

TOWN OF MIDDLETOWN, RHODE ISLAND
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012



A Limited Liability Partnership

10 Weybosset Street, Suite 700, Providence, RI 02903 • (p) 401.421.4800 • 1.800.927.LGCD • (f) 401.421.0643 • www.lgcd.com

TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2012

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-16
Basic financial statements:	
Government-wide financial statements:	
Statement of net assets	17
Statement of activities	18
Fund financial statements:	
Balance sheet – governmental funds	19
Reconciliation of the governmental funds balance sheet to the statement of net assets	20
Statement of revenues, expenditures and changes in fund balances – governmental funds	21
Reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities	22
Statement of net assets – enterprise funds	23
Statement of revenues, expenses and changes in net assets – enterprise funds	24
Statement of cash flows – enterprise funds	25-26
Statement of fiduciary net assets – fiduciary funds	27
Statement of changes in fiduciary net assets – fiduciary funds	28
Notes to basic financial statements	29-76

TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2012

CONTENTS (CONTINUED)

	Page
Required supplementary information to financial statements:	
Budgetary comparison schedules and notes thereto	77-80
Schedules of funding progress	81-83
Schedule of employer contributions	84
Notes to required supplementary information	85
Supplementary information to financial statements:	
Tax collector's annual report	86-87



Independent Auditors' Report

The Honorable President and
Members of the Town Council
Town of Middletown, Rhode Island
Middletown, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

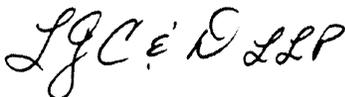
In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

The Honorable President and
Members of the Town Council
Town of Middletown, Rhode Island

Accounting principles generally accepted in the United States require that Management's Discussion and Analysis, budgetary comparison schedules and historical pension and other postemployment benefits information on pages 3 to 16 and pages 77 to 85 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, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary tax collector's annual report on pages 86 and 87 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The 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 financial statements and to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 12, 2012

Management's Discussion and Analysis

As management of the Town of Middletown, Rhode Island (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012 (FY 2012).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2012 by \$48,670,541 (*net assets*). Net assets include \$39,880,128 invested in capital assets, net of related debt; \$3,540,758 of restricted net assets; and \$5,249,655 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$100,586,411 and total liabilities were \$51,915,870 at June 30, 2012. Total net assets decreased by \$98,012 in the current fiscal year.

As of June 30, 2012, the Town's governmental funds reported combined ending fund balances of \$17,450,543, a decrease of \$2,460,916 in comparison with the prior year. The unfavorable fiscal year results in the General Fund and other governmental funds were partially offset by favorable results in the School Department, which resulted in the net decrease in fund balance. See page 8 for additional discussion regarding changes in the fund balance of the General Fund and School Department Special Revenue Fund.

As of June 30, 2012, the unassigned fund balance for the General Fund was \$5,077,570, or 10.1% of total budgeted 2012 General Fund expenditures and other financing uses totaling \$50,503,870. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations decreased by \$1,505,056 (3.1%) during the current fiscal year. The key factors in this decrease were principal payments of \$3,007,411 and the reduction of \$267,044 for pollution remediation obligations, offset by new capital leases of \$1,349,700; \$165,000 in clean water loan proceeds and an increase in accrued compensated absences of \$325,163.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. These basic financial statements are comprised of three components:

- Government-wide financial statements
- Fund financial statements; and
- Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

Government-wide financial statements (continued). The *statement of net assets* presents information on the entire Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works and sanitation, education, library, planning and inspection, and community services. The business-type activities of the Town include a Sewer Fund, a Parks and Recreation Fund and a Refuse and Recycle Fund.

The government-wide financial statements can be found on pages 17 and 18 of this report.

In the statement of activities, the operations of the Town are presented in a format that reports the net of expenses and revenues of its individual functions – the objective being to report the relative burden of each of the Town's functions to the taxpayers. Revenues offsetting related functional expenses are separated into three categories: charges for services, operating grants and contributions, and capital grants and contributions.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Governmental funds (continued). The Town maintains twenty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement revenues, expenditures, and changes in fund balances for the General Fund and School Department, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary funds. Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Two of the Town's enterprise funds, Sewer Fund and Parks and Recreation Fund, are major funds; the Refuse and Recycle Fund is a non-major fund. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 23-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-76 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. It presents a schedule detailing the Town's progress in funding its pension and other postemployment benefits obligations, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 77-87 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$48,670,541 at June 30, 2012.

Government-wide Financial Analysis (Continued)

Net assets invested in capital assets, net of related debt, comprise \$39,880,128, or 81.9%, of total net assets. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Middletown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 21,579,268	\$ 25,280,364	\$ 5,530,478	\$ 6,092,287	\$ 27,109,746	\$ 31,372,651
Capital assets	50,550,420	48,816,651	22,926,245	22,040,402	73,476,665	70,857,053
Total assets	72,129,688	74,097,015	28,456,723	28,132,689	100,586,411	102,229,704
Long-term liabilities	29,836,239	29,918,826	17,875,964	19,298,433	47,712,203	49,217,259
Other liabilities	2,865,977	3,565,349	1,337,690	678,543	4,203,667	4,243,892
Total liabilities	32,702,216	33,484,175	19,213,654	19,976,976	51,915,870	53,461,151
Net assets:						
Invested in capital assets, net of related debt	27,157,090	24,596,306	12,723,038	11,141,969	39,880,128	35,738,275
Restricted	3,540,758	7,340,598			3,540,758	7,340,598
Unrestricted	8,729,624	8,675,936	(3,479,969)	(2,986,256)	5,249,655	5,689,680
Total Net Assets	\$ 39,427,472	\$ 40,612,840	\$ 9,243,069	\$ 8,155,713	\$ 48,670,541	\$ 48,768,553

A portion of the Town's net assets, totaling \$3,540,758 (7.3%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net assets*, totaling \$5,249,655, may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2012, the Town is able to report positive balances in all three categories of net assets both for the government as a whole, as well as for its separate governmental and business-type activities, with the exception of unrestricted net assets for the business-type activities.

Governmental activities. Governmental activities decreased the Town's net assets by \$1,185,368 from the previous year, principally due to the increase in long-term obligations for environmental remediation in the amount of \$2,000,000.

Business-type activities. Business-type activities increased the Town's net assets by \$1,087,356, primarily due to investment in capital items.

Government-wide Financial Analysis (Continued)

Town of Middletown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 3,991,239	\$ 4,027,669	\$ 7,716,125	\$ 7,302,442	\$ 11,707,364	\$ 11,330,111
Operating grants and contributions	16,296,028	14,675,642		120,250	16,296,028	14,795,892
Capital grants and contributions	342,211	251,779			342,211	251,779
General revenues:						
Property taxes	41,664,045	40,544,664			41,664,045	40,544,664
Grants and contributions not restricted to specific programs	1,553,605	1,389,149			1,553,605	1,389,149
Other	171,074	1,319,999	3,771	7,877	174,845	1,327,876
Total revenues	64,018,202	62,208,902	7,719,896	7,430,569	71,738,098	69,639,471
Expenses:						
General government	3,844,946	3,839,331			3,844,946	3,839,331
Public safety	12,828,485	15,543,976			12,828,485	15,543,976
Public works/sanitation	6,382,000	2,723,757			6,382,000	2,723,757
Planning/inspection	548,445	752,199			548,445	752,199
Library	769,111	862,740			769,111	862,740
Education	39,290,202	39,135,672			39,290,202	39,135,672
Community services	578,144	435,422			578,144	435,422
Interest on long-term debt	877,327	834,750			877,327	834,750
Refuse and recycle			1,161,821	1,141,941	1,161,821	1,141,941
Parks and recreation			1,676,250	1,462,692	1,676,250	1,462,692
Sewer			3,879,379	11,603,553	3,879,379	11,603,553
Total expenses	65,118,660	64,127,847	6,717,450	14,208,186	71,836,110	78,336,033
Increase (decrease) in net assets before transfers	(1,100,458)	(1,918,945)	1,002,446	(6,777,617)	(98,012)	(8,696,562)
Transfers	(84,910)	60,150	84,910	(60,150)	-	-
Increase (decrease) in net assets	(1,185,368)	(1,858,795)	1,087,356	(6,837,767)	(98,012)	(8,696,562)
Net assets – beginning	40,612,840	42,471,635	8,155,713	14,993,480	48,768,553	57,465,115
Net assets – ending	\$ 39,427,472	\$ 40,612,840	\$ 9,243,069	\$ 8,155,713	\$ 48,670,541	\$ 48,768,553

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Financial Analysis of the Government's Funds (Continued)

Governmental funds (continued). As of June 30, 2012, the Town's governmental funds reported combined ending fund balances of \$17,450,543. Of this amount, \$5,016,654 constitutes *unassigned fund balance*, which is available for spending by the government. The remainder of fund balance is *nonspendable, restricted, committed, and assigned*, and is not available for new spending because it has already been identified for 1) construction projects in the amount of \$433,869; 2) generating income to pay for the perpetual care of the municipal cemetery in the amount of \$125,650; 3) long-term loans receivable in the amount of \$100,000; 4) liquidating claims for stormwater management in the amount of \$1,722,544; 5) grants in the amount of \$467,274; 6) prepaid expenses and other purposes in the amount of \$75,479; 7) various commitments for West Main Road development, special education and capital improvements totaling \$5,057,674 and 8) other specific purposes in the amount of \$4,451,399.

The General Fund is the chief operating fund of the Town. At June 30, 2012, unassigned fund balance of the General Fund was \$5,077,570, while total fund balance was \$9,688,016. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10.3% of total budgeted General Fund expenditures and other financing uses of \$49,470,000, while total fund balance represents 19.6% of that same amount.

During the fiscal year, the fund balance of the Town's General fund decreased by \$309,194, primarily due to the purchase of public safety equipment in the amount of \$392,270.

The School Department, a special revenue fund of the Town, had a total fund balance of \$3,133,976, which includes an assigned fund balance of \$2,008,426 at June 30, 2012. The assigned fund balance represents 5.1% of total School Department expenditures of \$39,105,931. The School Department's fund balance increased by \$572,130 during the fiscal year ended June 30, 2012. The excess of revenue over expenditures is primarily due to the receipt of \$964,288 in Federal Impact Aid Basic Support payments from prior years during the fiscal year.

Proprietary funds. The Town's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Sewer Fund at June 30, 2012 amounted to \$5,082,547, of which a deficit balance of \$3,508,074 is unrestricted. Parks and Recreation Fund net assets amounted to \$3,895,356, of which \$12,042 is unrestricted. Refuse and Recycle Fund net assets amounted to \$265,166, of which \$16,063 is unrestricted. The total growth (reduction) in net assets for each of the three funds was \$1,219,665, (\$35,280) and (\$97,029), respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY 2012 revenues totaled approximately \$820,000, primarily due to increases in Property Tax and Penalty revenue, Permit and Grant revenue, Hotel and Meals Tax revenue and Intergovernmental revenue related to FEMA reimbursement for Hurricane Irene. Further, there was an overall increase in budgeted expenditures of approximately \$730,000. Major items contributing to the increased expenditures are as follows:

- \$343,000 increase in Grant expenditures for the Assistance to Firefighter's Grant purchase of fire department portable radios and dispatch console equipment, the Energy Efficient Conservation Block Grant (EECBG) expenditures for Town Hall and Library HVAC improvements and for other federal restricted expenditures related to Hurricane Irene reimbursed through FEMA.
- \$273,000 increase in General Government primarily to fund legal services related to labor negotiations and special litigation, for technology upgrades, and to fund a land evidence indexing project.
- \$653,000 increase in Other expenditures to fund tax settlement expenditures as a result of the execution of a 10-year Tax Agreement with the City of Newport for real property located in Middletown used for public water and drinking supplies, for severance paid out for retirements during the fiscal year, and for a reallocation of net contingent expense reductions to other departments.
- \$406,000 net decrease in Capital expenditures due to the deferral of Town Hall restroom facility renovations, and the purchase of Fire and DPW vehicles not expected to be purchased until the next fiscal year, coupled with increases to fund infrastructure improvements to the Aquidneck Corporate Park and drainage and culvert improvements town-wide.

Differences between expenditures actually incurred and those budgeted totaled approximately \$148,000.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$73,476,665 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total increase in the Town's investment in capital assets for the current fiscal year was \$2,619,612 (3.7%), of which \$1,733,769 increased for governmental activities and \$885,843 increased for business-type activities.

Capital Asset and Debt Administration (Continued)

Capital assets (continued). Major capital asset events during FY 2012 included the following:

- Residential street upgrades and improvements encompassing sewer lines, drainage, and road re-pavement
- Town-wide catch basin and storm drain improvement and reconstruction, and culvert replacements
- District-wide wireless networking infrastructure upgrades and the purchase of computers, monitors, projectors, audio visual and technical equipment to upgrade school district computer labs and classrooms
- Purchase of various public safety vehicles, including twin ambulances, a ladder truck, a pumper truck, a police cruiser, two police motorcycles, and two SUVs.
- Upgrades to the HVAC system and controls at Town Hall
- Upgrades to the Library HVAC system, and front entrance renovations
- Purchase of various equipment, including radio and dispatch console equipment, redundant radio equipment, and defibrillators for the fire department, and a backhoe loader, front mower with cab, and floor care machines at the school department
- Upgrades to beach parking areas to include guide rails and solar lights, and the purchase of bleachers for the Berkeley Peckham field

Town of Middletown's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 7,292,536	\$ 7,292,536	\$ 2,779,046	\$ 2,779,046	\$ 10,071,582	\$ 10,071,582
Buildings and improvements	16,873,432	17,361,531	234,956	248,864	17,108,388	17,610,395
Land improvements	3,429,735	3,635,815	801,464	822,067	4,231,199	4,457,882
Furniture and equipment	2,670,753	2,195,105	1,560,151	1,666,695	4,230,904	3,861,800
Infrastructure	15,861,065	15,076,722	15,854,192	15,924,555	31,715,257	31,001,277
Construction in progress	2,685,620	1,678,250	1,583,578	477,069	4,269,198	2,155,319
Library books	52,663	45,509			52,663	45,509
Motor vehicles	1,684,616	1,531,183	112,858	122,106	1,797,474	1,653,289
Total	\$ 50,550,420	\$ 48,816,651	\$ 22,926,245	\$ 22,040,402	\$ 73,476,665	\$ 70,857,053

The Town's active construction projects as of June 30, 2012 include catch basin retrofit, Esplanade drainage improvements, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2012 total approximately \$2,782,000. The commitments for the Esplanade drainage improvements and road and drainage projects are funded primarily through the Capital Projects fund; the residential street paving project is funded primarily through the capital improvement program. The commitments for sanitary sewer upgrades will be funded through Sewer Fund operations and the 2012 Rhode Island Clean Water Finance Agency revenue bond.

Additional information on the Town's capital assets can be found in Notes 5 and 12 on pages 45-48 and 75-76, respectively, of this report.

Long-term debt

At June 30, 2012, the Town had total bonded debt outstanding of \$19,625,000, entirely backed by the full faith and credit of the Town. In addition, the Town has \$10,203,207 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$2,360,146. The repayment of capital leases is incumbent upon the appropriation of current financial resources to make annual lease payments. The Town fully expects to appropriate future financial resources for annual lease payments.

Town of Middletown's Outstanding Debt General Obligation Bonds, Loans Payable, and Capital Leases

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$19,625,000	\$21,195,000			\$19,625,000	\$21,195,000
Loans payable	600,000	650,000	\$10,203,207	\$10,898,433	10,803,207	11,548,433
Capital leases	2,360,146	1,537,631			2,360,146	1,537,631
Total	\$22,585,146	\$23,382,631	\$10,203,207	\$10,898,433	\$32,788,353	\$34,281,064

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2011 was \$2,684,135,516, limiting the amount of non-excepted general obligation bonds outstanding to \$80,524,065. At June 30, 2012, bonds outstanding totaled \$19,625,000, or .73% of assessed property value.

Additional information on the Town's long-term debt can be found in Note 6 on pages 49 to 56 of this report.

Economic Factors

The Town enjoys a favorable economic environment and local indicators point to relative stability. As early as 1743, regional economic demand factors encouraged the agricultural sector to develop. Neighboring Newport provided a viable marketplace for the Town's agricultural commodities. Wealthy merchants from Newport also viewed the Town as a desirable place to live. Its prominence as a desirable residential community was second only to its function as a regional agricultural supplier.

Although changes in land use and economic activity occurred, for the most part the Town maintained its rural character well into the 20th Century. The most dramatic change occurred with the onset of World War II when the Navy purchased over 300 acres of waterfront property. This farmland was rapidly converted to Naval support facilities and housing. The infusion of Naval personnel, along with the associated development impacts, increased the regional population by nearly 900 percent from 1940 to 1970 and created a new economic sector within the Town and region. Historical economic linkages were changed by the addition of new consumer needs which were based upon the Navy's presence. The Town's present economy reflects diversity of activity, but with a significant sector devoted to industries associated with defense-related activities. The Town also benefits from the important local tourism economy based on visitors to Newport and Aquidneck Island. The Town includes a large percentage of Aquidneck Island's lodging businesses, including hotels, inns and bed and breakfasts, as well as restaurants and other service and retail businesses.

Economic Factors (Continued)

The Town had a 2010 U.S. Census Bureau population of 16,150. The Town is located in Newport County approximately 30 miles southeast of Providence and is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north. As of September 2012, Middletown had an employed labor force of approximately 8,034 and an unemployment rate of approximately 7.9% (not seasonally adjusted). The Town limits extend over an area of 14.7 square miles, including a land area of 12.9 square miles and an inland water area of 1.8 square miles.

Routes 138 and 114 are major highways connecting the Town to Interstate 195, Interstate 95, State Route 24 and the entire northeast corridor. Air transportation is available at the Newport State Air Park, located in Middletown, which provides charter air service to all major airports in New England and New York.

The State of Rhode Island's (the State) major airport facility, T.F. Green Airport, is located in the City of Warwick, approximately 30 miles from the Town, and offers scheduled service by several national and regional carriers. Boston's Logan International Airport is located approximately 70 miles to the north. Nationwide intercity rail passenger service is offered through AMTRAK with its stations in Providence and Kingston, RI. Regional commuter rail service to Boston and eastern Massachusetts is provided by the Massachusetts Bay Transportation Authority (MBTA). The MBTA currently provides service from Providence Station, T.F. Green Airport in Warwick, and Wickford Junction in North Kingstown. Future expanded service is expected to serve Fall River and New Bedford, MA. Middletown is also served with scheduled bus service by the Rhode Island Public Transit Authority (RIPTA) and its statewide system, as well as Peter Pan Bus Lines, which provides service to Providence, Boston and New York City. Freight transportation is provided by local and long distance trucking firms. Railroad freight service is available on the mainland. The nearby Port of Providence provides the Town with excellent shipping facilities.

The U.S. Navy remains the most significant public sector employer on Aquidneck Island and still contributes significant employment opportunities in the area. The 1995 and 2005 Base Realignment and Closure Commission's (BRAC) recommendations firmly established Naval Station Newport as the nation's leading naval educational center, with a net gain of 500 positions as a result of the 2005 BRAC. The Naval Education and Training Center (NETC) currently contains twelve formal schools, including the Naval War College and the Naval Justice School, and hosts a variety of other training and planning activities and groups. The 1995 BRAC also established the Naval Undersea Warfare Center (NUWC) as the Navy's main facility for development, testing and evaluation, engineering and fleet support center for submarines, autonomous underwater systems, undersea offensive and defensive weapon systems, and countermeasures associated with undersea warfare.

The Town continues to share in a large proportion of the retail business conducted on Aquidneck Island. Since developable land is available, the Town has become the commercial core of the Island. Presently, there are five large shopping centers and six other significant retail areas in the Town.

The services industries group, including businesses related to the local tourism industry, has been the fastest growing private employment sector in the private sector. Several new hotels and restaurants have been approved for development in recent years, and Middletown will now rival Newport for the number of available hotel rooms. Wholesale and retail trade was the second largest private employer group.

Economic Factors (Continued)

Because of the Town's proximity to Naval Station Newport, as well as its large supply of office space, it has become the center for many of the contract services companies supporting the Naval Undersea Warfare Center and other naval activities. Aquidneck Island has the highest concentration of defense-related companies in the State, including the Raytheon facility located in Portsmouth. Middletown is also host to other high tech and financial services companies. Overall, the light industry and office businesses that have come to the Town have had a positive effect on the economy of the Town and Aquidneck Island.

As a result of the current national economic climate, including limitations on lending, new commercial development in Middletown has been limited in recent years. However, interest in redevelopment and expansion of existing commercial properties continues. Of note, two recently closed auto dealerships have been renovated and reoccupied; one property will continue as an auto dealership under a different brand, with the other property being redeveloped for general retail use. Development of a new 92-room hotel which recently received planning and zoning approvals is underway, as well as expansion of the winery facility at Newport Vineyards. As the economy improves, it is anticipated that new office development will also continue. A new office building to house a local nonprofit organization was constructed during 2009 in the Aquidneck Corporate Park (the Park). The corporate headquarters of Bank Newport will also be located in the park in renovated office/industrial space. The bank will consolidate all of its back-office operations at this location. Additional expansion and rehabilitation of existing buildings in the Park is also expected due to low vacancy rates and expected growth of defense contractors. A proposed redevelopment of an existing motel property, abutting the Park, into a resort and conference facility including several hundred hotel rooms is also anticipated.

Residential development has also slowed in comparison to pre-2008 conditions; however permitting activity is starting to increase. Construction of a 60-unit condominium development for residents age 55 and over continues. The Town is currently considering a proposal for a 14-lot single-family subdivision, and an application for a new 12-lot subdivision is anticipated. Over the past year, building permit activity has begun to rebound.

The U.S. Navy has declared 225 acres of Naval Station Newport land on Aquidneck Island surplus and available for reuse. Parcels include the former Navy Hospital in Newport; the former Navy Lodge parcel and Midway Pier in Middletown; tank farms 1 & 2 in Portsmouth; and portions of Defense Highway (Burma Rd.) in Middletown and Portsmouth. The Department of Defense recognized the Aquidneck Island Reuse Planning Authority (AIRPA) as the local redevelopment authority with the responsibility to produce and submit a reuse plan for all surplus land. The three communities have individually worked to develop reuse plans for the parcels within their jurisdictions. These plans were provided to AIRPA which compiled the single, unified reuse plan that was submitted to HUD and the Navy for approval in August 2011. A new implementing authority, the Aquidneck Island Reuse Implementation Authority (AIRIA) was recently established to replace AIRPA, and represent the three municipalities in the ongoing work toward conveyance of the properties. This work includes a more in-depth evaluation of infrastructure and other potential constraints to development, and additional market analysis. The information gained from this work will be used by AIRIA to reevaluate the redevelopment alternatives included in the redevelopment plan, and assist with discussions with the Navy to make final selection of the appropriate conveyance mechanism(s) for each of the parcels.

Subsequent Events

Litigation:

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called “citizen suit” provisions of the federal Clean Water Act. The complaint alleges that the Town’s sanitary sewer and storm-water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizen’s groups seek injunctive relief requiring the Town to cease violation, to remedy the effects of past violations, and to pay appropriate civil penalties and reasonable attorney fees as authorized under the Clean Water Act. The Town believed that a reasonable out-of-court settlement could be reached and vigorously contested the allegations in the complaint. On March 24, 2010, the Town and Environment Rhode Island settled the matter by entering into a Consent Decree and Order that includes specific requirements and milestones for the Town to evaluate potential alternatives and implement optimal alternatives to address the Town’s storm-water and wastewater discharges. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and storm-water discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town’s sewer system. The final report issued in October 2011 recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway, with all investigations completed and one inflow investigation program study due in December 2012. Program recommendations are included in the Town’s Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011; as of June 30, 2012, the remaining cost is estimated at \$7.7 million, which has been recorded as a long-term liability of the sewer fund.

In regard to the storm-water system, the projects evaluated were: Project (1) - construction of a gravel wetland to manage storm-water for the Newport Avenue catchment area; and Project (2) - redirection of Esplanade Outfall 1 to Esplanade Outfall 2. Project (1) was deemed not feasible; instead, the Town will perform other measures in the watershed to help mitigate storm-water runoff pollution, although this is not required by the consent decree.

The Town awarded the construction contract Project (2) in August 2011, in the amount of \$3,269,000, and construction commenced soon thereafter. This project involves installation of an outfall diffuser pipe into the Atlantic Ocean. Soon after the first section of pipe was placed on the ocean floor, the Town’s contractor, CB Utility Co. Inc. (CBUC) discovered that the pipe moved after installation. On April 13, 2012, CBUC halted construction pending investigation by the Town’s Engineer and Construction Manger, Woodward & Curran (W&C). W&C has acknowledged liability for the defective design and has taken steps to remediate it, they have also developed a re-design of the Esplanade Drainage project that CBUC, and its engineers, confirm is constructible. During the period of re-design, CBUC claimed they could not progress on the project and have asserted against the Town a delay claim for extended performance costs and work performed to install the diffuser pipe in excess of \$400,000.

Subsequent Events (Continued)

Litigation (continued):

On August 1, 2012, CBUC was given a limited notice to proceed with remediation of the causeway, blasting and trench excavation through Change Order Number 4. A dispute has arisen as to the amount of compensation for the work required to rehabilitate the causeway. The Town understands that causeway remediation costs will be a charge against W&C as an activity required because of the necessary re-design and delay. Mediation occurred on December 3, 2012 regarding CBUC's delay and causeway repair claims, which resulted in a settlement by CBUC in favor of the Town.

Negotiations are also ongoing regarding contract amendments for the cost to complete the work of the Project in accordance with the re-design and the credit for work not performed under the original design. Those negotiations are ongoing between the Town, W&C, and CBUC. At present, the estimated cost for the contract amendment is \$2,000,000. There are unresolved issues regarding additional amounts owed by W&C to the Town as a result of the design errors. There is a possibility of litigation between the Town and W&C if these issues are not resolved. It is too early to further define the scope of issues and potential liability involved in such litigation at this time.

The estimated remainder of the Project cost of \$3,600,000 has been recorded as a long-term liability in the government-wide financial statements.

Project costs will be funded by bond proceeds, the capital improvement program and unassigned fund balance as needed.

Construction commitments:

Subsequent to year-end, the Town executed four construction contracts totaling \$1,220,125. The first contract, awarded to D'Ambra Construction Company in the amount of \$142,742, relates to the pavement of Crest Street. The second contract, awarded to T. Miozzi, Inc. in the amount of \$282,089, relates to the pavement of Berkeley Avenue to be paid out of the Roadway Investment-Local Equity Aid Program (State Funds). The third contract was awarded to C.B. Utility Co., Inc., in the amount of \$710,197, for sewer improvements on Aquidneck Avenue; this contract will be paid from the Sewer Fund. The fourth contract was awarded to James J. Geremia & Associates, in the amount of \$85,097, relating to the construction administration for the sewer improvements on Aquidneck Avenue. The contract is to be paid from the Sewer Fund.

Pension and OPEB Trust funds:

The fair value of the Town's pension investment account as of October 31, 2012 is \$42,749,341, which represents a 3.9% increase in value since June 30, 2012. The fair value of the Town's OPEB investment account as of October 31, 2012 is \$3,730,050, which represents a 2.0% increase in value since June 30, 2012. The Town is reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Requests for Information

This financial report is designed to provide a general overview of the Town of Middletown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 350 East Main Road, Middletown, RI 02842.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 12,838,944	\$ 5,700,320	\$ 18,539,264
Investments	2,342,708		2,342,708
Accounts receivable, less allowance for doubtful accounts of \$415,526			
Property taxes	1,175,367		1,175,367
Federal and state government	1,274,035		1,274,035
Assessments and user fees		455,154	455,154
Loans	100,000		100,000
Other	1,186,732	8,286	1,195,018
Inventory		29,511	29,511
Prepaid expenses	16,871		16,871
Internal balances	1,452,097	(1,452,097)	-
Pension asset	1,060,438		1,060,438
Noncurrent assessments and user fees		605,226	605,226
Deferred charges	132,076	184,078	316,154
Capital assets not being depreciated	9,978,156	4,362,624	14,340,780
Capital assets being depreciated, net	40,572,264	18,563,621	59,135,885
	<u>72,129,688</u>	<u>28,456,723</u>	<u>100,586,411</u>
Total assets			
LIABILITIES:			
Accounts payable and accrued expenses	2,397,454	1,337,690	3,735,144
Unearned revenue	24,027		24,027
OPEB liability	444,496		444,496
Long-term obligations:			
Due within one year	3,935,591	862,473	4,798,064
Due in more than one year	25,900,648	17,013,491	42,914,139
	<u>32,702,216</u>	<u>19,213,654</u>	<u>51,915,870</u>
Total liabilities			
Commitments and contingencies (Notes 11 and 12)			
NET ASSETS:			
Invested in capital assets, net of related debt	27,157,090	12,723,038	39,880,128
Restricted for:			
Prepaid items	16,871		16,871
Long-term loans receivable	100,000		100,000
Perpetual care	125,650		125,650
Principal of endowments	58,608		58,608
Stormwater management	1,722,544		1,722,544
Construction projects	433,869		433,869
Grants	467,274		467,274
Other purposes, nonexpendable	615,942		615,942
Unrestricted	8,729,624	(3,479,969)	5,249,655
	<u>39,427,472</u>	<u>9,243,069</u>	<u>48,670,541</u>
Total net assets			

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,844,946	\$ 656,386	\$ 454,613	\$ 85,099	\$ (2,648,848)		\$ (2,648,848)
Public safety	12,828,485	2,000,047	51,744	185,901	(10,590,793)		(10,590,793)
Public works and sanitation	6,382,000	13,320	9,995	71,211	(6,287,474)		(6,287,474)
Planning and inspection	548,445	430,589			(117,856)		(117,856)
Library	769,111	17,182	193,176		(558,753)		(558,753)
Education	39,290,202	873,715	15,502,259		(22,914,228)		(22,914,228)
Community services	578,144		84,241		(493,903)		(493,903)
Interest on long-term debt	877,327				(877,327)		(877,327)
Total governmental activities	65,118,660	3,991,239	16,296,028	342,211	(44,489,182)		(44,489,182)
Business-type activities:							
Sewer	3,879,379	5,095,461				\$ 1,216,082	1,216,082
Parks and recreation	1,676,250	1,593,798				(82,452)	(82,452)
Refuse and recycle	1,161,821	1,026,866				(134,955)	(134,955)
Total business-type activities	6,717,450	7,716,125				998,675	998,675
Total	\$ 71,836,110	\$ 11,707,364	\$ 16,296,028	\$ 342,211	(44,489,182)	998,675	(43,490,507)
General revenues:							
Property taxes					41,664,045		41,664,045
Grants and contributions not restricted to specific programs					1,553,605		1,553,605
Investment earnings					18,790	3,771	22,561
Miscellaneous					152,284		152,284
Transfers					(84,910)	84,910	-
Total general revenues and transfers					43,303,814	88,681	43,392,495
Change in net assets					(1,185,368)	1,087,356	(98,012)
Net assets, beginning of year					40,612,840	8,155,713	48,768,553
Net assets, end of year					\$ 39,427,472	\$ 9,243,069	\$ 48,670,541

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,936,614	\$ 1,852,588	\$ 1,049,742	\$ 12,838,944
Investments	2,228,278		114,430	2,342,708
Accounts receivable, less allowance for doubtful accounts of \$415,526:				
Property taxes	1,175,367			1,175,367
Federal and state government	527,208	746,827		1,274,035
Loans			100,000	100,000
Other	233,727	953,005		1,186,732
Prepaid expenses	16,871			16,871
Due from other funds	434,511	234,003	3,828,599	4,497,113
Total assets	\$ 14,552,576	\$ 3,786,423	\$ 5,092,771	\$ 23,431,770
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 798,331	\$ 586,433	\$ 320,891	\$ 1,705,655
Accrued compensated absences	58,131	35,912		94,043
Due to other funds	3,295,199		121,867	3,417,066
Deferred revenue	712,899	30,102	21,462	764,463
Total liabilities	4,864,560	652,447	464,220	5,981,227
Fund balances:				
Nonspendable:				
Prepaid items	16,871			16,871
Long-term loans receivable			100,000	100,000
Perpetual care			125,650	125,650
Principal of endowments			58,608	58,608
Restricted for:				
Stormwater management	122,559		1,599,985	1,722,544
Construction projects			433,869	433,869
Grants		424,110	43,164	467,274
Committed to:				
West Main Road development	3,000,000			3,000,000
Special education		756,635		756,635
Capital improvements	1,301,039			1,301,039
Assigned	169,977	2,008,426	2,272,996	4,451,399
Unassigned	5,077,570	(55,195)	(5,721)	5,016,654
Total fund balances	9,688,016	3,133,976	4,628,551	17,450,543
Total liabilities and fund balances	\$ 14,552,576	\$ 3,786,423	\$ 5,092,771	\$ 23,431,770

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total fund balances for governmental funds		\$	17,450,543
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	50,550,420	
Pension asset		1,060,438	
Deferred charges		<u>132,076</u>	51,742,934
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds.			
			740,436
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
OPEB liability		(444,496)	
Bonds payable		(19,726,310)	
Loans payable		(600,000)	
Capital leases		(2,360,146)	
Claims and judgments		(3,767,910)	
Deferred revenue		(838,950)	
Compensated absences payable		(2,542,923)	
Accrued interest		<u>(225,706)</u>	<u>(30,506,441)</u>
Net assets of governmental activities		\$	<u><u>39,427,472</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2012

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 41,835,031			\$ 41,835,031
Intergovernmental	2,648,142	\$ 13,942,476	\$ 1,093,674	17,684,292
Licenses, permits and fees	1,418,735	765,442		2,184,177
Interest and investment income	11,754		7,036	18,790
State contribution to teachers' pension plan		1,607,357		1,607,357
Other revenues	888,368	108,273	237,626	1,234,267
Total revenues	46,802,030	16,423,548	1,338,336	64,563,914
Expenditures:				
Current:				
General government	2,900,965			2,900,965
Public safety	8,505,253			8,505,253
Public works	1,541,983		2,141,178	3,683,161
Planning and inspection	524,191			524,191
Library	701,741			701,741
Education		39,105,931		39,105,931
Community services	319,421		70,666	390,087
Other expenditures	5,238,034			5,238,034
Grants	546,197			546,197
Capital outlay	2,813,135		841,383	3,654,518
Debt service:				
Debt issuance and fees	1,700			1,700
Principal	2,147,185			2,147,185
Interest	890,657			890,657
Total expenditures	26,130,462	39,105,931	3,053,227	68,289,620
Excess (deficiency) of revenues over expenditures	20,671,568	(22,682,383)	(1,714,891)	(3,725,706)
Other financing sources (uses):				
Capital lease proceeds	1,349,700			1,349,700
Transfers from other funds	1,009,076	23,254,513	27,430	24,291,019
Transfers to other funds	(23,339,538)		(1,036,391)	(24,375,929)
Total other financing sources (uses)	(20,980,762)	23,254,513	(1,008,961)	1,264,790
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(309,194)	572,130	(2,723,852)	(2,460,916)
Fund balance, beginning of year	9,997,210	2,561,846	7,352,403	19,911,459
Fund balance, end of year	<u>\$ 9,688,016</u>	<u>\$ 3,133,976</u>	<u>\$ 4,628,551</u>	<u>\$ 17,450,543</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Net change in fund balances for governmental funds		\$ (2,460,916)
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 4,296,585	
Depreciation expense	<u>(2,562,816)</u>	1,733,769
<p>Governmental funds report bond issuance costs as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.</p>		
		(14,973)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
		(258,236)
<p>OPEB obligation is recorded in the statement of activities, but not in the governmental funds</p>		
		228,936
<p>Pension asset is recorded in the statement of activities, but not in the governmental funds</p>		
		(516,412)
<p>The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Bond premiums and refunding charges are deferred and amortized as part of future interest expense.</p>		
Principal repayment on long-term debt	2,147,185	
Issuance of capital lease	(1,349,700)	
Amortization of:		
Deferred charge on refunding	(29,335)	
Bond premiums	<u>24,488</u>	792,638
<p>Some expenditures not requiring the use of current financial resources in governmental funds are accrued in the statement of activities:</p>		
Claims and judgments	(434,238)	
Deferred revenue	49,350	
Accrued compensated absences	<u>(325,163)</u>	(710,051)
<p>Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds</p>		
		<u>19,877</u>
Change in net assets of governmental activities		<u><u>\$ (1,185,368)</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2012

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 5,235,325	\$ 419,185	\$ 45,810	\$ 5,700,320
Accounts receivable:				
Assessments and user fees	379,186		75,968	455,154
Other		8,286		8,286
Inventory			29,511	29,511
Due from other funds	711,403		1,161	712,564
	<u>6,325,914</u>	<u>427,471</u>	<u>152,450</u>	<u>6,905,835</u>
Total current assets				
Noncurrent assets:				
Assessments and user fees receivable, less current portion	605,226			605,226
Deferred charges, net	184,078			184,078
Capital assets not being depreciated	1,770,416	2,592,208		4,362,624
Capital assets being depreciated, net	17,023,412	1,291,106	249,103	18,563,621
	<u>25,909,046</u>	<u>4,310,785</u>	<u>401,553</u>	<u>30,621,384</u>
Total assets				
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	1,071,507	135,543	86,677	1,293,727
Due to other funds	1,852,017	266,196	46,448	2,164,661
Accrued compensated absences	27,011	13,690	3,262	43,963
Current portion of loans payable	862,473			862,473
	<u>3,813,008</u>	<u>415,429</u>	<u>136,387</u>	<u>4,364,824</u>
Total current liabilities				
Noncurrent liabilities, loans payable, net of current portion				
	<u>17,013,491</u>			<u>17,013,491</u>
Total liabilities				
	<u>20,826,499</u>	<u>415,429</u>	<u>136,387</u>	<u>21,378,315</u>
NET ASSETS:				
Invested in capital assets, net of related debt	8,590,621	3,883,314	249,103	12,723,038
Unrestricted	(3,508,074)	12,042	16,063	(3,479,969)
	<u>\$ 5,082,547</u>	<u>\$ 3,895,356</u>	<u>\$ 265,166</u>	<u>\$ 9,243,069</u>
Total net assets				

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
ENTERPRISE FUNDS

YEAR ENDED JUNE 30, 2012

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 5,059,708		\$ 993,384	\$ 6,053,092
Beach admittance and rental fees		\$ 1,370,650		1,370,650
Campground admittance and rental fees		181,473		181,473
Other revenues	35,753	41,675	33,482	110,910
Total operating revenues	<u>5,095,461</u>	<u>1,593,798</u>	<u>1,026,866</u>	<u>7,716,125</u>
Operating expenses:				
Salaries and benefits	645,551		66,778	712,329
Materials and supplies	34,585		1,136	35,721
Professional services	621,927		994,265	1,616,192
Repairs and maintenance	418,697			418,697
Utilities	141,303			141,303
Sewage disposal	1,106,192			1,106,192
Beaches		815,913		815,913
Lifeguards		244,492		244,492
Harbormaster		35,398		35,398
Security		30,248		30,248
Campground		34,531		34,531
Recreation		64,849		64,849
Parks and grounds		195,576		195,576
Civic appropriations		49,550		49,550
Miscellaneous	51,129	84,732		135,861
Depreciation	648,620	120,961	99,642	869,223
Total operating expenses	<u>3,668,004</u>	<u>1,676,250</u>	<u>1,161,821</u>	<u>6,506,075</u>
Operating income (loss)	<u>1,427,457</u>	<u>(82,452)</u>	<u>(134,955)</u>	<u>1,210,050</u>
Nonoperating revenues (expenses):				
Interest revenue	3,583	70	118	3,771
Interest expense	(194,842)			(194,842)
Amortization of bond issuance costs	(16,533)			(16,533)
Total nonoperating revenues (expenses)	<u>(207,792)</u>	<u>70</u>	<u>118</u>	<u>(207,604)</u>
Income (loss) before transfers	1,219,665	(82,382)	(134,837)	1,002,446
Transfers to other funds		(15,000)		(15,000)
Transfers from other funds		62,102	37,808	99,910
Change in net assets	1,219,665	(35,280)	(97,029)	1,087,356
Net assets, beginning of year	<u>3,862,882</u>	<u>3,930,636</u>	<u>362,195</u>	<u>8,155,713</u>
Net assets, end of year	<u>\$ 5,082,547</u>	<u>\$ 3,895,356</u>	<u>\$ 265,166</u>	<u>\$ 9,243,069</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycle Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 5,255,734	\$ 1,602,178	\$ 995,365	\$ 7,853,277
Cash received from other sources	35,753	9,555	33,482	78,790
Cash paid to employees	(644,745)	(936,478)	(65,195)	(1,646,418)
Cash paid to suppliers	(1,987,854)	(521,473)	(1,022,541)	(3,531,868)
Cash paid to civic groups		(49,550)		(49,550)
Net cash provided by (used in) operating activities	<u>2,658,888</u>	<u>104,232</u>	<u>(58,889)</u>	<u>2,704,231</u>
Cash flows from noncapital financing activities:				
Interfund balances	1,970,128	(245,695)	42,433	1,766,866
Environmental remediation	(727,243)		37,808	(689,435)
Net cash provided by (used in) noncapital financing activities	<u>1,242,885</u>	<u>(245,695)</u>	<u>80,241</u>	<u>1,077,431</u>
Cash flows from capital and related financing activities:				
Transfers from other funds		62,102		62,102
Capital contributions	74,328			74,328
Acquisition and construction of fixed assets	(1,268,398)	(130,149)		(1,398,547)
Principal paid on bonds and notes	(860,226)			(860,226)
Interest paid on bonds and notes	(200,441)			(200,441)
Net cash used in capital and related financing activities	<u>(2,254,737)</u>	<u>(68,047)</u>	<u>-</u>	<u>(2,322,784)</u>
Cash provided by investing activities, interest received	<u>3,583</u>	<u>70</u>	<u>118</u>	<u>3,771</u>
Net increase (decrease) in cash and cash equivalents	1,650,619	(209,440)	21,470	1,462,649
Cash and cash equivalents, beginning of year	<u>3,584,706</u>	<u>628,625</u>	<u>24,340</u>	<u>4,237,671</u>
Cash and cash equivalents, end of year	<u>\$ 5,235,325</u>	<u>\$ 419,185</u>	<u>\$ 45,810</u>	<u>\$ 5,700,320</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Recycle and Refuse Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,427,457	\$ (82,452)	\$ (134,955)	\$ 1,210,050
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	648,620	120,961	99,642	869,223
Changes in assets and liabilities:				
Increase in:				
Inventory			(29,511)	(29,511)
Accounts payable and accrued expenses	385,979	46,082	2,449	434,510
Accrued compensated absences	806	1,706	1,505	4,017
Decrease in accounts receivable, other	196,026	17,935	1,981	215,942
Net cash provided by (used in) operating activities	<u>\$ 2,658,888</u>	<u>\$ 104,232</u>	<u>\$ (58,889)</u>	<u>\$ 2,704,231</u>
Supplemental disclosures, noncash capital and related financing activities:				
Acquisition and construction of fixed assets paid from loan proceeds held by State of Rhode Island	<u>\$ 150,000</u>			<u>\$ 150,000</u>
Deferred charges paid from loan proceeds held by State of Rhode Island	<u>15,000</u>			<u>15,000</u>
Total noncash capital and related financing activities	<u>\$ 165,000</u>			<u>\$ 165,000</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2012

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund	Agency Funds
ASSETS:				
Cash and cash equivalents				\$ 254,340
Investments:				135,247
Mutual funds	\$ 26,314,047	\$ 1,116,066		
Group annuity	13,757,465			
Money market funds	1,088,044	2,541,887		
Receivables	7,750			
Due from other funds	<u>261,973</u>	<u>39,291</u>	\$ 25,657	<u>45,129</u>
Total assets	<u>41,429,279</u>	<u>3,697,244</u>	<u>25,657</u>	<u>\$ 434,716</u>
LIABILITIES:				
Deposits held in custody for others				<u>\$ 434,716</u>
NET ASSETS:				
Held in trust for pension benefits and other purposes	<u>\$ 41,429,279</u>	<u>\$ 3,697,244</u>	<u>\$ 25,657</u>	

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund
Additions to net assets:			
Contributions:			
Employer	\$ 2,873,858	\$ 2,216,771	
Plan members	139,005	20,948	
Other revenue	7,750		
	<u>3,020,613</u>	<u>2,237,719</u>	
Investment income, net:			
Interest income	1,267,434	27,903	\$ 4
Net appreciation (depreciation) in fair value of investments	<u>(794,571)</u>	<u>7,363</u>	
	<u>472,863</u>	<u>35,266</u>	<u>4</u>
Total additions	<u>3,493,476</u>	<u>2,272,985</u>	<u>4</u>
Deductions from net assets:			
Benefits	4,231,584	1,889,876	
Administrative expense	246,345	24,176	
Scholarships			5,000
Total deductions	<u>4,477,929</u>	<u>1,914,052</u>	<u>5,000</u>
Change in net assets	(984,453)	358,933	(4,996)
Net assets, beginning of year	<u>42,413,732</u>	<u>3,338,311</u>	<u>30,653</u>
Net assets, end of year	<u>\$ 41,429,279</u>	<u>\$ 3,697,244</u>	<u>\$ 25,657</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies:

The basic financial statements of the Town of Middletown, Rhode Island (the Town) have been prepared in conformity with accounting principles generally accepted in the United States applicable to governmental entities (U.S. GAAP). In certain instances, summaries of the Town's significant accounting policies have been presented throughout the notes to the basic financial statements in conjunction with other disclosures to which they relate.

Financial reporting entity:

The Town was established in 1639 and incorporated in 1743. It is governed under a home rule charter adopted in 1968, which provides for a Town Council/Town Administrator form of government. Legislative authority is vested in a seven-member Town Council elected to biennial terms. A five-member School Committee is vested with autonomous legislative authority over the Town's public school system. Members of the School Committee are elected to four-year terms.

The council-appointed Town Administrator serves as chief administrative agent over all municipal services including public safety (police, fire and traffic safety), public works (highway, harbors, maintenance, and sanitation), social services, parks and recreation, planning, zoning and inspection, and general administrative services. The Superintendent of Schools, appointed by the School Committee, serves as the chief administrative agent for the School Department, which provides elementary and secondary education to Town residents.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Town applied the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Town has identified no component units through the application of GASB Statement No. 14 criteria.

Basis of presentation:

Government-wide financial statements:

The statement of net assets and statement of activities display information about the Town as a whole and distinguish between governmental and business-type activities. They include all funds of the Town except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Government-wide financial statements (continued):

The statement of activities presents a comparison between expenses and program revenue for each function of the Town's governmental activities. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements:

Fund financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

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

All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Fund types used by the Town and a description of the funds comprising each are as follows:

Governmental funds:

Governmental funds are used to account for operations that supply basic government services. The Town uses the following governmental funds:

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Governmental funds (continued):

General Fund:

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for and report 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 specific purposes other than debt service or capital projects. The Town's major special revenue fund is the School Department, which provides primary education to the Town's children.

Capital projects funds:

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned for the acquisition or construction of specific capital projects or items. The Town's Capital Project Fund is a nonmajor fund.

Permanent funds:

Permanent funds account for and report assets held by the Town where the principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Town's permanent funds are all nonmajor funds.

Proprietary funds:

Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Of the Town's three enterprise funds, the Sewer Fund and the Parks and Recreation Fund are major funds. The Town has no internal service funds.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Fiduciary funds:

Fiduciary funds are used to report assets held by the Town in a trustee or agency capacity and, therefore, cannot be used to support the Town's own programs. The following fiduciary funds are used by the Town:

Pension trusts:

Pension trust funds account for contributions made by the Town and its participating employees to provide retirement benefits to the participating employees.

Other post-employment benefits (OPEB) trust:

The OPEB Trust fund accounts for contributions made by the Town and its participating employees to provide post-employment benefits (health insurance) to participating employees.

Private purpose trust:

The Town's private purpose trust accounts for resources legally held in trust for use by an outside committee to provide awards and scholarships in accordance with a donor's instructions. All resources of the fund, including any earnings on investments, may be used. There is no requirement that any portion of these resources be preserved as capital.

Agency:

Agency funds are established when the Town holds assets in custody for others in an agency capacity.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting:

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available for liquidating liabilities of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days). Revenues not considered to be available are recorded as deferred revenues. Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

Those revenues susceptible to accrual are property taxes, special assessments, federal impact aid, state aid, meals and hotel taxes collected by the State of Rhode Island (the State) on behalf of the Town, interest and charges for services. Fines, licenses and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash; therefore, they are recognized when received.

Recognition of grant revenues is based on the susceptibility of accrual as determined by the legal and contractual requirements established by each grantor. For grants not restrictive as to specific purposes and revocable only for failure to comply with general prescribed requirements, revenues are recognized when actually received. Where expenditure is the prime factor in determining eligibility, grant revenue is recognized as allowable expenditures are made provided they are collected during the year or within 60 days subsequent to year-end. Prior to expenditure, proceeds are recorded as deferred revenues.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund, the Parks and Recreation Fund and the Refuse and Recycle Fund are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Property taxes:

Property taxes are recognized as revenue in the year they are levied and become available. Taxes are levied in August on (a) one hundred percent of the full and fair value of real and tangible personal property owned within the Town the previous December 31; and, (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the Town the previous calendar year, prorated for the actual number of days so registered. Taxes levied in August are payable quarterly on September 10, December 10, March 10 and June 10. Failure to make payments by March 10 will result in a lien on the taxpayer's property.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Property taxes (continued):

For 2012, Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 4.25% over that of the preceding fiscal year. The rate decreases .25% to 4.00% in 2013.

Intergovernmental revenues:

State aid is recognized as revenue in the year in which funds are appropriated by the Rhode Island General Assembly, provided they are collected during the fiscal year.

Use of estimates:

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition.

Under Rhode Island General Law, depository institutions must insure deposits of municipalities or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of date of maturity. The Town complied with these requirements. The Town does not have a deposit policy for custodial credit risk or other risks.

Investments:

Investments are reported at fair value, based on quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income. The State does not have pertinent laws regarding investments that apply to cities and towns. The Town does not have an investment policy for custodial credit risk or other risks other than those relating to its pension trust fund and OPEB trust fund (Managed Funds). The Town's Pension/OPEB Trust Fund Investment Advisory Committee is responsible for the supervision of the investment of the Town's Managed Funds investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Interfund transactions:

Transactions between funds have been eliminated in the government-wide financial statements but fully presented within the governmental fund financial statements with no elimination made between or within funds. Reimbursements are accounted for as expenditures in the reimbursing fund and reductions to expenditures in the reimbursed fund. All other interfund transactions in the governmental fund financial statements are operating transfers on the operating statements of the funds involved.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due from/to other funds" (current portion) or "advances from/to other funds" (noncurrent portion). All other outstanding balances between funds are reported as "due from/to other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Capital assets:

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

Capitalizable fixed assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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 assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Capital assets (continued):

The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Land improvements	15-20
Buildings and improvements	20-40
Furniture and equipment	3-10
Motor vehicles	4-15
Library books	5
Infrastructure	20-50

Capital assets acquired by governmental funds are accounted for as capital outlay expenditures.

Bond issuance costs:

Bond issuance costs for government-wide operations and enterprise funds are deferred and amortized over the terms of the bonds using the straight-line method. In governmental funds, bond issuance costs are recognized as expenditures in the current period.

Compensated absences:

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

In the governmental fund financial statements, vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations (including compensated absences) are reported as liabilities in the statement of net assets. Bond premiums and discounts are deferred and amortized over the term of the related debt using the effective interest method.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Long-term obligations (continued):

In the governmental fund financial statements, long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond premiums are reported as other financing sources while discounts are reported as other financing uses.

Fund equity:

Government-wide financial statements:

Net assets:

The Town's net assets have been segregated into the following three components:

Invested in capital assets, net of related debt – represents the net book value of all capital assets less the outstanding balances of bonds and other debt used to acquire, construct or improve these assets

Restricted – those that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law

Unrestricted – a residual category for the balance of net assets

Governmental fund financial statements:

The Town's fund balance is reported in the following categories:

Nonspendable – amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact

Restricted – amounts that have been restricted to specific purposes either by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Fund equity (continued):

Governmental fund financial statements (continued):

Committed – amounts constrained to specific purposes by the Town, using its highest level of decision-making authority

Commitments will only be used for specific purposes pursuant to a formal action of the Town Council. Town Council Resolution is required to approve, modify, or rescind a fund balance commitment.

Assigned – amounts that are intended by the Town to be used for specific purposes, but are neither restricted nor committed.

The Town Council delegates to the Town Administrator or designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned – amounts available for any purpose

Expenditures may be incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Composition of the ending fund balance will be determined by applying the following: In those instances where both restricted and unrestricted amounts are available, restricted amounts will be considered to have been spent first (as allowed and in compliance with stated and specified terms or requirements), followed by committed amounts, followed by assigned amounts, and then unassigned amounts.

2. Fund balances:

At June 30, 2012, the School's capital improvement fund and the Community Development Block Grant Fund had deficit (negative) fund balances at \$55,195 and \$5,721, respectively. These funds are the only Town funds that had a deficit fund balance.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. Deposits and investments (continued):

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2012 is \$42,749,341, which represents a 3.9% increase in value since June 30, 2012. The market value of the Town's OPEB investment account (Managed Funds) as of October 31, 2012 is \$3,730,050, which represents a 2.0% increase in value since June 30, 2012. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market value interest rates.

Although there is no established policy, the Town manages its exposure to declines in fair values by limiting the term of liquid investments to less than 90 days. It does not hold long-term investments other than those managed by the Pension/OPEB Trust Investment Advisory Committee (Committee).

Managed Funds are subject to interest rate risk. The risk associated with the Managed Funds is mitigated by continuous evaluation of the portfolio's performance by the Finance Director and the Committee. The Committee receives monthly investment performance reports from its investment advisors and meets quarterly to review the reports to determine if market conditions reflect the investment performance policies of the Town.

Credit risk:

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization to debt securities. The group annuity included in Managed Funds is held by an insurance company rated by Moody's as A1.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. Managed Funds reflect a balanced array of investment products with planned diversity consistent with the need for short-term liquidity, as well as long-term deferred obligations.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. Deposits and investments (continued):

As of June 30, 2012, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795 GAC	\$ 13,757,465
T. Rowe Price Equity Income Fund #71	5,521,611
Robeco All Cap Value Instl	4,680,772
T. Rowe Price Blue Chip Growth	4,480,711
Dodge & Cox Intl Stock FD #1048	3,002,050
William Blair SM Midcap CLI #1474	2,645,882
Blackrock GlbAllocFd I	2,289,155
Tweedy Browne Global Value FD #001	2,099,546

As of June 30, 2012, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

Federated Adjustable Rate Sec Instl	\$ 505,772
PIMCO All Asset Instl FD #34	352,201

Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Town does not believe that it has significant custodial credit risk with regard to its investments as substantially all investment securities are registered and held in the name of the Town.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

4. Interfund transactions:

Interfund receivables and payables at June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General fund	Governmental funds:	
	Nonmajor funds	\$ 121,867
	Parks and Recreation	266,196
	Refuse and Recycle	46,448
		<u>434,511</u>
School Department	Governmental funds, General fund	231,703
	Agency funds	2,300
		<u>234,003</u>
Nonmajor governmental funds	Governmental funds, General fund	1,977,743
	Enterprise funds, Sewer fund	1,850,856
		<u>3,828,599</u>
Enterprise funds, Refuse and Recycling fund	Enterprise funds, Sewer fund	1,161
Enterprise funds, Sewer fund	Governmental funds, General fund	711,403
Fiduciary funds, Other Post-Employment Benefit Trust fund	Governmental funds, General fund	39,291
Fiduciary funds, Pension Trust fund	Governmental funds, General fund	261,973
Fiduciary funds, Clarke Scholarship Private Purpose Trust fund	Governmental funds, General fund	25,657
Agency funds	Governmental funds, General fund	47,429
		<u>\$ 5,584,027</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2012 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General fund	Governmental funds, Nonmajor funds	\$ 1,009,076
School Department	Governmental funds, General fund	23,239,513
	Enterprise funds, Parks and Recreation	15,000
		23,254,513
Nonmajor governmental funds	Governmental funds, General fund	27,430
Enterprise funds: Parks and Recreation	Governmental funds, General fund	34,787
	Nonmajor funds	27,315
		62,102
Refuse and Recycle	Governmental funds, General fund	37,808
		\$ 24,390,929

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Capital assets:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,292,536			\$ 7,292,536
Construction in progress:				
Infrastructure	1,450,998	\$ 1,106,550	\$ 1,282,419	1,275,129
Other	227,252	1,410,491	227,252	1,410,491
Total capital assets not being depreciated	8,970,786	2,517,041	1,509,671	9,978,156
Capital assets being depreciated:				
Infrastructure	29,474,901	1,456,756		30,931,657
Land improvements	4,554,419			4,554,419
Buildings and improvements	28,445,157	315,920		28,761,077
Furniture and equipment	4,658,075	991,282		5,649,357
Library books	1,493,013	25,000		1,518,013
Motor vehicles	4,464,966	511,300	361,728	4,614,538
Total capital assets being depreciated	73,090,531	3,300,258	361,728	76,029,061

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

	Beginning balances	Increases	Decreases	Ending balances
5. Capital assets (continued):				
Governmental activities (continued):				
Capital assets being depreciated (continued):				
Less accumulated depreciation for:				
Infrastructure	\$ (14,398,179)	\$ (672,413)		\$ (15,070,592)
Land improvements	(918,604)	(206,080)		(1,124,684)
Buildings and improvements	(11,083,626)	(804,019)		(11,887,645)
Furniture and equipment	(2,462,970)	(515,634)		(2,978,604)
Library books	(1,447,504)	(17,846)		(1,465,350)
Motor vehicles	<u>(2,933,783)</u>	<u>(346,824)</u>	<u>\$ (350,685)</u>	<u>(2,929,922)</u>
Total accumulated depreciation	<u>(33,244,666)</u>	<u>(2,562,816)</u>	<u>(350,685)</u>	<u>(35,456,797)</u>
Total capital assets being depreciated, net	39,845,865	737,442	11,043	40,572,264
Governmental activities capital assets, net	<u>\$ 48,816,651</u>	<u>\$ 3,254,483</u>	<u>\$ 1,520,714</u>	<u>\$ 50,550,420</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,779,046			\$ 2,779,046
Construction in progress	<u>477,069</u>	\$ 1,501,718	\$ 395,209	<u>1,583,578</u>
Total capital assets not being depreciated	<u>3,256,115</u>	<u>1,501,718</u>	<u>395,209</u>	<u>4,362,624</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Capital assets (continued):

	Beginning balances	Increases	Decreases	Ending balances
Business-type activities (continued):				
Capital assets being depreciated:				
Land improvements	\$ 1,297,979	\$ 41,615		\$ 1,339,594
Buildings and improvements	362,916			362,916
Equipment	3,373,964	212,714	\$ 65,322	3,521,356
Infrastructure	17,964,346	386,363		18,350,709
Vehicles	187,251	7,865	5,000	190,116
Total capital assets being depreciated	23,186,456	648,557	70,322	23,764,691
Less accumulated depreciation for:				
Land improvements	(475,912)	(62,218)		(538,130)
Buildings and improvements	(114,052)	(13,908)		(127,960)
Equipment	(1,707,269)	(319,258)	(65,322)	(1,961,205)
Infrastructure	(2,039,791)	(456,726)		(2,496,517)
Vehicles	(65,145)	(17,113)	(5,000)	(77,258)
Total accumulated depreciation	(4,402,169)	(869,223)	(70,322)	(5,201,070)
Total capital assets being depreciated, net	18,784,287	(220,666)	-	18,563,621
Business-type activities capital assets, net	\$ 22,040,402	\$ 1,281,052	\$ 395,209	\$ 22,926,245

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Capital assets (continued):

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 190,178
Public safety	656,709
Public works and sanitation	860,555
Planning and inspection	20,090
Library	70,238
Education	743,779
Community services	<u>21,267</u>

\$ 2,562,816

Business-type activities:

Sewer Fund	\$ 648,620
Parks and Recreation Fund	120,961
Refuse and Recycle Fund	<u>99,642</u>

\$ 869,223

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations:

Changes in the long-term obligations of governmental activities during the year ended June 30, 2012 were as follows:

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012	Due within one year
Bonds payable:					
General obligation bonds	\$ 21,195,000	-	\$ 1,570,000	\$ 19,625,000	\$ 1,575,000
Deferred amounts:					
For issuance premiums	496,591	-	24,488	472,103	48,115
On refunding	(400,128)		(29,335)	(370,793)	(56,883)
Total bonds payable	21,291,463	-	1,565,153	19,726,310	1,566,232
Loans payable	650,000	-	50,000	600,000	50,000
Capital leases	1,537,631	1,349,700	527,185	2,360,146	515,159
Claims and judgments (Note 11)	3,333,672	2,000,000	1,565,762	3,767,910	1,660,807
Deferred revenue, grants	888,300	-	49,350	838,950	49,350
Accrued compensated absences	2,217,760	325,163	-	2,542,923	94,043
Total long-term obligations	<u>\$ 29,918,826</u>	<u>\$ 3,674,863</u>	<u>\$ 3,757,450</u>	<u>\$ 29,836,239</u>	<u>\$ 3,935,591</u>

Compensated absences and legal settlements typically have been liquidated in the General and School Department governmental funds.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

Changes in the long-term obligations of business-type activities during the year ended June 30, 2012 were as follows:

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012	Due within one year
Loans payable	\$ 10,898,433	\$ 1,500,000	\$ 860,226	\$ 11,538,207	
Less undrawn loan proceeds held by the State		(1,335,000)		(1,335,000)	
	10,898,433	165,000	860,226	10,203,207	\$ 862,473
Environmental remediation obligation	8,400,000		727,243	7,672,757	
Total long-term obligations	<u>\$ 19,298,433</u>	<u>\$ 165,000</u>	<u>\$ 1,587,469</u>	<u>\$ 17,875,964</u>	<u>\$ 862,473</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

General obligation bonds and loan payable:

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds and loan payable outstanding for governmental activities at June 30, 2012 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2011	New issues	Retired	Balance, June 30, 2012
General obligation bonds:								
Road, drainage, library construction and improvements, open space, Police and Town Hall repairs	\$ 5,100,000	11/1/01	3.2-5.5%	7/15/11	\$ 250,000	\$ -	\$ 250,000	\$ -
School refunding	2,395,000	10/29/02	3.0-4.0%	11/15/13	605,000	-	205,000	400,000
School improvements	4,390,000	10/29/02	3.0-5.0%	3/15/12	230,000	-	230,000	-
Road, drainage, open space	6,500,000	4/1/07	3.5-5.0%	6/15/27	5,200,000	-	325,000	4,875,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	5,100,000	-	300,000	4,800,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	4,810,000	-	10,000	4,800,000
Road, drainage, sidewalks and judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	5,000,000	-	250,000	4,750,000
Total general obligation bonds	34,270,000				21,195,000	-	1,570,000	19,625,000
Loan payable:								
Rhode Island Clean Water Protection Finance Agency, Open Space	1,000,000	11/13/03	1.17%	9/1/23	650,000	-	50,000	600,000
Total	\$ 35,270,000				\$ 21,845,000	\$ -	\$ 1,620,000	\$ 20,225,000

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. In addition, general obligation bonds have been issued to refund previously outstanding general obligation bonds.

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2011 was \$2,684,135,516, limiting the amount of non-expected general obligation bonds outstanding to \$80,524,065. At June 30, 2012, bonds outstanding for governmental activities totaled \$19,625,000.

On June 28, 2012, the Town issued a \$1,500,000 loan with an average interest rate of 1.055%. The loan will be used to fund sewer infrastructure improvements.

As of June 30, 2012, previously authorized, but unissued, general obligation bonds amount to \$6,000,000.

On May 20, 2010, the Town issued \$4,885,000 in general obligation bonds with an average interest rate of 4.0% to advance refund \$4,800,000 of outstanding various purpose general obligation bonds. The net proceeds of \$5,219,217 (after payment of \$28,235 in underwriting fees), plus an additional \$362,452 of bond premium monies used to purchase U.S. Government securities, were deposited with an escrow agent to provide for all future debt service payments on the various purpose general obligation bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$371,689. This difference is being charged to operations through the year 2012 using the effective interest method. At June 30, 2012, the balance of the defeased debt totaled \$4,800,000.

Revenues from the sewer assessments are pledged as collateral for the repayment of the 2006, 2007 and 2012 loans issued through the Rhode Island Clean Water Finance Agency.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

At June 30, 2012, annual debt service requirements to maturity for general obligation bonds and loan payable for governmental activities are as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$ 1,625,000	\$ 749,605	\$ 2,374,605
2014	1,625,000	696,288	2,321,288
2015	1,415,000	650,800	2,065,800
2016	1,410,000	600,405	2,010,405
2017	1,405,000	551,140	1,956,140
2018-2022	6,970,000	1,949,800	8,919,800
2023-2027	4,475,000	795,271	5,270,271
2028-2032	1,300,000	117,775	1,417,775
	<u>\$ 20,225,000</u>	<u>\$ 6,111,084</u>	<u>\$ 26,336,084</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

Loans payable for business-type activities:

Loans payable for business-type activities are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2011	New issues	Maturities	Balance, June 30, 2012
Enterprise Fund, Sewer:								
Rhode Island Clean Water Protection Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 420,213	\$ -	\$ 105,053	\$ 315,160
Rhode Island Clean Water Protection Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	538,938	-	42,173	496,765
Rhode Island Clean Water Protection Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,750,000	-	125,000	1,625,000
Rhode Island Clean Water Protection Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	4,800,000	-	300,000	4,500,000
Rhode Island Clean Water Protection Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,336,000	-	138,000	2,198,000
Rhode Island Clean Water Protection Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	1,053,282	-	150,000	903,282
Rhode Island Clean Water Protection Finance Agency	1,500,000	6/28/12	2.2%-1.89%	9/1/22	-	1,500,000	-	1,500,000
	<u>\$ 17,249,282</u>				10,898,433	1,500,000	860,226	11,538,207
Less undrawn loan proceeds held by the State					-	(1,335,000)		(1,335,000)
					10,898,433			10,203,207
Less current portion					(860,226)			(862,473)
					<u>\$ 10,038,207</u>			<u>\$ 9,340,734</u>

At June 30, 2012, the Sewer Fund had \$1,335,000 due from the State for undrawn proceeds available for sewer construction projects. There were no undrawn proceeds as of June 30, 2011.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

Loans payable for business-type activities (continued):

At June 30, 2012, scheduled annual debt service requirements for the loans payable (excluding interest adjustments for the undrawn balance) are as follows:

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2013	\$ 862,473	\$ 202,190	\$ 1,064,663
2014	1,012,757	192,358	1,205,115
2015	1,014,077	173,639	1,187,716
2016	910,386	156,224	1,066,610
2017	911,787	144,374	1,056,161
2018-2022	3,984,727	464,857	4,449,584
2023-2027	2,714,000	133,252	2,847,252
2028-2032	128,000	1,238	129,238
	<u>\$11,538,207</u>	<u>\$ 1,468,132</u>	<u>\$ 13,006,339</u>

Capital lease obligations:

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated). Interest expense for the year ended June 30, 2012 of \$78,171 is reported within the governmental activities, interest on long-term debt on the statement of activities.

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

6. Long-term obligations (continued):

Capital lease obligations (continued):

Capital lease obligations currently outstanding are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2011	New issues	Maturities	Balance, June 30, 2012
Governmental activities:								
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,376,032	\$ -	\$ 155,925	\$ 1,220,107
Vehicles	399,690	11/10/08	2.16%	8/1/12	161,599	-	79,060	82,539
Fire pumper and ladder	1,349,700	6/15/12	2.78%	10/1/15	-	1,349,700	292,200	1,057,500
Total	<u>\$ 4,025,390</u>				<u>\$ 1,537,631</u>	<u>\$ 1,349,700</u>	<u>\$ 527,185</u>	<u>\$ 2,360,146</u>

At June 30, 2012, annual debt service requirements to maturity for capital lease obligations are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2013	\$ 515,159	\$ 70,219	\$ 585,378
2014	427,367	71,840	499,207
2015	443,070	56,138	499,208
2016	459,396	39,811	499,207
2017	198,616	22,834	221,450
2018-2019	316,538	15,632	332,170
	<u>\$ 2,360,146</u>	<u>\$ 276,474</u>	<u>\$ 2,636,620</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Accounts payable and accrued expenses:

	Vendors	Other governments	Employees	Accrued interest	Total
Governmental activities:					
General Fund	\$ 636,859	\$ 17,694	\$ 201,909		\$ 856,462
School Department	437,349	47,657	137,339		622,345
Nonmajor funds	320,869	22			320,891
Reconciliation of balances in fund financial statements to government-wide financial statements		372,050		\$ 225,706	597,756
	<u>\$ 1,395,077</u>	<u>\$ 437,423</u>	<u>\$ 339,248</u>	<u>\$ 225,706</u>	<u>\$ 2,397,454</u>
Business-type activities:					
Sewer Fund	\$ 441,779	\$ 564,937	\$ 27,011	\$ 64,791	\$ 1,098,518
Parks and Recreation Fund	135,086	457	13,690		149,233
Refuse and Recycle Fund	86,599		3,340		89,939
	<u>\$ 663,464</u>	<u>\$ 565,394</u>	<u>\$ 44,041</u>	<u>\$ 64,791</u>	<u>\$ 1,337,690</u>

The above amounts include accrued compensated absences.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans:

All eligible employees of the Town are covered by one of three pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), or the Town of Middletown Retirement Plan (Town Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees, all Public Works employees hired on or after July 1, 1999, all Police Department employees sworn in on or after January 1, 2000, all Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Plan covers all other eligible employees. Total covered payroll under all plans during 2012 was \$28,705,762. Total Town payroll was \$30,818,835 for the same period.

In November 2011, the State enacted the Rhode Island Retirement Security Act of 2011 (the Act). The Act makes broad changes to the Teachers' Plan and Municipal Plan effective July 1, 2012, the most significant of which include changing the structure of the retirement program from a traditional defined benefit plan to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan, changing the automatic COLA from a CPI-related formula to a formula contingent on the actual investment performance over time, suspension/reduction of the COLA during times when the funded ratio is lower than targeted 80% levels, and the re-amortization of the Unfunded Actuarial Accrued Liability (UAAL) to 25 years from the 19-year schedule as of June 30, 2010. For the Teachers' Plan, teachers not covered by Social Security will participate in additional defined contribution allocations equal to 2% member plus 2% employer. Included within these significant changes are certain rules for transitioning from the prior defined benefit structure to the smaller defined benefit plan going forward. The changes in the defined benefit plan instituted by the Act have been fully reflected in the actuarial valuation as of June 30, 2011.

Teachers' Plan

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. Financial statements for the Teachers' Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886. Total covered payroll under the Teachers' Plan during 2012 was \$18,452,714, including \$770,017 of federally reimbursed payroll.

The Teachers' Plan provides a two-tier benefit structure referred to as Schedule A Benefits and Schedule B Benefits.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Teachers' Plan (continued)

Plan description (continued):

Schedule A Benefits:

Schedule A benefits are available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule A provides unreduced benefits of 1.70% of earnings for each of the first ten years of service; 1.90% for each of the next ten years of service; 3.00% for each of the next fourteen years; and 2.00% for the 35th year. Joint and survivor options are available, as well as an option that provides for the payment of a larger benefit before the attainment of age 62. The maximum benefit is 80% of final average earnings after 35 years of service. Such benefits are available to members who are at least age 60 with ten years of credited service, or after 28 years of service at any age. Benefits for all employees are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

On the third January after retirement, a cost-of-living increase of 3.00% (compounded annually) is provided. The Teachers' Plan also provides nonservice-connected disability benefits after five years of service; service-connected disability benefits with no minimum service requirement; vested benefits after ten years of service; survivor's benefits for service-connected death; and certain lump-sum death benefits.

Schedule B Benefits:

Schedule B benefits are provided to members who had less than ten years of contributory service on or before July 1, 2005. Schedule B provides unreduced benefits of 1.60% of earnings for each of the first ten years of service; 1.80% for each of the next ten years; 2.00% for years 21 through 25 inclusive; 2.25% for years 26 through 30 inclusive; 2.50% for years 31 through 37 inclusive; and 2.25% for the 38th year. Only single life, and joint and survivor options are available. The maximum benefit is 75% of the average highest three years of compensation after 38 years of service. Such benefits are available to members who are at least age 65 with ten years of service, or at least age 59 with 29 years of service. Actuarially reduced retirement is available at age 55 with 20 years of service; the benefit is reduced actuarially for each month that the age of the member is less than 65 years.

On the month following the third anniversary date of retirement, and on the month following the anniversary date of each succeeding year, a benefit increase is provided for Schedule B members, consisting of the lesser of a cost-of-living increase of 3.00% (compounded annually) or the percentage increase in the Consumer Price Index, determined as of September 30 of the prior calendar year.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Teachers' Plan (continued)

Plan description (continued):

Schedule B Benefits (continued):

Rhode Island General Law relating to state employees and teachers' benefits was amended during the fiscal year ended June 30, 2009. Members eligible to retire as of September 30, 2009 are not affected by the changes. The legislation established a minimum retirement age of 62 for all members, except those Schedule B members who retire with less than 29 years of service; their retirement eligibility remains age 65 with a minimum of ten years of service credit. For affected state employees and teachers, the law provides a proportional downward adjustment of the minimum retirement age based on the years of service credit of a member at September 30, 2009, a final average salary based on the five consecutive highest years of salary and a cost-of-living adjustment.

This legislation also amended the disability retirement provision for state employees and teachers. Effective for applications filed after September 30, 2009, accidental disability will be available at 66-2/3% for members who are permanently and totally disabled. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%.

Rhode Island General Law relating to state employees and teachers benefits was amended during the fiscal year ended June 30, 2010. Members eligible to retire as of June 12, 2010 are not affected by the legislation. The legislation modifies the Cost of Living Adjustment (COLA). The COLA now applies to the first \$35,000 of retirement allowance, indexed annually, and shall commence upon the retiree's third anniversary of the date of retirement or when the retiree reaches age 65, whichever is later. The \$35,000 limit will increase annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or 3%, whichever is less.

Funding policy:

Rhode Island General Law currently sets the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The Town participates in the optional Teachers Survivor Benefits Fund whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits. The Town contributed \$23,416 to this fund during fiscal year 2012.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Teachers' Plan (continued)

Funding policy (continued):

As prescribed by Rhode Island General Law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2012, the Town's actuarial required contributions were 13.23% of participant salary (22.32% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 9.09% (\$1,607,357). The Town's required and actual contributions to the Teachers' Plan for fiscal years 2012, 2011 and 2010 were \$2,511,297, \$2,053,204, and \$1,846,356, respectively.

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with the Act and GASB Statement No. 27 standards. Effective July 1, 2012, State Employees (excluding Correctional Officers) and Teachers will contribute 3.75% of their salary per year to the defined benefit plan, and 5.0% to the defined contribution plan, with an additional 2.0% contribution for those employees that do not participate in Social Security.

Municipal Plan

Plan description:

The Municipal Plan is an agent multiple-employer public employee retirement system administered by the State. Financial statements for the Municipal Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886. For fiscal year 2012, covered payroll under the Municipal Plan totaled \$8,362,677.

Participants' rights to pension benefits become fully vested after ten years of service. They are also eligible to retire after ten years of service if they have attained age 58 (age 55 for police and fire) or after 30 years of service (20 years for police and fire) regardless of age. Benefits are equal to 2% of final average salary for each year of service for municipal employees, and 2.5% of final average salary for each year of service for fire and police, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3% (not compounded) to allow for cost-of-living increases under an optional benefit provision adopted by the Town.

The Municipal Plan also provides nonservice-connected disability benefits after five years of service; service-connected disability benefits with no minimum service requirement; vested benefits after ten years of service, survivor's benefits for service-connected death; and certain lump-sum benefits.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Municipal Plan (continued)

Plan description (continued):

As of June 30, 2012, 187 active employees (50 police and firefighters) were members of the Municipal Plan.

Funding policy:

Rhode Island General Law sets contributions of participating employees at 6% of salary (8% for police). An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of June 30, 2010 over a closed period of 25 years. Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with the Act and GASB Statement No. 27 standards. Effective July 1, 2012, General employees contribute 1.00% of their salary per year, and police officers and firefighters contribute 7.00% to the defined benefit plan, and if the municipality has elected one of the optional cost-of-living provisions, an additional member contribution of 1.00% of salary is required. For the defined contribution plan, a 5.00% contribution, with an additional 2.00% contribution for those employees that do not participate in Social Security, is required.

Annual pension costs:

The following table summarizes annual pension costs and actual contributions for the Municipal Plan for the past three years. There was no net pension obligation during the three-year period.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual pension costs	\$ 1,561,094	\$ 1,309,967	\$ 1,247,102
Actual contributions:			
Employee	620,361	547,462	493,358
Employer	940,733	762,505	753,744
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Municipal Plan (continued)

Funded status and funding progress:

As of June 30, 2011, the date of the most recent actuarial valuation available, the Municipal Plan was 77.3% and 156.0% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$17,866,264 and \$1,544,891 for general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$13,804,188 and \$2,410,473, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$4,062,076 and (\$865,582) for general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$5,464,167 and \$2,185,236 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 74.3% and (39.6%), respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of Municipal Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

Actuarial methods and significant assumptions:

The State uses the entry age normal method to determine both the actuarial accrued liabilities of and the annual required contributions to the Municipal Plan. Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for the Municipal Plan are performed annually as of June 30.

Significant actuarial assumptions used in the June 30, 2011 valuation are summarized as follows:

Asset appreciation:	7.50% annually
Salary increases:	4.00% annually and a service-related component – general employees
	4.25% annually and a service-related component – police/fire employees
Cost-of-living adjustments:	0.00-4.00%, non-compounded
Payroll growth rate	3.75% annually

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

Retirement probability:

100% at age 75 or upon eligibility (100% at age 65 or upon eligibility – police/fire)

Mortality:

Healthy members – 115% (for Male Employees) and 95% (for Female Employees) of the RP-2000 Combined Healthy with White Collar adjustments, projected with Scale AA.
Disabled members – 60% of the PBGC Table Va (VIA for females) set to age 65 (55 for police and fire employees)

Disability:

Probabilities per 1,000 ranging from .08% at age 25 to 9.87% at age 60 (.43% at age 25 to 18.15% at age 50 for police and fire)

Town Plan

Plan description:

The Town Plan is a single-employer defined benefit pension plan established by the Town in accordance with the Town Charter. Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee. For fiscal year 2012, covered payroll under the Town Plan totaled \$1,890,372.

As of July 1, 2011, the latest actuarial valuation, employee membership data related to the Town Plan is as follows:

Active participants	24
Terminated vested participants	7
Retirees and beneficiaries	136
Disabled participants	<u>6</u>
Total	<u><u>173</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions:

The following eligibility and benefit provisions were established and may be amended by an ordinance of the Town Council.

Plan participation commences on the first day of the month coincident with or following the date of hire, if the employee chooses to participate in the Town Plan. Elected officials and certified employees of the School Department are not eligible to participate in the Town Plan.

The Town Plan provides pension, disability and death benefits. A Police and Fire Department member may retire the first day of the month following the member's completion of 20 years of service. (If the member joined the Fire Department after July 1, 1983, only Fire Department service is used to determine years of service). School Department custodial and clerical members may retire the first day of the month following the member's completion of 30 years of service, but not later than age 65 with five years of service. Public Works members may retire the first day of the month following the completion of 30 years of service, but not later than age 60 with ten years of service. Town Hall members may retire the first day of the month coincident with or following the member's attainment of age 65 with five years of service.

The normal retirement benefit is determined as follows:

- a. Police Department Members – 3% (2.5% if less than 20 years of service) of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- b. Fire Department Members – 2.75% of average compensation multiplied by completed years and months of service (total maximum benefit equals 75% of average compensation). If a participant joined the Fire Department after July 1, 1983, only Fire Department service is considered.
- c. School Custodial, Town Hall and School Clerical Members – 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- d. Public Works Members – 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

Average compensation is defined as the member's average gross annual earnings during the period of three consecutive years when such average is highest.

In lieu of the normal form of benefit, a Police or Fire member may elect a pension that provides, upon the member's death, for a 67.5% contingent annuity payable either to the spouse until remarriage or to dependent children until they attain age 18. Other members may elect a modified cash refund.

Members, other than Police or Fire members, who have completed ten years of service and are within five years of their normal retirement date may elect to retire early. The retirement benefit is determined as stated previously and is reduced by 6% per year for each year preceding the normal retirement date. Working beyond the normal retirement age is allowed if permitted by the applicable collective bargaining agreement and applicable fitness standards are met.

The Town Plan includes disability benefits for members who have completed ten years of service, are totally disabled for six months and eligible to receive disability payments under Social Security. The benefit equals the member's annuity accrued to the date of disability and is payable immediately without reduction. For Police and Fire members, disability benefits are 66.67% of salary.

The Town Plan includes a pre-retirement spouse's benefit as follows:

- a. Police and Fire Members – The pre-retirement benefit equals 67.5% of the pension benefit previously described payable until remarriage unless there are dependent children. A member is eligible upon completion of 20 years of service.
- b. Other Members – The pre-retirement benefit equals 50% of the pension benefit previously described reduced by the Contingent Annuitant factor and Early Optional Retirement factor. Members are eligible if they are within five years of their normal retirement date and have completed at least ten years of service.

Death benefits are also provided by the Town Plan. The death benefit prior to retirement is a refund of employee accumulation unless a spouse's benefit is payable. In this case, the death benefit would be determined as described in the previous paragraph. The death benefit after retirement is determined by the form of annuity chosen by the member.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Town Plan (continued)

Funding policy and contributions:

Contribution requirements are established and may be amended by Town Council ordinance or union contract.

Employees are required to contribute a percentage of their gross pay as follows:

Police	7%
Fire	9%
Public Works	6%
Others	4%

The Town is required to contribute an amount determined in accordance with the actuarial valuation.

Actuarial method and significant assumptions:

For 2011, the actuarial method used to compute the actuarially determined contribution requirements is the entry age normal method. Under the entry age normal method, the present value of projected benefits not provided for at the valuation date is the accrued liability. The unfunded accrued liability is being amortized over a closed six-year period beginning with the July 1, 2011 valuation. The actuarial assumptions include: a) 7.5% investment rate of return and b) projected salary increases of 5% per year. Assets used for valuation purposes are equal to the market value with a 5-year phase-in of investment gains and losses. The most recent valuation was performed as of July 1, 2011.

Annual pension costs and net benefit obligation:

The actuarially determined employer contribution requirement of \$3,240,416 was determined as described above and was based on an actuarial valuation as of July 1, 2011. The contribution consists of normal cost plus estimated expenses and one year of interest at 7.5%. Total contributions to the Town Plan in fiscal 2012 amounted to \$3,012,863, of which \$2,873,858 and \$139,005 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 152.0% and 7.4%, respectively, of covered payroll for the year.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Pension plans (continued):

Town Plan (continued)

Annual pension costs and net benefit obligation (continued):

A summary of annual pension cost, contributions and net pension asset for the preceding three years is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal cost	\$ 256,225	\$ 391,189	\$ 460,481
Amortization of UAAL	2,686,115	2,105,802	2,053,817
Interest and plan expenses	298,076	264,674	265,973
Adjustment to annual required contribution	<u>229,197</u>	<u>69,741</u>	<u>59,506</u>
Annual pension cost	3,469,613	2,831,406	2,839,777
Contributions made	<u>(2,953,201)</u>	<u>(3,712,030)</u>	<u>(2,826,050)</u>
(Increase) decrease in net pension asset	516,412	(880,624)	13,727
Net pension asset, beginning of year	<u>(1,576,850)</u>	<u>(696,226)</u>	<u>(709,953)</u>
Net pension asset, end of year	<u>\$ (1,060,438)</u>	<u>\$ (1,576,850)</u>	<u>\$ (696,226)</u>
Percentage of annual pension cost contributed	<u>85.12%</u>	<u>131.10%</u>	<u>99.52%</u>

Funded status and funding progress:

As of July 1, 2011, the Town Plan was 76.2% funded. The actuarial accrued liability for benefits was \$57,057,680 and the actuarial value of assets was \$43,503,856, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,553,824. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$1,890,372 and the ratio of the UAAL to the covered payroll was 717%.

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of Town Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Other postemployment benefits:

Plan description:

Through its single-employer defined benefit plan (OPEB Plan), the Town provides postretirement health care benefits to all Town employees who meet years of service and age requirements and, in some cases to their surviving spouses, who are eligible under the terms of collective bargaining agreements or personal contracts. The Plan does not issue a stand-alone financial report. The Town established the Other Postemployment Benefits Trust (the Trust) on June 20, 2011. The Trust's assets and liabilities at June 30, 2012 and its activity for the year then ended are included in the statements of fiduciary net assets and changes in fiduciary net assets.

The most recent actuarial valuation for the OPEB Plan was performed as of June 30, 2011.

Benefits and employee contributions:

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$1,889,876 for the year ended June 30, 2012.

Employer contributions are recognized in the period to which the contribution relates. Benefit payments are charged to expense in the period paid.

Covered participants:

As of June 30, 2011, the date of the latest available actuarial valuation, membership census is as follows:

Active employees	372
Retirees and beneficiaries	273
Total	645

Annual OPEB cost and net OPEB obligation:

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town. The Town has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a closed period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the amount actually contributed to the plan for the year ended June 30, 2012, and the Town's net OPEB obligation as of June 30, 2012.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

Annual OPEB Cost	
Annual Required Contribution	\$ 2,034,497
Interest on net OPEB obligation	(13,659)
Adjustment to annual required contribution	11,046
Annual OPEB cost	2,031,884
Contributions made during the year	2,216,771
Decrease in net OPEB obligation	(184,887)
Net OPEB obligation at beginning of year	629,383
Net OPEB obligation at end of year	\$ 444,496

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2010, 2011 and 2012 are as follows:

Year ended June 30,	OPEB cost	Percentage of Annual OPEB cost contributed	Net OPEB Obligation
2010	2,026,910	79.81%	659,125
2011	2,117,419	101.40%	629,383
2012	2,031,884	109.10%	444,496

Funded status and funding progress:

As of June 30, 2012, the funded status and funding progress were as follows:

Funded ratio	11.3%
Actuarial accrued liability for benefits	29,463,119
Actuarial value of assets	3,338,311
Unfunded actuarial accrued liability (UAAL)	26,124,808
Covered payroll	30,052,962
UAAL to covered payroll	86.93%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

9. Other postemployment benefits (continued):

Funded status and funding progress (continued):

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of OPEB Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

Actuarial methods and assumptions:

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Some key assumptions are as follows:

- Measurement date – June 30, 2011
- Funding method – Projected Unit Credit
- Investment rate of return – 7.5%
- Discount rate – 7.5%, reflecting an established OPEB trust
- Participation – 80% of eligible school retirees and 90% of eligible Town employees are assumed to elect medical and dental coverage
- Health Care Cost Trend Rates – Medical 8.0% per year, decreasing to an ultimate rate of 5.0% per year over seven years

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for property/liability and workers' compensation premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. 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 Town is insured for a maximum of \$5,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There were no significant reductions in this insurance coverage during the year ended June 30, 2012.

The Town also participates in the Health Pool (the Pool), a non-profit, public entity risk pool which provides programs of liability, workers' compensation, and health insurance coverage to Rhode Island cities, towns and other governmental units. Upon joining the Pool, members execute a member agreement. That document, pursuant to which the Pool was established and operates, outlines the rights and responsibilities of both the members and the Pool. Members of the Pool participate in the Pool's health insurance plan administered through the Trust and Blue Cross Blue Shield of Rhode Island (BCBSRI). The Pool sets annual contribution rates for the subscribers of each member for each program offered. The Pool agreement requires that those contribution rates be set at a level sufficient, in the aggregate, to satisfy the funding requirements of the Pool. The contributions of each member are deposited into the General Fund and are used to pay for claims, reinsurance and all administrative expenses.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. Contingencies and subsequent events:

Litigation:

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleges that the Town's sanitary sewer and storm-water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizen's groups seek injunctive relief requiring the Town to cease violation, to remedy the effects of past violations, and to pay appropriate civil penalties and reasonable attorney fees as authorized under the Clean Water Act. The Town believed that a reasonable out-of-court settlement could be reached and vigorously contested the allegations in the complaint. On March 24, 2010, the Town and Environment Rhode Island settled the matter by entering into a Consent Decree and Order that includes specific requirements and milestones for the Town to evaluate potential alternatives and implement optimal alternatives to address the Town's storm-water and wastewater discharges. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and storm-water discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway, with all investigations completed and the final inflow investigation program study due in December 2012. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011. The balance of this cost remaining at June 30, 2012 is estimated at \$7.7 million and has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

In regard to the storm-water system, the projects evaluated were: Project (1) - construction of a gravel wetland to manage storm-water for the Newport Avenue catchment area; and Project (2) - redirection of Esplanade Outfall 1 to Esplanade Outfall 2. Project (1) was deemed not feasible; instead, the Town will perform other measures in the watershed to help mitigate storm-water runoff pollution, although this is not required by the consent decree.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. Contingencies and subsequent events (continued):

Litigation (continued):

The Town awarded the construction contract for Project (2) in August 2011, in the amount of \$3,269,000, and construction commenced soon thereafter. This project involves installation of an outfall diffuser pipe into the Atlantic Ocean. Soon after the first section of pipe was placed on the ocean floor, the Town's contractor, CB Utility Co. Inc. (CBUC) discovered that the pipe moved after installation. On April 13, 2012, CBUC halted construction pending investigation by the Town's Engineer and Construction Manager, Woodward & Curran (W&C). W&C has acknowledged liability for the defective design and has taken steps to remediate it; they have also developed a re-design of the Esplanade Drainage project that CBUC, and its engineers, confirm is constructible. During the period of re-design, CBUC claimed they could not progress on the project and have asserted against the Town a delay claim for extended performance costs and work performed to install the diffuser pipe in excess of \$400,000.

On August 1, 2012, CBUC was given a limited notice to proceed with remediation of the causeway, blasting and trench excavation through Change Order Number 4. A dispute has arisen as to the amount of compensation for the work required to rehabilitate the causeway. The Town understands that causeway remediation costs will be a charge against W&C as an activity required because of the necessary re-design and delay. Mediation occurred on December 3, 2012 regarding CBUC's delay and causeway repair claims. The mediation resulted in a settlement by CBUC in favor of the Town.

Negotiations are also ongoing regarding contract amendments for the cost to complete the work of the Project (2) in accordance with the re-design and the credit for work not performed under the original design. Those negotiations are ongoing between the Town, W&C, and CBUC. At present, the estimated cost for the contract amendment is \$2,000,000. There are unresolved issues regarding additional amounts owed by W&C to the Town as a result of the design errors. There is a possibility of litigation between the Town and W&C if those issues are not resolved. It is too early to further define the scope of issues and potential liability involved in such litigation at this time.

The estimated remainder of the Project cost of \$3,600,000 has been recorded as a long-term liability in the government-wide financial statements.

Project costs are being funded by bond proceeds, the capital improvement program and unassigned fund balance as needed.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

11. Contingencies and subsequent events (continued):

Other contingencies:

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 Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$4,600,000 for the year ended June 30, 2012.

The Town is a party to various other claims, legal actions and complaints. It is not presently possible to determine the outcome of these cases; therefore, no liability has been recorded in the accompanying financial statements. In the opinion of the Town's management and Town Solicitor, these matters cannot be estimated nor can the likelihood of a favorable outcome be determined at this time.

12. Commitments and subsequent events:

Construction commitments:

The Town has active construction projects as of June 30, 2012, including culvert replacement, corporate park road and drainage improvements, Esplanade drainage improvements, Continental Village sewer and drainage improvements, Tuckerman Ave drainage improvements, and drainage and sanitary upgrades in designated areas of the Town. At June 30, 2012, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Green End Ave Culvert Replacement: Green Acres Landscape & Construction	\$ 74,808	\$ 13,037
Miantonomi Avenue Drainage Project: East Coast Construction	127,649	14,056
Esplanade Drainage: C.B. Utility Company and Woodard & Curran	1,998,258	1,777,081
Tuckerman Ave Drainage Upgrade: JAM Construction	176,955	48,223
Commodore Perry Cured in Place Pipe: National Water Main Cleaning Co.	431,435	111,023
Continental Village Sewer, Road drainage improvement: C.B. Utility Company and James Geremia Engineering	2,349,420	799,168
Surveying & Engineering-Vernon and Fenner Avenue: James Geremia Engineering	21,720	4,556
Forest and Aquidneck Ave Drainage Design: James Geremia Engineering	95,429	14,466
Totals	<u>\$ 5,275,674</u>	<u>\$ 2,781,610</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

12. Commitments and subsequent events (continued):

Construction commitment (continued):

The commitments for land improvements, residential street paving, and road drainage are funded through operations, general obligation bonds and construction-in-process funds. The commitments for sanitary sewer upgrades are funded through loans to the Sewer Fund and Sewer Fund operations.

Subsequent to year-end, the Town executed four construction contracts totaling \$1,220,125. The first contract, awarded to D'Ambra Construction Company in the amount of \$142,742, relates to the pavement of Crest Street. The second contract, awarded to T. Miozzi, Inc. in the amount of \$282,089, relates to the pavement of Berkeley Avenue to be paid out of the Roadway Investment-Local Equity Aid Program (State Funds). The third contract was awarded to C.B. Utility Co., Inc., in the amount of \$710,197, for sewer improvements on Aquidneck Avenue; this contract will be paid from the Sewer Fund. The fourth contract was awarded to James J. Geremia & Associates, in the amount of \$85,097, relating to the construction administration for the sewer improvements on Aquidneck Avenue. The contract is to be paid from the Sewer Fund.

13. Joint venture:

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. NCRSEP also administers the federally funded IDEA Part B program for each of the towns. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program; such amounts are deducted from the gross annual assessment. MSD's net assessment for 2012 was \$1,884,677. The towns have no equity interest in the net assets of NCRSEP which totaled approximately \$103,958 at June 30, 2012.

At June 30, 2012, a total of \$756,635 in Medicaid reimbursements due to MSD has been recorded as a liability of the NCRSEP. This amount represents Medicaid reimbursements received by the NCRSEP in excess of the budgeted receipts for Middletown.

Separately audited financial statements of NCRSEP are available at Newport County Regional Special Education Program, Oliphant Lane, Middletown, RI 02842.

TOWN OF MIDDLETOWN, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 41,688,197	\$ 41,986,426	\$ 41,835,031	\$ (151,395)
Intergovernmental	2,083,578	2,516,931	2,648,142	131,211
Licenses, permits and fees	1,333,740	1,425,564	1,418,735	(6,829)
Interest and investment	75,000	75,000	11,732	(63,268)
Other revenues	241,322	241,322	314,207	72,885
Total revenues	<u>45,421,837</u>	<u>46,245,243</u>	<u>46,227,847</u>	<u>(17,396)</u>
Expenditures:				
Current:				
General government	2,655,141	2,927,672	2,900,965	26,707
Public safety	8,642,746	8,603,944	8,472,174	131,770
Public works and sanitation	1,584,870	1,540,879	1,541,982	(1,103)
Planning and inspection	518,655	528,355	524,191	4,164
Library	740,665	732,665	701,742	30,923
Community services	293,436	317,720	319,419	(1,699)
Other expenditures	4,609,438	5,262,598	5,238,035	24,563
Grants	240,486	509,539	546,194	(36,655)
Capital outlay	3,185,700	2,779,879	2,813,134	(33,255)
Debt service	3,041,698	3,041,698	3,039,542	2,156
Total expenditures	<u>25,512,835</u>	<u>26,244,949</u>	<u>26,097,378</u>	<u>147,571</u>
Excess of revenues over expenditures, budgetary basis	<u>19,909,002</u>	<u>20,000,294</u>	<u>20,130,469</u>	<u>130,175</u>
Other financing sources (uses):				
Transfers from other funds	2,925,411	3,099,998	2,607,301	(492,697)
Transfers to other funds	(24,209,413)	(24,258,921)	(24,258,904)	17
Reappropriated fund balance	271,029	271,029	271,029	-
Proceeds from capital leases	1,375,000	887,600	1,349,700	462,100
Total other financing sources (uses)	<u>(19,909,002)</u>	<u>(20,000,294)</u>	<u>(20,030,874)</u>	<u>(30,580)</u>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	99,595	<u>\$ 99,595</u>
Adjustments of budgetary basis to U.S. GAAP basis			<u>(408,789)</u>	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(309,194)	
Fund balance, beginning of year			<u>9,997,210</u>	
Fund balance, end of year			<u>\$ 9,688,016</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 12,561,047	\$ 14,105,592	\$ 13,942,476	\$ (163,116)
Fees for service	425,394	819,620	765,442	(54,178)
Other revenues	131,510	70,753	108,273	37,520
Total revenues	<u>13,117,951</u>	<u>14,995,965</u>	<u>14,816,191</u>	<u>(179,774)</u>
Expenditures:				
Current:				
Salaries	21,309,656	21,417,865	21,349,233	68,632
Employee benefits	7,346,746	7,378,521	7,336,214	42,307
Purchased services	6,422,773	7,367,769	7,001,124	366,645
Supplies and materials	1,067,493	1,052,059	1,047,604	4,455
Other	16,672	72,958	79,115	(6,157)
Capital expenditures	540,224	1,407,406	685,284	722,122
Total expenditures	<u>36,703,564</u>	<u>38,696,578</u>	<u>37,498,574</u>	<u>1,198,004</u>
Excess of expenditures over revenues, budgetary basis	<u>(23,585,613)</u>	<u>(23,700,613)</u>	<u>(22,682,383)</u>	<u>1,018,230</u>
Other financing sources:				
Transfer from other funds	23,004,413	23,019,413	23,254,513	235,100
Reappropriated fund balance	581,200	681,200	235,100	(446,100)
Total other financing sources	<u>23,585,613</u>	<u>23,700,613</u>	<u>23,489,613</u>	<u>(211,000)</u>
Excess of revenues and other financing sources over expenditures, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	807,230	<u>\$ 807,230</u>
Adjustment of budgetary basis to U.S. GAAP basis, reappropriated fund balance			<u>(235,100)</u>	
Excess of revenues and other financing sources over expenditures, U.S. GAAP basis			572,130	
Fund balance, beginning of year			<u>2,561,846</u>	
Fund balance, end of year			<u>\$ 3,133,976</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2012

Budget preparation and budgetary basis of accounting:

In accordance with the Town Charter, the Town Administrator must present to the Town Council a recommended annual budget for the operations of all municipal departments no later than 90 days prior to the commencement of each fiscal year. The recommended budget must include an appropriation to fund school expenditures in excess of their anticipated revenues as requested by the Superintendent and approved by the School Committee. Estimates of sums expected to become available from federal and state grants for the support of the public schools shall be included in the total requested for school expenditures. The Town Council shall appropriate these funds for expenditure by the School Committee, and shall appropriate such additional funds from local tax revenues as may be required to meet the total school budget which the Town Council approves. The School Committee shall not have the authority to obligate the Town financially beyond the total budgetary amount voted by the Town Council. The Town Council can change only the total amount of the School Committee’s recommended budget. The Town Council can increase the total amount of the total budget, as presented by the Town Administrator, only if it makes provisions for increasing anticipated revenue to match increases in expenditures in the budget.

The General Fund and the School Department annual operating budgets are in conformity with the legally enacted budgetary basis. The legally enacted budgetary basis differs from accounting principles generally accepted in the United States (U.S. GAAP) in several regards. Budgets are adopted on the modified accrual basis with certain exceptions. Budgetary revenues may include reappropriations from fund equity previously recognized under U.S. GAAP. Budgetary expenditures and expenses are recognized when legally binding orders (encumbrances) are placed. Enterprise fund budgetary expenses include expenses for fixed asset additions, debt service issuance costs and debt service principal payments not recognized under U.S. GAAP but exclude depreciation and amortization, U.S. GAAP basis expenses.

Adjustments from the budgetary basis to the U.S. GAAP basis of accounting are as follows:

	General Fund	School Department
	<u> </u>	<u> </u>
Reappropriated fund equity	\$ (271,029)	\$ (235,100)
Adjustments of budgetary basis to GASB 54	<u>(137,760)</u>	<u> </u>
Total adjustments	<u>\$ (408,789)</u>	<u>\$ (235,100)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2012

Budget compliance:

Costs of operations for all departments, offices and agencies established within the Town Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund and the School Department Municipal budgetary control is legally enforced at the department level. Appropriation transfers between departments require approval by five members of the seven-member Town Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Unencumbered and unexpended appropriations lapse at fiscal year-end.

TOWN OF MIDDLETOWN, RHODE ISLAND

MUNICIPAL PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2012

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
<i>General employee unit:</i>						
June 30, 2009	\$ 12,574,146	\$ 16,612,259	\$ 4,038,113	75.7%	\$ 5,268,332	76.6%
June 30, 2010	13,143,076	20,745,520	7,602,445	63.4%	5,015,060	151.6%
June 30, 2011	13,804,188	17,866,264	4,062,076	77.3%	5,464,167	74.3%
<i>Police and fire unit:</i>						
June 30, 2009	\$ 1,328,917	\$ 1,090,815	\$ (238,102)	121.8%	\$ 1,602,902	(14.9%)
June 30, 2010	1,825,703	1,859,023	33,320	98.2%	1,639,380	2.0%
June 30, 2011	2,410,473	1,544,891	(865,582)	156.0%	2,185,236	(39.6%)

TOWN OF MIDDLETOWN, RHODE ISLAND
TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2012

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
July 1, 2009	\$ 40,503,976	\$ 53,436,040	\$ 12,932,064	75.8%	\$ 2,917,842	443%
July 1, 2010	42,526,359	54,547,798	12,021,439	78.0%	2,645,008	454%
July 1, 2011	43,503,856	57,057,680	13,553,824	76.2%	1,890,372	717%

TOWN OF MIDDLETOWN, RHODE ISLAND
OTHER POSTEMPLOYMENT BENEFITS PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2012

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
July 1, 2009	\$ 2,500,343	\$ 32,387,961	\$ 29,887,618	7.7%	\$ 28,675,833	104.2%
July 1, 2010	3,338,311	34,283,705	30,945,394	9.7%	30,052,962	103.0%
July 1, 2011	3,338,311	29,463,119	26,124,808	11.3%	30,052,962	86.9%

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2012

Town Pension Plan:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 3,469,613	85.12%
2011	2,831,406	131.10%
2010	2,839,777	99.52%
2009	2,871,564	89.69%
2008	2,625,137	94.50%
2007	2,465,612	111.27%

Town OPEB Plan:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2012	\$ 2,034,497	108.96%
2011	2,120,292	99.34%
2010	2,026,910	79.81%
2009	1,535,690	83.72%
2008	1,467,751	104.6%
2007	1,652,945	104.6%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

The information presented in the required supplementary schedule was determined as part of the annual actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation (1) follows:

Valuation date	July 1, 2011
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	The unfunded accrued liability is amortized over a closed six-year period beginning with the July 1, 2011 actuarial valuation.
Asset valuation method	Market value with 5-year phase-in of investment gains and losses
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5.0% per annum
Cost-of-living adjustments	N/A

- (1) The mortality table used for funding was changed from the Blended RP-2000 Mortality table, projected to 2010 using Scale AA to the RP-2000 Combined Mortality Table, projected seven years beyond the valuation date for annuitants and 15 years beyond the valuation date for non-annuitants using Scale AA.

The period over which the unfunded liability is amortized was changed from an open eight-year period to a closed six-year period.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2012

Real estate and personal property taxes receivable:

Year	Balance, July 1, 2011	Current year assessment	Adjustments/ abatements	Amount to be collected	Collections	Balance, June 30, 2012
2011	\$ -	\$ 41,588,607	\$ (73,728)	\$ 41,514,879	\$ 40,338,548	\$ 1,176,331
2010	1,436,011		4,036	1,440,047	1,323,884	116,163
2009	96,013		(1,245)	94,768	52,819	41,949
2008	47,996		863	48,859	7,008	41,851
2007	35,580		241	35,821	1,192	34,629
2006	30,873		794	31,667	1,859	29,808
2005	28,009		206	28,215	403	27,812
2004	25,959		67	26,026	189	25,837
2003	22,669		3	22,672	173	22,499
2002	23,090			23,090	434	22,656
2001	21,920			21,920		21,920
2000	27,604		15	27,619	81	27,538
1999	1,900			1,900		1,900
	<u>\$ 1,797,624</u>	<u>\$ 41,588,607</u>	<u>\$ (68,748)</u>	<u>\$ 43,317,483</u>	<u>\$ 41,726,590</u>	<u>\$ 1,590,893</u>
					Less allowance for doubtful accounts	(415,526)
						<u>\$ 1,175,367</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2012

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,694,469,334	\$ 38,717,663
Motor vehicles	139,108,949	1,536,032
Tangible personal	97,225,739	1,334,912
Total	2,930,804,022	41,588,607
Exemptions	109,701,253	
Current year assessment	<u>\$ 2,821,102,769</u>	<u>\$ 41,588,607</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 41,726,590
Revenue collected within 60 days subsequent to year ended June 30, 2012	<u>706,593</u>
	42,433,183
Prior year revenue received in current year	<u>(871,289)</u>
Current year real estate and personal property tax revenue	<u>\$ 41,561,894</u>