

CITY OF CENTRAL FALLS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
JUNE 30, 2014

WITH

REPORT OF INDEPENDENT AUDITORS'

CITY OF CENTRAL FALLS

YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGE(S)</u>
FINANCIAL SECTION:		
Report of Independent Auditors'		1 - 2
Basic Financial Statements and Required Supplementary Information:		
Management's Discussion and Analysis		3 - 10
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	A-1	11
Statement of Activities	A-2	12
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	13
Statement of Revenues Other Financing Sources, Expenditures, Other Financing Uses, and Changes in Fund Balances	B-2	14
Reconciliation of the Statement of Revenues, Other financing Sources, Expenditures Other Financing Uses and Changes in Fund Balances of Governmental Funds to the Statement of Activities (B--2 to A-2)	B-3	15
Fiduciary Funds:		
Statement of Fiduciary Net Position	C-1	16
Statement of Changes in Fiduciary Net Position	C-2	17
Notes to Financial Statements		18 - 48
Required Supplementary Information:		
Schedule of Funding Progress (Unaudited)	D-1	49
Budgetary Comparison Schedule for the General Fund	D-2	50 - 56
Budgetary and Legal Compliance	D-3	57
Excess of Expenditures Over Appropriation	D-4	58
Schedule of Changes in the Net Pension Liability and Related Ratios	D-5	59
Schedule of Investment Returns	D-6	60
Other Supplementary Information:		
Non-major Governmental Funds:		
Combining Balance Sheet and Combining Statement of Revenues, Expenses and Changes in Fund Balance	E-1	61 - 65
Agency Funds:		
Statement of Changes in Assets and Liabilities	F-1	66
General Fund:		
Schedule of Property Taxes Receivable	G-1	67
Other Reporting:		
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		68 - 69

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS'

City of Central Falls
Central Falls, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Central Falls, Rhode Island as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, each major fund, and the aggregate remaining fund information of the City of Central Falls, Rhode Island, as of June 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 14 to the financial statements, on August 1, 2011 the State Receiver filed for federal Chapter 9 bankruptcy protection for the City of Central Falls, Rhode Island. The City emerged from Chapter 9 bankruptcy on October 25, 2012.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Required Supplementary Information on pages 3 through 10 and 49 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Central Falls, Rhode Island's basic financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Property Taxes Receivable 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 the schedule of property taxes receivable 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 the schedule of property taxes receivable are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015, on our consideration of the City of Central Falls, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Central Falls, Rhode Island's internal control over financial reporting and compliance.



Providence, Rhode Island
February 3, 2015

February 3, 2015

To the Citizens of the
City of Central Falls,
Rhode Island

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2014

This discussion and analysis of the City of Central Falls financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. This is the City's twelfth (12th) year reporting in accordance with the provisions of GASB Statement No. 34. Please read this document in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

The auditors' report for 2014 expresses an unqualified (i.e. "clean") opinion on the financial statements of the City of Central Falls. The City's basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City.

The Government-Wide Statement of Net Position indicates that the City's total net position decreased this year to a negative \$24,869,325, reflecting an increase of \$756,505 over FY2013.

The Government-Wide Statement of Activities indicates that the City's total general revenues of \$16,947,260 combined with additional program revenues of \$1,588,912 less program expenses of \$17,779,667 resulted in an increase of \$756,505 in total net position from a year ago.

The Governmental Fund Financial Statements indicate that the ending fund balance for the City's general fund was a surplus of \$505,048, reflecting a decrease of \$697,053 (after other financing sources and uses) compared to the FY2013 fund balance.

The Financial Statements

The financial statements presented herein include all the activities of the City of Central Falls using the integrated approach as prescribed by GASB Statement No. 34. Additionally, the City has implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Implementation of this Statement resulted in various funds previously reported Other Special Revenue Funds to be consolidated into the City's General Fund.

The Government-Wide Financial Statements present the financial picture of the City of Central Falls from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the City of Central Falls as well as all liabilities (including long term debt). Additionally, certain eliminations have occurred as prescribed by the statement about inter-fund activity, payables and receivables.

The Fund Financial Statements include statements for each of the two categories of activities - governmental and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The fiduciary activities are reported in the City's trust and agency funds. Agency funds, unlike the City's pension trust funds, do not have a measurement focus and only require a balance sheet. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Overview of the Financial Statements Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the City of Central Falls as a whole and about its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most companies in the private-sector. 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. Net position is the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is an indicator of whether the City's financial health is improving or deteriorating.

GASB Statement No. 34 defines the accounting terms found in the Statement of Net Position and the Statement of Activities as follows:

Governmental Activities

This category identifies the costs of City's various functions/programs in providing services to the public (i.e. general government, public safety, public works, etc.). The City's aggregate costs of providing these services are then offset by the state, federal and private grants, which provide additional funds that serve to reduce the City's costs of providing these same services.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the reporting entity as a whole. Although some funds are established by local ordinance, management often creates other funds to help control and manage certain revenues, grants and other sources of funds. These funds are generally earmarked for specific purposes and management must be able to demonstrate that it is meeting certain legal responsibilities often required by the provider.

Governmental Funds

Most of the City's services are reported on 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. The funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into 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 determine whether there are greater or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements compared to those in the Government-Wide financial statements are explained in the reconciliation schedule following the Governmental Fund financial statements.

Proprietary Funds

Business-like activities, such as providing water or sewer services, to the general public are done so through enterprise funds, which are financed primarily by user charges. The City of Central Falls has no enterprise funds. Services of this type have historically been provided to Central Falls residents through regional boards and commissions located outside of the City.

At one time all account transaction activity pertaining to the City's workers compensation claims was recorded in an internal service fund. The City of Central Falls no longer has any internal service funds, since insurance coverage is now purchased annually from a private insurer and the City no longer self-insures.

Fiduciary Funds

The City of Central Falls is the trustee, or fiduciary, for certain funds held on behalf of the beneficiaries. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Position. These activities are excluded from the City's Government-Wide Financial Statements, because the City cannot use these assets to finance operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose

Notes to Financial Statements

The notes provide additional information that is essential to a complete understanding of the data provided in the Government-Wide and Governmental Fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as, the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund.

Government-Wide Financial Analysis

In this, the twelfth (12th) year of implementation of the provisions of GASB Statement No. 34, the City continues to provide certain disclosures and compares them to prior year financial statements. In the sections that follow, a comparative analysis is provided between current year and prior year information.

As noted earlier, the total net position for the City of Central Falls has increased by \$756,605 over the prior year's balance. This decrease is first identified in the change in net position as recorded in the Statement of Activities and then flows through the Statement of Net Position. Program expenses by function, general revenues by major source, excess and/or deficiency of revenues over expenses and total assets are presented in the Statement of Activities and Changes in Net Assets.

Net position for the City of Central Falls for the fiscal year ended June 30, 2014 was:

Net Assets Governmental Activities

	<u>2014</u>	<u>2013</u>
Current and other assets	\$12,097,877	\$10,613,856
Capital assets	<u>18,468,194</u>	<u>20,335,708</u>
Total Assets	<u>30,566,071</u>	<u>30,949,564</u>
Current liabilities	\$ 4,004,068	\$ 3,954,739
Long-term liabilities	<u>51,409,584</u>	<u>52,583,771</u>
Total Liabilities	<u>55,413,652</u>	<u>56,538,510</u>
Deferred Inflow	<u>21,744</u>	
Net Position:	\$(24,869,325)	\$(25,588,946)
Net investment in		
Capital assets	\$ 1,741,524	\$ 2,544,397
Restricted	5,840,062	5,339,462
Unrestricted	<u>(32,450,911)</u>	<u>(33,472,805)</u>
Total Net Position	<u>\$(24,869,325)</u>	<u>\$(25,588,946)</u>

This year the City of Central Falls continues to report positive balances in two (2) areas of net position. Net investment in capital assets is \$1,741,524 and restricted net position amount of \$5,840,062. The negative balance of \$32,450,911 in unrestricted net position is mostly attributable to the City's net pension obligation of \$30,071,448 in the Police and Fire Private Pension Plan (John Hancock) and other post-employment benefits (health insurance) for retired employees, \$3,005,494.

As indicated in the Statement of Activities, the total cost of governmental activities for the year ended June 30, 2014 was \$17,779,667. Some of the costs (i.e. \$300,058) were paid by federal, state and private grants and entitlements.

Program and General Revenues

	<u>2014</u>	<u>2013</u>
Charges for services		
General government	\$ 1,288,854	\$ 1,300,211
Public safety		3,521
Total	<u>\$ 1,288,854</u>	<u>\$ 1,303,732</u>

Total revenue received for charges for services in 2014 was \$1,288,854 a decrease of \$14,878 as compared to the amount received in 2013, which was \$1,303,732.

	<u>2014</u>	<u>2013</u>
Operating Grants and Contributions		
General government	\$ 183,723	\$ 606,884
Public safety	100,918	93,884
Public recreation	15,417	4,688
Total	<u>\$ 300,058</u>	<u>\$ 705,456</u>

Total revenue received from Operating Grants and Contributions in 2014 was \$300,058 a decrease of \$405,398 as compared to the amount received in 2013, which was equal to \$705,456.

	<u>2014</u>	<u>2013</u>
Capital Grants and Contributions		
Capital outlays	\$ 0	\$ 0
Total	<u>\$ 0</u>	<u>\$ 0</u>

Total revenue received from Capital Grants and Contributions in 2014 was \$0, which was equal to the amount received in 2013, or \$0.

	<u>2014</u>	<u>2013</u>
Total Program Revenues	<u>\$ 1,588,912</u>	<u>\$ 2,009,188</u>
General Revenues		
Property taxes	\$ 14,133,256	\$ 13,659,898
Grants and contributions (unrestricted)	2,677,982	2,726,709
Investment earnings	18,996	21,092
Loss on sale of assets		(2,841,724)
Miscellaneous	117,026	195,194
Total General Revenues	<u>\$ 16,947,260</u>	<u>\$ 13,761,169</u>

General revenues in 2013 were \$16,947,260, which reflects an increase of \$3,186,091 as compared to the amount received in 2013, \$13,761,169.

Total Extraordinary Items	<u>\$ 0</u>	<u>\$ 433,972</u>
Total Government-Wide Revenues	<u>\$ 18,536,172</u>	<u>\$ 16,204,329</u>

Total Government-Wide Revenues in 2014 were \$18,536,172, an increase of \$2,331,843 as compared to the amount received in 2013, which was equal to \$16,204,329.

Statement of Activities

Program Expenses	Total Cost of Services 2014	Net Cost of Services 2014	Total Cost Services 2013	Net Cost of Services 2013
General Government	\$ 3,176,781	\$ 1,704,204	\$ 3,068,862	\$ 1,161,767
Public Safety	7,362,988	7,262,070	7,345,742	7,248,337
Public Works	2,070,908	2,070,908	1,633,318	1,633,318
Public Education	1,344,835	1,344,835	1,350,951	1,350,951
Public Recreation	432,410	416,993	426,813	422,125
Contingency	25,864	25,864	1,010,944	1,010,944
Employee Benefits	490,867	490,867	533,192	533,192
Retirement	2,006,770	2,006,770	2,012,585	2,012,585
Capital Outlays	0	0	0	0
Debt Service Interest	868,244	868,244	1,024,797	1,024,797
*Total Expenses	\$ 17,779,667	\$ 16,190,755	\$ 18,407,204	\$ 16,398,016

The City's total program expenses were \$17,779,667. With additional program revenues of \$1,588,912 in FY 2014, the City's net cost of services was \$16,190,755. When subtracted from the City's total general revenues of \$16,947,260, the City realizes a favorable Change in Net Position of \$756,505. In FY 2013 the City realized an unfavorable Change in Net Position of \$2,202,875

Transfers

Inter-fund transfers for the year ended June 30, 2014 totaled \$1,919,277 for the year.

Financial Analysis of the City's Funds – Governmental Fund Statements

Statement of Changes in Fund Balances – Governmental Funds

	<u>Fund Balance June 30, 2014</u>	<u>Fund Balance June 30, 2013</u>	<u>Increase (Decrease)</u>
General Fund	\$ 505,048	\$ 1,202,101	\$ (697,053)
State Pension	1,106,250	1,615,526	(509,276)
Capital Reserve	3,704,213	1,788,699	1,915,514
Other Governmental	<u>1,797,099</u>	<u>1,935,237</u>	<u>(138,138)</u>
Total	\$ 7,112,610	\$ 6,541,563	\$ 571,047

The fund balance for the City of Central Falls general fund reflects a surplus of \$505,048 as of June 30, 2014. This represents a decrease of \$697,053 as compared to FY2013.

General Fund Revenues	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Percentage Change</u>
General property taxes	\$13,307,776	\$13,546,519	\$ (238,743)	-1.8%
Interest and investment income	9,354	4	9,350	233750.0%
Intergovernmental	2,677,982	2,726,709	(48,727)	-1.8%
Fees / Non-tax income	1,288,854	1,303,732	(14,878)	-1.1%
Departmental revenue	0	0	0	0%
Other revenues	113,604	178,280	(64,676)	-36.3%
Total	<u>\$17,397,570</u>	<u>\$17,755,244</u>	<u>\$ (357,674)</u>	<u>-2.0%</u>

Analysis

The total decrease in the City's general fund balance, (\$697,053), under modified accrual was the result of the following:

FY2014 revenues exceeded expenditures by \$1,116,007 before other financing sources and uses were applied. The general fund realized a decrease of \$80,569. Per the Bankruptcy Plan, \$1,915,514 was transferred to the Capital Improvement Plan account, which represents the budgetary surplus/(deficit) less \$50,000.

Revenues from general property taxes decreased by \$238,743 or -1.8%, as compared to FY2013. Intergovernmental revenues received from the State of Rhode Island decreased by \$48,737 or -1.8% as compared to last year, resulting from a slight decrease in state aid. Local fees, non-tax, and other income also decreased by \$79,554 or -2.9%, mostly due to a decrease in rescue run revenue and municipal court fees/traffic fines/other fines.

Total budgetary expenditures for the general fund in FY2014 were \$15,753,181 reflecting a decrease in spending of \$862,983 or -5.2%, as compared to FY2013.

The following table displays a comparison of revenues and expenditures "budget to actual" for the general fund, as reported on a budgetary basis and required by the City Charter.

General Fund Budgetary Comparison Schedule – June 30, 2014

Revenue Analysis	Adopted Budget	Final Budget	Actual	Variance
Tax revenue	\$12,941,741	\$12,941,741	\$13,639,837	\$698,096
Fees/Non-tax revenue	1,242,289	1,242,289	1,374,731	132,442
State revenue	2,481,143	2,481,143	2,592,105	110,962
Other Income	17,222	17,222	108,094	90,872
Sub-Total	\$16,682,395	\$16,682,395	\$17,714,767	\$1,032,372
Expenditure Analysis				
General government	\$2,263,650	\$2,263,650	\$2,348,514	(\$84,864)
Public safety	6,448,481	6,448,481	6,295,315	153,166
Public works	1,680,556	1,680,556	1,599,417	81,139
Public education	119,968	119,968	141,543	(21,575)
Public recreation	178,008	178,008	240,869	(62,861)
Municipal debt service	2,570,841	2,570,841	2,087,818	483,023
Contingency	350,500	350,500	219,891	130,609
Employee benefits	665,010	665,010	490,867	174,143
Retirement	2,404,151	2,404,151	2,328,947	75,204
Sub-Total	\$16,681,165	\$16,681,165	\$15,753,181	\$927,984

Other Governmental Funds

Other governmental funds consist of:

<u>Fund Type</u>	<u>Total Net Position</u>	<u>Note</u>
Un-assigned	\$ (5,273)	Includes the amount of fund balance that cannot be spent Resources restricted for specific purposes
Restricted	1,802,372	
Total	\$ 1,797,099	

It should be noted that the Central Falls School District was not classified a component unit of the State of Rhode Island in 2014. Separately issued financial statements were prepared and may be obtained from the Rhode Island Department of Education.

Pension Trust Funds

<u>Pension Fund</u>	<u>Total Net Position</u>
Total	\$ 6,391,738

Total net position of the City's pension trust funds amount to \$6,391,738 in 2014, an increase of \$721,507 compared to FY2013, resulting from pension revenues exceeding expenses.

In an effort to reverse several years of Central Falls' failing to make contributions into its pension funds, the City began to make annual contributions into Central Falls Pension Plan beginning in FY2012, so as to amortize the unfunded liability over a number of years and make these pension funds viable and safe for retirees in the future. Under the new plan, the ARC is projected to be less than the Pay-As-You-Go ("PAYGO") costs until 2031, so the City will essentially be paying more than the annual required contribution which will result in a reduction of its "net pension obligation" on its balance sheet.

According to the City's most recent actuarial studies, the combined unfunded actuarial accrued liability (UAAL) for the pension fund and post-employment benefits is \$36.9 million, including \$24.9 million for the pension fund as of July 1, 2014 and \$12 million for post-employment benefits as of June 30, 2013.

Debt Administration

At year end the total long-term debt for the City of Central Falls was \$53 million. The breakdown is as follows:

	<u>FY2014 Amount</u>	<u>Percent</u>	<u>FY2013 Amount</u>	<u>Percent</u>
General Obligation Municipal Bonds	7,020,000	13%	12,785,000	23%
RIHEBC Revenue Bonds	9,665,000	18%	4,945,000	9%
Capital Lease	41,670	0%	61,311	0%
Net Pension Obligation (NPO)	30,071,448	57%	30,393,625	56%
Net OPEB Obligation (NOO)	3,005,494	6%	2,702,591	5%
Due to State	3,241,716	6%	3,228,025	6%
General Unsecured Claims - Class 16	113,833	0%	307,860	1%
Compensated Absences	232,980	0%	162,391	0%
Total	53,392,141	100%	54,585,803	100%

The Central Falls School District is a component unit of the State of Rhode Island. While the Central Falls School District has care, custody and control over the seven buildings used by the district, the City owns the buildings and is responsible for major repairs and renovations. These repairs and renovations are typically funded with school bonds as noted above.

On October 26, 2012, Moody's upgraded the City's general obligation bond rating to B2 with a positive outlook and on November 16, 2012 Standard and Poor's bond rating improved to BB.

On July 18, 2013, Moody's upgraded the City's general obligation bond rating to B1 from B2 with a positive outlook. Moody's has also affirmed the Ba1 underlying rating on the Rhode Island Health and Educational Building Corporation's (RIHEBC) Series 2007B bonds, with a stable outlook.

On June 27, 2014, Moody's upgraded the City's general obligation bond rating to Ba3 from B1, with a positive outlook.

On December 23, 2013, Standard and Poor affirmed its BB rating for the City of Central Falls, with a stable outlook.

Capital Assets

The City of Central Falls has \$18,468,194 invested in capital assets, net of depreciation. Only capitalized assets with an original cost of \$5,000 or greater are included. The straight-line/unrecovered cost method was used to calculate annual depreciation.

Independent Audit

State statutes and the City Charter require an annual audit by independent certified public accountants. The accounting firm of Marcum LLP provided this service for the purpose of issuing basic financial statements and supplementary information for the year ended June 30, 2014.


Forward Looking

The Fourth Amended Plan of Debt Adjustment requires that the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and recommends a four percent (4.0%) property tax increase in each of the next five years.

Acknowledgements

The preparation of this report was made possible by the conscientious efforts provided by the entire staff of The City of Central Falls. I appreciate their hard work and dedication throughout this endeavor.

Respectfully submitted,



Cynthia DeJesus
Finance Director

Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 7,625,081
Due from federal and state governments	1,066,690
Property taxes receivable, net	3,328,602
Other receivables, net	77,504
Capital assets (non-depreciable)	653,430
Capital assets (net of accumulated depreciation)	17,814,764
TOTAL ASSETS	<u>30,566,071</u>
LIABILITIES	
Accounts payable	738,386
Accrued interest payable	168,813
Accrued expenses	439,552
Unearned revenue	674,760
Current portion of long-term liabilities	1,982,557
Net pension obligation	30,071,448
Net OPEB obligation	3,005,494
Long-term liabilities	18,332,642
TOTAL LIABILITIES	<u>55,413,652</u>
DEFERRED INFLOWS OF RESOURCES	
Advance property tax collections	21,744
Total Deferred inflows of resources	<u>21,744</u>
NET POSITION	
Net investment in capital assets	1,741,524
Restricted:	
Retirees supplemental settlement	1,106,250
Capital projects	3,137,668
Special revenue/grantors	1,601,417
Unrestricted	(32,456,184)
TOTAL NET POSITION (DEFICIT)	<u>\$ (24,869,325)</u>

CITY OF CENTRAL FALLS

**Statement of Activities
For the year ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 3,176,781	\$ 1,288,854	\$ 183,723		\$ (1,704,204)
Public safety	7,362,988	-	100,918		(7,262,070)
Public works	2,070,908				(2,070,908)
Public education	1,344,835				(1,344,835)
Public recreation	432,410		15,417		(416,993)
Contingency	25,864				(25,864)
Employee benefits	490,867				(490,867)
Retirement	2,006,770				(2,006,770)
Debt service interest	868,244				(868,244)
Totals	\$ 17,779,667	\$ 1,288,854	\$ 300,058	\$ -	(16,190,755)
General revenues:					
Property taxes					14,133,256
Grants and contributions not restricted to specific programs					2,677,982
Investment earnings					18,996
Miscellaneous					117,026
					<u>16,947,260</u>
					Change in net position 756,505
					Net position - beginning, as restated <u>(25,625,830)</u>
					Net position - ending <u>\$ (24,869,325)</u>

See Notes to Financial Statements

Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Retirees Supplemental Settlement	Capital Reserve	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 4,975,064	\$ 1,106,250	\$ -	\$ 1,543,767	\$ 7,625,081
Due from federal and state governments	353,328			713,362	1,066,690
Property taxes receivable, net	3,328,602				3,328,602
Other receivables, net	77,504				77,504
Due from other funds	316,923		3,704,213	662,714	4,683,850
TOTAL ASSETS	\$ 9,051,421	\$ 1,106,250	\$ 3,704,213	\$ 2,919,843	\$ 16,781,727
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 607,325	\$ -	\$ -	\$ 131,061	\$ 738,386
Accrued expenses	439,552				439,552
Due to other funds	4,366,927			316,923	4,683,850
Unearned revenue	-			674,760	674,760
TOTAL LIABILITIES	5,413,804	-	-	1,122,744	6,536,548
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - taxes	3,132,569				3,132,569
Total Deferred inflows of resources	3,132,569	-	-	-	3,132,569
FUND BALANCES :					
Restricted	-	1,106,250	2,936,713	1,802,372	5,845,335
Committed	355,048		767,500		1,122,548
Unassigned	150,000			(5,273)	144,727
TOTAL FUND BALANCES	505,048	1,106,250	3,704,213	1,797,099	7,112,610
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,051,421	\$ 1,106,250	\$ 3,704,213	\$ 2,919,843	

Amounts reported for governmental activities in the Statement of Net Position differ because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,468,194
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(53,392,141)
Unearned revenues (net of an allowance for uncollectibles) are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Position.	3,110,825
Accrued interest on long-term liabilities have been included in the governmental activities in the Statement of Net Position.	(168,813)
Net Position of Governmental Activities (A-1)	<u>\$(24,869,325)</u>

**Statement of Revenues, Other Financing Sources , Expenditures,
Other Financing Uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2014**

	General Fund	Retirees Supplemental Settlement	Capital Reserve	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 13,307,776	\$ -	\$ -	\$ -	\$ 13,307,776
Interest and investment income	9,354	9,485		157	18,996
Intergovernmental	2,677,982			300,058	2,978,040
Fees/non-tax income	1,288,854				1,288,854
Other revenues	113,604			3,422	117,026
Total revenues	17,397,570	9,485	-	303,637	17,710,692
EXPENDITURES					
Current:					
General government	2,617,813			165,984	2,783,797
Public safety	6,305,750	518,761		180,786	7,005,297
Public works	1,884,663				1,884,663
Public education	141,543				141,543
Public recreation	240,374			13,913	254,287
Contingency	219,891				219,891
Employee benefits	490,867				490,867
Retirement	2,328,947				2,328,947
Debt service:					
Principal and interest	2,051,715				2,051,715
Capital:					
Capital expenditures				77,329	77,329
Total expenditures	16,281,563	518,761	-	438,012	17,238,336
Excess of revenues over (under) expenditures before other financing sources (uses)	1,116,007	(509,276)	-	(134,375)	472,356
Other financing sources (uses)					
Payments made by State on behalf of City	13,691				13,691
Bond proceeds	5,510,000				5,510,000
Refunding of bond	(5,425,000)				(5,425,000)
Transfers in	3,763		1,915,514	-	1,919,277
Transfers out	(1,915,514)			(3,763)	(1,919,277)
Net other financing sources (uses)	(1,813,060)	-	1,915,514	(3,763)	98,691
Excess (deficiency) of revenues and other sources over expenditures and other financing (uses)	(697,053)	(509,276)	1,915,514	(138,138)	571,047
Fund balance - beginning of the year	1,202,101	1,615,526	1,788,699	1,935,237	6,541,563
Fund balance - end of the year	\$ 505,048	\$ 1,106,250	\$ 3,704,213	\$ 1,797,099	\$ 7,112,610

FIDUCIARY FUNDS

CITY OF CENTRAL FALLS

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*Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014*

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 32,745
Investments:		
Group annuity contracts	6,358,761	
Other receivables	32,977	
TOTAL ASSETS	<u>\$ 6,391,738</u>	<u>\$ 32,745</u>
LIABILITIES	<u>-</u>	<u>\$ 32,745</u>
NET POSITION		
<i>Held in Trust for pension benefits</i>	<u>\$ 6,391,738</u>	

See Notes to Financial Statements

*Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2014*

	Pension Trust Funds
ADDITIONS:	
Contributions	\$ 2,743,151
Investment income	263,238
Total additions	<u>3,006,389</u>
DEDUCTIONS:	
Benefits paid to retirees	2,264,892
Other expenses	19,990
Total deductions	<u>2,284,882</u>
CHANGE IN NET POSITION	721,507
Net Position - beginning	<u>5,670,231</u>
Net Position - ending	<u>\$ 6,391,738</u>

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Central Falls was founded in 1895. The City is governed largely under the Home Rule Charter, which was revised on June 19, 2007. In some matters, including the issuance of short and long-term debt, the City is governed by the general laws of the State of Rhode Island. The City operates under a Mayor/City Council form of Government.

Pursuant to Chapter 9 bankruptcy protection proceedings initiated in 2011, the Administrative and Finance Officer (AFO) has been appointed for the City of Central Falls. The AFO has the authority to exercise any function or power of any municipal officer of the City. The City provides the following services as authorized by its charter: Public Safety (police, fire, traffic safety, inspections, zoning and building), Public Works (recreation, sanitation, highway and streets, engineering and building maintenance), Public Recreation, and General Administrative Services.

The City complies with generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

As a general rule the effect of Inter-fund activity has been eliminated from the government-wide financial statements.

Recently Issued Accounting Standards

The following new accounting pronouncements were implemented in the year ended June 30, 2014:

- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25, effective for the fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 70 – Accounting and Financial Reporting for Non-exchange Financial Guarantees, effective for the fiscal year ending June 30, 2014.

The City will adopt the following new accounting pronouncements in future years:

- ✓ GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, effective for the fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 69 – Government Combinations and Disposals of Government Operations, effective for the fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68, effective for the fiscal year ending June 30, 2015.

The impact of these pronouncements on the City's financial statements has not been determined.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. Under GASB Statement No. 61, a legally separate entity is required to be included as a component unit if it is fiscally dependent upon the primary government and there is a financial benefit or burden relationship present. The primary government is financially accountable if it appoints the voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A potential component unit has a financial benefit or burden relationship with the primary government if, for example, any one of the following conditions exists:

- a. The primary government is legally entitled to or can otherwise access the organization's resources.
- b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c. The primary government is obligated in some manner for the debt of the organization.

The following entities were considered for classification as component units for fiscal year 2014:

- Central Falls Redevelopment Agency
- Central Falls Housing Authority
- Central Falls Detention Facility Corporation
- Central Falls School District

Although Central Falls Redevelopment Agency meets certain criteria of the tests previously listed, it is deemed not to have separate legal status apart from the City. As a result, the financial data of this entity has been included as non-major special revenue fund within the City's financial statements.

The remaining entities noted above did not meet the criteria to be reported as either blended or discretely presented component units and as such they have not been included in the financial reporting entity.

Government-wide Financial Statements

The government-wide financial statements statement of net position and statement of activities report information about the government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The City had no business-type activities at June 30, 2014.

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 charges to customers or applicants, and grants and contributions restricted to meeting operational goals or capital requirements of a function or segment.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements (Continued)

Governmental fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund balance, revenues, and expenditure/expenses. For financial statement purposes an emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- (a) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type,
and
- (b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The governmental funds of the City are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Funds

The Permanent Funds account for assets held by the City pursuant to trust agreements. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Funds

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City of Central Falls, Rhode Island currently does not have any funds that meet the definition of Proprietary Funds.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary Funds (not included in government wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund (Unclaimed Estates). Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

Pension Trust Funds

Pension trust funds are used to account for resources legally held in trust for the payment of pension benefits.

Major Funds

The City presents the following funds as major funds:

General:	See above for description
Special Revenue:	Retirees Supplemental Settlement
Capital Project:	Capital Reserve

Retirees Supplemental Settlement

During the bankruptcy, a Settlement and Release Agreement was made between Robert G. Flanders, Jr. (the Receiver), the State of Rhode Island Department of Revenue, the Central Falls Police Retirees Association Inc., the Central Falls Firefighter Retirees Association, and various Central Falls retirees, or the surviving spouse or beneficiary of a retiree, under one or more pension plans established for such retirees. The agreement provides supplemental payments from a \$2.6M State appropriation to participating retirees and newly added participating retirees commencing in fiscal year 2012 and ending in July 2016. The payments are made once per year, the first being due within 30 days of the receipt of the appropriation from the State (June 2012) and in the month of July beginning in fiscal 2013 through fiscal 2016. The appropriation and settlement payments are made from a restricted fund separate from the General Fund.

Capital Reserve

On July 27, 2012, the U.S. Bankruptcy Court approved the "Fourth Amended Plan for the Adjustment of Debts of the City of Central Falls, Rhode Island" which states that "in the event that the City experiences an operating surplus at the end of a fiscal year, any surplus in excess of fifty thousand (\$50,000) dollars will be deposited into the City's Capital Fund" (i.e. Capital Reserve). These "excess" funds will be used for various capital expenditures of the City.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds utilize a "current financial resources" measurement focus and are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter (usually 60 days) to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when paid. The City considers property taxes as available if they are collected within 60 days after year end.

All proprietary funds, agency funds, and pension trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided and operating grants and contributions. All other sources of revenue are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets

Budgets were adopted in accordance with Home Rule Charter requirements. Annual appropriated budgets are adopted for the general fund. Generally annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Open encumbrances are reported as restricted, committed or assigned, and should not result in separate display of the encumbered amount within those classifications. Encumbrances outstanding at year end do not constitute expenditures or liabilities under GAAP because the commitments will be honored during the subsequent years.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash and cash equivalents are carried at cost. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased. Substantially, all of the City's cash and cash equivalents are held in public deposit institutions, except for \$1,150 in unsecured petty cash.

Investments

The City invests in various types of investments, which are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. There are no investments reported at amortized cost. State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Accounts Receivable

In the government-wide statements receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for uncollectible property taxes amounted to \$850,000 at June 30, 2014. Receivable balances for the governmental activities include property taxes (98% of balance) and other receivables (2% of balance).

In the fund financial statements, receivables in governmental funds include revenue accruals such as property taxes and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Accounts Payable

Accounts payable balances consist primarily of payables to vendors.

Due From / Due To Other Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property Taxes

The City is permitted by State Law to levy property taxes. The City's property taxes are levied on July 1 on assessed value of property as listed on the previous December 31. Taxpayers have an option to pay quarterly installments. Property taxes attach as an enforceable lien on real and personal property as of the date of assessment. Taxes assessed on motor vehicles and trailers represent an excise tax and do not constitute a lien. Uncollected property taxes are stated at the amounts originally assessed and do not include interest or penalties which may be assessed at the time of collection. The tax rate of the city is established by the City Council. Property tax revenues are recorded in accordance with the modified accrual basis of accounting in the governmental funds. Within the government-wide statements property taxes are recognized as revenue in the year for which they are levied. In May 2002, the City Council passed an ordinance authorizing the levy of a non-utilization penalty tax in accordance with RI General Laws Chapter 44-5.1.

Deferred Inflows of Resources

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 of 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 advance property tax collections in the government-wide statement of net position and in the governmental funds balance sheet. Advance property tax collections represent taxes inherently associated with a future period. This amount is recognized during the period in which the revenue is associated. Also, 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 and grants. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available. Deferred inflows of resources represent the acquisition of net position that applies to a future period and which will not be recognized as an inflow of resources (revenue) until a later date.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

The accounting treatment over capital assets which include property, plant, equipment and infrastructure (roads, bridges, sidewalks, and similar items) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of five years.

Infrastructure assets, (such as sidewalks, curbs, drainage systems, and road improvements) acquired by the City have been capitalized and reported within the financial statements.

Depreciation of all exhaustible capital assets is recorded, as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land	Not depreciated
Construction in progress	Not depreciated
Buildings and land improvements	20-45 years
Motor vehicles	5-6 years
Furniture & equipment	5-10 years
Infrastructure	20 years

Governmental Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the acquiring governmental fund.

Interfund Transactions

Interfund activity within and among the funds of the City have been classified and reported as follows:

- Reciprocal interfund activities:
 - Interfund loans are reported as interfund receivables in the lending fund and interfund payables in borrower funds.
 - Interfund services are reported as revenues in the seller fund and as expenditures or expenses in the purchasing fund.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

- Non-reciprocal interfund activities:
 - Interfund transfers are reported in governmental funds as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.
 - Interfund reimbursements are repayments from the fund responsible for particular expenditures or expenses to other funds that initially paid for them. Reimbursements are not displayed separately within the financial statements.

Inter-fund transfers totaled \$1,919,277 for the year ended June 30, 2014, representing transfers to the General Fund from Other Governmental Funds of \$3,763 and transfer from the General Fund to Capital Reserve of \$1,915,514.

Net Position/Fund Balance

Government-Wide Statements

Net position is displayed in three categories:

- (a) Net investment in capital assets - Consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net position - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted net position - All other net positions that do not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned. These categories are defined below:

- Non-spendable Fund Balance – includes the amount of fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash within one year.
- Restricted Fund Balance – includes amounts that are restricted to specific purposes either by constraints placed on the use of resources externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Position/Fund Balance (Continued)

Fund Financial Statements (Continued)

- **Committed Fund Balance** – includes amounts that can be used only for the specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Administrative and Finance Officer (AFO) currently has the highest level of decision-making authority for the City of Central Falls.
- **Assigned Fund Balance** – includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The City does not presently have a spending policy that has delegated this authority.
- **Unassigned Fund Balance** – is the residual amount not allocated to any other fund balance category in the General Fund, and any residual deficit balance of any other governmental fund.

Application of Funds

The City of Central Falls does not currently have a spending policy regarding the order in which restricted, committed, assigned, and unassigned fund balances are spent when more than one amount is available for the expenditures incurred. Accordingly, by default, the City is following the policy prescribed by GASB Statement No. 54 which specifies that fund balance is reduced first by committed, then by assigned, then by unassigned when expenditures are incurred for purposes for which any unrestricted fund balance could be used. In all situations, the City considers restricted fund balance to be used first when available and when expenditures are incurred that meet the requirements of the restricted fund balance.

Operating Surplus Limit

On July 27, 2012, the U.S. Bankruptcy Court approved the "Fourth Amended Plan for the Adjustment of Debts of the City of Central Falls, Rhode Island" which, among other things, states that "in the event that the City experiences an operating surplus at the end of a fiscal year, any surplus in excess of fifty thousand (\$50,000) dollars will be deposited into the City's Capital Fund" (Capital Reserve).

Compensated Absences

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination or death, employees are compensated for unused vacation at their current rate of pay. The amount recorded is the unused days earned at the current rate of pay. For governmental activities the general fund is used to record this liability if it is expected to be liquidated with expendable available resources, otherwise this liability is recorded in the government-wide financial statements.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reconciliation of Government-wide net position and Fund Financial Statements Fund Balance

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$53,392,141 difference are as follows:

Bonds payable	\$ 16,685,000
Net pension benefit obligation.....	30,071,448
Net other post-employment benefit obligation	3,005,494
Compensated absences	232,980
Due to State	3,241,716
General unsecured claims – Class 16.....	113,833
Capital lease payable.....	41,670
Total.....	<u>\$ 53,392,141</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$(1,867,514) difference are as follows:

Capital outlays (net of disposals).....	\$448,002
Depreciation expense	<u>(2,315,516)</u>
Net adjustment.....	<u>\$(1,867,514)</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this \$1,193,662 difference are as follows:

Issuance of bonds.....	\$ (5,510,000)
Increase in compensated absences.....	(262,425)
Increase in OPEB.....	(302,903)
Increase in due to State.....	(13,691)
Debt repayments	7,282,681
Net adjustment.....	<u>\$ 1,193,662</u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.” The details of this \$825,480 difference are as follows:

Deferred inflows – beginning	\$ (2,285,345)
Deferred inflows – ending	<u>3,110,825</u>
Net difference	<u>\$ 825,480</u>

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states that "some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$33,830 difference is as follows:

Change in accrued interest..... \$33,830

2. **BUDGETARY AND LEGAL COMPLIANCE**

Budgets

All agencies of the City submit requests for appropriation to the City's finance director (currently to the Administrative and Finance Officer). These requests include information on the past years, current year's estimates and requested appropriations for the next fiscal year. In accordance with the City's Fourth Amended Plan, dated July 27, 2012, the City's elected officials, and any fiduciary acting with the powers of elected officials, shall keep the City's budget in balance through June 30, 2017, the term of the Plan.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to preserve that portion of the applicable appropriation, is employed in the General Fund Budget. Encumbrances do not constitute expenditures or liabilities.

3. **DEPOSITS AND INVESTMENTS**

Deposits

Deposits are in various financial institutions and are carried at cost, which approximates fair value. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and includes \$1,150 of petty cash.

At June 30, 2014, the carrying amount of the City's deposits was \$7,657,826 and the bank balance was \$7,796,383, of which \$507,013 was covered by federal depository insurance and the remaining bank balance of \$7,289,370 was collateralized by the financial institutions and/or third parties in the name of the City.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

3. DEPOSITS AND INVESTMENTS (Continued)

Investments

At June 30, 2014 the City's investments totaled \$6,358,761 (all of which are held in its Fiduciary Funds) and consisted of the following:

	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Rating</u>
Group annuity contracts	\$6,358,761	n/a	n/a	n/a

The Group Annuity Contract is an insurance contract issued by John Hancock Life Insurance Company. Contributions to or withdrawals from the Contract are made to the Pension Participating Segment of John Hancock's General Investment Account. Investments in the General Account are unallocated assets of John Hancock and back all of its general obligations. The Pension Participating segment of the General Investment Account of the John Hancock contains primarily fixed income investments. Currently, approximately eighty five percent (85.5%) of the invested assets are corporate and government notes and bonds and mortgages with varying terms to maturity.

Investment earnings of the Pension Participating Segment of John Hancock's General Account are apportioned each December 31st and are reflected in the rate credited to the fund maintained under the Contract. The fund is maintained at cost. To report the contract at estimated fair value at June 30, 2014, a fair value adjustment was applied which results in a reasonable approximation of fair value. The fair value of John Hancock's contracts is deemed to be "Level 3" or "unobservable" since the assets in the General Account are not publicly traded. Unobservable inputs are developed based on the best information available in the circumstances which might include the General Account's own data.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amount reported as net position available for pension benefits.

Interest Rate Risk

As noted above, the City's investments are held in group annuity contracts. These investments do not specify an interest rate rather the rate of return is dependent on operating results and economic conditions.

Concentration of Credit Risk

At June 30, 2014 the City had a diversified portfolio and was not deemed to be concentrated in any one investment category. Although the investments were held in group annuity contracts, these investments were in a wide range of companies and various industries enabling the City to minimize its risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of financial institution failure, the City's deposits and/or investments may not be returned. The City does not believe that it has a significant custodial credit risk as substantially all investments securities are registered and held in the name of the City. The City also ensures that all deposits be placed in financial institutions that are FDIC insured.

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

4. CAPITAL ASSETS

Activity for governmental activity capital assets is summarized below:

	Balances June 30, 2013	Additions	Deletions	Balances June 30, 2014
Capital Assets				
Land (not being depreciated)	\$ 653,430	\$ -	\$ -	\$ 653,430
Buildings and land improvements	39,309,580	-	-	39,309,580
Motor vehicles	2,940,466	64,945	-	3,005,411
Equipment	1,771,827	545	-	1,772,372
Infrastructure	12,346,142	382,512	-	12,728,654
Total cost	<u>57,021,445</u>	<u>448,002</u>	<u>-</u>	<u>57,469,447</u>
Less: accumulated depreciation				
Buildings and land improvements	(21,632,326)	(1,853,083)	-	(23,485,409)
Motor vehicles	(2,425,744)	(211,477)	-	(2,637,221)
Equipment	(1,481,916)	(125,893)	-	(1,607,809)
Infrastructure	(11,145,751)	(125,063)	-	(11,270,814)
Total accumulated depreciation	<u>(36,685,737)</u>	<u>(2,315,516)</u>	<u>-</u>	<u>(39,001,253)</u>
Net capital assets	<u>\$ 20,335,708</u>	<u>\$ (1,867,514)</u>	<u>\$ -</u>	<u>\$ 18,468,194</u>

Depreciation expense was charged to the following functions/programs of the City:

Governmental activities:	
General government.....	\$ 151,175
Public safety.....	307,977
Public works.....	474,949
Public recreation.....	178,123
Public education.....	<u>1,203,292</u>
Total	<u>\$2,315,516</u>

5. UNEARNED REVENUE/UNAVAILABLE REVENUE

Governmental funds report deferred inflow of resources from unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also report unearned revenue in connection with resources that have been received, but not yet earned. At June 30, 2014, the various components of unearned revenue and unavailable revenue reported in the governmental funds and governmental activities were as follows:

<u>General Fund</u>	
Unavailable revenue- delinquent property taxes	\$3,110,825
Unearned revenue- advanced tax collections.....	<u>21,744</u>
Total General Fund	<u>\$3,132,569</u>
<u>Other Governmental Funds</u>	
Unearned revenue-grants	<u>\$674,760</u>

CONTINUED

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

6. LONG-TERM DEBT

General Obligation Bonds and Other Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Schedule of long-term debt by purpose is as follows:

	<u>Amount</u>	<u>Percent</u>
General obligation municipal bonds.....	\$7,020,000	13%
RIHEBC revenue bonds	9,665,000	18%
Capital Leases	41,670	0%
Net pension obligation (NPO)	30,071,448	57%
Net OPEB obligation (NOO)	3,005,494	6%
Due to State	3,241,716	6%
General unsecured claims – Class 16.....	113,833	0%
Compensated absence.....	232,980	0%
Total	<u>\$53,392,141</u>	<u>100%</u>

Schedule of long-term bond and lease requirements:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015.....	\$1,845,426	\$676,546	\$2,521,972
2016.....	1,881,244	601,791	2,483,035
2017.....	1,890,000	522,143	2,412,143
2018.....	1,920,000	441,366	2,361,366
2019.....	1,955,000	362,781	2,317,781
2020-2024.....	4,400,000	970,705	5,370,705
2025-2028.....	2,835,000	243,732	3,078,732
Total.....	<u>\$16,726,670</u>	<u>\$3,819,064</u>	<u>\$20,545,734</u>

Bonds and Notes Escrow System

The Rhode Island, General Assembly, when creating the Central Falls Review Commission, authorized an escrow system to receive and hold revenues to pay bonds, notes and related interest. At June 30, 2014, the fund had a balance of \$86. In accordance with state law, the Central Falls Review Commission was deactivated in October 2000, after the City met the statutory requirements of: (1) completing a period of three consecutive fiscal years in which no operating deficit had been incurred; and (2) the City's total debt no longer exceeded one hundred percent (100%) of the City's revenues from its own sources.

Maximum Aggregate Indebtedness

The City's legal debt limit as set forth by Rhode Island General Law 45-12-2 is limited to three percent of total assessed property value. As of June 30, 2014, the City was in compliance with this law.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. **LONG-TERM DEBT (Continued)**

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of vehicles and equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Vehicles and equipment	\$201,501
Less: accumulated depreciation	<u>(201,501)</u>
Total	<u>\$ 0</u>

Amortization of assets acquired under capital leases is included in depreciation expense for the year ended June 30, 2014.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

<u>Year Ending June 30:</u>	<u>Total</u>
2015	\$22,093
2016	<u>22,093</u>
Total minimum lease payments	44,186
Less: amount representing interest	<u>2,516</u>
Present value of minimum lease payments	<u>\$ 41,670</u>

Due to State

Due to State of \$3,241,716 at June 30, 2014 represents amount due to the State of Rhode Island for receivership costs paid by the State. During fiscal 2013, legislation was passed by the State of Rhode Island allowing the City to repay the State over a period of time for these costs. In accordance with the City's bankruptcy documents, progress payments are budgeted to commence in fiscal year 2017 with the final payment due by the end of fiscal year 2021.

CONTINUED

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

6. **LONG-TERM DEBT (Continued)**

General long-term debt consists of the long-term liabilities that are not recorded as fund liabilities. Amounts are as follows:

	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2014</u>	<u>Current Portion</u>
General obligation bonds	7/15/1999	5/15/2020	\$ 12,000,000	5.0%-6.25%	\$ 5,425,000		\$ 5,425,000	\$ -	\$ -
General obligation municipal bonds	10/1/2007	7/15/2027	8,700,000	4.0%-5.5%	7,360,000		340,000	7,020,000	355,000
RIHEBC revenue bonds	12/12/2013	5/15/2020	5,510,000	2.58%		\$ 5,510,000	175,000	5,335,000	855,000
RIHEBC revenue bonds	8/15/2007	4/1/2027	1,300,000	4.25%-5.00%	1,065,000		55,000	1,010,000	55,000
RIHEBC revenue bonds	6/29/2010	5/5/2020	750,000	5.39%	580,000		85,000	495,000	85,000
RIHEBC revenue bonds	6/30/2010	5/5/2020	4,250,000	6.00%	3,300,000		475,000	2,825,000	475,000
Capital leases	4/10/2009	7/5/2013	201,501	5.00%	61,311		19,641	41,670	20,426
Total bonds and leases					<u>17,791,311</u>	<u>5,510,000</u>	<u>6,574,641</u>	<u>16,726,670</u>	<u>1,845,426</u>
Accrued compensated absences					162,391	262,425	191,836	232,980	23,298
Net pension obligation					30,393,625		322,177	30,071,448	
Net OPEB obligation					2,702,591	302,903		3,005,494	
Due to State					3,228,025	13,691		3,241,716	
General unsecured claims - Class 16					307,860		194,027	113,833	113,833
Total long-term debt					<u>\$ 54,585,803</u>	<u>\$ 6,089,019</u>	<u>\$ 7,282,681</u>	<u>\$ 53,392,141</u>	<u>\$ 1,982,557</u>

Total interest paid on general long-term debt for the year ended June 30, 2014 was \$812,422.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

7. DUE FROM / DUE TO OTHER FUNDS AND OPERATIONAL AND / OR FUND DEFICITS

Interfund receivables and payables at June 30, 2014 were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 316,923	\$ 4,366,927
Capital Reserve Fund	3,704,213	-
Other Governmental Funds	662,714	316,923
	<u>\$ 4,683,850</u>	<u>\$ 4,683,850</u>

Inter-fund receivables and payables were eliminated in the government-wide financial statements.

(a) The following funds had operational and/or fund deficits:

	<u>Operational</u>	<u>Fund</u>
General Fund	\$ 697,063	\$ -
Retirees Supplemental Settlement	509,276	-
UDAG Revolving Loan Fund	3,351	-
EDI Community Center	1	-
Police C.A.R.E.	23,562	-
Dare Program	3	-
2012 JAG Grant	19	19
Public Rescue	4,094	-
Channel One	3,759	-
School Construction	77,329	-
Police Special Accounts	30,983	5,254

Fund Deficits will be mitigated either through additional outside funding or general fund appropriations.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

8. FUND BALANCES

As stated in Note 1, Fund Balance may be classified as one of five categories: Nonspendable, Restricted, Committed, Assigned, or Unassigned.

At June 30, 2014 **Restricted Fund Balance** consisted of the following:

	General Fund	Retirees Supplemental Settlement	Capital Reserve	Other Gov Funds	Total
Retirees Supplemental Settlement		\$ 1,106,250			\$ 1,106,250
Capital Reserve			\$ 2,936,713		2,936,713
CDBG Revolving				\$ 663,753	663,753
UDAG Revolving Loan Fund				31,882	31,882
Home				59,201	59,201
ED				396,939	396,939
Grant in Aid				58,306	58,306
Police C.A.R.E				1,005	1,005
Recreation Summer Lunch				1,504	1,504
Public Rescue				180,450	180,450
Rural Grants				49	49
Emergency Equipment Replacement				144,400	144,400
Recycling Account				25	25
Property Development				161,179	161,179
Recreation Capital				4,393	4,393
School Construction				35,383	35,383
Historic Trust				63,903	63,903
Total restricted fund balance	\$ -	\$ 1,106,250	\$ 2,936,713	\$ 1,802,372	\$ 5,845,335

At June 30, 2014 **Committed Fund Balance** consisted of the following:

	General Fund	Supplemental Settlement	Capital Reserve	Other Gov Funds	Total
Sixty-day property tax collectons budgeted in subsequent fiscal year	\$ 217,146				\$ 217,146
Encumbrances	137,902	\$ 767,500			905,402
Total committed fund balance	\$ 355,048	\$ 767,500	\$ -	\$ -	\$ 1,122,548

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

8. FUND BALANCES (Continued)

At June 30, 2014 *Unassigned Fund Balance* consisted of the following:

	General Fund	Supplemental Settlement	Capital Reserve	Other Gov Funds	Total
General Fund	\$ 150,000			(5,273)	\$ 144,727
Total unassigned fund balance	\$ 150,000	\$ -	\$ -	\$ (5,273)	\$ 144,727
Total fund balance	\$ 505,048	\$ 1,873,750	\$ 2,936,713	\$ 1,797,099	\$ 7,112,610

9. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

(a) City of Central Falls Pension Plan

Plan Description

The City has adopted GASB Statement No. 67, Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25. The Statement enhances the City's footnote disclosures and expands the Required Supplemental Information (RSI) data with new schedules. It was issued to improve financial reporting by state and local government pension plans. The following provides information required to be disclosed under Statement No. 67 that is not discussed as part of the information disclosed in Note 10.

All full-time non-civilian police and fire employees hired after July 1, 1972 are eligible and must participate in the private pension plan administered formerly by John Hancock Financial Services until June 3, 2011 and currently administered by the City of Central Falls. The new plan, entitled the "City of Central Falls Pension Plan", also consolidates all payments paid to former employees and beneficiaries who retired prior to July 1, 1972 under the "1% Plan". The plan was restated effective August 1, 2011 and delineates the new pension benefits as well as disability and death benefits. Specifically, a member may retire and receive normal retirement benefits if they have accumulated 25 years of service and are at least 57 years of age. Members earn 2% of their final average base pay for the number of completed years and months of service up to a maximum of 25 years as of their normal retirement date and 1% of their final average base pay for each additional year of service after 25 years, up to a maximum of 30 years. The base pay includes regular wages, longevity payments and holiday pay. The final average base pay is the average of the participant's base pay for the 5 consecutive years of the last 10 years of employment that produce the highest average. After retirement a participant's pension benefit is increased annually by 2% (COLA), but the increases are not compounded. These cost of living adjustments are made effective July 1 following a participant's retirement date and every July 1 thereafter.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS (Continued)

(a) City of Central Falls Pension Plan (Continued)

Plan Description (Continued)

As of June 30, 2014, employee membership data related to the pension plan is as follows:

Active membership	76
Retirees and beneficiaries	67

Pension provisions include disability and death benefits. Upon the death of a retired police officer or firefighter, benefits to the spouse and children will be paid based upon the form of benefit the participant elected at the time of retirement.

Contributions

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal cost method. Employees of the City are required to contribute 9.5% of their gross earnings if they were an employee of the City prior to the new pension plan starting in December 2011. New members of the plan are required to contribute 10.5% of their gross earnings to the pension plan. For the year ended June 30, 2014, employee contributions were \$387,619. The City is required to contribute at an actuarially determined rate; the current rate is 49.5% of annual covered payroll. The employer contribution for the fiscal year ended June 30, 2014 was \$2,066,770.

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the City of Central Falls Pension Plan with a valuation date of July 1, 2014, which was the most recent report available from the plan.

Actuarial Value of Assets	\$ 6,391,738
Actuarial Accrued Liability	\$31,234,146
Unfunded (excess) actuarial accrued Liability	\$24,842,408
Funded Ratio	20.5%
Annual Covered Payroll	\$ 4,025,037
UAAL (excess) as percentage of payroll	617%

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9. **GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS (Continued)**

(a) **City of Central Falls Pension Plan (Continued)**

Investment Policy

The City invests in various types of investments, which are stated at fair value. There are no investments reported at amortized cost. State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

	Asset Class	Target Allocation	Long-Term Expected
			Geometric Real Rate of Return
Equity Investments	Schedule BA Assets	1.30%	6.50%
	Common Stock	0.20%	5.50%
	International Large Cap Value	0.00%	5.50%
	International Large Core	0.00%	6.00%
	Mid Cap Core	0.00%	6.00%
Fixed Income	Domestic Fixed Income	85.50%	1.50%
Cash	Cash	13.00%	0.50%
		<u>100.00%</u>	
Assumed Inflation			3.00%
Long-Term Expected Rate of Return			4.44%

Annual Rate of Mortality

It is assumed that both pre-retirement and post retirement and post retirement mortality are represented by the 2011 IRS Static Mortality Table for males and females. Mortality for disabled members is represented by the RP-2000 Disabled Mortality Table.

Discount Rate

The Discount Rate of 7.75% was selected based on a projection of employer and employee contributions, benefit payments, expenses and the long term expected rate of return on the trust assets.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

9. **GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS (Continued)**

(a) **City of Central Falls Pension Plan (Continued)**

Net Pension Liability

The following presents the net pension liability of the system calculated using the discount rate of 7.75%, as well as the sensitivity of the net pension liability to changes in the discount rate and what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Total Pension Liability	\$ 34,792,811	\$ 31,234,146	\$ 28,259,244
Plan Fiduciary Net Position	<u>6,391,738</u>	<u>6,391,738</u>	<u>6,391,738</u>
Net Pension Liability	<u>\$ 28,401,073</u>	<u>\$ 24,842,408</u>	<u>\$ 21,867,506</u>

The Plan Fiduciary Net Position as a percentage of Total Pension Liability is 20.5%.

Additional Information as to the latest actuarial valuation as follows:

Valuation Date	7/1/2014
Actuarial Cost Method	Individual entry age method
Asset valuation method	Market value
Investment rate of return	7.75%
Inflation rate	3.00%
Projected Salary Increase	3.00%
Cost of living adjustments	2.0% per year without compounding

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

9. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS (Continued)

(a) City of Central Falls Pension Plan (Continued)

Annual Pension Cost and Net Pension Obligation

For fiscal year ending June 30, 2014, the City's annual required contribution was \$1,979,828 for the City of Central Falls Pension Plan and actual employer contributions were \$2,328,947. The required contribution was determined as part of the July 1, 2014 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions included (a) a net investment return of 7.75 percent compounded annually (b) projected salary increases of 3 percent compounded annually, (c) 2.0 percent per year cost-of-living adjustments, (d) It is assumed that both pre-retirement and post retirement mortality are represented by the 2011 IRS Static Mortality Table for males and females. Mortality for disabled members is represented by the RP-2000 Disabled Mortality Table.

The City's annual pension cost and net pension obligation for the year ended June 30, 2014 was as follows:

Annual required contribution.....	\$ 1,979,828
Interest on NPO.....	2,355,506
Amortization of NPO.....	<u>(2,328,564)</u>
Annual pension cost.....	2,006,770
Contributions made.....	<u>(2,328,947)</u>
Decrease in net pension obligation.....	(322,177)
Net pension obligation, June 30, 2013.....	<u>30,393,625</u>
Net pension obligation, June 30, 2014.....	<u>\$30,071,448</u>

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$2,006,770	116.1%	\$30,071,448
6/30/2013	\$2,014,476	114.6%	\$30,393,625
6/30/2012	\$2,030,966	125.4%	\$30,688,474

The City of Central Falls Pension Plan is a single-employer defined pension plan, which is reported as a pension trust fund.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

10. EMPLOYEE RETIREMENT SYSTEMS

In addition to The City of Central Falls Pension Plan, The City of Central Falls participates in the following retirement plans.

- (a) Municipal Employees' Retirement System of Rhode Island (City), an agent multiple-employer defined benefit plan, which covers substantially all of the City's employees except police officers, firefighters, and all School Department employees.
- (b) TIAA-CREF and the Employees' Retirement System of Rhode Island administered defined contribution plan, which covers certain municipal employees participating in MERS.

(a) Municipal Employees' Retirement System of Rhode Island (City) – Defined Benefit Plan

The City of Central Falls participates in the Municipal Employees' Retirement System of the State of Rhode Island ("System"), an agent multiple-employer defined benefit plan.

Effective July 1, 2012, the State administered retirement system was modified to include both defined benefit and defined contribution plan components. General employees participate in a hybrid plan that combines both a defined benefit plan and a defined contribution plan.

Plan Description

All full-time City employees, except police officers, firefighters, and all School Department employees, participate in MERS, an agent multiple-employer defined benefit plan administered by the Employees' Retirement System of Rhode Island (the "System"). The plan provides retirement, death and disability benefits and an optional cost of living adjustment (COLA) as outlined in Chapter 45-21 of the Rhode Island General Laws (RIGL). The benefits may be amended by the Rhode Island General Assembly.

Service credits accrued at June 30, 2012 are protected under the Rhode Island Retirement Security Act. Beginning July 1, 2012, members receive a benefit accrual of 1.0% per year. Effective July 1, 2012 the retirement age mirrors the Social Security Normal Retirement Age not to exceed age 67. Benefits are based on the five-year average compensation multiplied by the accumulated service credit percentage. Joint and survivor retirement benefit options are available.

The plan also provides nonservice-connected disability benefits after 5 years of service; service-connected disability pensions with no minimum service requirement.

Plan Funding Policy

The funding policy is outlined in RIGL sections 45-21-41, 45-21-42, and 45-21-52 (which can be amended by the Rhode Island General Assembly).

Effective July 1, 2012 active non police and fire members must contribute 1% of their annual earnings. The City is required to contribute at an actuarially determined rate expressed as a percentage of total compensation paid to the active membership. The rate for the fiscal year ended June 30, 2014 was 10.7%.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

10. **EMPLOYEE RETIREMENT SYSTEMS (Continued)**

(a) **Municipal Employees' Retirement System of Rhode Island (City) – Defined Benefit Plan (Continued)**

Annual Pension Cost

The City's annual pension cost of \$178,635 for MERS was equal to the City's required and actual contributions for the year ended June 30, 2014.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/14	\$178,635	100%	\$0
6/30/13	\$208,127	100%	\$0
6/30/12	\$150,782	100%	\$0

The required contribution for fiscal 2014 was determined as part of the actuarial valuation performed as of June 30, 2011. The most recent valuation of the plans within the system was performed as of June 30, 2013. The actuarial methods and assumptions used in those valuations are summarized in the following table:

Summary of Actuarial Assumptions Used in the MERS June 30, 2010 and June 30, 2013 Valuations	
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.
Amortization Method	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years as of June 30, 2010 22 years as of June 30, 2013
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50%, compounded annually
Projected Salary Increases	<u>General Employees</u> 4.00% to 8.00%
Inflation	2.75%
Cost of Living Adjustments are equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first \$25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement.	

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

(a) Municipal Employees' Retirement System of Rhode Island (City)-Defined Benefit Plan (Continued)

General Municipal Employees
Participant Information (June 30, 2013) 42 Active; 36 Retired

Funded Status of Plan

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

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2013	\$4,852,474	\$7,034,036	\$2,181,562	69.0%	\$1,880,142	116.0%

The System issues an annual financial report that includes financial statements and required supplementary information for all of the plans it administers. The reports can be obtained at www.ersri.org.

(b) Employees' Retirement System of Rhode Island – Defined Contribution Plan

Plan Description

General municipal employees participating in the defined benefit plan (of the System), as described previously, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF and the Employees' Retirement System of Rhode Island (the System). Employees may choose among various investment options available to plan participants.

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

(b) Employees' Retirement System of Rhode Island – Defined Contribution Plan (Continued)

Plan Funding Policy

The funding policy is outlined in RIGL chapter 36-10.3 (which can be amended by the Rhode Island General Assembly). Active non-police and fire members must contribute 5% of his/her compensation and the City is required to contribute 1%. The plan members and City contributed \$82,208 and \$16,443, respectively, during the fiscal year ended June 30, 2014.

The System issues an annual financial report that includes financial statements and required supplementary information for all of the plans it administers. The reports can be obtained at www.ersri.org.

11. POST RETIREMENT BENEFITS

Plan Description

The City's Post-Employment Medical Benefit Plan is a single-employer defined benefit post-retirement health insurance program. The City provides health care to retired police and firefighter employees and their spouses until the retiree reaches the age of 65. Retired employees are covered by the same plan as active employees and are subject to the same 20% co-share as actives. Health care benefits were paid to 27 retired employees during fiscal year ending June 30, 2014. Current membership consists of 107 active employees and 27 retirees, disabled and widows. Any changes to these provisions are subject to the City's approval. The plan does not issue a separate report.

Funding Policy

The City's funding policy provides for actuarially determined periodic contributions to the plans at rates that increase gradually over time so that sufficient assets will be available to pay benefits when due. Municipal retirees are required to contribute 20% of the health care cost between ages 62 to 65, and 100% of the premium prior to age 62. Retired police officers and firefighters may elect to be covered by the City's medical plan until age 65 and must pay 20% co-shares. Coverage reverts to COBRA for 36 months upon death of the member, or until the spouse reaches age 65, whichever occurs first. The annual OPEB cost was estimated from the June 30, 2013 actuarial valuation using the projected unit credit funding method. The actuarial assumptions included a 4.0% unfunded discount rate and the 2011 IRS Static Mortality Table and RP 2000 Disabled Mortality Table.

Trend Information

Fiscal Year <u>Ending</u>	Annual <u>OPEB Cost</u>	Contributions <u>Made</u>	% of OPEB <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2014	\$ 591,443	\$ 288,540	48.8%	\$3,005,494
6/30/2013	\$ 576,745	\$ 353,749	61.3%	\$2,702,591
6/30/2012	\$ 838,365	\$ 674,631	80.4%	\$2,479,595

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

11. POST RETIREMENT BENEFITS (Continued)

The City's annual OPEB cost and net OPEB obligation for the year ended June 30, 2014 was as follows:

Annual required contribution	\$ 586,612
Interest on net OPEB obligation.....	108,104
Adjustment to annual required contribution	<u>(103,273)</u>
Annual OPEB cost (expense)	591,443
Contributions made.....	<u>(288,540)</u>
Increase in net OPEB obligation	302,903
Net OPEB obligation-beginning of year	<u>2,702,591</u>
Net OPEB obligation-end of year	<u>\$3,005,494</u>

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(1) (3)	AVA as a Percent of AAL (1)/(2) (4)	Covered Payroll (5)	UAAL as a Percent of Covered Payroll (3)/(5) (6)
06/30/13	0	\$12,000,546	\$12,000,546	0%	\$6,214,955	193.09%
12/31/11	0	\$14,112,791	\$14,112,791	0%	\$3,620,778	389.77%
06/30/10	0	\$32,011,503	\$32,011,503	0%	N/A	N/A

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial liability (UAAL) is amortized over a period of 30 years using the level percentage of pay over thirty years based on an open group. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

12. COMMITMENTS AND CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is involved in various pending litigations. The outcome of these lawsuits is not presently determinable, although, in the opinion of the City's attorneys, the amount of actual or potential claims is not expected to have a material effect on the City's financial statements.

13. RISK MANAGEMENT

The City of Central Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; and natural disasters. As a result, the City participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) which provides coverage for property/liability claims. Upon joining the Trust, the City signed a participation agreement which outlines the rights and responsibilities of both the Trust and the City. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its Members. Under the participation agreement, the City is insured for a maximum of \$2,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust Coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the year ended June 30, 2014.

14. BANKRUPTCY

On May 19, 2010 the City filed a Petition for Appointment of Receiver with the Rhode Island Superior Court citing fiscal insolvency due to revenue shortfalls and state budget cuts, along with unaffordable collective bargaining agreements and pension obligations.

On August 1, 2011 the State Receiver filed for federal Chapter 9 bankruptcy protection for the City of Central Falls. The bankruptcy proceedings commenced and on September 22, 2011 the Bankruptcy Counsel for the State appointed Receiver filed a plan of debt adjustment and disclosure statement with the Court. The City has come out of bankruptcy which is described in the below paragraph.

On July 27, 2012, the City's Receiver submitted its Fourth Amended Plan for Adjustment of Debts to the Bankruptcy Court. The Court reviewed the plan and entered a written order confirming the plan on September 11, 2012. The plan became effective on October 25, 2012. The plan is effective from October 25, 2012 through June 30, 2017. During this time, the City will hold annual status conferences with the Court and other parties in interest. A copy of the Plan of Adjustment can be obtained by visiting the City's website www.centralfallsri.us.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

14. **BANKRUPTCY (Continued)**

As a result of the bankruptcy proceedings, on or before June 30, 2013, certain obligations of the City that were classified as General Unsecured Convenience Claims (typically below \$5,000), with a balance of \$63,631 were paid at thirty five percent (35%) of their allowed claim, which equated to \$22,271. The remaining amount of \$41,360 was written off during fiscal year 2013. Additionally, there are certain obligations of the City totaling approximately \$715,000 that were classified as General Unsecured Claims (typically above \$5,000) that will be paid at an amount not to exceed 45% of the original claim commencing in fiscal 2013 over a four year period. The unpaid balance of these claims at June 30, 2014 was \$113,833 and is included in long-term debt.

In April 2013, the City hired an Administrative and Finance Officer (AFO), who serves in an oversight capacity pursuant to Section 45-9-10 of the Rhode Island General Laws. . The AFO has the authority to exercise any function or power of any municipal officer of the City.

15. **RESTATEMENT**

The net position of the Governmental Activities has been restated as of June 30, 2013 to reflect the implementation of GASB Statement #65 – *Items Previously Reported as Assets and Liabilities*. Implementation of this new Standard resulted in the removal of bond issuance costs as an asset from the Statement of Net Position (formerly the Statement of Net Assets). Under GASB Statement #65 bond issuance costs, are to be recorded as an expense in the year the costs are incurred rather than amortizing those costs over the life of the bond obligation. As a result, the unamortized bond issuance costs as of June 30, 2013, have been retroactively removed from the opening net position balance. The following reflects the effect of implementation of GASB Statement #65:

Governmental Funds:	
Net position, June 30, 2013 as originally stated.....	\$ (25,588,946)
Less unamortized bond issuance costs at June 30, 2013 ...	<u> (36,884)</u>
Net position, June 30, 2013 as restated.....	<u>\$ (25,625,830)</u>

(CONCLUDED)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTRAL FALLS

Schedule of Funding Progress (Unaudited)

June 30, 2014

Schedule of funding progress for the Municipal Employees' Retirement System*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2013	\$ 4,852,474	\$ 7,034,036	\$ (2,181,562)	69.0%	\$ 1,880,142	-116.0%
6/30/2012	\$ 4,915,692	\$ 6,979,395	\$ (2,063,703)	70.4%	\$ 1,731,773	-119.2%
6/30/2011	\$ 5,023,360	\$ 6,519,261	\$ (1,495,901)	77.1%	\$ 1,981,815	-75.5%
6/30/2010	\$ 5,176,066	\$ 6,906,941	\$ (1,730,875)	74.9%	\$ 2,361,819	-73.3%
6/30/2009	\$ 5,212,157	\$ 6,656,557	\$ (1,444,400)	78.3%	\$ 2,446,693	-59.0%
6/30/2008	\$ 4,950,358	\$ 6,406,664	\$ (1,456,306)	77.3%	\$ 2,683,177	-54.3%

Schedule of funding progress for the new Pension Plan of the City of Central Falls**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	percentage Of Covered Payroll ((a-b)/c)
7/1/2014	\$ 6,391,738	\$ 31,234,146	\$ (24,842,408)	20.5%	\$ 4,025,037	-617.2%
7/1/2013	\$ 5,544,658	\$ 30,167,669	\$ (24,623,011)	18.4%	\$ 3,849,274	-639.7%
12/31/2011	\$ 5,486,573	\$ 29,421,723	\$ (23,935,150)	18.6%	\$ 3,620,778	-661.0%
7/1/2010	\$ 7,768,815	\$ 54,327,495	\$ (46,558,680)	14.3%	\$ 3,289,330	-1415.4%
7/1/2008	\$ 12,002,382	\$ 50,739,300	\$ (38,736,918)	23.7%	\$ 3,561,781	-1087.6%
7/1/2006	\$ 12,056,497	\$ 47,247,819	\$ (35,191,322)	25.5%	\$ 3,439,867	-1023.0%
7/1/2004	\$ 11,298,856	\$ 43,225,235	\$ (31,926,379)	26.1%	\$ 3,061,582	-1042.8%

** Values prior to 2011 are a combination of the John Hancock Pension Plan and the 1% Plan

Schedule of funding progress for the Post-Employment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2013	\$ -	\$ 12,000,546	\$ (12,000,546)	0%	\$ 6,214,955	-193.09%
12/31/2011	\$ -	\$ 14,112,791	\$ (14,112,791)	0%	\$ 3,620,778	-389.77%
6/30/2010	\$ -	\$ 32,011,503	\$ (32,011,503)	0%	N/A	N/A
6/30/2009	\$ -	\$ 30,693,955	\$ (30,693,955)	0%	N/A	N/A

Notes to the Schedule of Funding Progress

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets.

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Tax revenue				
Tax revenue (current year)	\$ 12,631,741	\$ 12,631,741	\$ 13,431,396	\$ 799,655
Tax revenue (prior years)	310,000	310,000	208,441	(101,559)
Total tax revenue	12,941,741	12,941,741	13,639,837	698,096
Fees / non-tax revenue				
Interest on taxes	254,509	254,509	251,064	(3,445)
VIN check fees	5,410	5,410	20,491	15,081
Probate fees	7,383	7,383	13,293	5,910
Realty Stamps	22,149	22,149	37,337	15,188
Real Estate Recordings	63,264	63,264	52,617	(10,647)
Licenses (other than marriage)	76,208	76,208	72,254	(3,954)
Certificates (vital records)	10,407	10,407	9,367	(1,040)
Marriage Licenses	1,055	1,055	808	(247)
Reports/copying fees	7,647	7,647	1,509	(6,138)
City Clerk micellaneous fees	10,547	10,547	60,756	50,209
Fire code inspection fees/other fire permits	4,746	4,746	14,270	9,524
Alarm box fees & smoke detector certificates	26,388	26,388	20,778	(5,610)
Rescue runs	237,314	237,314	305,688	68,374
Hazardous material permits	2,320	2,320	2,000	(320)
Building permits	42,189	42,189	57,909	15,720
Plumbing & mechanical permits	18,000	18,000	26,855	8,855
Electrical permits	21,000	21,000	25,412	4,412
Certificates of occupancy	6,328	6,328	6,385	57
CARE account revenue	12,657	12,657	24,280	11,623
Municipal Court Fees/Traffic Fines/Other Fines	140,000	140,000	106,492	(33,508)
Administrative and Other Fees	12,794	12,794	38,490	25,696
Vehicle Fees for Road Details	16,277	16,277	31,920	15,643
Code Court Fees	5,801	5,801	1,780	(4,021)
Property preservation revenue	9,921	9,921	5,836	(4,085)
Misc. departmental revenue	7,038	7,038	21,093	14,055
Local Pilot Revenue	71,476	71,476	69,948	(1,528)
Public works	22,961	22,961	10,222	(12,739)
Federal Revenue	126,500	126,500	85,877	(40,623)
Total fees / non-tax revenue	1,242,289	1,242,289	1,374,731	132,442
State revenue				
MV Phase out	92,588	92,588	88,261	(4,327)
Distressed Communities Aid	170,622	170,622	170,622	-
Public Service Corporation Tax/Telephone tax	233,190	233,190	262,600	29,410
Hotel/meals & beverage tax	106,224	106,224	106,491	267
School Housing Aid - Direct payment	946,504	946,504	962,596	16,092
School Housing Aid - RIHBEC reimbursement	705,931	705,931	650,972	(54,959)
Debt Service QSCB Subsidy	188,828	188,828	191,931	3,103
Non Profit Organizations	23,234	23,234	21,572	(1,662)
Miscellaneous state aid/grants	14,022	14,022	137,060	123,038
Total state revenue	2,481,143	2,481,143	2,592,105	110,962
Other income				
Misc. other revenue	17,222	17,222	108,094	90,872
Total other income	17,222	17,222	108,094	90,872
Total revenues	16,682,395	16,682,395	17,714,767	1,032,372

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT				
City executive management				
Salaries	198,464	198,464	166,545	31,919
Social Security	12,305	12,305	13,356	(1,051)
Medicare	2,878	2,878	3,741	(863)
Municipal State Pension	23,220	23,220	25,439	(2,219)
Medical Insurance	16,374	16,374	15,994	380
Dental Insurance	1,781	1,781	1,423	358
Non-capital equipment	-	-	2,577	(2,577)
Donations	1,000	1,000	300	700
Expense account	1,000	1,000	2,335	(1,335)
Total city executive management	257,022	257,022	231,710	25,312
City council				
Salaries	17,640	17,640	17,640	-
Social Security			456	(456)
Medicare			107	(107)
Municipal State Pension			344	(344)
Total city council	17,640	17,640	18,547	(907)
City clerk				
Salaries	189,518	189,518	183,796	5,722
Longevity	4,000	4,000	6,000	(2,000)
Social Security	11,998	11,998	11,797	201
Medicare	2,806	2,806	2,701	105
Municipal State Pension	22,641	22,641	22,463	178
Medical Insurance	39,585	39,585	37,125	2,460
Dental Insurance	3,574	3,574	3,143	431
Dues/subscriptions	50	50	49	1
Non-capital equipment	500	500	235	265
Other professional services	36,368	36,368	36,978	(610)
Education & Training	500	500	485	15
Total city clerk	311,540	311,540	304,772	6,768
Board of canvassers				
Election workers	19,600	19,600	18,178	1,422
Total board of canvassers	19,600	19,600	18,178	1,422
Personnel				
Salaries	28,227	28,227	31,108	(2,881)
Social Security	1,750	1,750	1,929	(179)
Medicare	409	409	451	(42)
Municipal State Pension		-	2,370	(2,370)
General Liability Insurance	209,311	209,311	265,017	(55,706)
Workers Compensation	23,400	23,400	64,815	(41,415)
Other professional services	2,058	2,058	1,616	442
Education & training	500	500	555	(55)
Testing	3,000	3,000	7,435	(4,435)
Total personnel	268,655	268,655	375,296	(106,641)
Legal				
Salaries	42,505	42,505	44,213	(1,708)
Social Security	2,635	2,635	2,360	275
Medicare	616	616	783	(167)
Municipal State Pension	4,973	4,973	4,973	-
Medical Insurance	11,607	11,607	11,549	58
Dental Insurance	1,073	1,073	1,070	3
Dues/subscriptions			85	(85)
Other professional services	97,500	97,500	123,831	(26,331)
Education & training	500	500	155	345
Total legal	161,409	161,409	189,019	(27,610)
Tax assessor				
Salaries	91,468	91,468	41,623	49,845
Longevity Pay	2,000	2,000	2,000	-
Social Security	5,795	5,795	2,565	3,230
Medicare	1,355	1,355	543	812
Municipal State Pension	10,936	10,936	4,518	6,418
Dental Insurance	1,427	1,427	1,070	357
Dues/subscriptions	1,135	1,135	1,181	(46)
Other professional services	16,137	16,137	64,417	(48,280)
Non-capital equipment			3,337	(3,337)
Education & training	500	500	-	500
Total tax assessor	130,753	130,753	121,254	9,499

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Finance				
Salaries	276,188	276,188	224,208	51,980
Longevity Pay	3,500	3,500	3,500	-
Sick incentive pay			526	(526)
Social Security	17,341	17,341	14,342	2,999
Medicare	4,055	4,055	3,411	644
Municipal State Pension	32,723	32,723	26,505	6,218
Medical Insurance	46,423	46,423	38,235	8,188
Dental Insurance	4,294	4,294	3,243	1,051
Postage	10,946	10,946	10,945	1
Non-capital equipment	1,077	1,077	1,425	(348)
Collection agency	2,165	2,165	-	2,165
Accounting/auditing	36,312	36,312	37,618	(1,306)
Other professional services	30,870	30,870	45,112	(14,242)
Education & training	500	500	275	225
Total finance	466,394	466,394	409,345	57,049
City property				
Custodial Services	21,061	21,061	19,968	1,093
Office supplies	6,328	6,328	6,367	(39)
Other supplies	1,113	1,113	2,039	(926)
Janitorial Supplies	1,582	1,582	1,654	(72)
Janitorial Supplies Other City Buildings	12,063	12,063	9,900	2,163
Heating Fuel-Other City Buildings	8,989	8,989	8,006	983
Dues/Subscriptions	1,161	1,161	1,133	28
Non-capital equipment	1,696	1,696	13,543	(11,847)
Telephone (Other)	19,351	19,351	16,586	2,765
Telephone (Police)	15,379	15,379	15,929	(550)
Telephone (Fire)	11,033	11,033	9,570	1,463
Telephone (Highway)	3,507	3,507	2,698	809
Advertising	16,156	16,156	11,668	4,488
Electric-Other	32,000	32,000	33,475	(1,475)
Electric-Police	15,854	15,854	22,462	(6,608)
Electric-Fire	15,854	15,854	22,462	(6,608)
Electric-Highway	13,130	13,130	13,288	(158)
General R & M	12,490	12,490	10,369	2,121
Water	16,283	16,283	15,355	928
Water Public Safety Complex	12,531	12,531	19,420	(6,889)
Public Safety R&M	2,055	2,055	1,938	117
Consulting services	42,189	42,189	55,748	(13,559)
Contract R & M	25,130	25,130	57,252	(32,122)
DPW Building R & M	1,527	1,527	160	1,367
DPW Water	3,399	3,399	3,240	159
DPW Janitorial Services	5,379	5,379	5,100	279
Misc. city property	613	613	2,033	(1,420)
Hydrants	79,104	79,104	73,453	5,651
Sewer/NBC	14,766	14,766	3,895	10,871
Street lights	168,756	168,756	177,099	(8,343)
Heating fuel (Police)	15,821	15,821	6,501	9,320
Heating fuel (Fire)	16,821	16,821	20,763	(3,942)
Heating fuel (DPW)	7,541	7,541	8,144	(603)
Total city property	620,662	620,662	671,218	(50,556)
City boards				
Pension board	675	675	675	-
Purchasing board	675	675	675	-
Appeals board	900	900	731	169
Planning board	1,125	1,125	825	300
Zoning board	1,750	1,750	1,500	250
Canvassers board	2,100	2,100	2,019	81
Housing authority board	2,750	2,750	2,750	-
Total city boards	9,975	9,975	9,175	800
Total general government	2,263,650	2,263,650	2,348,514	(84,864)

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Police department				
Salaries	1,886,389	1,886,389	1,743,636	142,753
Police trainee wages	8,800	8,800	8,240	560
Overtime	160,000	160,000	209,521	(49,521)
Special Investigations Overtime	26,368	26,368	16,355	10,013
Holiday pay	113,383	113,383	99,122	14,261
Longevity pay	59,000	59,000	44,000	15,000
Detective Stipends	7,800	7,800	7,500	300
Clothing/tool allowances	36,000	36,000	41,281	(5,281)
Sick Incentive Pay	4,000	4,000	4,882	(882)
Police Medicare	33,375	33,375	37,387	(4,012)
Police Dental Insurance	28,948	28,948	26,715	2,233
Police Social Security	-	-	602	(602)
Police Medical Insurance	203,324	203,324	185,456	17,868
Injuries/Medical (Work Related Injuries)	44,449	44,449	44,345	104
Salaries (Animal control)	35,737	35,737	34,894	843
Overtime (Animal control)	2,500	2,500	2,366	134
Sick Incentive Pay (Animal control)	110	110	377	(267)
Social Security (Animal control)	2,388	2,388	2,335	53
Clothing/tool allowance (Animal control)	275	275	275	-
Medicare (Animal control)	558	558	512	46
Municipal State Pension (Animal control)	4,181	4,181	4,082	99
Medical Insurance (Animal control)	4,768	4,768	4,745	23
Dental Insurance (Animal control)	354	354	353	1
Boarding of animals(Animal control)	5,145	5,145	4,237	908
Clerk & IT Salaries	75,791	75,791	75,294	497
Clerk & IT Overtime`	1,000	1,000	421	579
Clerk & IT Longevity Pay	4,500	4,500	7,500	(3,000)
Clerk & IT Sick Incentive Pay	450	450	439	11
Clothing/tool allowances civilian	275	275	275	-
Clerk & IT Social Security	5,085	5,085	5,146	(61)
Clerk & IT Medicare	1,189	1,189	1,072	117
Municipal State Pension (Civillian Staff)	9,394	9,394	9,393	1
Clerk & IT Medical Insurance	23,211	23,211	23,099	112
Clerk & IT Dental Insurance	2,147	2,147	2,140	7
Dispatcher Salaries	233,448	233,448	203,541	29,907
Dispatcher & Clerk Overtime	25,725	25,725	26,365	(640)
Dispatcher Holiday Pay	13,468	13,468	11,226	2,242
Dispatchers Longevity	6,000	6,000	4,000	2,000
Dispatchers Sick Incentive Pay	220	220	1,309	(1,089)
Dispatcher clothing/tool allowances	1,650	1,650	1,375	275
Dispatcher Social Security	17,392	17,392	15,050	2,342
Dispatchers Medicare	4,067	4,067	3,479	588
Municipal State Pension (Dispatch)	28,015	28,015	25,809	2,206
Dispatcher & Clerk Medical Insurance	49,122	49,122	44,422	4,700
Dispatcher & Clerk Dental Insurance	5,721	5,721	4,899	822
Shared Equipment R&M	8,000	8,000	21,426	(13,426)
Office supplies	4,219	4,219	4,265	(46)
Other supplies	7,164	7,164	7,343	(179)
Vehicle fuel	89,652	89,652	85,500	4,152
Dues/Subscriptions	527	527	526	1
Detective supplies	4,219	4,219	4,156	63
Non-capital equipment	7,383	7,383	8,013	(630)
General R & M	5,145	5,145	9,221	(4,076)
Vehicle R & M	25,580	25,580	34,969	(9,389)
Other professional services	50,189	50,189	50,212	(23)
Finger printing	2,637	2,637	2,965	(328)
Education & training	14,967	14,967	15,268	(301)
College tuitions	26,368	26,368	14,885	11,483
Capital Expenditures	44,613	44,613	92,539	(47,926)
Total police department	3,466,385	3,466,385	3,340,760	125,625

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Fire department				
Salaries	1,914,731	1,914,731	1,874,596	40,135
Overtime	160,000	160,000	156,479	3,521
Holiday pay	109,307	109,307	109,097	210
Longevity pay	57,000	57,000	55,000	2,000
Out of rank pay	21,095	21,095	17,579	3,516
Rescue pay	7,280	7,280	7,000	280
Sick incentive pay	12,000	12,000	7,997	4,003
Clothing/tool allowance	37,000	37,000	37,000	-
Social Security	1,245	1,245	3,084	(1,839)
Medicare	33,617	33,617	30,206	3,411
Medical Insurance	270,799	270,799	279,594	(8,795)
Dental Insurance	28,216	28,216	29,052	(836)
Injuries/Medical (Work Related Injuries)	73,047	73,047	72,568	479
Other supplies	15,435	15,435	23,320	(7,885)
Vehicle fuel	25,040	25,040	25,436	(396)
Dues/subscriptions	84	84	35	49
Non-capital equipment	15,435	15,435	5,225	10,210
General R & M	5,145	5,145	9,363	(4,218)
Vehicle R & M	25,725	25,725	71,596	(45,871)
Other professional services	11,425	11,425	8,009	3,416
Education & training	6,380	6,380	3,441	2,939
College tuitions	3,000	3,000	1,648	1,352
Capital Expenditures	35,797	35,797	3,525	32,272
Fire Fighter Equipment	16,464	16,464	26,764	(10,300)
Total fire department	2,885,267	2,885,267	2,857,614	27,653
Probate court				
Salaries	7,309	7,309	7,309	-
Total probate court	7,309	7,309	7,309	-
Municipal court				
Salaries	36,622	36,622	36,362	260
Overtime	1,690	1,690	1,630	60
Longevity Pay	2,000	2,000	2,000	-
Sick Incentive Pay	450	450	411	39
Social Security	2,544	2,544	2,420	124
Clothing Allowance	275	275	-	275
Medicare	595	595	553	42
Municipal State Pension	4,519	4,519	4,528	(9)
Medical Insurance	11,606	11,606	11,549	57
Dental Insurance	1,073	1,073	1,070	3
Office supplies	5,500	5,500	6,383	(883)
Other Professional Services	14,000	14,000	14,080	(80)
Total municipal court	80,874	80,874	80,986	(112)
Inspection officers				
Plumbing officer	4,323	4,323	4,323	-
Electrical inspector	4,323	4,323	4,323	-
Total inspection officers	8,646	8,646	8,646	-
Total public safety	6,448,481	6,448,481	6,295,315	153,166

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC WORKS				
<i>Highway department</i>				
Salaries	495,937	495,937	442,684	53,253
Overtime	47,463	47,463	31,961	15,502
Longevity pay	23,500	23,500	28,000	(4,500)
Specialty pay	550	550	503	47
Clothing/tool allowance	3,025	3,025	2,200	825
Social Security	35,369	35,369	29,252	6,117
Medicare	8,272	8,272	6,637	1,635
Municipal State Pension	56,075	56,075	50,725	5,350
Medical Insurance	81,240	81,240	85,262	(4,022)
Dental Insurance	10,015	10,015	8,347	1,668
Other supplies	1,793	1,793	4,688	(2,895)
Other Professional Services	30,000	30,000	30,030	(30)
Education & Training	515	515		515
Property Protection	10,000	10,000		10,000
Vehicle Fuel	13,917	13,917	21,463	(7,546)
Non-capital equipment	7,003	7,003	14,703	(7,700)
Winter road supplies	10,063	10,063	19,478	(9,415)
General R & M	-	-	4,484	(4,484)
Vehicle R & M	46,842	46,842	61,333	(14,491)
DPW Building R&M	1,703	1,703	-	1,703
Road R & M	137,463	137,463	106,345	31,118
Traffic Signal R & M	3,164	3,164	15,875	(12,711)
Misc. Highway	712	712	655	57
Total highway department	1,024,621	1,024,621	964,625	59,996
<i>Public works</i>				
Solid waste removal/disposal	152,935	152,935	136,047	16,888
Trash Removal/Recycling	503,000	503,000	498,745	4,255
Total public works	655,935	655,935	634,792	21,143
Total public works	1,680,556	1,680,556	1,599,417	81,139
PUBLIC EDUCATION				
<i>Library</i>				
City Contribution	105,946	105,946	105,946	-
Other professional services	14,022	14,022	35,597	(21,575)
Total public education	119,968	119,968	141,543	(21,575)
PUBLIC RECREATION				
<i>Parks, Recreation And Community Service</i>				
Salaries	43,697	43,697	63,864	(20,167)
Social Security	2,709	2,709	4,042	(1,333)
Medicare	634	634	967	(333)
Municipal State Pension	5,113	5,113	4,975	138
Medical Insurance	11,606	11,606	5,850	5,756
Dental Insurance	1,073	1,073	427	646
Other supplies	5,274	5,274	5,401	(127)
General R & M	6,856	6,856	13,509	(6,653)
Other professional services	37,389	37,389	26,449	10,940
Public events & activities	1,055	1,055	5,449	(4,394)
Misc. recreation	2,927	2,927	16,611	(13,684)
Total parks, recreation and community service	118,333	118,333	147,544	(29,211)
<i>Planning</i>				
Salaries	50,000	50,000	59,897	(9,897)
Social Security	3,100	3,100	3,679	(579)
Medicare	725	725	896	(171)
Municipal State Pension	5,850	5,850	7,029	(1,179)
Medical Insurance	-	-	791	(791)
Dental Insurance	-	-	59	(59)
Capital expenditures	-	-	9,755	(9,755)
Other Professional Services	-	-	11,219	(11,219)
Total planning	59,675	59,675	93,325	(33,650)
TOTAL PUBLIC RECREATION	178,008	178,008	240,869	(62,861)

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL "BUDGETARY BASIS" (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
CITY DEBT SERVICE				
Bond principal	1,620,000	1,620,000	1,242,132	377,868
Bond interest	918,586	918,586	821,393	97,193
Other debt fees	9,278	9,278	2,200	7,078
Lease purchase	22,977	22,977	22,093	884
Total city debt service	2,570,841	2,570,841	2,087,818	483,023
CONTINGENCY				
Legal contingencies	75,000	75,000	14,694	60,306
General contingencies	37,500	37,500	1,228	36,272
Post-confirmation Attorney Fees	38,000	38,000	9,887	28,113
Creditor Pool	200,000	200,000	194,082	5,918
Total contingency	350,500	350,500	219,891	130,609
OTHER CITY GOVERNMENT				
Compensated absences	52,500	52,500	16,233	36,267
Unemployment compensation	61,360	61,360	65,266	(3,906)
Group Life	11,150	11,150	10,064	1,086
Medical insurance	425,000	425,000	288,540	136,460
HRA - Health Reimbursement	115,000	115,000	110,764	4,236
Total other city government	665,010	665,010	490,867	174,143
RETIREMENT				
Police retirement- Public Safety Pension	57,325	57,325	57,325	-
Fire retirement - Public Safety Pension	57,325	57,325	57,325	-
Public Pension - JH Other Paygo	2,289,501	2,289,501	2,214,297	75,204
Total retirement	2,404,151	2,404,151	2,328,947	75,204
Total expenditures	16,681,165	16,681,165	15,753,181	927,984
Other financing sources (uses)				
Transfers from other funds	-	-	3,763	3,763
Total other financing sources (uses)	-	-	3,763	3,763
Excess of revenues and other sources over expenditures and other uses - budgetary basis	\$ 1,230	\$ 1,230	\$ 1,965,349	\$ 1,964,119

CITY OF CENTRAL FALLS
Budgetary and Legal Compliance
For the Year Ended June 30, 2014

D-3

The General Fund's reconciliation between the budgetary basis and modified accrual (GAAP) basis of accounting is as follows:

Total budgetary revenues and other financing sources	\$ 17,718,530
Reclassification of:	
Property tax revenue- sixty day rule	217,146
Prior years property tax revenue - sixty day rule	(549,207)
Bond proceeds	5,510,000
Payments made by State for receivership costs	13,691
Revenue from various special revenue funds combined with General Fund per GASB 54 requirements:	14,864
Total GAAP revenues and other financing sources	<u>\$ 22,925,024</u>
Total budgetary expenditures and other financing uses	\$ 15,753,181
Reclassification of:	
Receivership costs	13,691
Encumbrances outstanding as of June 30, 2014	(137,902)
Encumbrances outstanding as of June 30, 2013	552,894
Refunding of bond	5,425,000
Bond issuance costs	85,000
Expenses and transfers of various special revenue funds combined with General Fund per GASB 54 requirements:	14,699
Transfer to capital reserve fund, not part of budget	1,915,514
Total GAAP expenditures and other financing uses	<u>\$ 23,622,077</u>

CITY OF CENTRAL FALLS
Excess of Expenditures Over Appropriations
For the Year Ended June 30, 2014

D-4

For the year ended June 30, 2014, expenditures exceeded budget at the department level as follows:

<u>Department</u>	<u>Excess</u>
City Council	\$ 907
Personnel	\$ 106,641
Legal	\$ 27,610
City Property	\$ 50,556
Municipal Court	\$ 112
Planning	\$ 33,650
Public Education	\$ 21,575
Recreation	\$ 29,211

CITY OF CENTRAL FALLS

*Schedule of Changes in the Net Position Restricted for Pensions
and in the Net Pension Liability and Related Ratios
For the Year Ended 6/30/2014*

Changes in the Net Pension Liability:

	2014
Total Pension Liability-Beginning	\$ 30,167,669
Service Cost	429,158
Interest on Liability and Service Cost	2,371,254
Benefit Payments	(2,256,604)
Interest on Benefit Payments	(87,443)
Actuarial (Gain) and Loss	610,112
Total Pension Liability-Ending	31,234,146

Changes in Net Position Restricted for Pensions:

June 30, 2013 Net Position	5,670,231
Employer Contributions	2,328,947
Employee Contributions	414,204
Benefit Payments	(2,264,892)
Expenses	(19,990)
Investment Income	263,238
June 30, 2014 Net Position	6,391,738

Net Pension Liability-Ending	\$ 24,842,408
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Plan Fiduciary Net Positions as a percentage of the Total Pension Liability	20.5%
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Covered-employee Payroll	617.2%
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CITY OF CENTRAL FALLS

*Schedule of Investment Returns
For the Year Ended 6/30/2014*

	<u>2014</u>
Annual money-weighted rate of return net of investment expense	4.18%

NON-MAJOR GOVERNMENTAL FUNDS

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

	CDBG Revolving	CDBG 2009	CDBG 2010	CDBG 2012	CDBG 2013	UDAG Revolving Loan Fund
ASSETS						
Cash and cash equivalents	\$ 667,058	\$ -	\$ -	\$ -	\$ -	\$ 35,234
Due from federal and state governments		14,799	17,957	314,605	332,900	
Due from other funds			4,989			
TOTAL ASSETS	667,058	14,799	22,946	314,605	332,900	35,234
LIABILITIES						
Accounts payable	3,305			26,750		-
Due to other funds						3,352
Unearned revenue		14,799	22,946	287,855	332,900	
TOTAL LIABILITIES	3,305	14,799	22,946	314,605	332,900	3,352
FUND BALANCE						
Restricted	663,753					31,882
Unassigned						
TOTAL FUND BALANCE	\$ 663,753	\$ -	\$ -	\$ -	\$ -	\$ 31,882

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2014**

	CDBG Revolving	CDBG 2009	CDBG 2010	CDBG 2012	CDBG 2013	UDAG Revolving Loan Fund
Revenues:						
Interest and investment income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees, permits and fines						
Intergovernmental				162,633		
Other						
Total revenues	-	-	-	162,633	-	-
Expenditures:						
General government				162,633		3,351
Public safety						
Recreation						
Capital outlays						
Total expenditures & capital outlays	-	-	-	162,633	-	3,351
Excess of revenue over (under) expenditures before transfers	-	-	-	-	-	(3,351)
Other financing sources (uses):						
Transfers out						
Net other financing sources (uses)	-	-	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	-	-	-	(3,351)
Fund balance, beginning of the year, as restated	663,753	-	-	-	-	35,233
Fund balance, end of the year	\$ 663,753	\$ -	\$ -	\$ -	\$ -	\$ 31,882

(CONTINUED)

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

	Home	ED	COPS Grant	EDI Community Center	Grant In Aid	RI Foundation
ASSETS						
Cash and cash equivalents	\$ 59,201	\$ 396,939	\$ -	\$ -	\$ -	\$ -
Due from federal and state governments			21,421			
Due from other funds					58,306	5,954
TOTAL ASSETS	59,201	396,939	21,421		58,306	5,954
LIABILITIES						
Accounts payable						
Due to other funds			21,421			
Unearned revenue						5,954
TOTAL LIABILITIES	-	-	21,421		-	5,954
FUND BALANCE						
Restricted	59,201	396,939	-		58,306	
Unassigned						
TOTAL FUND BALANCE	\$ 59,201	\$ 396,939	\$ -	\$ -	\$ 58,306	\$ -

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2014**

	Home	ED	COPS Grant	EDI Community Center	Grant In Aid	RI Foundation
Revenues:						
Interest and investment income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees, permits and fines						
Intergovernmental			21,090			
Other						-
Total revenues	-	-	21,090		-	-
Expenditures:						
General government						
Public safety			21,090			
Recreation						
Capital outlays						
Total expenditures & capital outlays	-	-	21,090		-	-
Excess of revenue over (under) expenditures before transfers	-	-	-		-	-
Other financing sources (uses):						
Transfers out				(1)		
Net other financing sources (uses)	-	-	-	(1)	-	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	-	(1)	-	-
Fund balance, beginning of the year, as restated	59,201	396,939	-	1	58,306	-
Fund balance, end of the year	\$ 59,201	\$ 396,939	\$ -	\$ -	\$ 58,306	\$ -

(CONTINUED)

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

	Recreation Summer Lunch Program	Police C.A.R.E.	DARE Program	Police Special Accounts	2012 JAG Grant	JAG Grant
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 90,031	\$ -	\$ -
Due from federal and state governments		11,680				
Due from other funds	15,417	33,153		5,376	104	26,757
TOTAL ASSETS	15,417	44,833		95,407	104	26,757
LIABILITIES						
Accounts payable	1,555	728		58,802		23,094
Due to other funds	12,358	43,100		41,859	123	3,663
Unearned revenue						
TOTAL LIABILITIES	13,913	43,828		100,661	123	26,757
FUND BALANCE						
Restricted	1,504	1,005				-
Unassigned				(5,254)	(19)	
TOTAL FUND BALANCE	\$ 1,504	\$ 1,005	\$ -	\$ (5,254)	\$ (19)	\$ -

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2014**

	Recreation Summer Lunch Program	Police C.A.R.E.	DARE Program	Police Special Accounts	2012 JAG Grant	JAG Grant
Revenues:						
Interest and investment income	\$ -	\$ -	\$ -	\$ 120	\$ -	\$ -
Licenses, fees, permits and fines						
Intergovernmental	15,417	65,110		8,947	104	26,757
Other						
Total revenues	15,417	65,110		9,067	104	26,757
Expenditures:						
General government						
Public safety		88,672		40,050	123	26,757
Recreation	13,913					
Capital outlays						
Total expenditures & capital outlays	13,913	88,672		40,050	123	26,757
Excess of revenue over (under) expenditures before transfers	1,504	(23,562)		(30,983)	(19)	-
Other financing sources (uses):						
Transfers out			(3)			
Net other financing sources (uses)	-	-	(3)	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	1,504	(23,562)	(3)	(30,983)	(19)	-
Fund balance, beginning of the year, as restated	-	24,567	3	25,729	-	-
Fund balance, end of the year	\$ 1,504	\$ 1,005	\$ -	\$ (5,254)	\$ (19)	\$ -

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

	Public Rescue	Rural Grants	Emergency Equipment Replacement	Recycling Account	Channel One
ASSETS					
Cash and cash equivalents	\$ 221,519	\$ -	\$ -	\$ -	\$ -
Due from federal and state governments	160,753	49	144,400	10,331	-
Due from other funds	-	-	-	-	-
TOTAL ASSETS	382,272	49	144,400	10,331	-
LIABILITIES					
Accounts payable	16,827	-	-	-	-
Due to other funds	184,995	-	-	-	-
Unearned revenue	-	-	-	10,306	-
TOTAL LIABILITIES	201,822	-	-	10,306	-
FUND BALANCE					
Restricted	180,450	49	144,400	25	-
Unassigned	-	-	-	-	-
TOTAL FUND BALANCE	\$ 180,450	\$ 49	\$ 144,400	\$ 25	\$ -

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2014
June 30, 2014**

	Public Rescue	Rural Grants	Emergency Equipment Replacement	Recycling Account	Channel One
Revenues:					
Interest and investment income	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, fees, permits and fines	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Other	-	-	-	-	-
Total revenues	-	-	-	-	-
Expenditures:					
General government	-	-	-	-	-
Public safety	4,094	-	-	-	-
Recreation	-	-	-	-	-
Capital outlays	-	-	-	-	-
Total expenditures & capital outlays	4,094	-	-	-	-
Excess of revenue over (under) expenditures before transfers	(4,094)	-	-	-	-
Other financing sources (uses):					
Transfers out	-	-	-	-	(3,759)
Net other financing sources (uses)	-	-	-	-	(3,759)
Excess of revenues and other sources over (under) expenditures and other uses	(4,094)	-	-	-	(3,759)
Fund balance, beginning of the year, as restated	184,544	49	144,400	25	3,759
Fund balance, end of the year	\$ 180,450	\$ 49	\$ 144,400	\$ 25	\$ -

CITY OF CENTRAL FALLS
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014

	Property Development	Recreation Capital	School Construction	Historic Trust	GRAND TOTALS
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ 35,383	\$ 38,402	\$ 1,543,767
Due from federal and state governments					713,362
Due from other funds	161,179	4,393		31,553	662,714
TOTAL ASSETS	161,179	4,393	35,383	69,955	2,919,843
LIABILITIES					
Accounts payable			-		131,061
Due to other funds				6,052	316,923
Unearned revenue					674,760
TOTAL LIABILITIES	-	-	-	6,052	1,122,744
FUND BALANCE					
Restricted	161,179	4,393	35,383	63,903	1,802,372
Unassigned					(5,273)
TOTAL FUND BALANCE	\$ 161,179	\$ 4,393	\$ 35,383	\$ 63,903	\$ 1,797,099

CITY OF CENTRAL FALLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2014

	Property Development	Recreation Capital	School Construction	Historic Trust	GRAND TOTALS
Revenues:					
Interest and investment income	\$ -	\$ -	\$ -	\$ 37	\$ 157
Licenses, fees, permits and fines					-
Intergovernmental					300,058
Other				3,422	3,422
Total revenues	-	-	-	3,459	303,637
Expenditures:					
General government					165,984
Public safety					180,786
Recreation					13,913
Capital outlays			77,329		77,329
Total expenditures & capital outlays	-	-	77,329	-	438,012
Excess of revenue over (under) expenditures before transfers	-	-	(77,329)	3,459	(134,375)
Other financing sources (uses):					
Transfers out					(3,763)
Net other financing sources (uses)	-	-	-	-	(3,763)
Excess of revenues and other sources over (under) expenditures and other uses	-	-	(77,329)	3,459	(138,138)
Fund balance, beginning of the year, as restated	161,179	4,393	112,712	60,444	1,935,237
Fund balance, end of the year	\$ 161,179	\$ 4,393	\$ 35,383	\$ 63,903	\$ 1,797,099

(CONCLUDED)

AGENCY FUNDS

Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Unclaimed Estates</u>				
ASSETS				
Cash	\$ 32,629	\$ 116	\$ -	\$ 32,745
LIABILITY				
Deposits Held in Custody for Others	\$ 32,629	\$ 116	\$ -	\$ 32,745
 <u>Totals</u>				
ASSETS				
Cash	\$ 32,629	\$ 116	\$ -	\$ 32,745
TOTAL ASSETS	\$ 32,629	\$ 116	\$ -	\$ 32,745
LIABILITIES				
Deposits Held in Custody for Others	\$ 32,629	\$ 116	\$ -	\$ 32,745
TOTAL LIABILITIES	\$ 32,629	\$ 116	\$ -	\$ 32,745

GENERAL FUND

CITY OF CENTRAL FALLS

**SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2014**

<u>Assessment of</u>	<u>Balance Uncollected July 1, 2013</u>	<u>2013 Assessment</u>	<u>Additions & Adjustments</u>	<u>Abatements</u>	<u>Amount to be Collected</u>	<u>Current Year Collections</u>	<u>Balance June 30, 2014</u>
2013	\$ -	\$ 14,221,500	\$ -	\$ (63,030)	\$ 14,158,470	\$13,300,479	\$ 857,991
2012	1,077,742		-	(12,859)	1,064,883	132,910	931,973
2011	478,794		-	(8,833)	469,961	31,747	438,214
2010	470,798			(8,065)	462,733	24,560	438,173
2009	143,467			(1,650)	141,817	28,726	113,091
2008	154,881			-	154,881	105,247	49,634
2007	161,098			(1,100)	159,998	7,265	152,733
2006	85,124			-	85,124	222	84,902
2005	64,535			-	64,535	114	64,421
2004	67,225			-	67,225	51	67,174
2003	66,477			-	66,477	58	66,419
2002	69,356			-	69,356	73	69,283
2001	76,678			-	76,678	240	76,438
2000	62,723			-	62,723	-	62,723
1999	84,241			-	84,241	47	84,194
1998 and prior	621,413			-	621,413	174	621,239
	3,684,552	\$ 14,221,500	\$ -	\$ (95,537)	\$ 17,810,515	\$ 13,631,913	4,178,602
Less: allowance for uncollectible accounts	(850,000)						(850,000)
	<u>\$ 2,834,552</u>						<u>\$ 3,328,602</u>

Schedule of property valuation assessed as of December 31, 2012:

Real estate	\$ 11,966,778
Motor vehicles	2,563,527
Tangibles	1,116,249
Less: exemptions	(1,487,587)
Adjustments	62,533
	<u>\$ 14,221,500</u>

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

City of Central Falls
Central Falls, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Central Falls, Rhode Island, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Central Falls, Rhode Island's basic financial statements, and have issued our report thereon dated February 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Central Falls, Rhode Island's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Central Falls, Rhode Island's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Central Falls, Rhode Island's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
February 3, 2015