

# 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>
<b>FINANCIAL SECTION:</b>		
Report of Independent Auditors' .....		1 - 2
<b>Basic Financial Statements and Required Supplementary Information:</b>		
Management's Discussion and Analysis .....		3 - 10
<b>Basic Financial Statements:</b>		
<b>Government-wide Financial Statements:</b>		
Statement of Net Position .....	A-1	11
Statement of Activities .....	A-2	12
<b>Fund Financial Statements:</b>		
<b>Governmental Funds:</b>		
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
<b>Fiduciary Funds:</b>		
Statement of Fiduciary Net Position .....	C-1	16
Statement of Changes in Fiduciary Net Position .....	C-2	17
<b>Notes to Financial Statements</b> .....		18 - 48
<b>Required Supplementary Information:</b>		
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
<b>Other Supplementary Information:</b>		
<b>Non-major Governmental Funds:</b>		
Combining Balance Sheet and Combining Statement of Revenues, Expenses and Changes in Fund Balance .....	E-1	61 - 65
<b>Agency Funds:</b>		
Statement of Changes in Assets and Liabilities .....	F-1	66
<b>General Fund:</b>		
Schedule of Property Taxes Receivable .....	G-1	67
<b>Other Reporting:</b>		
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.

*Marcum LLP*

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 (12<sup>th</sup>) 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 (12<sup>th</sup>) 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>
<b>Charges for services</b>		
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>
<b>Operating Grants and Contributions</b>		
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>
<b>Capital Grants and Contributions</b>		
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>
<b>Total Program Revenues</b>	<u>\$ 1,588,912</u>	<u>\$ 2,009,188</u>
<b>General Revenues</b>		
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
<b>Total General Revenues</b>	<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.

<b>Total Extraordinary Items</b>	<u>\$ 0</u>	<u>\$ 433,972</u>
<b>Total Government-Wide Revenues</b>	<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**

<b>Program Expenses</b>	<b>Total Cost of Services 2014</b>	<b>Net Cost of Services 2014</b>	<b>Total Cost Services 2013</b>	<b>Net Cost of Services 2013</b>
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
<b>*Total Expenses</b>	<b>\$ 17,779,667</b>	<b>\$ 16,190,755</b>	<b>\$ 18,407,204</b>	<b>\$ 16,398,016</b>

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.

<b>General Fund Revenues</b>	<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>