>	<u>\$ 80</u>	<u>\$ (8,121)</u>	<u>\$ 18,672</u>	<u>\$ 41,572</u>

10. RISK MANAGEMENT

The City is exposed to various risks of loss including, but not limited to claims for personal injury and property damage; theft of, damage to City property; errors and omissions claims; employee injuries and illnesses, both work-related and non-work-related. The City's comprehensive insurance program including property and liability, workers' compensation and employee health benefits is overseen by the Office of the General Counsel.

Property and Casualty Insurance Program

The City maintains property coverage (amounts not rounded) as listed below:

Automobile Physical Damage coverage includes actual cash value, subject to a \$25,000 deductible for both comprehensive and collision and \$125,000 for catastrophic loss.

Property Insurance totaling an amount equal to the replacement cost value of city-owned property including contents, subject to a \$50,000 deductible. Said coverage also includes specific sub-limits for fine arts, flood, earthquake, and other potential property related losses. Vacant city owned property is insured on an actual cash value basis.

Boiler and Machinery coverage with a limit of \$100,000,000 per accident is subject to a \$50,000 deductible.

With respect to liability coverage, the City's current program provides:

\$3,000,000 general aggregate - \$1,000,000 per occurrence General Liability; \$1; \$1,000,000 per occurrence Automobile Liability; and \$1,000,000 each claim Employee Benefits Liability (claims made). This coverage is not subject to a deductible, except for Employee Benefits Liability which is subject to a \$1,000 deductible. Automobile liability uninsured/underinsured motorist coverage with a limit of \$40,000 each occurrence.

Excess Liability (excess over General Liability, Automobile Liability, Law Enforcement Liability, Public Officials, School Board Legal Liability and Employers' Liability) with a limit of \$10,000,000 each occurrence and aggregate.

School Leaders Legal (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Public Officials Liability (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

Law Enforcement Liability (claims made) with a limit each wrongful act/aggregate of \$1,000,000 subject to a \$50,000 deductible.

The City further maintains the required bonding for the Tax Collector in the amount of \$400,000.

Workers' Compensation Insurance

The City self-insured its Workers' Compensation Program, which is comprised of two parts: third party claims administration and managed medical care, both of which are administered by an outside vendor hired by the City.

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Workers' Compensation and Employers' Liability coverage (amounts not rounded), subject to self-insured retentions of \$650,000 for Police and Fire and \$500,000 for all other employees, for each accident and each employee for disease with statutory limits for Workers' Compensation and \$1,000,000 Employers Liability.

Employee Health Benefits

The City's current employee/retiree medical benefit program is self-insured with stop-loss insurance limits (amounts not rounded) of \$125,000 per individual and 120% aggregate.

The City further provides employees and retirees with dental prescription drug coverage, both of which are self-insured. There is no stop-loss insurance that applies.

Employees and retirees also receive life insurance which is fully insured.

Outstanding Liabilities

Property and Liability

At the close of June 30, 2017, the City reported an outstanding liability of \$700 for claims incurred during the 2016-17 fiscal year, as well as prior years' claims within the deductible and self-insured retentions.

Workers' Compensation

At the close of June 30, 2017, the City reported an outstanding liability of \$4,688 for claims incurred during the 2016-17 fiscal year, as well as claims pending from prior years.

Employee Health Benefits

At the close of June 30, 2017, the City reported an outstanding liability of \$2,561 (medical/dental/prescription drug) for claims incurred but not reported during the 2016-17 fiscal year.

The following schedule reflects the change in the estimated liability for the last two fiscal years:

	Claims Payable July 1	Current Year Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
<u>Health Benefits Fund:</u>				
2015-16	\$ 2,877	\$ 17,616	\$ 17,606	\$ 2,887
2016-17	2,887	12,045	12,371	2,561
<u>Property and Casualty Fund:</u>				
2015-16	1,100	476	576	1,000
2016-17	1,000	501	801	700
<u>Workers' Compensation Fund:</u>				
2015-16	3,662	2,023	1,804	3,881
2016-17	3,881	3,081	2,274	4,688

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11. CONTINGENT LIABILITIES

In December 1990, ECRRA was formed. ECRRA is a public body politic and corporate of the State of Connecticut, organized and existing pursuant to the Connecticut General Statutes and an Ordinance adopted by the Common Council of the City of Middletown. ECRRA was created for the purpose of developing and implementing a solid waste disposal system, including the acquisition and ownership of a solid waste resource recovery system. At June 30, 2017, the City was the only member of ECRRA. ECRRA is empowered to issue bonds and use the proceeds to acquire and construct such systems upon approval of each member's governing body. On June 17, 1993, the Common Council of the City approved the issuance of \$150 million of bonds for the cost of a solid waste facility. In October 1993, revenue bonds amounting to \$128,150 were issued by the Authority.

ECRRA has entered into an agreement, with an indirect, wholly owned subsidiary of Wheelabrator Technologies Inc., for design, installation, and equipage of a 500-ton per day solid waste disposal, electric power generation, and resource recovery facility in Lisbon, Connecticut. Under a Municipal Waste Disposal Agreement, the City is required to provide minimum amounts of acceptable waste to the project and to pay disposal fees to ECRRA. The City and Wheelabrator Connecticut (the Company), as the users of the facility, are obligated to make monthly disposal fee payments that together equal ECRRA's net cost of operations, including debt service.

The City's commitment is 23,273 tons per year, effective July 1, 1995, which may be assigned to other towns, cities or other political subdivisions, under certain conditions. Any such assignment would not relieve the City of its obligation to make payments. ECRRA and the Company have further agreed that, so long as the City delivers at least 6,718 tons per year, the Company will deliver the shortfall below 23,273 tons.

The City has pledged its full faith and credit to the payment of all amounts due under the agreement and shall appropriate funds and levy taxes in an amount sufficient, together with other available revenues, to make such payments. The agreement is not a debt of the City and does not obligate the City to pay the principal of or interest on the revenue bonds.

12. POST EMPLOYMENT BENEFITS

A. Plan Description

The City, in accordance with various collective bargaining agreements, provides retiree medical benefits for the lifetime of the retired member and covered dependents. The plan covers City, Board of Education, Police and Fire employees as further defined in collective bargaining agreements and other written materials. Eligibility and premium sharing information is detailed in the various collective bargaining agreements. The City does not issue separate stand-alone financial statements for the plan.

The post post-employment benefits plan is administered by the Retirement Board consisting of eight members: two (2) members of the Common Council (with one (1) member from each political party); the City's Director of Finance; three (3) citizens of the City of Middletown, provided that one such seat shall be held by a former finance director, until his resignation, death or expiration of his term without reappointment; one (1) citizen of the City of Middletown who is also a member of the Plan; and the Mayor, ex officio. In no event shall more than five (5) of the Retirement Board's members belong to any one political party, as determined based upon each member's registered party affiliation, excluding from consideration the City's Director of Finance.

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B. Funding Policy

The contribution requirements of plan members and the City are also negotiated with the various unions representing the employees. Generally, retirees and their dependents are covered for those City employees who have 15 years of service. Eligible retirees may either commence benefits immediately or defer coverage to a future date. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly towards the cost of health insurance premiums.

City employees must elect one of two pension options; the options that apply vary dependent upon their union affiliation and the health insurance benefits to which they are entitled are determined based on their selected pension option. Depending on which pension option is selected, City employees who are members of Local 466, Teamsters, Police and Fire will pay the same the cost-share percentage as actives for health insurance benefits, capped at 25% for life, or pay a premium cost-share percentage for health insurance benefits based on age at retirement.

New members of the bargaining units, upon retirement, have the same pension options, however the health insurance benefits to which they are entitled are reduced and vary by union group.

All pre-2005 retirees are under different funding rules. In addition, subject to the same premium cost-sharing contribution as active employees, a surviving spouse is covered until death or remarriage. Dental coverage is provided for all retirees, including eligible surviving spouses.

The waiver of contribution offering that applied to retirees electing coverage in the City’s point-of-service plan option was discontinued as of March 1, 2009. All retirees, regardless of plan choice, now make a contribution toward the cost of coverage.

The Board of Education employees are eligible at the same time they are eligible for benefits under the plan with the State of Connecticut Teachers Retirement Board (TRB). Teachers contribute 100% of the premium less the TRB subsidy. Teachers over the age of 65 who are not eligible for Medicare, shall be allowed to purchase the coverage at no cost to the Board and are given the TRB subsidy; nonunion administration have no contribution up to the age of 65 and 20% after age 65, and union administration, pre-65 retiree pays excess over board payment. TRB subsidy is applied. If over 65 and not eligible for Medicare, retiree pays 100% of premium less the TRB subsidy.

At July 1, 2016, plan membership consisted of the following:

Active plan members	1,004
Retired and spouses members	<u>782</u>
Total Participants	<u><u>1,786</u></u>

C. Investments

Investment Policy

OPEB Benefits Plan’s policy in regard to the allocation of invested assets is established and may be amended by the retirement board by a majority vote of its members.

**CITY OF MIDDLETOWN, CONNECTICUT
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Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 7.90%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Net OPEB Liability of the Town

During the year, the City implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (OPEB). This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The components of the net OPEB liability of the City at June 30, 2017, were as follows:

Total OPEB liability	\$	307,981
Plan fiduciary net position		<u>13,332</u>
 Net OPEB Liability	 \$	 <u><u>294,649</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability		 4.33%

The City's net OPEB liability will be required to be recorded on the government-wide financial statement of net position at June 30, 2018.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% (Prior: 3.00%)
Salary increases	3.00%, average, including inflation
Investment rate of return	3.79% (Prior: 7.00%), net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	7.50% for 2017, decreasing 0.50% per year to an ultimate rate of 4.50% for 2023 and later years

Mortality rates were based on the RP-2000 Combined Mortality Table with separate male and female rates, with Total Dataset adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through July 1, 2015.

CITY OF MIDDLETOWN, CONNECTICUT
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The long-term expected rate of return on OPEB 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 the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Investment Grade Bonds	34.10 %	1.60 %
Large Cap Domestic Equity	18.90	4.40
International Equity Developed	15.00	6.60
Mid Cap Domestic Equity	10.00	4.80
Emerging Markets Equity	6.00	8.60
Small Cap Domestic Equity	5.00	5.10
U.S. Real Estate	5.00	5.60
U.S. High Yield Bonds	3.00	3.90
Cash	3.00	0.10
Total	<u>100.00</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.79% (prior: 7.00%). The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan'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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.79%) or 1 percentage point higher (4.79%) than the current discount rate:

	<u>1% Decrease (2.79%)</u>	<u>Current Discount Rate (3.79%)</u>	<u>1% Increase (4.79%)</u>
Net OPEB Liability	\$ <u>348,192</u>	\$ <u>294,649</u>	\$ <u>252,466</u>

CITY OF MIDDLETOWN, CONNECTICUT
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Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (6.50% decreasing to 3.50%) or 1 percentage point higher (8.50% decreasing to 5.50%) than the current healthcare cost trend rates:

	1% Decrease (6.50% Decreasing to 3.50%)	Healthcare Cost Trend Rates (7.50% Decreasing to 4.50%)	1% Increase (8.50% Decreasing to 5.50%)
Net OPEB Liability	\$ <u>250,831</u>	\$ <u>294,649</u>	\$ <u>350,702</u>

E. Annual OPEB Cost and Net OPEB Obligations

The City of Middletown's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (asset):

Annual required contribution (ARC)	\$ 15,542
Interest on net OPEB obligation	3,280
Adjustment to annual required contribution	<u>(2,591)</u>
Annual OPEB cost	16,231
Contributions made	<u>10,751</u>
Change in net OPEB obligation	5,480
Net OPEB obligation at beginning of year	<u>47,598</u>
Net OPEB Obligation at End of Year	<u>\$ 53,078</u>

CITY OF MIDDLETOWN, CONNECTICUT
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The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations for the last three fiscal years are presented below.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2015	\$ 14,159	\$ 8,829	62.36 %	\$ 42,440
6/30/2016	15,796	10,668	67.54	47,598
6/30/2017	16,231	10,751	66.24	53,078

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future. The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Underfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
7/1/2012	\$ 5,850	\$ 151,468	\$ 145,618	3.9 %	\$ 34,145	426 %
7/1/2014	8,748	183,479	174,731	4.8	34,622	505
7/1/2016	9,774	217,964	208,190	4.5	38,130	546

Schedule of Employer Contributions - Teachers and Administrators

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/2012	\$ 1,341	43 %
6/30/2013	1,348	38
6/30/2014	1,366	35
6/30/2015	1,769	33
6/30/2016	1,791	50
6/30/2017	1,814	35

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

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75% rate of return for the Board of Education, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare cost trend rate is 7.50% for fiscal year 2017, decreasing 0.5% per year to 4.50% for year 2023 and later. Projected salary increases were 4.00%, with an inflation rate of 2.50%. The Unfunded Accrued Liability is amortized each year over a constant 30-year period, as a level dollar amount, open.

13. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Middletown Retirement System Fund

A. Plan Description and Benefits Provided

The City is the administrator of the Middletown Retirement System Fund, a single-employer defined benefit Public Employee Retirement System (PERS) established and administered by the City to provide pension benefits for its non-teacher employees. The PERS provides retirement disability, and death benefits to plan members and beneficiaries. The Charter provides the City Council with the authority to establish and amend benefit provisions, by ordinance, through the Retirement Board. The PERS is considered to be part of the City of Middletown's financial reporting entity and is included in the City's financial reports as a pension trust fund. Stand-alone financial statements are not issued.

Under the plan, all full-time employees are eligible to join. Firemen are 100% vested after 20 years of continuous service, all other employees are 100% vested after 10 years of continuous service. Employees who retire at normal retirement, (20 years for police and 22 years of service for fire and general government employees at any age, or after 15 years of service having attained age 65), receive a retirement benefit of 2 1/4% (Police and Fire 2 1/2%) of average annual pay during 4 (Police 3) consecutive highest-paid years times number of years of service. The maximum benefit is 70% of pay; the minimum benefit for 20 years of service is \$100 per month.

The retirement system of the City is vested in a Retirement Board consisting of eight members, not more than five of whom shall belong to any one political party, as follows: two members of the City Council (a representative from each political party); the City Director of Finance; four citizens of the City of Middletown, one of whom shall be a member of the retirement system elected by the members thereof; and the Mayor, ex officio. All members, except the Director of Finance, the Mayor and the member of the retirement system, shall be appointed by the Mayor with the advice and consent of the City Council.

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At July 1, 2016, PERS membership consisted of:

Retirees, disabled and beneficiaries currently receiving benefits	474
Terminated employees entitled to benefits but not yet receiving them	25
Active plan members	<u>546</u>
 Total	 <u><u>1,045</u></u>

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

PERS financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to Plan provisions and contractual requirements. Benefit payments and refunds are payable when due and payable in accordance with terms of the Plan. Administrative costs are funded through investment earnings.

Method Used to Value Investments

Investments are reported at fair value. Investment income is recognized as earned.

C. Funding Status and Progress

Employees are required to contribute 6% of their earnings to the PERS. If an employee leaves employment or dies before meeting the vesting requirements, accumulated employee contributions and interest are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees as determined by its actuaries; the current rate is 0% - General Government, 3.6% - Firefighters, and 3.1% - Police, of annual covered payroll. Benefits and employee contributions are fixed by contract and may be amended by the City Council subject to union negotiations. Effective July 1, 2003, police employees contribute 6.5% of their earnings to the PERS. Compensation is expanded by including longevity pay (effective July 1, 2002) and holiday pay (effective July 1, 2004).

D. Investments

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the PERS Board by a majority vote of its members. It is the policy of the PERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.18%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF MIDDLETOWN, CONNECTICUT
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E. Net Pension Asset of the City

The components of the net pension asset of the City at June 30, 2017 were as follows:

Total pension liability	\$	361,964
Plan fiduciary net position		<u>399,630</u>
Net Pension Asset	\$	<u><u>(37,666)</u></u>
Plan fiduciary net position as a percentage of the total pension liability		110.41%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation and measurement date as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Rates vary by age
Investment rate of return	7.00% (Prior: 7.10%), net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

The plan does not have sufficiently credible data to perform an experience study.

CITY OF MIDDLETOWN, CONNECTICUT
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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 pension plan 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 the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Custom Fixed Income	37.0 %	1.0 %
Large Cap Domestic Equity	27.0	6.5
International Equity Developed	12.0	6.5
Mid Cap Domestic Equity	8.0	7.5
Small Cap Domestic Equity	8.0	8.3
Emerging Markets Equity	5.0	9.3
High Yield Fixed Income	<u>3.0</u>	4.5
Total	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF MIDDLETOWN, CONNECTICUT
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Employees' Pension Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a)-(b)
Balances as of June 30, 2016	\$ 339,922	\$ 366,544	\$ (26,622)
Changes for the year:			
Service cost	8,184		8,184
Interest on total pension liability	24,146		24,146
Effect of plan changes	726		726
Differences between expected and actual experience	995		995
Effect of assumptions changes or inputs	4,305		4,305
Benefit payments	(16,314)	(16,314)	-
Employer contributions		2,807	(2,807)
Member contributions		2,488	(2,488)
Net investment income (loss)		44,095	(44,095)
Other		10	(10)
Net changes	<u>22,042</u>	<u>33,086</u>	<u>(11,044)</u>
Balances as of June 30, 2017	\$ <u>361,964</u>	\$ <u>399,630</u>	\$ <u>(37,666)</u>

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension (Asset) Liability	\$ <u>10,523</u>	\$ <u>(37,666)</u>	\$ <u>(77,357)</u>

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

For the year ended June 30, 2017, the City recognized pension expense of \$11,525. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Employees' Pension Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 811	\$ 5,192
Changes of assumptions	9,304	346
Net difference between projected and actual earning on pension plan investments	<u>9,472</u>	
Total	<u>\$ 19,587</u>	<u>\$ 5,538</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending June 30,

2018	\$ 6,608
2019	6,608
2020	2,992
2021	(2,551)
2022	392

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Trust Fund Financial Statements

**COMBINING STATEMENT OF NET POSITION - PENSION AND OTHER
EMPLOYEE BENEFIT TRUST FUNDS
JUNE 30, 2017**

	Pension Trust Fund	OPEB Trust Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 4,620	\$ 2,527	\$ 7,147
Investments:			
U.S. government securities	32,626		32,626
Corporate bonds	111,954		111,954
Common stock	90,922	5,321	96,243
Mutual funds	158,729	5,622	164,351
Receivables:			
Accrued investment income	<u>863</u>		<u>863</u>
Total assets	<u>399,714</u>	<u>13,470</u>	<u>413,184</u>
Liabilities:			
Vouchers and other payables	<u>84</u>	<u>138</u>	<u>222</u>
Net Position:			
Net Position Restricted for Pension and OPEB Benefits	<u>\$ 399,630</u>	<u>\$ 13,332</u>	<u>\$ 412,962</u>

**CITY OF MIDDLETOWN, CONNECTICUT
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**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 2,807	\$ 10,124	\$ 12,931
Plan members	2,488		2,488
Other	10		10
Total contributions	<u>5,305</u>	<u>10,124</u>	<u>15,429</u>
Investment income (loss):			
Net change in fair value of investments	39,491	930	40,421
Interest and dividends	5,378	134	5,512
Total investment gain	<u>44,869</u>	<u>1,064</u>	<u>45,933</u>
Investment fees	<u>(774)</u>	<u>(23)</u>	<u>(797)</u>
Net investment income (loss)	<u>44,095</u>	<u>1,041</u>	<u>45,136</u>
Total additions	<u>49,400</u>	<u>11,165</u>	<u>60,565</u>
Deductions:			
Benefits	<u>16,314</u>	<u>8,516</u>	<u>24,830</u>
Total deductions	<u>16,314</u>	<u>8,516</u>	<u>24,830</u>
Change in Net Position	33,086	2,649	35,735
Net Position at Beginning of Year	<u>366,544</u>	<u>10,683</u>	<u>377,227</u>
Net Position at End of Year	<u>\$ 399,630</u>	<u>\$ 13,332</u>	<u>\$ 412,962</u>

Teachers Retirement

A. Plan Description

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

B. Benefit Provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement

Retirement benefits for employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

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Early Retirement

Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement

Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

C. Contributions

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are approved, amended and certified by the State Teachers Retirement Board and appropriated by the General Assembly.

Employer (School Districts)

School District employers are not required to make contributions to the plan.

The statutes require the State of Connecticut to contribute 100% of each school districts' required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

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

At June 30, 2017, the City reports no amounts for its proportionate share of the net pension liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution. The amount recognized by the City as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the City		<u>124,296</u>
Total	\$	<u><u>124,296</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. At June 30, 2017, the City has no proportionate share of the net pension liability.

For the year ended June 30, 2017, the City recognized pension expense and revenue of \$13,555 in Exhibit II for on-behalf amounts for the benefits provided by the State.

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale, and further adjusted to grade in increased rates (5% for females and 8% for males) over age 80 for the period after service retirement and for dependent beneficiaries as well as for active members. The RPH-2014 Disabled Mortality Table projected to 2017 with Scale BB is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum.

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For teachers who were members of the Teachers' Retirement System before July 1, 2007 and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%.

For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap U.S. equities	21.0 %	5.8 %
Developed non-U.S. equities	18.0	6.6
Private equity	11.0	7.6
Emerging markets (non-U.S.)	9.0	8.3
Alternative investments	8.0	4.1
Core fixed income	7.0	1.3
Real estate	7.0	5.1
Liquidity fund	6.0	0.4
Emerging market bond	5.0	3.7
High yield bonds	5.0	3.9
Inflation linked bond fund	3.0	1.0
Total	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined contribution rates in the future years. Based on those assumptions, the pension plan'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.

G. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The City's proportionate share of the net pension liability is \$-0- and, therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

H. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the City has no obligation to contribute to the plan.

14. LITIGATION

There are a number of suits and claims pending against the City, none of which, individually or in the aggregate is believed by counsel to result in a judgment or judgments that would materially affect the City's financial position.

**Required Supplementary
Information**

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes:				
General property taxes	\$ 107,427	\$ 107,427	\$ 108,976	\$ 1,549
Penalties and interest on delinquent taxes	607	607	870	263
Total	<u>108,034</u>	<u>108,034</u>	<u>109,846</u>	<u>1,812</u>
Licenses and permits:				
Business licenses and permits	26	26	51	25
Non-business licenses and permits	699	699	1,327	628
Total	<u>725</u>	<u>725</u>	<u>1,378</u>	<u>653</u>
Intergovernmental revenues	<u>31,903</u>	<u>31,903</u>	<u>32,041</u>	<u>138</u>
Charges for services:				
General government	2,538	2,538	2,754	216
Public safety	1,267	1,267	1,599	332
Culture and recreation	302	302	399	97
Total	<u>4,107</u>	<u>4,107</u>	<u>4,752</u>	<u>645</u>
Miscellaneous revenue:				
Interest	80	80	209	129
Other	4,178	4,789	4,574	(215)
Total	<u>4,258</u>	<u>4,869</u>	<u>4,783</u>	<u>(86)</u>
Total revenues	<u>149,027</u>	<u>149,638</u>	<u>152,800</u>	<u>3,162</u>
Other financing sources:				
Use of fund balance	3,290	3,290		(3,290)
Transfers in	518	518	521	3
Total	<u>3,808</u>	<u>3,808</u>	<u>521</u>	<u>(3,287)</u>
Total	\$ <u>152,835</u>	\$ <u>153,446</u>	153,321	\$ <u>(125)</u>

Budgetary revenues are different than GAAP revenues because:

State of Connecticut "on-behalf" contributions to the Connecticut State Teachers' Retirement System for City teachers are not budgeted	13,555
Premium on bonds not budgeted	<u>2,862</u>

Total Revenues and Other Financing Sources as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - Exhibit IV

\$ 169,738

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General government:				
Mayor's Office	\$ 639	\$ 621	\$ 600	\$ 21
Finance	2,844	2,922	2,587	335
Town Clerk	316	334	329	5
City Attorney	677	738	729	9
Tax Collector	398	436	436	-
Registrar of Voters	227	232	196	36
Tax Assessor	376	491	489	2
Councilmen	192	226	225	1
Planning Conservation and Development	756	724	722	2
Personnel Department	237	218	209	9
Municipal Building	232	223	219	4
Other	100	100	100	-
P.C. Network	989	959	952	7
Total	<u>7,983</u>	<u>8,224</u>	<u>7,793</u>	<u>431</u>
Public safety:				
Police	12,854	13,979	13,723	256
Office of Emergency Management	62	62	55	7
Canine Control	205	205	195	10
Parking Authority	799	796	795	1
Fire Alarms	166	226	220	6
Central Communications	1,736	1,799	1,793	6
Total	<u>15,822</u>	<u>17,067</u>	<u>16,781</u>	<u>286</u>
Public works:				
Administration	383	411	405	6
Inspections and permits	313	338	333	5
Garage, highway and engineering	3,331	3,522	3,504	18
Building	106	114	109	5
Sanitation landfill	151	155	153	2
Traffic paint	163	166	164	2
Parking lots				-
Recycling	146	140	131	9
Total	<u>4,593</u>	<u>4,846</u>	<u>4,799</u>	<u>47</u>

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (continued):				
Health	\$ 733	\$ 764	\$ 763	\$ 1
Parks and recreation	2,275	2,290	2,259	31
Russell Library	2,833	2,780	2,777	3
Education	79,485	79,485	79,476	9
Sundry municipal services:				
Transit District	270	270	270	-
Senior affairs	538	539	536	3
Youth services	217	167	162	5
Human relations	160	173	173	-
Reserve for salaries	900	564		564
Contingency Fund	5	1		1
Total	2,090	1,714	1,141	573
Special accounts	1,424	1,920	1,829	91
Employee benefits	17,756	17,814	17,807	7
Insurance - bonds	2,915	2,915	2,915	-
Capital Outlay	-	-	-	-
Total expenditures	137,909	139,819	138,340	1,479
Other financing uses:				
Transfers out	14,926	14,926	14,889	37
Total	\$ 152,835	\$ 154,745	153,229	\$ 1,516

Budgetary expenditures are different than GAAP expenditures because:
State of Connecticut on-behalf payments to the Connecticut State Teachers'
Retirement System for City teachers are not budgeted 13,555
Encumbrances for purchases and commitments ordered but not received are
reported in the year the order is placed for budgetary purposes, but in the
year received for financial reporting purposes (179)

Total Expenditures and Other Financing Uses as Reported on the Statement
of Revenues, Expenditures and Changes in Fund Balances - Governmental
Funds - Exhibit IV \$ 166,605

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS*
(In Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 8,184	\$ 7,434	\$ 6,840	\$ 6,577
Interest	24,146	23,780	23,472	22,384
Changes of benefit terms	726			
Differences between expected and actual experience	995	(6,518)	(2,268)	
Changes of assumptions	4,305	9,310	(692)	
Benefit payments, including refunds of member contributions	<u>(16,314)</u>	<u>(15,704)</u>	<u>(15,195)</u>	<u>(14,626)</u>
Net change in total pension liability	22,042	18,302	12,157	14,335
Total pension liability - beginning	<u>339,922</u>	<u>321,620</u>	<u>309,463</u>	<u>295,129</u>
Total pension liability - ending	<u>361,964</u>	<u>339,922</u>	<u>321,620</u>	<u>309,464</u>
Plan fiduciary net position:				
Contributions - employer	2,807	2,630	2,794	2,418
Contributions - member	2,488	2,410	2,282	2,269
Net investment income (loss)	44,095	(758)	10,260	53,223
Benefit payments, including refunds of member contributions	<u>(16,314)</u>	<u>(15,704)</u>	<u>(15,195)</u>	<u>(14,626)</u>
Administrative expense		(4)	(10)	(1)
Other	10			
Net change in plan fiduciary net position	<u>33,086</u>	<u>(11,426)</u>	<u>131</u>	<u>43,283</u>
Plan fiduciary net position - beginning	<u>366,544</u>	<u>377,970</u>	<u>377,839</u>	<u>334,556</u>
Plan fiduciary net position - ending	<u>399,630</u>	<u>366,544</u>	<u>377,970</u>	<u>377,839</u>
Net Pension Liability (Asset) - Ending	<u>\$ (37,666)</u>	<u>\$ (26,622)</u>	<u>\$ (56,350)</u>	<u>\$ (68,375)</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	110.41%	107.83%	117.52%	122.09%
Covered payroll	\$ 39,021	\$ 38,802	\$ 36,908	\$ 34,606
Net pension liability (asset) as a percentage of covered payroll	-96.53%	-68.61%	-152.68%	-197.58%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
LAST TEN FISCAL YEARS
(In Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 2,807	\$ 2,630	\$ 2,794	\$ 2,418	\$ 2,205	\$ 22,777	\$ 1,933	\$ 1,066	\$ 585	\$ 722
Contributions in relation to the actuarially determined contribution	<u>2,807</u>	<u>2,630</u>	<u>2,794</u>	<u>2,418</u>	<u>1,388</u>	<u>22,777</u>	<u>1,933</u>	<u>1,066</u>	<u>585</u>	<u>722</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>817</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered payroll	\$ 39,021	\$ 38,802	\$ 36,908	\$ 34,606	\$ 35,560	\$ 35,327	\$ 34,256	\$ 33,664	\$ 30,629	\$ 29,625
Contributions as a percentage of Covered payroll	7.19%	6.78%	7.57%	6.99%	3.90%	64.47%	5.64%	3.17%	1.91%	2.44%

Notes to Schedule

Valuation date:	July 1, 2016
Measurement date:	June 30, 2017
Valuation timing	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level dollar, open
Remaining amortization period	15 years
Asset valuation method	Market Value over 4 year period, at 25% per year
Inflation	2.50%
Salary increases	Graded salary growth with an ultimate rate of 3.0%
Investment rate of return	7.00% (Prior: 7.10%)
Cost of living adjustment	3.00% per year
Retirement age	Rates based on age and service
Turnover	Rates based on age
Mortality	RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
LAST FOUR FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.18%	-0.20%	2.74%	16.09%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS' RETIREMENT PLAN
LAST THREE FISCAL YEARS*
(In Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.00%	0.00%	0.00%
City's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the City	<u>124,296</u>	<u>93,951</u>	<u>86,839</u>
Total	<u>\$ 124,296</u>	<u>\$ 93,951</u>	<u>\$ 86,839</u>
City's Covered payroll	\$ 35,727	\$ 34,804	\$ 34,168
City's proportionate share of the net pension liability as a percentage of its Covered payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	52.26%	59.50%	61.51%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Notes to Schedule

Changes in benefit terms	None
Changes of assumptions	During 2016, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2015. During 2011, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010.
Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization period	20.4 years
Asset valuation method	4-year smoothed market
Investment rate of return	8.50%, net of investment related expense

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR*
(In Thousands)

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 5,045
Interest	13,352
Differences between expected and actual experience	5
Changes of assumptions	108,209
Benefit payments	<u>(8,516)</u>
Net change in total OPEB liability	118,095
Total OPEB liability - beginning	<u>189,886</u>
Total OPEB liability - ending	<u>307,981</u>
Plan fiduciary net position:	
Contributions - employer	10,124
Net investment income (loss)	1,041
Benefit payments	<u>(8,516)</u>
Net change in plan fiduciary net position	2,649
Plan fiduciary net position - beginning	<u>10,683</u>
Plan fiduciary net position - ending	<u>13,332</u>
Net OPEB Liability - Ending	<u>\$ 294,649</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.33%
Covered-employee payroll	\$ 39,083
Net OPEB liability as a percentage of covered-employee payroll	753.91%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OPEB
LAST TEN FISCAL YEARS
(In Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution (1)	\$ 13,728	\$ 13,373	\$ 11,808	\$ 11,618	\$ 10,990	\$ 10,682	\$ 12,400	\$ 12,460	\$ 11,583	\$ N/A
Contributions in relation to the actuarially determined contribution	<u>10,124</u>	<u>9,765</u>	<u>8,250</u>	<u>9,238</u>	<u>7,624</u>	<u>6,296</u>	<u>10,314</u>	<u>6,230</u>	<u>6,713</u>	<u>N/A</u>
Contribution Deficiency (Excess)	\$ <u>3,604</u>	\$ <u>3,608</u>	\$ <u>3,558</u>	\$ <u>2,380</u>	\$ <u>3,366</u>	\$ <u>4,386</u>	\$ <u>2,086</u>	\$ <u>6,230</u>	\$ <u>4,870</u>	\$ <u>N/A</u>
Covered-employee payroll	\$ 39,083	\$ 38,130	\$ 38,130	\$ 34,622	\$ 34,622	\$ 34,145	\$ 33,804	\$ 32,776	\$ 32,185	\$ N/A
Contributions as a percentage of covered-employee payroll	25.90%	25.61%	21.64%	26.68%	22.02%	18.44%	30.51%	19.01%	20.86%	N/A

(1) Actuarially Determined Contributions prior to fiscal year ending June 30, 2017 is based on the Annual Required Contribution (ARC) calculated in accordance with GASB No. 45

Notes to Schedule

Valuation date:

July 1, 2016

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	20 years
Asset valuation method	5-year smoothed market
Inflation	2.50% (Prior: 3.00%)
Healthcare cost trend rates	7.50% for 2017, decreasing 0.50% per year to an ultimate rate of 4.50% for years 2023 and later. Prior: 8.00% for 2015, decreasing 0.50% per year to 5.00% for years 2021 and later.
Salary increases	3.00%, average, including inflation
Investment rate of return	3.79% (Prior: 7.00%), net of pension plan investment expense, including inflation
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	RP-2000 Combined Mortality Table with separate male and female rates, with Total Dataset adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF INVESTMENT RETURNS
OPEB
LAST FISCAL YEAR***

2017

Annual money-weighted rate of return,
net of investment expense

7.90%

* Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Combining and Individual Fund Statements and Schedules

General Fund

GENERAL FUND

The General Fund is the principal fund of the City and is used to account for all activities of the City not included in other specified funds. The General Fund accounts for the normal recurring activities of the City (i.e., education, police, recreation, public works, general government, etc.). These activities are funded principally by property taxes on individuals and businesses and grants from other governmental units.

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2017 AND 2016
(In Thousands)**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 19,175	\$ 18,480
Investments	10,280	5,986
Taxes receivable	6,029	5,428
Accounts receivable	230	300
Due from other funds	<u>6,700</u>	<u>9,917</u>
Total Assets	<u>\$ 42,414</u>	<u>\$ 40,111</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Vouchers and other payables	\$ 6,095	\$ 5,815
Unearned revenue		<u>1,500</u>
Total liabilities	<u>6,095</u>	<u>7,315</u>
Deferred Inflows of Resources:		
Unavailable revenue - property taxes	<u>5,378</u>	<u>4,988</u>
Fund Balances:		
Assigned	6,230	4,829
Unassigned	<u>24,711</u>	<u>22,979</u>
Total fund balances	<u>30,941</u>	<u>27,808</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 42,414</u>	<u>\$ 40,111</u>

**CITY OF MIDDLETOWN, CONNECTICUT
GENERAL FUND
REPORT OF TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

Grand List	Uncollected Taxes July 1, 2016	Lawful Corrections		Abatements	Transfers To Suspense	Net Amount Collectible	Collections				Uncollected Taxes June 30, 2017	
		Additions	Deductions				Taxes	Interest	Lien Fees	Suspense		Total
2015	\$ 119,879	\$ 546	\$ 1,005	\$	\$	\$ 119,420	\$ 116,365	\$ 384	\$ 4	\$	\$ 116,753	\$ 3,055
2014	2,755	105	200		30	2,630	1,221	227	4		1,452	1,409
2013	1,370	1	22		58	1,291	336	121	1		458	955
2012	779		38		45	696	128	68	1	1	198	568
2011	442		14		37	391	76	44	1	4	125	315
2010	257		14		21	222	27	22		4	53	195
2009	161	1			17	145	12	15		7	34	133
2008	103		11		6	86	10	12		3	25	76
2007	214		150		1	63	4	7		3	14	59
2006	62		11		1	50	3	30		3	36	47
2005	11	1				12		5		3	8	12
2004	4					4		5		2	7	4
2003	7				3	4		3		2	5	4
2002	3				3	-		2		1	3	-
2001	3				2	1		1			1	1
2000	1				1	-					-	-
Total	\$ 126,051	\$ 654	\$ 1,465	\$ -	\$ 225	\$ 125,015	\$ 118,182	\$ 946	\$ 11	\$ 33	\$ 119,172	\$ 6,833

Applicable to:
 General Fund \$ 6,149
 Fire District Fund 684
 Total \$ 6,833

**Nonmajor
Governmental Funds**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes. These activities are funded principally by property taxes on individuals and businesses, grants from other governmental units and user fees.

Fund	Funding Source	Function
Fire District	Taxes - central district	Fire protection
Sanitary Disposal District	User fees	Collection of refuse from both residents and businesses in the central City area
Dog Fund	Licensing of dogs, contributions of the General Fund, fines, fees and a State Grant	Operation of a dog pound and a portion of the salary of a dog warden
Kleen Water	Charges for services	Clean energy program
Economic Development	Grants and contributions	Community development programs and activities
Middletown Business Improvement	Taxes-special services district	Economic revitalization and development of Central Business District
Water	Charges for services	Water distribution operations
Educational Grants	State and federal grants	Special education programs
Health Grants	State, Federal and contributions	Health programs
Landfill, Waste and Recycling	User fees	Bulky waste operation
School Cafeteria	Sale of food and grants	School lunch programs
General Sewer Improvement	User fees	Operation of sewer system
Parking District	Fees from parking	Parking improvements
Librarian's	Fees and trust income	Library support services
Special Grants	Intergovernmental and other grants	Various special purpose programs
Sewage Disposal	User fees	Operation and maintain the sewerage disposal system
Police Benevolence	Trust income	Relief of sick, injured and disabled policemen
Community Development Block Grant	Federal grant	Community improvements
Walter C. Jones Trust	Trust income	Care and support of the poor

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Walter B. Hubbard Trust	Contributions and trust income	Maintain parks and cemeteries
Luther S. Hull Trust	Contributions and trust income	Education
Frank B. Weeks Trust	Contributions and trust income	City parks
Russell Library Fund	Contributions and trust income	City library uses

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for acquisition or construction of major capital facilities.

General Government	General Fund budget and special revenue funds	Capital improvements and equipment purchase for General Government
School District	General Fund budget and special revenue funds	Capital improvements and equipment purchase for School District
Fire	General Fund budget and special revenue funds	Capital improvements and equipment purchase for Fire Department
Sanitation	General Fund budget and special revenue funds	Capital improvements and equipment purchase for Sanitation Department
Sewer	General Fund budget and special revenue funds	Capital improvements and equipment purchase for Sewer Department
Water	General Fund budget and special revenue funds	Capital improvements and equipment purchase for Water Department
Kleen Water	General Fund budget and special revenue funds	Capital improvements and equipment purchase for Kleen Water Plant

**CITY OF MIDDLETOWN, CONNECTICUT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017
(In Thousands)**

	Special Revenue Funds										
	Fire District	Sanitary Disposal District	Kleen Water Fund	Dog Fund	Economic Development Fund	Middletown Business Improvement Fund	Water Fund	Educational Grants	Health Grants Fund	Landfill, Waste, Recycling Fund	School Cafeteria Fund
ASSETS											
Cash and cash equivalents	\$ 1,118	\$ 853	\$	\$ 25	\$ 370	\$ 4	\$ 3,997	\$ 1,074	\$ 36	\$ 353	\$ 5
Investments											
Receivables:											
Accounts receivable		221					1,296				
Taxes receivable - delinquent	653					1					
Intergovernmental								313			314
Due from other funds								1,002			
Inventories, at cost											39
Total Assets	<u>\$ 1,771</u>	<u>\$ 1,074</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 370</u>	<u>\$ 5</u>	<u>\$ 5,293</u>	<u>\$ 2,389</u>	<u>\$ 36</u>	<u>\$ 353</u>	<u>\$ 358</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES											
Liabilities:											
Vouchers and other payables	\$ 126	\$ 76	\$	\$ 25	\$ 1	\$ 4	\$ 57	\$ 807	\$ 2	\$ 57	\$
Due to other funds											1,002
Deferred revenue								296			
Total liabilities	<u>126</u>	<u>76</u>	<u>-</u>	<u>25</u>	<u>1</u>	<u>4</u>	<u>57</u>	<u>1,103</u>	<u>2</u>	<u>57</u>	<u>1,002</u>
Deferred Inflows of Resources:											
Unavailable revenue - property taxes	<u>603</u>										
Fund Balances:											
Nonspendable											39
Restricted					369			1,286	34		
Committed	1,042	998				1	5,236			296	
Unassigned											(683)
Total fund balances	<u>1,042</u>	<u>998</u>	<u>-</u>	<u>-</u>	<u>369</u>	<u>1</u>	<u>5,236</u>	<u>1,286</u>	<u>34</u>	<u>296</u>	<u>(644)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,771</u>	<u>\$ 1,074</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 370</u>	<u>\$ 5</u>	<u>\$ 5,293</u>	<u>\$ 2,389</u>	<u>\$ 36</u>	<u>\$ 353</u>	<u>\$ 358</u>

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**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING BALANCE SHEET (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017
 (In Thousands)**

	Special Revenue Funds							Permanent Funds		
	General Sewer Improvement Fund	Parking District	Librarian's Fund	Special Grants	Sewage Disposal Fund	Police Benevolence Fund	Community Development Block Grant Fund	Walter C. Jones Fund	Walter B. Hubbard Trust Fund	Luther S. Hull Trust Fund
ASSETS										
Cash and cash equivalents	\$ 2,651	\$ 198	\$ 54	\$ 1,415	\$ 1,139	\$ 3	\$ 102	\$ 151	\$ 10	\$ 1
Investments										
Receivables:										
Accounts receivable	153				1,444					
Taxes receivable - delinquent										
Intergovernmental				492						
Due from other funds										
Inventories, at cost										
Total Assets	\$ 2,804	\$ 198	\$ 54	\$ 1,907	\$ 2,583	\$ 3	\$ 102	\$ 151	\$ 10	\$ 1
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES										
Liabilities:										
Vouchers and other payables	\$	\$ 11	\$	\$ 283	\$ 286	\$	\$	\$	\$	\$
Due to other funds				407						
Deferred revenue				387						
Total liabilities	-	11	-	1,077	286	-	-	-	-	-
Deferred Inflows of Resources:										
Unavailable revenue - property taxes										
Fund Balances:										
Nonspendable										
Restricted				830			102	151	10	1
Committed	2,804	187	54		2,297	3				
Unassigned										
Total fund balances	2,804	187	54	830	2,297	3	102	151	10	1
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,804	\$ 198	\$ 54	\$ 1,907	\$ 2,583	\$ 3	\$ 102	\$ 151	\$ 10	\$ 1

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING BALANCE SHEET (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017
 (In Thousands)**

	Permanent Funds		Capital Project Funds							Interfund Eliminations	Total Nonmajor Governmental Funds
	Frank B. Weeks Fund	Russell Library Fund	General Government	School District	Fire	Sanitation	Sewer	Kleen Water	Water		
ASSETS											
Cash and cash equivalents	\$ 63	\$ 8	\$ 710	\$ 41	\$ 13	\$ 39	\$ 607	\$ -	\$ 1,076	\$ -	\$ 16,116
Investments		1,229									1,229
Receivables:											
Accounts receivable											3,114
Taxes receivable - delinquent											654
Intergovernmental											1,119
Due from other funds										(1,002)	-
Inventories, at cost											39
Total Assets	\$ 63	\$ 1,237	\$ 710	\$ 41	\$ 13	\$ 39	\$ 607	\$ -	\$ 1,076	\$ (1,002)	\$ 22,271
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES											
Liabilities:											
Vouchers and other payables	\$ 2	\$ -	\$ 146	\$ -	\$ -	\$ 2	\$ 1	\$ -	\$ 20	\$ -	\$ 1,906
Due to other funds										(1,002)	407
Deferred revenue											683
Total liabilities	2	-	146	-	-	2	1	-	20	(1,002)	2,996
Deferred Inflows of Resources:											
Unavailable revenue - property taxes											603
Fund Balances:											
Nonspendable											39
Restricted	61	1,237									4,081
Committed			564	41	13	37	606		1,056		15,235
Unassigned											(683)
Total fund balances	61	1,237	564	41	13	37	606	-	1,056	-	18,672
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 63	\$ 1,237	\$ 710	\$ 41	\$ 13	\$ 39	\$ 607	\$ -	\$ 1,076	\$ (1,002)	\$ 22,271

CITY OF MIDDLETOWN, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

	Special Revenue Funds										
	Fire District	Sanitary Disposal District	Kleen Water Fund	Dog Fund	Economic Development Fund	Middletown Business Improvement Fund	Water Fund	Educational Grants	Health Grants Fund	Landfill, Waste, Recycling Fund	School Cafeteria Fund
Revenues:											
Taxes	\$ 10,807	\$	\$	\$	\$	\$ 146	\$	\$	\$	\$	\$
Intergovernmental revenues	764						17,952	66			1,561
Charges for services		1,778	1	25		4,489			381		541
Investment income	10	65				14			1		
Miscellaneous	113	13			192	121		32			65
Total revenues	<u>11,694</u>	<u>1,856</u>	<u>1</u>	<u>25</u>	<u>192</u>	<u>146</u>	<u>4,624</u>	<u>17,952</u>	<u>98</u>	<u>382</u>	<u>2,167</u>
Expenditures:											
Current:											
General government					6					561	
Public safety	11,024			15		145		40			
Health and human services								34			
Culture and recreation											
Education											2,512
Sewer, water and sanitation		1,826				4,040					
Capital outlay					156						
Total expenditures	<u>11,024</u>	<u>1,826</u>	<u>-</u>	<u>15</u>	<u>162</u>	<u>145</u>	<u>4,040</u>	<u>18,492</u>	<u>74</u>	<u>561</u>	<u>2,512</u>
Excess (Deficiency) of Revenues over Expenditures	<u>670</u>	<u>30</u>	<u>1</u>	<u>10</u>	<u>30</u>	<u>1</u>	<u>584</u>	<u>(540)</u>	<u>24</u>	<u>(179)</u>	<u>(345)</u>
Other Financing Sources (Uses):											
Transfers in		17					1,165	803		30	
Transfers out	(357)	(412)	(558)	(10)			(2,261)				
Total other financing sources	<u>(357)</u>	<u>(395)</u>	<u>(558)</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>(1,096)</u>	<u>803</u>	<u>-</u>	<u>30</u>	<u>-</u>
Net Change in Fund Balances	313	(365)	(557)	-	30	1	(512)	263	24	(149)	(345)
Fund Balances at Beginning of Year	<u>729</u>	<u>1,363</u>	<u>557</u>	<u>-</u>	<u>339</u>	<u>-</u>	<u>5,748</u>	<u>1,023</u>	<u>10</u>	<u>445</u>	<u>(299)</u>
Fund Balances at End of Year	<u>\$ 1,042</u>	<u>\$ 998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 369</u>	<u>\$ 1</u>	<u>\$ 5,236</u>	<u>\$ 1,286</u>	<u>\$ 34</u>	<u>\$ 296</u>	<u>\$ (644)</u>

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)**

	Special Revenue Funds							Permanent Funds		
	General Sewer Improvement Fund	Parking District	Librarian's Fund	Special Grants	Sewage Disposal Fund	Police Benevolence Fund	Community Development Block Grant Fund	Walter Jones Fund	Walter B. Hubbard Trust Fund	Luther S. Hull Trust Fund
Revenues:										
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Intergovernmental revenues			15	4,530			66			
Charges for services	163		89		6,841					
Investment income	21			1	3			1		
Miscellaneous			20	652	391		8	45		
Total revenues	<u>184</u>	<u>-</u>	<u>124</u>	<u>5,183</u>	<u>7,235</u>	<u>-</u>	<u>74</u>	<u>46</u>	<u>-</u>	
Expenditures:										
Current:										
General government		49		142			34	60		
Public safety				795						
Health and human services										
Culture and recreation			142	300						
Education				1,957						
Sewer, water and sanitation	194				7,426					
Capital outlay				2,462						
Total expenditures	<u>194</u>	<u>49</u>	<u>142</u>	<u>5,656</u>	<u>7,426</u>	<u>-</u>	<u>34</u>	<u>60</u>	<u>-</u>	
Excess (Deficiency) of Revenues over Expenditures	<u>(10)</u>	<u>(49)</u>	<u>(18)</u>	<u>(473)</u>	<u>(191)</u>	<u>-</u>	<u>40</u>	<u>(14)</u>	<u>-</u>	
Other Financing Sources (Uses):										
Transfers in			54	204	60					
Transfers out				(18)	(1,721)		(88)			
Total other financing sources	<u>-</u>	<u>-</u>	<u>54</u>	<u>186</u>	<u>(1,661)</u>	<u>-</u>	<u>(88)</u>	<u>-</u>	<u>-</u>	
Net Change in Fund Balances	(10)	(49)	36	(287)	(1,852)	-	(48)	(14)	-	
Fund Balances at Beginning of Year	<u>2,814</u>	<u>236</u>	<u>18</u>	<u>1,117</u>	<u>4,149</u>	<u>3</u>	<u>150</u>	<u>165</u>	<u>10</u>	<u>1</u>
Fund Balances at End of Year	<u>\$ 2,804</u>	<u>\$ 187</u>	<u>\$ 54</u>	<u>\$ 830</u>	<u>\$ 2,297</u>	<u>\$ 3</u>	<u>\$ 102</u>	<u>\$ 151</u>	<u>\$ 10</u>	<u>\$ 1</u>

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CITY OF MIDDLETOWN, CONNECTICUT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)

	Permanent Funds		Capital Project Funds							Interfund Eliminations	Total Nonmajor Governmental Funds
	Frank B. Weeks Fund	Russell Library Fund	General Government	School District	Fire	Sanitation	Sewer	Kleen Water	Water		
Revenues:											
Taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental revenues											10,953
Charges for services											24,954
Investment income		130	3				3	1	4		14,308
Miscellaneous											257
Total revenues	<u>-</u>	<u>130</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>1</u>	<u>4</u>	<u>-</u>	<u>52,124</u>
Expenditures:											
Current:											
General government											852
Public safety											12,019
Health and human services											34
Culture and recreation											442
Education											22,961
Sewer, water and sanitation											13,486
Capital outlay			434	97	107	321	172		417		4,166
Total expenditures	<u>-</u>	<u>-</u>	<u>434</u>	<u>97</u>	<u>107</u>	<u>321</u>	<u>172</u>	<u>-</u>	<u>417</u>	<u>-</u>	<u>53,960</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>130</u>	<u>(431)</u>	<u>(97)</u>	<u>(107)</u>	<u>(321)</u>	<u>(169)</u>	<u>1</u>	<u>(413)</u>	<u>-</u>	<u>(1,836)</u>
Other Financing Sources (Uses):											
Transfers in			600			330	225		700	(2,548)	1,640
Transfers out	(1)	(54)					(60)	(607)		2,548	(3,599)
Total other financing sources	<u>(1)</u>	<u>(54)</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>330</u>	<u>165</u>	<u>(607)</u>	<u>700</u>	<u>-</u>	<u>(1,959)</u>
Net Change in Fund Balances	(1)	76	169	(97)	(107)	9	(4)	(606)	287	-	(3,795)
Fund Balances at Beginning of Year	62	1,161	395	138	120	28	610	606	769	-	22,467
Fund Balances at End of Year	<u>\$ 61</u>	<u>\$ 1,237</u>	<u>\$ 564</u>	<u>\$ 41</u>	<u>\$ 13</u>	<u>\$ 37</u>	<u>\$ 606</u>	<u>\$ -</u>	<u>\$ 1,056</u>	<u>\$ -</u>	<u>\$ 18,672</u>

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - ACTUAL AND BUDGET
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)**

	Fire District Fund					Sanitary Disposal District Fund				
	Actual on a GAAP Basis	Adjustment to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance Favorable (Unfavorable)	Actual on a GAAP Basis	Adjustment to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:										
Property taxes	\$ 10,807	\$	\$ 10,807	\$ 10,037	\$ 770	\$	\$	\$	\$	\$
Intergovernmental	764		764	762	2					
Charges for services					-	1,778		1,778	1,702	76
Investment income	10		10	3	7	65		65	30	35
Miscellaneous	113		113	20	93	13	203	216	4	212
Total revenues	<u>11,694</u>	<u>-</u>	<u>11,694</u>	<u>10,822</u>	<u>872</u>	<u>1,856</u>	<u>203</u>	<u>2,059</u>	<u>1,736</u>	<u>323</u>
Expenditures:										
Public safety	11,024	(5)	11,019	11,129	110					
Sewer, water and sanitation						1,826	(82)	1,744	2,197	453
Total expenditures	<u>11,024</u>	<u>(5)</u>	<u>11,019</u>	<u>11,129</u>	<u>110</u>	<u>1,826</u>	<u>(82)</u>	<u>1,744</u>	<u>2,197</u>	<u>453</u>
Excess (Deficiency) of Revenues Over Expenditures	670	5	675	(307)	982	30	285	315	(461)	776
Transfers In (Out)	(357)		(357)	(355)	(2)	(395)		(395)	(373)	(22)
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	<u>\$ 313</u>	<u>\$ 5</u>	<u>\$ 318</u>	<u>\$ (662)</u>	<u>\$ 980</u>	<u>\$ (365)</u>	<u>\$ 285</u>	<u>\$ (80)</u>	<u>\$ (834)</u>	<u>\$ 754</u>

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CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - ACTUAL AND BUDGET (CONTINUED)
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)

	Water Fund					Sewage Disposal Fund				
	Actual on a GAAP Basis	Adjustment to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance Favorable (Unfavorable)	Actual on a GAAP Basis	Adjustment to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:										
Property taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental										
Charges for services	4,489		4,489	5,838	(1,349)	6,841		6,841	7,047	(206)
Investment income	14		14	10	4	3		3	10	(7)
Miscellaneous	121	213	334	902	(568)	391	254	645	192	453
Total revenues	4,624	213	4,837	6,750	(1,913)	7,235	254	7,489	7,249	240
Expenditures:										
Public safety										
Sewer, water and sanitation	4,040	84	4,124	5,083	959	7,426	(74)	7,352	6,885	(467)
Total expenditures	4,040	84	4,124	5,083	959	7,426	(74)	7,352	6,885	(467)
Excess (Deficiency) of Revenues Over Expenditures	584	129	713	1,667	(954)	(191)	328	137	364	(227)
Transfers In (Out)	(1,096)		(1,096)	(2,275)	1,179	(1,661)		(1,661)	(2,891)	1,230
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	\$ (512)	\$ 129	\$ (383)	\$ (608)	\$ 225	\$ (1,852)	\$ 328	\$ (1,524)	\$ (2,527)	\$ 1,003

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CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING SCHEDULE OF REVENUES AND EXPENDITURES - ACTUAL AND BUDGET (CONTINUED)
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)

	Totals				
	Actual on a GAAP Basis	Adjustment to Budgetary Basis	Actual on a Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:					
Property taxes	\$ 10,807	\$ -	\$ 10,807	\$ 10,037	\$ 770
Intergovernmental	764	-	764	762	2
Charges for services	13,108	-	13,108	14,587	(1,479)
Investment income	92	-	92	53	39
Miscellaneous	638	670	1,308	1,118	190
Total revenues	<u>25,409</u>	<u>670</u>	<u>26,079</u>	<u>26,557</u>	<u>(478)</u>
Expenditures:					
Public safety	11,024	(5)	11,019	11,129	110
Sewer, water and sanitation	13,292	(72)	13,220	14,165	945
Total expenditures	<u>24,316</u>	<u>(77)</u>	<u>24,239</u>	<u>25,294</u>	<u>1,055</u>
Excess (Deficiency) of Revenues Over Expenditures	1,093	747	1,840	1,263	577
Transfers In (Out)	<u>(3,509)</u>	<u>-</u>	<u>(3,509)</u>	<u>(5,894)</u>	<u>2,385</u>
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	<u>\$ (2,416)</u>	<u>\$ 747</u>	<u>\$ (1,669)</u>	<u>\$ (4,631)</u>	<u>\$ 2,962</u>

Capital Projects Fund

CAPITAL PROJECTS FUND

This fund accounts for the purchase, construction or renovation of major capital assets.

These activities are funded principally by bond issues and intergovernmental revenues.

**CITY OF MIDDLETOWN, CONNECTICUT
CAPITAL PROJECTS FUND
SCHEDULE OF PROJECT AUTHORIZATIONS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017
(In Thousands)**

Project Number	Project Description	Amended Budget	Cumulative Expenditures	Encumbrances	Available Budget
4018	City Public Parking Improvement Construction	\$ 599	\$ 472	\$ 62	\$ 65
4019	Parking Public Safety/Security Improve	600	146	355	99
4021	Plan, Design, Cons, Portable Water Infrastructure	750	563		187
4025	Middletown Youth Soccer	355	353		2
4026	Athletic Fields/Parks	33,450	1,462	7,534	24,454
4027	Military Museum	300	2	261	37
4049	Eckersley Hall	750	744		6
4105	Rehab Main St. Water Main N of Wash	1,930	1,668	11	251
4150	CSO 2007 BI Sewer/Separation	8,620	4,964	770	2,886
4165	Design Acquire/Constr W/Mattabasset	37,000	20,538	14,819	1,643
4166	Eckersley Hall-Plan, Impr,Const, Restore	4,850	4,344	82	424
4173	Wesleyan Tennis Courts	750	749		1
4175	Dingwall-Horan Firearm Design and Construction	750	5		745
4176	Dingwall Firearm Enviro Remediation	750			750
4180	2007 Road Improv. Bond	9,975	9,663	152	160
4250	Water and Sewer Improvements	4,500	3,935	156	409
4251	Plan, Design, Construct Replace W&S Mains	4,255	22	185	4,048
4271	Water Planning Improvements	250	198	11	41
4272	Installation of Water System (SCADA)	250	181	61	8
4273	John S. Roth Treatment Plant Improvements	310	55	19	236
4274	Sewer System Pump Station	470	446	15	9
4275	Charles Bacon Plant Improvements Water	725	483	49	193
4276	Integrated Public Safety Software	745	742	2	1
4277	Information Technology Infrastructure	745	741		4
4279	Acquisition/Implement Technology Project	456	442		14
4281	Information Technology System & Devices	625	561	32	32
4282	Pur/Install Telephone System City BLDGS	685	635		50
4283	City Info Technology Storage Infrastructure	736	661	32	43
4284	CNR Ordinance 2012-2013	585	536		49
4285	CNR Ordinance 13/14	750	748		2
4286	CNR Ordinance 2014-2015	723	715		8
4287	CNR Ordinance 2015-2016	727	594		133
4288	CNR Ordinance 2016-2017	750	265	457	28
4451	Radio Communications Upgrades	12,100	1,923	7,948	2,229
4457	Sidewalks, Curbing & Driveway Aprons	500	51	27	422
4458	Citywide Streets Poles & Equip	1,150	1,125		25
4459	2013 Road, Sidewalk & PW Facilities	15,200	6,310	584	8,306
4464	Keigwin Middle Sch Parking Lot	450	416		34
4465	Keigwin Middle Sch Fire Alarm System	165	161		4
4466	Asbestos Abatement/Woodrow Wilson Middle	435	372		63
4467	Woodrow Wilson Middle	749	7	737	5
4468	Wired & Wireless Network MHS	343	311	19	13
4469	Powerschool Info Sys Mdtwn Schools	135	134		1
4510	Jackson Street Bridge	280	122		158
4562	Renovation & Improve Russell Library	749	692		57
4563	Physical Inspect & Reval Real Property	750	610	113	27
4570	Sanitary Sewers	2,500	1,804	78	618
4580	Road Bond 2005	9,850	9,370	80	400
4600	Mill Street Bridge	1,737	1,386	90	261
4613	Rehab Sani S&W Infrastructure/Middle St.	1,300	1,185	46	69
4615	2011 Road Bond	14,170	10,804	258	3,108
4618	Plan, Design, Const, Repl, Sani Sewer Infras	500	307		193
4619	BI Force Main & Pump Station w/Mattabasset	3,000	74	1,133	1,793
4621	Combined Sewer Overflow Separation	7,750	4	173	7,573
4622	Mattabasset Regionalization Project	15,000	1,884	11,203	1,913
4654	Waterline Improv. Arrigoni Bridge	350	327		23
4700	CSO Road Improvement	9,900	7,334	4	2,562
4710	2001 Road Improvement Bond	6,800	6,745		55
4730	Open Space	3,000	2,984		16
4740	Middletown High School BI	106,650	106,549		101
4746	Security Measures at City Hall	750	473	157	120
4747	Web Base Security Sys School Citywide	750	655	55	40
4782	Purchase Vehicles & Related Equipment	657	338	270	49
	Total	\$ 337,386	\$ 222,090	\$ 48,040	\$ 67,256

Internal Service Funds

INTERNAL SERVICE FUNDS

Internal Service Funds are used for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. The City has three such funds.

Health Benefits Fund - established on July 1, 1991 to account for self-insurance activity of the City relating to providing health benefits to current and retired employees.

Property and Casualty Fund - to account for self-insurance activity relating to providing property and casualty insurance benefits to the City of Middletown.

Workers' Compensation Fund - to account for self-insurance activity relating to providing workmen's compensation benefits to eligible recipients.

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016
 (In Thousands)**

	<u>Health Benefits Fund</u>	<u>Property and Casualty Fund</u>	<u>Workers' Compensation Fund</u>	<u>Totals</u>	
				<u>2017</u>	<u>2016</u>
Assets:					
Cash and cash equivalents	\$ <u>10,152</u>	\$ <u>2,931</u>	\$ <u>6,162</u>	\$ <u>19,245</u>	\$ <u>16,953</u>
Liabilities:					
Current liabilities					
Accounts and other payables	405	9	2	416	57
Unpaid claims - current	<u>2,561</u>			<u>2,561</u>	<u>2,887</u>
Total current liabilities	<u>2,966</u>	<u>9</u>	<u>2</u>	<u>2,977</u>	<u>2,944</u>
Noncurrent liabilities:					
Unpaid claims - noncurrent		<u>700</u>	<u>4,688</u>	<u>5,388</u>	<u>4,881</u>
Total liabilities	<u>2,966</u>	<u>709</u>	<u>4,690</u>	<u>8,365</u>	<u>7,825</u>
Net Position	\$ <u><u>7,186</u></u>	\$ <u><u>2,222</u></u>	\$ <u><u>1,472</u></u>	\$ <u><u>10,880</u></u>	\$ <u><u>9,128</u></u>

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016
 (In Thousands)**

	Health Benefits Fund	Property and Casualty Fund	Workers' Compensation Fund	Totals	
				2017	2016
Operating revenues:					
Charges for services	\$ 19,618	\$ 2,012	\$ 2,161	\$ 23,791	\$ 29,619
Other	3,145	70	279	3,494	2,803
Total operating revenues	<u>22,763</u>	<u>2,082</u>	<u>2,440</u>	<u>27,285</u>	<u>32,422</u>
Operating expenses:					
Benefit payments	6,306	501	3,081	9,888	9,760
Administration	752	20	176	948	1,110
Insurance	13,178	1,404	166	14,748	20,891
Total operating expenses	<u>20,236</u>	<u>1,925</u>	<u>3,423</u>	<u>25,584</u>	<u>31,761</u>
Operating Income (Loss)	2,527	157	(983)	1,701	661
Nonoperating revenue:					
Interest income	47	12	28	87	55
Income (Loss) Before Transfers	2,574	169	(955)	1,788	716
Transfers Out		(36)		(36)	(32)
Net Income (Loss)	2,574	133	(955)	1,752	684
Net Position at Beginning of Year	<u>4,612</u>	<u>2,089</u>	<u>2,427</u>	<u>9,128</u>	<u>8,444</u>
Net Position at End of Year	<u>\$ 7,186</u>	<u>\$ 2,222</u>	<u>\$ 1,472</u>	<u>\$ 10,880</u>	<u>\$ 9,128</u>

**CITY OF MIDDLETOWN, CONNECTICUT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016
 (In Thousands)**

	Health Benefits Fund	Property and Casualty Fund	Workers' Compensation Fund	Totals	
				2017	2016
Cash Flows from Operating Activities:					
Interfund services provided or used	\$ 19,618	\$ 2,012	\$ 2,161	\$ 23,791	\$ 29,619
Cash received from insurance reimbursements	3,145	70	279	3,494	2,803
Cash paid to vendors	(20,198)	(2,230)	(2,616)	(25,044)	(31,589)
Net cash provided by (used in) operating activities	<u>2,565</u>	<u>(148)</u>	<u>(176)</u>	<u>2,241</u>	<u>833</u>
Cash Flows from Noncapital Financing Activities:					
Transfers to other funds		(36)		(36)	(32)
Cash Flows from Investing Activities:					
Interest income (loss)	<u>47</u>	<u>12</u>	<u>28</u>	<u>87</u>	<u>55</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,612	(172)	(148)	2,292	856
Cash and Cash Equivalents at Beginning of Year	<u>7,540</u>	<u>3,103</u>	<u>6,310</u>	<u>16,953</u>	<u>16,097</u>
Cash and Cash Equivalents at End of Year	<u>\$ 10,152</u>	<u>\$ 2,931</u>	<u>\$ 6,162</u>	<u>\$ 19,245</u>	<u>\$ 16,953</u>
Reconciliation of Operating Income (Loss) to					
Net Cash Provided by (Used in) Operating Activities:					
Operating income (loss)	\$ 2,527	\$ 157	\$ (983)	\$ 1,701	\$ 661
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Decrease (Increase) in vouchers and other payable	<u>38</u>	<u>(305)</u>	<u>807</u>	<u>540</u>	<u>172</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 2,565</u>	<u>\$ (148)</u>	<u>\$ (176)</u>	<u>\$ 2,241</u>	<u>\$ 833</u>

Fiduciary Funds

FIDUCIARY FUNDS

AGENCY FUNDS

Agency Funds are custodial in nature and are used to account for various school activities, and escrow accounts.

**CITY OF MIDDLETOWN, CONNECTICUT
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2017
 (In Thousands)**

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Board of Education Activity Fund				
Assets:				
Cash and cash equivalents	\$ 440	\$ 991	\$ 934	\$ 497
Investments	<u>38</u>			<u>38</u>
Total	<u>\$ 478</u>	<u>\$ 991</u>	<u>\$ 934</u>	<u>\$ 535</u>
Liabilities:				
Due to student groups	<u>\$ 478</u>	<u>\$ 991</u>	<u>\$ 934</u>	<u>\$ 535</u>
Escrow Account Fund				
Assets:				
Cash and cash equivalents	<u>\$ 2,268</u>	<u>\$ 655</u>	<u>\$ 608</u>	<u>\$ 2,315</u>
Liabilities:				
Due to contract liabilities	<u>\$ 2,268</u>	<u>\$ 655</u>	<u>\$ 608</u>	<u>\$ 2,315</u>
Total All Funds				
Assets:				
Cash and cash equivalents	\$ 2,708	\$ 1,646	\$ 1,542	\$ 2,812
Investments	<u>38</u>	<u>-</u>	<u>-</u>	<u>38</u>
Total	<u>\$ 2,746</u>	<u>\$ 1,646</u>	<u>\$ 1,542</u>	<u>\$ 2,850</u>
Liabilities:				
Due to student and other groups	<u>\$ 2,746</u>	<u>\$ 1,646</u>	<u>\$ 1,542</u>	<u>\$ 2,850</u>

Statistical Section

Statistical Section Information

The objectives of statistical section information are to provide financial statement users with additional historical perspective, context and detail to assist in using the information in the financial statements, notes to financial statements and required supplementary information to understand and assess economic condition.

Statistical section information is presented in the following categories:

- *Financial trends information* is intended to assist users in understanding and assessing how financial position has changed over time.
- *Revenue capacity information* is intended to assist users in understanding and assessing the factors affecting the ability to generate *own-source revenues* (property taxes, charges for services, etc.).
- *Debt capacity information* is intended to assist users in understanding and assessing debt burden and the ability to issue additional debt.
- *Demographic and economic information* is intended 1) to assist users in understanding the socioeconomic environment and 2) to provide information that facilitates comparisons of financial statement information over time and among governments.
- *Operating information* is intended to provide contextual information about operations and resources to assist readers in using financial statement information to understand and assess economic condition.

The accompanying tables are presented in the above order. Refer to the Table of Contents for applicable page number locations.

Sources: Unless otherwise noted, the information in the tables is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF MIDDLETOWN, CONNECTICUT
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(In Thousands)**

	FISCAL YEAR									
	2017	2016	2015	2014*	2013	2012	2011	2010	2009	2008
Governmental Activities:										
Net investment in capital assets	\$ 263,979	\$ 269,612	\$ 267,645	\$ 289,881	\$ 284,417	\$ 297,304	\$ 285,332	\$ 287,765	\$ 284,755	\$ 261,139
Restricted	1,309	1,234	1,289	1,323	1,217	1,120	1,143	1,089	996	821
Unrestricted	65,712	70,552	83,008	56,523	9,309	3,040	13,887	19,626	19,138	31,177
Total Governmental Activities Net Position	<u>\$ 331,000</u>	<u>\$ 341,398</u>	<u>\$ 351,942</u>	<u>\$ 347,727</u>	<u>\$ 294,943</u>	<u>\$ 301,464</u>	<u>\$ 300,362</u>	<u>\$ 308,480</u>	<u>\$ 304,889</u>	<u>\$ 293,137</u>

*Restated for the implementation of GASB 68

Notes:

(1) Schedule prepared on the accrual basis of accounting

CITY OF MIDDLETOWN, CONNECTICUT
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(In Thousands)

	FISCAL YEAR									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses:										
Governmental activities:										
General government	\$ 17,404	\$ 17,150	\$ 18,740	\$ 19,747	\$ 18,308	\$ 17,088	\$ 14,690	\$ 15,572	\$ 16,449	\$ 23,392
Public safety	39,394	40,453	26,917	29,048	26,064	24,013	22,667	22,483	23,518	14,236
Public works	14,509	13,161	10,128	11,758	11,166	9,041	11,980	10,562	12,566	10,638
Health and human services	1,686	1,601	1,502	802	803	683	744	724	745	1,214
Culture and recreation	5,749	5,641	5,740	5,809	6,115	5,359	5,301	5,328	5,096	5,728
Employee benefits and insurance	18,980	15,781	14,908	16,586	15,115	14,037	17,879	9,443	10,184	10,760
Education	119,861	112,623	109,091	106,256	99,317	97,737	101,084	96,996	92,346	106,334
Sewer	7,561	6,073	4,885	4,778	4,432	3,810	3,556	3,523	3,702	3,593
Water	4,087	3,841	4,038	4,445	4,274	3,468	3,771	4,020	4,677	5,461
Sanitation	1,827	1,662	1,685	1,857	1,814	1,527	1,588	1,583	1,864	1,801
Interest on long-term debt	2,367	2,501	2,168	2,347	2,152	2,442	2,703	2,471	2,837	2,871
Total governmental activities expenses	<u>233,425</u>	<u>220,487</u>	<u>199,802</u>	<u>203,433</u>	<u>189,560</u>	<u>179,205</u>	<u>185,963</u>	<u>172,705</u>	<u>173,984</u>	<u>186,028</u>
Program revenues:										
Governmental activities:										
Charges for services										
General government	4,046	4,379	3,011	2,887	3,075	2,666	1,494	1,437	1,606	1,793
Public safety	1,715	2,041	2,013	1,379	1,528	1,604	1,804	2,223	1,440	1,613
Public works	387	390	320	341	309	323	908	908	1,338	1,865
Health and human resources						50	152	194	157	160
Culture and recreation	752	740	703	474	368	349	259	400	451	335
Education	541	551	619	698	753	763	592	1,623	3,151	1,945
Sewer	7,441	6,129	5,994	5,114	5,411	5,244	4,870	4,435	4,495	4,174
Water	4,527	6,637	6,430	5,172	5,297	5,193	4,921	4,615	4,826	4,467
Sanitation and other	1,841	1,844	1,825	1,840	1,823	1,847	1,940	1,935	1,678	1,698
Operating grants and contributions	54,565	49,251	48,566	44,949	42,591	42,487	41,723	40,194	39,951	58,951
Capital grants and contributions	5,224	4,854	3,101	1,965	1,828	2,651	2,851	5,709	15,765	20,782
Total governmental activities program revenues	<u>81,039</u>	<u>76,816</u>	<u>72,582</u>	<u>64,819</u>	<u>62,983</u>	<u>63,177</u>	<u>61,514</u>	<u>63,673</u>	<u>74,858</u>	<u>97,783</u>
Net expense:										
Governmental activities	<u>(152,386)</u>	<u>(143,671)</u>	<u>(127,220)</u>	<u>(138,614)</u>	<u>(126,577)</u>	<u>(116,028)</u>	<u>(124,449)</u>	<u>#####</u>	<u>(99,126)</u>	<u>(88,245)</u>
General revenues and other changes in net position:										
Governmental activities:										
Property taxes	121,492	115,937	116,763	106,714	104,253	101,495	102,329	96,453	96,059	90,931
Grants and contributions not restricted to specific purposes	14,019	12,650	9,828	9,284	9,703	10,370	10,085	10,656	12,458	12,660
Unrestricted investment earnings	495	217	143	302	403	295	606	631	1,529	3,049
Miscellaneous	5,982	4,323	4,701	5,932	5,697	4,970	3,311	4,883	832	185
Total governmental activities	<u>141,988</u>	<u>133,127</u>	<u>131,435</u>	<u>122,232</u>	<u>120,056</u>	<u>117,130</u>	<u>116,331</u>	<u>112,623</u>	<u>110,878</u>	<u>106,825</u>
Changes in net position:										
Governmental activities	<u>\$ (10,398)</u>	<u>\$ (10,544)</u>	<u>\$ 4,215</u>	<u>\$ (16,382)</u>	<u>\$ (6,521)</u>	<u>\$ 1,102</u>	<u>\$ (8,118)</u>	<u>\$ 3,591</u>	<u>\$ 11,752</u>	<u>\$ 18,580</u>

Notes:

(1) Schedule prepared on the accrual basis of accounting

TABLE 3

**CITY OF MIDDLETOWN, CONNECTICUT
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(In Thousands)**

	FISCAL YEAR									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Fund:										
Reserved	\$	\$	\$	\$	\$	\$	\$	\$ 2,111	\$ 2,108	\$ 1,435
Unreserved								13,849	13,742	17,491
Assigned	6,230	4,829	4,741	3,068	6,363	2,649	2,675			
Unassigned	<u>24,711</u>	<u>22,979</u>	<u>21,826</u>	<u>16,796</u>	<u>15,055</u>	<u>14,209</u>	<u>12,772</u>			
Total General Fund	<u>\$ 30,941</u>	<u>\$ 27,808</u>	<u>\$ 26,567</u>	<u>\$ 19,864</u>	<u>\$ 21,418</u>	<u>\$ 16,858</u>	<u>\$ 15,447</u>	<u>\$ 15,960</u>	<u>\$ 15,850</u>	<u>\$ 18,926</u>
All Other Governmental Funds:										
Reserved	\$	\$	\$	\$	\$	\$	\$	\$ 4,777	\$ 7,802	\$ 23,342
Unreserved, reported in:										
Special revenue funds								14,326	12,939	12,967
Capital projects funds								1,831	(8,748)	(17,511)
Permanent funds								979	897	717
Nonspendable	39	32	32	32	32	32	32			
Restricted	4,161	4,120	3,805	3,051	2,945	2,882	2,901			
Committed	15,235	18,728	18,972	18,364	18,380	16,715	18,357			
Unassigned	<u>(8,804)</u>	<u>(14,508)</u>	<u>(3,557)</u>	<u>(19,344)</u>	<u>(4,424)</u>	<u>(6,485)</u>	<u>(1,024)</u>			
Total all other governmental funds	<u>\$ 10,631</u>	<u>\$ 8,372</u>	<u>\$ 19,252</u>	<u>\$ 2,103</u>	<u>\$ 16,933</u>	<u>\$ 13,144</u>	<u>\$ 20,266</u>	<u>\$ 21,913</u>	<u>\$ 12,890</u>	<u>\$ 19,515</u>

Note 1: Schedule prepared on the modified accrual basis of accounting

CITY OF MIDDLETOWN, CONNECTICUT
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(In Thousands)

	FISCAL YEAR									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues:										
Property taxes	\$ 120,799	\$ 114,974	\$ 115,731	\$ 106,818	\$ 103,727	\$ 100,932	\$ 101,808	\$ 96,401	\$ 95,323	\$ 89,396
Licenses and permits	1,378	1,292	652	659	769	586	557	667	574	1,313
Intergovernmental	73,167	65,986	60,931	56,197	54,122	55,558	54,485	53,456	67,214	91,764
Charges for services	19,060	20,829	19,711	17,204	17,701	17,416	16,608	16,978	17,652	14,563
Investment income	466	222	176	283	371	244	527	479	1,201	2,463
Miscellaneous	7,302	5,563	5,720	5,933	5,697	4,970	3,309	8,239	2,952	4,298
Total revenues	<u>222,172</u>	<u>208,866</u>	<u>202,921</u>	<u>187,094</u>	<u>182,387</u>	<u>179,706</u>	<u>177,294</u>	<u>176,220</u>	<u>184,916</u>	<u>203,797</u>
Expenditures:										
General government	11,109	10,100	10,364	8,651	8,390	8,252	8,174	7,330	7,456	12,804
Public safety	28,036	26,802	24,715	23,415	22,673	21,646	21,140	19,990	20,851	11,158
Public works	4,995	4,728	5,020	4,552	4,515	4,299	4,556	4,226	4,269	5,068
Health and human services	1,662	1,588	1,543	694	702	720	734	707	722	1,177
Culture and recreation	5,680	5,850	5,701	4,976	5,317	5,415	5,270	5,276	5,079	5,233
Employee benefits and insurance	20,680	19,046	17,380	14,895	13,550	12,970	13,757	13,231	12,763	11,612
Education	116,078	107,169	103,519	100,511	93,683	93,225	93,445	90,688	88,441	103,590
Sewer	7,620	6,032	4,876	4,050	3,855	3,808	3,556	3,522	3,477	3,367
Water	4,040	3,888	4,014	3,855	3,586	3,463	3,764	3,688	3,569	3,516
Sanitation	1,826	1,669	1,672	1,596	1,577	1,545	1,593	1,575	1,819	1,663
Other				4,042	5,363	3,383	4,112	3,555	4,435	5,491
Capital outlay	20,825	24,746	22,743	21,406	29,263	13,840	15,646	10,616	28,348	40,405
Debt service:										
Principal retirement	12,712	11,205	12,647	9,908	10,850	10,085	10,064	11,724	12,169	10,292
Interest and fiscal charges	3,415	3,544	2,543	2,958	2,299	2,804	3,001	2,741	3,228	3,144
Total expenditures	<u>238,678</u>	<u>226,367</u>	<u>216,737</u>	<u>205,509</u>	<u>205,623</u>	<u>185,455</u>	<u>188,812</u>	<u>178,869</u>	<u>196,626</u>	<u>218,520</u>
Excess of Revenue Under Expenditures	<u>(16,506)</u>	<u>(17,501)</u>	<u>(13,816)</u>	<u>(18,415)</u>	<u>(23,236)</u>	<u>(5,749)</u>	<u>(11,518)</u>	<u>(2,649)</u>	<u>(11,710)</u>	<u>(14,723)</u>
Other financing sources (uses):										
Bonds and serial notes	19,000	7,000	32,302	1,993	27,900		8,900	10,900	1,975	13,050
Transfers in	18,595	17,004	17,006	14,685	14,526	14,288	14,617	16,047	17,082	15,773
Transfers out	(18,559)	(16,972)	(16,927)	(14,647)	(14,488)	(14,250)	(14,579)	(16,010)	(17,048)	(15,742)
Premium on bonds	2,862	830	5,287		3,647		420	845		122
Total Other Financing Sources	<u>21,898</u>	<u>7,862</u>	<u>37,668</u>	<u>2,031</u>	<u>31,585</u>	<u>38</u>	<u>9,358</u>	<u>11,782</u>	<u>2,009</u>	<u>13,203</u>
Net Change in Fund Balances	\$ <u>5,392</u>	\$ <u>(9,639)</u>	\$ <u>23,852</u>	\$ <u>(16,384)</u>	\$ <u>8,349</u>	\$ <u>(5,711)</u>	\$ <u>(2,160)</u>	\$ <u>9,133</u>	\$ <u>(9,701)</u>	\$ <u>(1,520)</u>
Debt Service as a Percentage of Noncapital Expenditures	<u>7.26%</u>	<u>7.13%</u>	<u>7.74%</u>	<u>6.68%</u>	<u>7.17%</u>	<u>7.49%</u>	<u>7.45%</u>	<u>8.48%</u>	<u>8.99%</u>	<u>7.50%</u>

Notes:

(1) Schedule prepared on the modified accrual basis of accounting

**CITY OF MIDDLETOWN, CONNECTICUT
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (In Thousands)**

Fiscal Year	Real Property			Personal Property	Motor Vehicle	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value As a Percentage of Actual Taxable Value
	Residential	Commercial	Industrial							
2017	\$ 1,801,199	\$ 656,845	\$ 223,936	\$ 598,652	\$ 283,423	\$ 229,624	\$ 3,334,431	33.9	\$ 4,763,473	70.00%
2016	1,795,611	644,322	222,646	586,277	285,835	205,407	3,329,285	33.3	4,756,121	70.00%
2015	1,787,946	649,062	222,798	557,213	279,664	200,859	3,295,824	32.6	4,708,318	70.00%
2014	2,063,276	708,280	171,978	550,100	280,619	176,613	3,314,642	32.7	4,735,202	70.00%
2013	2,168,527	594,807	178,193	526,227	270,335	165,054	3,573,042	26.9	5,104,345	70.00%
2012	2,163,664	592,993	177,581	531,480	273,174	156,839	3,740,746	26.1	5,343,923	70.00%
2011	2,156,261	674,531	160,305	495,696	257,351	165,498	3,578,647	26.4	5,112,353	70.00%
2010	2,133,848	675,127	158,153	471,796	250,561	182,522	3,506,963	25.5	5,009,947	70.00%
2009	2,124,835	680,546	125,966	447,513	249,295	125,555	3,502,601	25.5	5,003,716	70.00%
2008	2,105,671	676,704	112,077	427,347	259,633	103,494	3,477,939	31.8	4,968,484	70.00%

Source: City of Middletown Office of Tax Assessor

Notes:

- (1) The latest revaluation as completed and became effective October 1, 2013 for fiscal year 2014-2015.
- (2) Exemptions now include new machinery.
- (3) Assessed value of Kleen Energy Systems LLC power plant as per PILOT agreement is included in total assessment

TABLE 6

**CITY OF MIDDLETOWN, CONNECTICUT
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN YEARS
(rate per \$1,000 of assessed value)**

	FISCAL YEAR									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
City:										
General	33.3	32.6	32.7	27.7	26.9	26.1	26.4	25.5	25.5	31.8
Districts:										
Fire Fund	7.9	7	7.3	6.1	5.8	5.5	5.5	5	5	6.4
Westfield Fire	1.463	1.416	1.416	1.326	1.237	1.237	1.179	1.145	0.99	1.15
South Fire	4.605	4.468	4.468	3.648	3.648	3.574	3.486	3.486	3.38	4.381
Middletown Business	2.41	2.41	2.41	2.42	2.4	2.4	2.4	2.4	2.4	3

TABLE 7

**CITY OF MIDDLETOWN, CONNECTICUT
PRINCIPAL PROPERTY TAX PAYERS
2016 and 2006
(In Thousands)**

Taxpayer	October 1, 2016			October 1, 2006		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Eversource (CL&P)	\$ 140,713	1	4.29%	\$ 36,305	4	1.38%
Aetna Life and Casualty	100,397	2	3.06%	205,190	1	7.82%
Kleen Energy Systems, LLC	64,641	3	1.97%			
United Technologies	50,015	4	1.53%	91,785	2	3.50%
Middletown Power LLC	42,405	5	1.29%	55,021	3	2.10%
Northwood Apt Assoc LLC	26,398	6	0.81%			
Chestnut Hill Apt Assoc LLC	25,731	7	0.78%			
Fairfield Midtown Brook LP	20,284	8	0.62%	14,368	7	0.55%
Fairfield Midtown Ridge LP	20,090	9	0.61%			
Considine Knoll Crest Investor LLC	19,492	10	0.59%			
Midfield Corporation				13,196	9	0.50%
Middletown-Oxford				15,763	5	0.60%
Cingular Wireless				15,180	6	0.58%
Windsor Brooke, LLC, LLC				13,029	10	0.50%
Conn-Colony				13,421	8	0.51%
	<u>\$ 510,166</u>		<u>15.56%</u>	<u>\$ 473,258</u>		<u>18.04%</u>

Source: City of Middletown, Office of Tax Assessor

TABLE 8

**CITY OF MIDDLETOWN, CONNECTICUT
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(In Thousands)**

Fiscal Year Ended June 30,	Tax Rate In Mills	Taxes Levied For This Fiscal Year	Collected Within the Fiscal Year of Levy		Collections In Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2017	41.2	\$ 119,879	\$ 116,365	97.07 %	\$ 1,817	\$ 118,182	98.58 %
2016	39.6	115,410	111,979	97.03	1,883	113,862	98.66
2015	40	116,604	112,779	96.72	1,738	114,517	98.21
2014	33.8	106,360	103,804	97.60	1,904	105,708	99.39
2013	32.7	105,112	100,977	96.07	1,586	102,563	97.57
2012	31.6	101,532	99,672	98.17	1,797	101,469	99.94
2011	31.9	101,860	99,118	97.31	1,829	100,947	99.10
2010	30.5	96,320	93,394	96.96	1,878	95,272	98.91
2009	30.5	95,637	92,382	96.60	1,669	94,051	98.34
2008	31.8	90,838	88,446	97.37	752	89,198	98.19

Source: Tax Collector's Report; Comprehensive Annual Financial Report

**CITY OF MIDDLETOWN, CONNECTICUT
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(In Thousands, except per capita ratio)**

Fiscal Year	Governmental Activities		Total Primary Government	Ratio of Debt to Taxable Assessed Value	Bonded Debt as Percentage of Personal Income	Debt Per Capita
	General Obligation Bonds	Capital Leases				
2017	\$ 103,030	\$ -	\$ 103,030	3.27	6.48	\$ 2,279
2016	95,013	-	95,013	2.59	5.32	1,837
2015	99,401	-	99,401	3.02	5.94	1,927
2014	75,085	-	75,085	2.27	4.65	1,509
2013	83,534	-	83,534	2.21	5.21	1,677
2012	61,770	-	61,770	1.72	4.96	1,287
2011	71,855	-	71,855	2.01	5.77	1,497
2010	73,024	-	73,024	2.08	5.91	1,520
2009	73,846	-	73,846	2.11	6.04	1,554
2008	84,039	-	84,039	2.42	6.87	1,768

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF DEBT LIMITATION
JUNE 30, 2017
(In Thousands)

Total tax collections, including interest and lien fees, received during last completed fiscal year (taxes are levied for General Fund, Fire Districts and Special Parking District Fund)	\$ 125,238
Reimbursement for loss of revenue:	
Tax relief for elderly - freeze	<u>4</u>
Base	<u>\$ 125,242</u>

	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit</u>
Debt limitation:					
2-1/4 times base	\$ 281,795	\$	\$	\$	\$
4-1/2 times base		563,590			
3-3/4 times base			469,659		
3-1/4 times base				407,037	
3 times base					375,727
Total debt limitation	<u>281,795</u>	<u>563,590</u>	<u>469,659</u>	<u>407,037</u>	<u>375,727</u>
Indebtedness:					
Bonds payable	71,461	6,524	4,238		
Bonds authorized and unissued	50,662	557	18,211		
Clean water fund loans			18,327		
Grant commitments					
Total indebtedness	<u>122,123</u>	<u>7,081</u>	<u>40,776</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding and authorized debt	<u>\$ 159,672</u>	<u>\$ 556,509</u>	<u>\$ 428,883</u>	<u>\$ 407,037</u>	<u>\$ 375,727</u>

Note 1: In no case shall total indebtedness exceed seven times annual receipts from taxation.
The maximum amount permitted would be \$876 million.

Note 2: Bonds authorized and unissued represent bond authorizations for which bonds have been issued to partially finance the project or bond anticipation notes have been issued.

Note 3: Bonds payable do not include Water bonds of \$6,557,200 which are considered to be self-funding. Additionally, water bonds authorized and unissued of \$1,942,266 are not included.

**CITY OF MIDDLETOWN, CONNECTICUT
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(In Thousands)**

	FISCAL YEAR									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt limitation	\$ 876,696	\$ 848,365	\$ 851,007	\$ 787,112	\$ 763,993	\$ 755,189	\$ 750,305	\$ 707,027	\$ 698,295	\$ 662,716
Total net debt applicable to limit	<u>169,979</u>	<u>159,757</u>	<u>119,401</u>	<u>165,234</u>	<u>151,352</u>	<u>119,238</u>	<u>91,891</u>	<u>97,928</u>	<u>105,728</u>	<u>103,651</u>
Legal debt margin	<u>\$ 706,717</u>	<u>\$ 688,608</u>	<u>\$ 731,606</u>	<u>\$ 621,878</u>	<u>\$ 612,641</u>	<u>\$ 635,951</u>	<u>\$ 658,414</u>	<u>\$ 609,099</u>	<u>\$ 592,567</u>	<u>\$ 559,065</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>19%</u>	<u>19%</u>	<u>14%</u>	<u>21%</u>	<u>20%</u>	<u>16%</u>	<u>12%</u>	<u>14%</u>	<u>15%</u>	<u>16%</u>

Source: Comprehensive Annual Financial Report - Schedule of Debt Limitation

Note: See Table 10 for calculation of current year debt limitation

**CITY OF MIDDLETOWN, CONNECTICUT
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

<u>Year</u>	<u>Population(1)</u>	<u>Total Personal Income (in thousands)</u>	<u>Per Capita Income (1)</u>	<u>Median Age (2)</u>	<u>Public School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
2017	47,218	\$ 1,652,252	\$ 34,992	36.3	4,762	5.3%
2016	47,424	1,623,134	34,226	37.1	4,698	6.2%
2015	47,489	1,590,454	33,491	37.2	4,827	5.7%
2014	47,333	1,524,359	32,205	37.0	4,773	6.6%
2013	47,510	1,513,193	31,850	36.6	5,107	8.2%
2012	48,383	1,244,411	25,720	36.3	4,967	8.3%
2011	48,383	1,244,411	25,720	36.3	5,263	8.9%
2010	48,030	1,235,332	25,720	36.3	5,190	8.8%
2009	47,528	1,222,420	25,720	36.3	5,146	7.0%
2008	47,528	1,222,420	25,720	36.3	4,984	4.3%

Sources:

- (1) State of Connecticut Department of Health
- (2) U.S. Census Bureau, Census 2000
- (3) Middletown Board of Education
- (4) State of Connecticut, Department of Labor

TABLE 13

**CITY OF MIDDLETOWN, CONNECTICUT
PRINCIPAL EMPLOYERS
2017 AND 2007**

<u>Employer</u>	<u>Nature of Business</u>	<u>2017</u>			<u>2007</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Middlesex Health System	Private Hospital	3,150	1	12.62%	2,600	2	10.13%
United Technologies	Aircraft Engines	2,100	2	8.41%	2,500	3	9.74%
Connecticut Valley Hospital	State Hospital	1,608	3	6.44%	1,544	4	6.01%
Wesleyan University	Higher Education	1,235	4	4.95%	1,000	6	3.89%
Middletown Board of Education	Education	829	5	3.32%			
City of Middletown	Government	626	6	2.51%	1,347	5	5.25%
Liberty Bank	Financial Banking	393	7	1.57%	517	7	2.01%
Jarvis Products	Power Tool Manufacturer	232	8	0.93%	-		
Kamen Aerospace	Electronics System	206	9	0.83%	200	8	0.78%
Dattco	Transportation	165	10	0.66%			
Citizens Bank	Financial Banking						
Aetna	Insurance				4,617	1	17.98%
Middlesex Mutual Assurance	Insurance				159	10	0.62%
Aerospace Techniques	Aircraft				180	9	0.70%
		<u>10,544</u>			<u>14,664</u>		

Source: City of Middletown, Chamber of Commerce. Department of Labor, State of Connecticut

**CITY OF MIDDLETOWN, CONNECTICUT
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2017**

Date of incorporation	1651
Date City Charter adopted	1874
Date present Charter adopted	2000
Form of government	Council-Mayor
Area of City	42.9 square miles
Population:	
1930	25,143
1940	27,214
1950	29,711
1960	33,250
1970	36,924
1980	39,040
1990	42,762
2000	43,217
2010	47,510
2015	47,218
Public education:	
Schools:	
High	1
Middle school complex	2
Elementary	8
Administrative personnel	30
Teachers	442
Other	279
Local enrollment	4,762
Municipal employees:	
(Permanent-exclusive of library)	
Education	751
Police and Fire	179
Municipal and other	253
Fire volunteers	50
Fire protection:	
Fire stations	4
Employees:	
Fire fighting	109
Civilian	10
Volunteer	50
Number of hydrants	1,479

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
MISCELLANEOUS STATISTICAL DATA (CONTINUED)
JUNE 30,2017**

Police protection:	
Police station	1
Employees:	
Law enforcement	114
Civilian	14
School crossing guards	10
Elections:	
Number of registered voters	25,626
Number of votes cast in:	
Last general election	21,654
Last municipal election	9,355
Percentage of registered voters voting in:	
Last general election	85%
Last municipal election	43%
Municipal parking:	
Metered	530
Municipal garage	360
Other	386
Library:	
Main building	1
Employees:	
Regular	35
Part-time	27
Number of items owned	200,181
Registered borrowers	23,687
Total annual circulation	308,523
Total annual visits	213,301
Miles of streets and alleys:	
Streets - paved	196.9
Streets - unpaved	6.19
Alleys	2.1
Sidewalks	91.5

(Continued on next page)

**CITY OF MIDDLETOWN, CONNECTICUT
MISCELLANEOUS STATISTICAL DATA (CONTINUED)
JUNE 30,2017**

Miles of sewers:	
Storm sewers	219.36
Sanitary sewers	179
Water Department:	
Gallons of water per day	3,840,000
Number of meters	11,677
Miles of water mains	181
Building permits:	
Permits issued	1,914
Permits value	94,311,868
Number of street lights	5,200
Parks and recreation:	
Number of parks	30
Acres of parks	727.51
Number of playgrounds	5
Number of swimming pools:	
Indoor	-
Outdoor:	
Olympic-size	1
Wading pool	1
Lake	1
Ponds	5
Skating facilities - outdoor	4
Tennis courts	4
Ball diamonds (3 lighted)	23
Basketball courts - outdoor (1 lighted)	1
Skateboard/BMX Bike Park	1
Soccer Fields	25
Football Fields	1