

Town of North Providence Rhode Island



Basic Financial Statements and
Required Supplementary Information
Fiscal Year Ended June 30, 2012

Including Independent Audit Report
of Certified Public Accountants

Charles A. Lombardi
Mayor

Thomas Massaro
Finance Director

Prepared by Finance Department

TOWN OF NORTH PROVIDENCE

INTRODUCTORY SECTION

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- LIST OF TOWN OFFICIALS

NEW HAVEN, CONNECTICUT 06510-1000 TEL: 203.334.2000 FAX: 203.334.2001

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

YEAR ENDED JUNE 30, 2012

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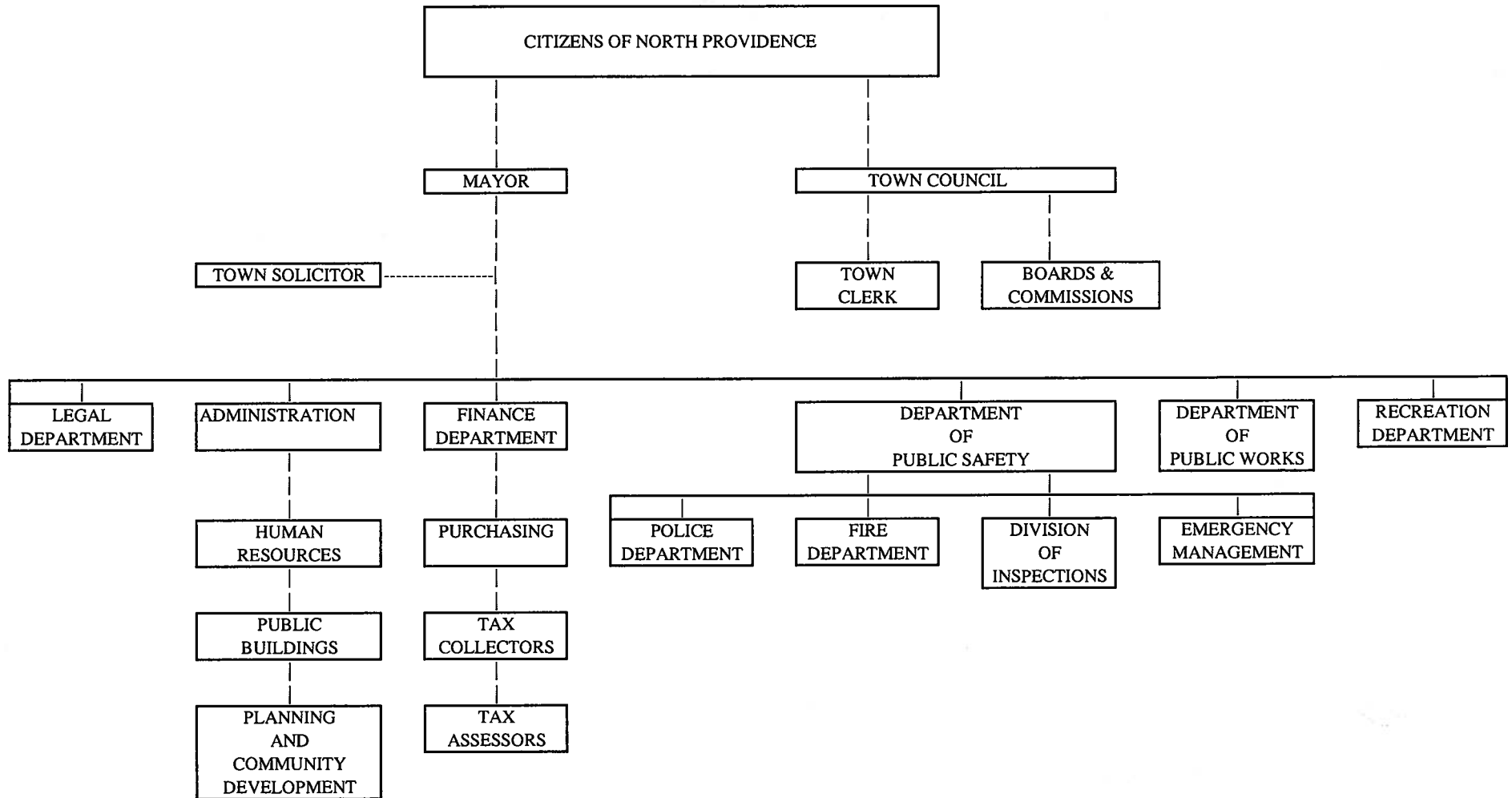
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(CONCLUDED)

TOWN OF NORTH PROVIDENCE

GOVERNMENTAL ORGANIZATION

June 30, 2012



TOWN OF NORTH PROVIDENCE, RHODE ISLAND

JUNE 30, 2012

TOWN COUNCIL

Kristen J. Catanzaro - President
Mansuet J. Giusti, III
Stephen Feola
John Lynch
Joseph Giammarco
Dino Autiello
Alice Brady

MAYOR

Charles A. Lombardi

FINANCE DEPARTMENT

Thomas Massaro, Finance Director
Maria G. Vallee, Town Controller
Claudette Mooney, Tax Collector
Janesse Muscatelli, Acting Tax Assessor

TOWN OF NORTH PROVIDENCE

FINANCIAL SECTION

- REPORT OF INDEPENDENT AUDITORS
 - MANAGEMENT'S DISCUSSION AND ANALYSIS
 - BASIC FINANCIAL STATEMENTS
 - SUPPLEMENTARY INFORMATION
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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and Members of the Town Council
Town of North Providence, 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 North Providence, Rhode Island 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 of North Providence, Rhode Island'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 of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 North Providence, 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 of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2013 on our consideration of the Town of North Providence, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of Funding Progress for Pension Plans, and Schedule of Funding Progress of OPEB, on Pages 3 through 10, Pages 61 through 64, Page 65, and Page 66, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of North Providence, Rhode Island's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the Town of North Providence, Rhode Island. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Providence, Rhode Island
January 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

As management of the Town of North Providence, we offer readers of the Town of North Providence's financial Statements this narrative overview and analysis of financial activities of the Town of North Providence for the fiscal year ended June 30, 2012.

Financial Highlights

- On the Government-Wide Statements, the assets of the Town of North Providence exceeded its liabilities at the close of the most recent fiscal year by \$5,955,694. This is a significant improvement over last year when liabilities exceeded assets by \$1,359,160.
- The unrestricted net assets of the governmental activities at June 30, 2012 totaled \$18,415,738.
- As of year-end June 30, 2012, the Town's General Fund had a surplus unassigned fund balance of \$2,982,530. This is an increase of \$821,597 over last year's unassigned fund balance of \$2,160,933.
- As of June 30, 2012 the School Unrestricted Fund had a positive fund balance of \$372,248. This is significantly better than last year's deficit fund balance of \$182,478.
- The Town has one Business-Type Fund, the School Cafeteria Fund. At June 30, 2012, this fund had a restricted net asset deficiency of \$ 59,538.
- On the budgetary basis of accounting, the Town's General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,943,886. This amount is net of a supplemental School appropriation of \$1,100,000 made during the fiscal year. (RSI-1, Pages 61-63) The School Unrestricted Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$554,726. (RSI-2 Page 64).
- The Town participated in a federal probe into illegal online prescription drug sales by Canadian companies. As a result, in April of 2012, the Town was notified that it was allocated \$60 million from a federal forfeiture settlement. These funds are allocated specifically for law enforcement activities and support of community-based programs which are supportive of and consistent with a law enforcement effort or policy. The Town filed a request of the US Department of Justice to allow for \$20.6 million to be applied to the unfunded liability in the Town's Police Pension Fund. On January 11, 2013, the U.S. Department of Justice approved this request. The application of the \$20.6 million will result in eliminating most of the Police Pension Fund's unfunded liability which is estimated to be approximately \$22.4 million at June 30, 2012. It will also result in a significant reduction to the Town's annual Police Pension Fund contribution.
- In June of 2012, the Town purchased 15 acres of land for recreation, open space, and habitat preservation purposes. This purchase of the Camp Meehan property, which borders on Wenscott Reservoir and the Town's Notte Park, was at a cost of \$500,000. The purchase was supported by \$342,500 in grants from the RI Department of Environmental Management and from the Champlin Foundations. Additionally, grants from these two sources are providing \$302,000 towards the cost of improvements at Camp Meehan.
- In 2012, the Town completed a geothermal / HVAC retrofit project for heating and air conditioning at the Town Hall. The project cost approximately \$590,000 and was funded entirely by Federal and State grants. The project replaced Town's boilers and air conditioning units with new efficient equipment. Additionally, this geothermal project utilizes the heat or cool temperature of ground water in fourteen wells located behind the Town Hall for a state of the art, energy efficient system that will reduce the annual energy cost for heating and cooling at the Town Hall. This project became operational in August of 2012.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction of the Town of North Providence's basic financial statements. The Town of North Providence's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The Town of North Providence's basic financial statements and other supplementary financial information provide information about all the Governments' activities. They provide both a short-term and a long-term view of the Town's financial health as well as information about activities for which the Town acts solely as a trustee for the benefit of those outside of the Town's government.

Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the Town of North Providence's finances, in a manner which is similar to a private-sector business. They are presented on the accrual base of accounting where revenues and expenditures are recognized on the date they occurred rather than on the date they were collected or paid.

The *Statement of Net Assets* presents information on all of the Town of North Providence'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 of North Providence is improving or deteriorating.

The *Statement of Activities* presents information showing how the Government's net assets changed during the fiscal year. All changes in net assets are reported when 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 the future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Town of North Providence which are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Town's governmental activities include general government and administration, public safety, development services, cultural and recreational services.

The government-wide financial statements are reported on pages 11 through 12.

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 of North Providence, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town of North Providence can be divided into two categories: governmental funds and proprietary 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 current sources and uses 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 funds with similar 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 statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of North Providence maintains governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, School Unrestricted Fund (Special Revenue Fund), and Debt Service Fund, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental funds statements are presented on pages 13 through 16.

Proprietary Funds

The Town of North Providence's proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of North Providence has only one proprietary fund, this being an enterprise fund, the North Providence School Cafeteria Fund. This fund operates as a federally mandated school food service system for low income families on a for profit basis.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The North Providence School Cafeteria fund, which is not a major fund, is presented in the proprietary funds.

The basic proprietary fund financial statements are presented on pages 17 through 19.

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 statement because resources of those funds are *not* available to support the Town of North Providence's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements are presented on pages 20 through 21.

Notes to 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 are presented on pages 22 through 60.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information pertinent to the Town of North Providence's operations. Required Supplementary information is presented on pages 61 through 66.

The combining statements referred to earlier in connection with non-major governmental funds, and fiduciary funds (as applicable) are presented on pages 67 through 74.

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 of North Providence, assets exceeded liabilities by \$5,955,694 as of June 30, 2012.

The largest portion of the Town of North Providence's net assets consists of its investments in capital assets such as land, buildings and improvements, motor vehicles, furniture and equipment and infrastructure, less any debt used to acquire these assets which is still outstanding. The Town of North Providence uses these capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the Town of North Providence's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves are highly unlikely to be used to liquidate these liabilities.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

NET ASSETS

June 30, 2012 and 2011 (in 000's)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 19,815	\$22,577	\$ 126	\$202	\$ 19,941	\$22,779
Capital Assets	47,234	45,333	0	0	47,234	45,333
Total Assets	67,049	67,910	126	202	67,175	68,112
Long-Term Liabilities	47,669	50,994	0	0	47,669	50,994
Other Liabilities	13,364	18,192	185	285	13,549	18,477
Total Liabilities	61,033	69,186	185	285	61,218	69,471
Net Assets:	<u>\$ 6,015</u>	<u>\$(1,276)</u>	<u>\$ (59)</u>	<u>\$ (83)</u>	<u>\$5,956</u>	<u>\$ (1,359)</u>
Invested in capital assets, net of related debt	\$ 24,431	\$20,873	\$ 0	\$ 0	\$24,431	\$20,873
Unrestricted	(18,416)	(22,149)	(59)	(83)	(18,475)	(22,232)
Total Net Assets	<u>\$ 6,015</u>	<u>\$ (1,276)</u>	<u>\$ (59)</u>	<u>\$(83)</u>	<u>\$ 5,956</u>	<u>\$ (1,359)</u>

There are no external restrictions on the Town of North Providence's net assets.

As of June 30, 2012 the Town of North Providence reports a negative (deficit) balance of \$59,538 in business-type activities (School Cafeteria Fund) while the governmental activities have total net assets of \$6,015,232.

Analysis of the Town of North Providence's Operations

The following analysis provides a summary of the Town of North Providence's operations for the year ended June 30, 2012.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND CHANGES IN NET ASSETS

For the Fiscal Years ending June 30, 2012 and 2011 (in 000's)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 3,730	\$ 3,791	\$426	\$ 468	\$ 4,156	\$ 4,259
Operating Grants and Contributions	17,195	18,493	662	540	17,857	19,033
Capital Grants and Contributions	1,457	987			1,457	987
General Revenues:						
Property taxes	67,133	65,547			67,133	65,547
Motor vehicle phase-out taxes	347	349			347	349
Telephone and State PILOT	915	866			915	866
Grants and aid not restricted for a specific program	2,066	1,862			2,066	1,862
Gain on sale of surplus equipment	14	23			14	23
Unrestricted investment earnings	4	5			4	5
Total Revenues	92,861	91,923	1,088	1,008	93,949	92,931
Expenses:						
Legislative, judicial, and administrative	13,294	12,424			13,294	12,424
Department of Finance	766	840			766	840
Public Safety	16,120	18,204			16,120	18,204
Public Services/works	3,771	4,023			3,771	4,023
Grants and contributions	1,289	1,195			1,289	1,195
Education	48,879	48,687			48,879	48,687
Interest on long-term debt	1,451	1,583			1,451	1,583
School Cafeteria			1,064	998	1,064	998
Total Expenses	85,570	86,956	1,064	998	86,634	87,954
Increase (decrease) in net assets	7,291	4,967	24	10	7,315	4,977
Net assets beginning of year	(1,276)	(6,243)	(83)	(93)	(1,359)	(6,336)
Net assets (deficit)end of year	\$6,015	(\$1,276)	(\$59)	(\$83)	\$5,956	(\$1,359)

Financial Analysis of the Town of North Providence's Funds

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

Governmental Funds – The focus of the Town of North Providence'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 of North Providence's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town of North Providence's governmental funds reported a combined ending fund balance of \$7,636,096. Unassigned fund balance amounted to \$2,982,530 with nonspendable fund balance of \$590,289, committed fund balance of \$614,564, and restricted fund balance of \$3,448,713.

The general fund is the operating fund of the Town of North Providence. At the end of the current fiscal year, the Town's general fund ended with an increase in fund balance of \$843,886. This resulted in a cumulative surplus fund balance in the General Fund of \$3,572,819 at June 30, 2012. The unassigned portion of the fund balance/cumulative surplus was \$2,982,530.

Proprietary Funds

The Town of North Providence's proprietary fund statements provide the same type of information as presented in the government-wide financial statements, but in more detail. Unrestricted net assets (cumulative deficit) of the respective proprietary funds are (\$59,538).

General Fund Budgetary Highlights

Total actual revenues exceeded budgeted revenues by \$1,417,502. The most significant favorable revenue variances were in the collection of prior year property taxes, school Medicaid reimbursements, and EMS rescue service reimbursements. Overall, actual expenditures were under budget by \$939,196. The most significant favorable expenditure variances were in the Police Department, Department of Public Works, Environmental Protection, Public Buildings, and health care costs. The combined favorable variance in both revenue accounts and expense accounts amounted to \$2,356,698. However excess revenue received related to the School Department was transferred to the Department and as a result the budgetary excess after transfers was \$1,943,886 (budgetary basis surplus).

Capital Assets and Debt and Administration

Capital Assets

The Town of North Providence's investment in capital assets for its governmental and business-type activities amounts to \$47,053,629 net of accumulated depreciation at June 30, 2012. Included are land, land improvements, building and improvements, vehicles, equipment, furniture and fixtures, and infrastructure.

Capital Assets and Debt and Administration (Continued)

Town of North Providence's Capital Assets (Net of depreciation) in 000's

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$16,185	\$15,583			\$16,185	\$15,583
Buildings and improvements	23,979	24,262			23,979	24,262
Equipment, furn. & fixtures	1,529	1,412			1,529	1,412
Vehicles	1,510	765			1,510	765
Infrastructure	3,787	3,241			3,787	3,241
Land improvements	64	70			64	70
Total	<u>\$47,054</u>	<u>\$45,333</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,054</u>	<u>\$45,333</u>

Long Term Debt

At the end of the current fiscal year, the Town of North Providence had total bonded debt (net of bond premium) of \$30,164,550. Of this amount, 100% comprises bonded debt backed by the full faith and credit of the government.

Town of North Providence, Rhode Island's Outstanding Debt Obligations (000's)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$30,165	\$34,924	\$ 0	\$0	\$30,165	\$34,924
Bond premium	36	49	0	0	36	49
Notes & Lease purchase obligations	983	35	0	0	983	35
Total obligations	<u>\$31,184</u>	<u>\$35,008</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$31,184</u>	<u>\$35,008</u>

There were no outstanding short-term obligations at June 30, 2012.

State statutes limit the amount of general obligation debt a governmental entity may have outstanding to 3% of the full assessed value of all taxable property within the Town. The Town of North Providence's limit is \$71,655,500 at year-end based in the December 31, 2010 assessed value of property. The Town of North Providence's outstanding general obligation debt is \$30,164,550 at year-end, which is \$41,490,950 under the State imposed limitation.

The Town of North Providence's bonds are insured and hold a Baa2 credit rating from Moody's and a BBB- from Standard & Poor's.

Additional information of the Town of North Providence's debt administration can be found in footnote 10 on pages 41 through 43 of this report.

Economic Factors and Next Year's Budgets and Rates

- The Town of North Providence has budgeted \$87,117,373 for fiscal 2013, an increase of \$2,842,439 over fiscal 2012. The increase was principally for an increase appropriation for education in the amount of \$2,783,594. Approximately \$2 million of the increase for education was derived from additional state aid.
- Budgeted educational expenses are \$45,759,369 or 53%; leaving \$41,358,004 or 47% budgeted for all other purposes.
- State aid to education is budgeted at \$14,043,109 which is an increase of \$1,904,122 over fiscal 2012. State aid represents 31% of the education budget.
- In fiscal 2013 the Town will deposit an unbudgeted amount of \$20.6 million into the Police Pension Fund. This deposit will be made from \$60 million of federal forfeiture funds awarded to the Town. This incremental funding will significantly reduce the unfunded liability of the Police Pension Fund estimated at \$22.4 million at June 30, 2012. It will also result in a significant reduction to the Town's annual Police Pension Fund contribution which would exceed \$2.2 million annually without application of the federal forfeiture funds.
- The Town of North Providence has a four-tier tax base. This base is comprised of the following: Residential Real Estate \$24.15; Commercial Real Estate \$30.85; Tangible Property \$69 and Motor Vehicle \$41.95.

Request for Information

This financial report is designed to provide our citizens a general overview of the Town of North Providence's finances. For questions concerning this report or for additional financial information, please contact the Town of North Providence, Finance Director, Thomas Massaro, 2000 Smith Street, North Providence, Rhode Island 02911.

TOWN OF NORTH PROVIDENCE

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED 2019

TOWN OF NORTH PROVIDENCE RHODE ISLAND**Statement of Net Assets**
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 9,579,799	\$ 98,002	\$ 9,677,801
Accounts receivable, net	6,935,052		6,935,052
Internal balances	(2,037)	2,037	-
Due from federal and state governments	2,712,235	25,601	2,737,836
Prepays	590,289		590,289
Total Current Assets	19,815,338	125,640	19,940,978
Noncurrent Assets:			
Deferred charges - bond issuance costs	179,740		179,740
Capital assets not being depreciated	16,184,150		16,184,150
Capital assets, net of accumulated depreciation	30,869,479		30,869,479
Total Noncurrent Assets	47,233,369	-	47,233,369
TOTAL ASSETS	67,048,707	125,640	67,174,347
LIABILITIES:			
Current Liabilities:			
Accounts payable	2,571,549	185,178	2,756,727
Accrued liabilities	4,098,250		4,098,250
Unearned revenue	333,781		333,781
Current portion of compensated absences	950,000		950,000
Current portion of IBNR claims	386,342		386,342
Current portion of bonds and notes	5,024,521		5,024,521
Total Current Liabilities	13,364,443	185,178	13,549,621
Noncurrent Liabilities:			
Compensated absences	6,751,395		6,751,395
Net pension obligation	5,697,889		5,697,889
Net OPEB obligation	9,060,230		9,060,230
Bond and note obligations, net	26,159,518		26,159,518
Total Noncurrent Liabilities	47,669,032	-	47,669,032
TOTAL LIABILITIES	61,033,475	185,178	61,218,653
NET ASSETS:			
Invested in capital assets net of related debt	24,430,970	-	24,430,970
Unrestricted	(18,415,738)	(59,538)	(18,475,276)
TOTAL NET ASSETS	\$ 6,015,232	\$ (59,538)	\$ 5,955,694

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

*Statement of Activities
For the Year Ended June 30, 2012*

<u>Functions/Programs:</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services, Fees & Licenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Legislative, judicial, and administrative	\$ 13,293,939	\$ 1,021,961	\$ 153,552	\$ 567,219	\$ (11,551,207)		\$ (11,551,207)
Department of finance	765,730				(765,730)		(765,730)
Public safety	16,119,705	1,445,132	684,757	-	(13,989,816)		(13,989,816)
Public services	3,771,466	292,483	19,883	748,428	(2,710,672)		(2,710,672)
Grants and contributions	1,288,737	-	163,008	-	(1,125,729)		(1,125,729)
Education	48,879,203	971,771	16,173,755	141,438	(31,592,239)		(31,592,239)
Interest on long-term debt	1,450,954				(1,450,954)		(1,450,954)
Total governmental activities	85,569,734	3,731,347	17,194,955	1,457,085	(63,186,347)		(63,186,347)
Business-type activities:							
School Cafeteria	1,063,851	426,113	661,780			\$ 24,042	24,042
Total business-type activities	1,063,851	426,113	661,780	-	-	24,042	24,042
Total	\$ 86,633,585	\$ 4,157,460	\$ 17,856,735	\$ 1,457,085	(63,186,347)	24,042	(63,162,305)
General revenues:							
Property taxes					67,132,657		67,132,657
Motor vehicle phase-out taxes					347,631		347,631
Telephone and State PILOT payments					914,709		914,709
Grants and aid not restricted for a specific program					2,066,089		2,066,089
Gain on sale of surplus equipment					13,561		13,561
Unrestricted investment earnings					2,512	-	2,512
Total general revenues and transfers					70,477,159	-	70,477,159
Change in Net assets					7,290,812	24,042	7,314,854
Net assets - beginning of year					(1,275,580)	(83,580)	(1,359,160)
Net assets - ending of year					\$ 6,015,232	\$ (59,538)	\$ 5,955,694

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	School Unrestricted Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 4,222,819	\$ 1,371,908	\$ 2,169,991	\$ 1,815,081	\$ 9,579,799
Accounts and other receivable, net	6,719,753	-		215,299	6,935,052
Due from federal and state governments	747,715			1,964,520	2,712,235
Prepaid expenditures	590,289			-	590,289
Due from other funds	2,243,539	2,479,874		913,755	5,637,168
TOTAL ASSETS	\$ 14,524,115	\$ 3,851,782	\$ 2,169,991	\$ 4,908,655	\$ 25,454,543
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 1,615,650	\$ 314,322		\$ 641,577	\$ 2,571,549
Accrued liabilities	835,436	2,878,814		-	3,714,250
Due to other funds	2,940,548	286,398	\$ 576,180	1,836,079	5,639,205
Deferred revenues	5,559,662			333,781	5,893,443
TOTAL LIABILITIES	10,951,296	3,479,534	576,180	2,811,437	17,818,447
FUND BALANCES:					
Nonspendable	590,289				590,289
Restricted			1,593,811	1,854,902	3,448,713
Committed		372,248		242,316	614,564
Unassigned	2,982,530			-	2,982,530
TOTAL FUND BALANCES	3,572,819	372,248	1,593,811	2,097,218	7,636,096
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,524,115	\$ 3,851,782	\$ 2,169,991	\$ 4,908,655	\$ 25,454,543

(CONTINUED)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Balance Sheet
Governmental Funds
June 30, 2012**

Amounts reported for governmental activities in the Statement of Net Assets are different because of the following:

Total Fund Balance reported in Exhibit B-1	\$ 7,636,096
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the Gov't Fund Balance Sheet - represents net capital assets at June 30, 2012	47,053,629
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities are reported in the Statement of Net Assets.	(54,029,895)
Deferred bond issuance costs are recorded as an expenditure in the Governmental Funds when paid but are capitalized and amortized over the life of the bond in the Statement of Net Assets.	179,740
Deferred tax and other miscellaneous revenues (net of an allowance for uncollectibles) are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Assets.	5,559,662
Interest expense accrued on debt obligations of governmental funds is not due and payable with current financial resources and therefore is reported in the Statement of Net assets and not the Governmental Fund Balance Sheet at June 30, 2012.	(384,000)
Total Net Assets reported in Exhibit A-1	<u>\$ 6,015,232</u>

(CONCLUDED)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year the Ended June 30, 2012

	General Fund	School Unrestricted Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
General property taxes	\$ 66,816,569				\$ 66,816,569
Intergovernmental	3,491,437	\$ 12,160,857		\$ 4,511,809	20,164,103
Licenses and fees	433,758			179,789	613,547
Investment income	987		\$ 96	1,429	2,512
Departmental	952,754				952,754
Contributions				20,366	20,366
State on behalf pension contribution		1,796,000			1,796,000
Medicaid reimbursement		765,942			765,942
Miscellaneous	1,233,140	191,799		630	1,425,569
TOTAL REVENUES	72,928,645	14,914,598	96	4,714,023	92,557,362
EXPENDITURES:					
Current:					
Legislative, judicial, and administrative	2,282,487				2,282,487
Department of finance	765,237				765,237
Public safety	15,057,592			705,994	15,763,586
Public services/works	3,630,964				3,630,964
Grants and contributions	1,276,979				1,276,979
Education		45,797,161		2,061,598	47,858,759
Other	10,521,222			209,667	10,730,889
Debt Service:					
Principal	2,888,942		1,975,000	-	4,863,942
Interest and other costs	1,165,821		299,345	-	1,465,166
Bond issuance costs	-				-
Capital:					
Capital expenditures	752,154	124,499		2,056,899	2,933,552
TOTAL EXPENDITURES	38,341,398	45,921,660	2,274,345	5,034,158	91,571,561
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	34,587,247	(31,007,062)	(2,274,249)	(320,135)	985,801
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of debt obligations	752,154	-	-	300,000	1,052,154
Transfers in	-	31,561,788	2,832,508	101,219	34,495,515
Transfers out	(34,495,515)	-	-	-	(34,495,515)
TOTAL OTHER FINANCING SOURCES (USES)	(33,743,361)	31,561,788	2,832,508	401,219	1,052,154
NET CHANGE IN FUND BALANCES	843,886	554,726	558,259	81,084	2,037,955
FUND BALANCE (DEFICIT) BEGINNING OF YEAR	2,728,933	(182,478)	1,035,552	2,016,134	5,598,141
FUND BALANCE AT END OF YEAR	\$ 3,572,819	\$ 372,248	\$ 1,593,811	\$ 2,097,218	\$ 7,636,096

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds (Exhibit B-2) to the Statement of Activities (Exhibit A-2)
Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds (Exhibit B-2):	\$ 2,037,955
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	1,720,474
Proceeds from issuance of long-term debt is reported as an other financing source in the Fund Statements. However these proceeds are reported as long-term obligations in the Government-wide statements.	(1,052,154)
Governmental funds report principal repayments on debt obligations as an expenditure. However, the repayment of principal has no effect on the net assets.	4,863,942
Governmental funds report bond issuance costs as an expenditure when it is paid. However, these costs are capitalized and amortized over the life of the bond obligation. This is the amount by which amortization of bond issuance costs exceeded the amortization of bond premium for fiscal 2012.	(47,788)
Governmental funds do not report estimated accrued IBNR claims as a liability in the Fund Statements if they are not going to be paid with current available resources. These liabilities are reported in the government-wide financial statements as long-term debt. This adjustment reflects the decrease in the estimate from the amount reported at June 30, 2011.	5,248
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. Deferred tax and other revenue increased from fiscal 2011.	816,581
Allowance for doubtful accounts on tax & other receivables is not reported in the governmental fund statement of revenue, expenditures and changes in fund balances. The change in the allowance is included in the fund balance sheet as a contra to both receivables and deferred revenue. The increase in the allowance provision is recorded against revenue in the statement of activities.	(513,397)
Accrued interest on debt obligations is not recorded in the governmental funds as it will not be paid with current measurable and available resources. The change in accrued interest is reported in the government-wide statement of activities. This is the decrease in the accrual for the year ended June 30, 2012 versus June 30, 2011.	62,000
Net pension & OPEB obligations are long-term liabilities reported in the government-wide financial statements but not reported in the fund statements as it is not expected to be paid with current measurable and available resources. Accordingly, the increase in these obligations is reported as an expenditure in the government-wide statement of activities. These net obligations increased in fiscal 2012.	(2,037,598)
Decrease in compensated absences. The governmental fund reflects this activity when it will be paid with measurable and available resources. The change from prior year balances is reflected in the statement of activities and changes in net assets.	1,435,549
Change in Net Assets of Governmental Activities in the Statement of Activities (Exhibit A-2)	\$ 7,290,812

TOWN OF NORTH PROVIDENCE RHODE ISLAND

Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise Funds	
	School Cafeteria (current year)	School Cafeteria (prior year)
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 98,002	\$ 155,015
Due from other funds	2,037	-
Due from federal and state governments	25,601	46,769
Total Current Assets	125,640	201,784
 TOTAL ASSETS	 125,640	 201,784
 LIABILITIES:		
Current Liabilities:		
Accounts payable	185,178	285,364
Total Current Liabilities	185,178	285,364
 TOTAL LIABILITIES	 185,178	 285,364
 NET ASSETS:		
Unrestricted	(59,538)	(83,580)
TOTAL NET ASSETS	\$ (59,538)	\$ (83,580)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Statement of Revenues, Expenses, and Changes in Fund Retained Earnings
Proprietary Funds
For the Year Ended June 30, 2012

	<u>Enterprise Funds</u>	
	<u>School Cafeteria</u> <u>(current year)</u>	<u>School Cafeteria</u> <u>(prior year)</u>
Operating revenues:		
Federal & State Grants for free and reduced lunch	\$ 661,780	\$ 540,162
Charges for usage and service	426,113	467,668
Total Operating Revenues	<u>1,087,893</u>	<u>1,007,830</u>
Operating expenses:		
Management operations costs	1,059,281	996,844
Maintenance and other costs	4,570	1,126
Total Operating Expenses	<u>1,063,851</u>	<u>997,970</u>
Operating income (loss)	<u>24,042</u>	<u>9,860</u>
Nonoperating revenues:		
Interest income	-	-
Total Nonoperating Revenues	<u>-</u>	<u>-</u>
Revenues over expenses	24,042	9,860
Retained earnings (deficit) at beginning of year	<u>(83,580)</u>	<u>(93,440)</u>
Retained earnings (deficit) at end of year	<u>\$ (59,538)</u>	<u>\$ (83,580)</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2012

	Enterprise Fund School Cafeteria
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 426,113
Cash received from State and Federal Grants	682,948
Cash paid to suppliers for goods and services and other operating payments	(1,164,037)
Net cash used by operating activities	(54,976)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Increase in amounts due from other funds	(2,037)
Net cash used by noncapital financing activities	(2,037)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	-
Net cash provided by investing activities	-
Net decrease in cash and cash equivalents	(57,013)
Cash and cash equivalents, beginning of year	155,015
Cash and cash equivalents, end of year	\$ 98,002
Reconciliation of operating loss to net cash used for operating activities:	
Operating income	\$ 24,042
(Increase) decrease in:	
Intergovernmental receivables	21,168
Increase (decrease) in:	
Accounts payable	(100,186)
Net cash used by operating activities	\$ (54,976)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012**

	Police Pension Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 1,028,584	\$ 441,907
Investments	11,398,137	-
Receivables	110,851	16,145
TOTAL ASSETS	12,537,572	458,052
LIABILITIES		
Accrued expenses	3,083	
Deposits held in custody for others		458,052
TOTAL LIABILITIES	3,083	458,052
NET ASSETS		
Held in trust for pension benefits	\$ 12,534,489	\$ -

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2012

	Police Pension Trust Fund
ADDITIONS:	
Contributions - employer	\$ 1,568,508
Contributions - plan members	291,670
Investment income (loss) - includes realized and unrealized gains and losses	<u>(346,481)</u>
TOTAL ADDITIONS	<u>1,513,697</u>
DEDUCTIONS:	
Benefits paid	1,507,411
Investment expense	<u>91,372</u>
TOTAL DEDUCTIONS	<u>1,598,783</u>
CHANGE IN NET ASSETS	(85,086)
NET ASSETS - BEGINNING OF YEAR	12,619,575
NET ASSETS - END OF YEAR	<u><u>\$ 12,534,489</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

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

Reporting Entity

The Town of North Providence was incorporated in 1765. The Town operates under a Council/Mayor form of government, with a seven member Town Council headed by a Council President.

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

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

The following entities were considered for classification as component units for fiscal year 2012.

- North Providence School Department
- Salvatore Mancini Resource & Activity Center, Inc.

Although the North Providence School Department meets certain criteria of the tests listed above, it is not deemed to have a separate legal status apart from the Town. As a result, the financial data of the North Providence School Department has been included in the Governmental Funds within the Town's financial statements. The other entity noted above did not meet the criteria to be reported as component unit and as such is omitted from these financial statements.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity 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 expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. Major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements. A fund is considered a major fund 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 the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

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 all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Funds

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated.

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 expenditure for specified purposes other than debt service or capital projects.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

Capital Projects Funds

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent Funds

The Permanent Funds account for assets held by the Town pursuant to trust agreements. 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 does not currently maintain any Permanent Funds.

Proprietary Funds

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The Proprietary Funds include both Enterprise and Internal Service Funds. The Town currently has one Enterprise Fund and no Internal Service Funds.

Fiduciary Funds (Not included in government wide statements)

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity. The reporting entity includes nine agency funds at June 30, 2012. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The agency funds are as follows:

- | | | |
|---|-------------------------|------------------------|
| - Unclaimed Estates | - Seized Property | - Low Cost Spay/Neuter |
| - Animal Care Donations | - Animal Care Adoptions | - Realty Tax Transfer |
| - Food Pantry | - Performance Bond Fund | |
| - Student Activities Fund (comprised of numerous Student Activity accounts) | | |

Private-Purpose Trust Funds

Private-Purpose trust funds are used to account for resources legally held in trust for use by parties outside of the Town, and cannot be used at the Town's discretion or to support the Town's general operations. The reporting entity currently does not have any funds that meet the definition of a private-purpose trust fund.

Pension Trust Funds

The Town of North Providence currently maintains one Pension Trust Fund to account for the activity of the Town administered Police Pension Plan.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major and Non-Major Funds

The funds are further classified as major or non-major as follows:

<u>Fund</u>	<u>Brief Description</u>
Major:	
General Fund:	See above for description.
Debt Service Fund:	This fund is used to report transfers from the General Fund that are restricted for principal and interest payments on the deficit reduction bond. <i>(This fund did not meet the definition for classification as a major fund. However, management has elected to present the fund as a major fund.)</i>
Special Revenue Fund: School Unrestricted Fund	This fund is used to report all financial transactions of the North Providence School Department, which are not legally required to be accounted for separately.
Proprietary Funds: School Cafeteria	Accounts for the operations of the school breakfast and lunch programs of the North Providence School Department. <i>(This fund did not meet the definition for classification as a major fund. However, management has elected to present the fund as a major fund.)</i>
Non-Major:	
Special Revenue Funds:	Police Grants, Community Development Block Grants, Dare Fund Program, Drug Free Community Grant, Federal Drug Forfeiture, State Drug Forfeiture, Emergency Management, Fire Alarm Tie-in, EPA Grant, Historical Records Trust, Fire Prevention Fund, Land Trust Reserve Fund, Recording Fees Fund, Decon Grant, Substance Abuse Task Force, Fireworks Parade Fund, Recycling Fund, Stormwater Grant, Roadway Aid Grant, Comprehensive Plan Grant, Federal Energy Grant, State Energy Grant, and School Restricted Funds (consisting of 14 restricted grant funds).
Capital Project Funds:	School Capital Reserve, Capital Project Fund, and Kids Klub School Improvement Fund.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item (b) below and the accrual basis of accounting.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. The Town considers property taxes, State PILOT revenue, Telephone Tax revenue, and other miscellaneous revenue from the State of Rhode Island as available if they are collected within 60 days after year end. Grant revenue of the governmental funds is generally recognized as revenue when earned as long as the payment is expected to be received within twelve months after fiscal year end. Substantially all other revenue of the governmental funds is recognized utilizing the modified accrual method of accounting and as such is recognized as revenue when received.
- (b) The proprietary funds and pension trust funds utilize "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.
- (c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

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

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds, agency funds, and pension trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts reported as program revenues include charges to customers or applicants for licenses, fees, goods, services or privileges provided, operating grants and contributions, and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as 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 in connection with the proprietary fund's principal operation. The principal operating revenues of the enterprise funds are charges for services provided in accordance with the fund's purpose. Operating expenses for the enterprise funds include the costs of providing the services, including administration and depreciation on capital assets. All other revenue and expense items not meeting these criteria are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Fund Equity

Cash

Cash and cash equivalents are carried at cost. Cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased. Substantially, all of the Town's cash and cash equivalents are held in public deposit institutions. Under Rhode Island general laws, 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 the date of maturity. At times, the Town pools cash resources of its various funds to facilitate the management of cash and maximize investment returns. State statutes and the Town charter authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

Investments

The Town invests in various types of investments, which are stated at fair value in accordance with GASB Statement No. 31.

Accounts Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for uncollectible accounts receivable amounted to \$5,076,688 at June 30, 2012. The allowance for uncollectible accounts includes \$3,850,000 for property taxes, \$364,161 for tax lien property, \$123,772 for municipal court fines, \$603,755 for EMS rescue billings, and \$135,000 for first time home buyer loans offered through the CDBG program. Major receivable balances for the governmental activities include property taxes (approximately 80% of the gross receivable balance at June 30, 2012).

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

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Property Taxes

Real and personal property taxes are based on values assessed as of each December 31 (lien date) and attach as an enforceable lien on property as of August 1 (levy date). Assessed values are established by the Tax Assessor's Office and are currently calculated at 100% of the value. Taxes are due in equal quarterly installments on August 1, November 1, February 1, and May 1 following the levy date or taxes may be payable by a 10 month payment plan starting in September and lasting thru June. Taxes due and unpaid after the respective due dates are subject to interest at a rate of 12% per annum calculated on the unpaid portion of the total tax. An automatic lien is placed on the taxpayer's property if payment has not been received by the tax due date. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting in the fund financial statements.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets. Prepays recorded in governmental type funds do not reflect current appropriated resources and, thus, an equivalent portion of the fund balance is reserved.

Property, Plant and Equipment

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements as discussed below.

Government-Wide Statements

In the government-wide financial statements, long-lived 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.

The Town has adopted a formal capitalization policy which defined capital assets as assets with an estimated useful life in excess of one year and a cost basis of \$5,000 or more, except for land acquisitions which are recorded as capital assets regardless of the cost.

The government-wide financial statements include all infrastructure assets in accordance with GASB Statement #34.

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 estimated useful life using the straight-line method of depreciation.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Property, Plant and Equipment (Continued)

Government-Wide Statements (Continued)

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

Land Improvements	20 years
Buildings and improvements	20 to 100 years
Equipment, Furniture, and Fixtures	3 to 20 years
Vehicles	3 to 20 years
Infrastructure	20 to 50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as in the government-wide statements.

Deferred Revenues

In the government-wide financial statements, deferred revenues represent funds received in advance of being earned/owed or receivables which will be collected and included in revenues of future fiscal years. In the General Fund, (of the fund financial statements), deferred revenues include property tax receivables which were assessed on December 31, 2010 and prior and are not collected within 60 days of June 30, 2012. Net deferred taxes included in the fund financial statements were \$4,553,714 at June 30, 2012. In addition, net deferred revenue in the fund financial statements includes EMS billings and Municipal Court fines receivable which were not considered available at June 30, 2012 totaling \$944,334 and \$61,614, respectively. Deferred revenues noted on the fund financial statements totaled \$5,559,662.

Interfund Transactions

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

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

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

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

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

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

Fund Financial Statements

Governmental fund equity is classified as fund balance. In accordance with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. These categories are defined below:

- (a) Non-spendable Fund Balance – includes the amount of fund balance that cannot be spent because it is either (1) not in spendable form or (2) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Classifications (Continued)

Fund Financial Statements (Continued)

- (b) Restricted Fund Balance – includes amounts that are restricted to specific purposes. Fund balance is reported as restricted when constraints placed in the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislature.
- (c) Committed Fund Balance – includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specific use by taking the same type of action it employed to previously commit those amounts. The highest level of decision-making authority for the Town of North Providence is the Town Council. The Town Council passes Town Ordinances to establish committed fund balance.
- (d) Assigned Fund Balance – includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the governing body itself or (2) a body (a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- (e) Unassigned Fund Balance – is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may need to report a negative unassigned fund balance.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay. The amount recorded is the unused days earned at the current rate of pay. For governmental activities the general fund is used to satisfy this liability as it becomes due, while each enterprise fund accounts for all its settlement of business-type liabilities for compensated absences. Compensated absences are accrued at varying amounts based on the collective bargaining unit contracts of the various unions.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$54,029,895 are as follows:

Bonds payable, including bond premium.....	\$30,200,930
Note and lease purchase obligations	983,109
Accrued IBNR claims.....	386,342
Net Pension Obligation	5,697,889
Net OPEB Obligation	9,060,230
Compensated absences	<u>7,701,395</u>
Total	<u>\$54,029,895</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$1,720,474 difference are as follows:

Capital outlays	\$3,400,616
Depreciation expense	<u>(1,680,142)</u>
Net adjustment – increase net assets	<u>\$1,720,474</u>

Another element of that reconciliation states that, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.” The details of this \$816,581 difference are as follows (before affect of allowance):

Deferred revenue - ending.....	\$10,137,189
Deferred revenue – beginning	<u>(9,320,608)</u>
Net adjustment –increase net asset	<u>\$ 816,581</u>

Another element of that reconciliation states that, “Net pension and OPEB obligations are long-term liabilities reported in the government-wide statements but not reported in the fund statements as it is not expected to be paid with current measurable and available resources.” The details of this (\$2,037,598) difference are as follows:

Increase in net OPEB Obligation.....	(\$1,925,569)
Increase in Net Pension Obligation	<u>(112,029)</u>
Net adjustment – decrease net assets	<u>(\$2,037,598)</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

During the fiscal year ended June 30, 2012 the Town implemented the following new accounting pronouncements:

- GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the fiscal year ending June 30, 2013 (Town elected to early implement).
- GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53.

The following are recently issued governmental accounting standards which will be applicable in future years:

- GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements, effective for the fiscal year ending June 30, 2013.
- GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the fiscal year ending June 30, 2013.
- GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the fiscal year ending June 30, 2013.
- GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the fiscal year ending June 30, 2014.
- GASB Statement No. 66 – Technical Corrections – 2012 – an Amendment of GASB Statement No. 10 and No. 62, effective for the fiscal year ending June 30, 2014.
- GASB Statement No. 67 – Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25, effective for the fiscal year ending June 30, 2014.
- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, effective for the fiscal year ending June 30, 2015.

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

2. BUDGETARY PROCESS

(a) Adoption

In accordance with the North Providence Legislative Charter, the Town has formally established budgetary accounting control for its General Fund and the School Unrestricted Fund. The annual operating budget for the General Fund is subject to adoption by the Town Council. The School Unrestricted Fund is subject to an annual operating budget approved by the School Committee and adopted by the Town Council. The annual operating budgets' appropriation amounts are supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. Appropriations, which are not expended lapse at year end. The Town's General Fund and School Unrestricted Fund operating budgets are in conformance with generally accepted accounting principals and the budget to actual presentations reflect the same basis of accounting.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. BUDGETARY PROCESS

(a) Adoption

Amendments to the operating budget that do not result in additional appropriations may be made within departments by means of a transfer. The Mayor has authority to make such transfers within departments. Any other transfers made outside the department level during the fiscal year require Town Council approval. The level on which all budgeted funds may not legally exceed appropriations is at the departmental level.

(b) General Fund

The following General Fund departmental expenditures exceeded appropriations: Public Safety - \$198,532; Grants and Contributions - \$2,563; and Debt Service - \$7,959. These over expenditures were offset by positive variances of \$184,236 in Legislative, Judicial, and General Government; \$27,108 in Department of Finance; \$544,678 in Public Services/Works; and \$392,228 in other expenditures. Overall total expenditures of the General Fund (excluding transfers to School Unrestricted Fund) were less than the amount budgeted by \$939,196 while actual revenue received was over the amount budgeted by \$1,417,502.

As a result of the implementation of GASB Statement #54, the revenues restricted for the North Providence School Department are reported directly in the School Unrestricted Fund for GAAP purposes. Whereas, for budgetary purposes, these revenues are reported in the Town's General Fund with a matching transfer out to the School Unrestricted Fund. These revenues and transfers totaled \$12,926,799 for fiscal 2012. In addition, the revenue received from the State of Rhode Island for Library Grant Aid (\$163,008) is reported as revenue for GAAP purposes but netted against the grant to library expenditure for budget purposes. A reconciliation of the Town's General Fund revenues and expenditures and other financing sources (uses), as reported on Exhibits B-2 and RSI - 1, is presented below:

REVENUES AND OTHER FINANCING SOURCES

Total General Fund revenues and other financing sources	
from Exhibit B-2.....	\$73,680,799
Adjustments:	
Proceeds from issuance of debt not budgeted	(752,154)
State Aid and Medicaid included in School Unrestricted Fund	
for GAAP but part of budgetary basis revenue	12,926,799
Use of surplus fund balance.....	1,100,000
Library grant aid netted with expenditures for budget purposes.....	<u>(163,008)</u>
Total budgetary basis revenues and other financing sources	
from RSI -1	<u>\$86,792,436</u>

EXPENDITURES AND OTHER FINANCING USES

Total General Fund expenditures and other financing sources	
from Exhibit B-2.....	\$72,836,913
Adjustments:	
Library grant aid netted with expenditures for budget purposes.....	(163,008)
Capital outlays acquired with proceeds from debt financing.....	(752,154)
State Aid and Medicaid included as a transfer out for budget	
purposes but reported directly on the School Unrestricted Fund	
for GAAP	<u>12,926,799</u>
Total budgetary basis expenditures and other financing uses	
from RSI - 1	<u>\$84,848,550</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. BUDGETARY PROCESS (Continued)

(c) Special Revenue Funds

As stated above the School Unrestricted Fund is the only other major governmental fund that has a formally adopted budget. The actual revenues and expenditures of Special Revenue Funds included in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – School Unrestricted Fund – (RSI - 2) are presented on the budgetary basis of accounting which differs from actual revenues and expenditures recognized for the School Unrestricted Fund in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit B-2). GAAP purposes require the on-behalf pension contributions by the State of Rhode Island to be reported as both revenue and expenditures in the funds statements. In addition, the implementation of GASB Statement #54 resulted in the consolidation of some non-major governmental funds into the School Unrestricted Fund for GAAP purposes while these funds remain separate for budget purposes. A reconciliation of the School Unrestricted Fund revenues and expenditures and other financing sources (uses), as reported on Exhibits B-2 and RSI - 2, is presented below:

REVENUES AND OTHER FINANCING SOURCES

Total School Unrestricted revenues and other financing sources from Exhibit B-2.....	\$46,476,386
Adjustments:	
State on behalf pension contribution not budgeted	<u>(1,796,000)</u>
Total budgetary basis revenues and other financing sources from RSI -2	<u>\$44,680,386</u>

EXPENDITURES AND OTHER FINANCING USES

Total School Unrestricted expenditures and other financing sources from Exhibit B-2.....	\$45,921,660
Adjustments:	
State on behalf pension contribution not budgeted	<u>(1,796,000)</u>
Total budgetary basis expenditures and other financing uses from RSI - 2.....	<u>\$44,125,660</u>

3. CASH AND INVESTMENTS

The State of Rhode Island requires, that certain uninsured deposits be collateralized. Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its Federal regulator must be collateralized.

Deposits

The carrying amount of the Town's cash and cash equivalents at June 30, 2012 was \$11,148,292 (including Fiduciary Funds) while the bank balance was \$12,174,062. Of the bank balance, approximately \$11,608,544 was covered by federal depository insurance and \$565,518 was uninsured. The uninsured balance of \$565,518 was held in money market investment accounts.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3. CASH AND INVESTMENTS (Continued)

Investments

Investments of all idle funds shall be made through national banks or trust companies, providing that the financial conditions and integrity of said institution or institutions are verifiable and can be monitored. The investment of funds shall be in direct obligations of the United States Government and "money market instruments" rated "A" or better. Investments in any one institution shall not exceed 5% of that institutions capital and surplus as set forth in the institutions most recent audited financial statements. All investments will be made as would be done by prudent persons of discretion and intelligence in such matters who are seeking a reasonable rate of return and preservation of capital.

At June 30, 2012 the Town's investments were maintained solely in the Fiduciary Funds. Investments in the Police Pension Trust Fund totaled \$11,398,137. These investments consisted of the following:

	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Rating</u>
Mutual Funds	\$ 4,572,160	n/a	n/a	not rated
I Shares – Equities	2,509,128	n/a	n/a	not rated
Common Stock - Equities	<u>4,316,849</u>	n/a	n/a	not rated
Total	<u>\$ 11,398,137</u>			

Interest Rate Risk

The Town limits its exposure to fair value losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools. The investments noted above do not specify a rate of return rather the rate of return is dependent on operating results and economic conditions.

Concentration of Credit Risk

At June 30, 2012 the Town had a diversified portfolio and was not deemed to be concentrated in any one investment category. Although virtually all of the investments are held in common stock and mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

Custodial Credit Risk

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

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

4. PROPERTY TAXES

During the year ended June 30, 2012, the Town received \$347,631 from the State of Rhode Island as payment in accordance with legislation regarding the phase-out of motor vehicle tax. Under the law, excise tax on motor vehicles and trailers were originally supposed to be phased out entirely over a seven-year period commencing with the 1999-2000 fiscal year. Based on fiscal problems with the State budget over the last few years the program has been reduced to a maximum exemption of \$6,000 as of June 30, 2007 in accordance with legislation passed as part of the State's budget for the fiscal year ended June 30, 2007. The phase-out program freezes the tax rate at \$41.95 which was the rate in fiscal year 1997-1998. The exemption remained at \$6,000 per vehicle for the 2007-2008, 2008-2009, and 2009-2010 fiscal years. During fiscal 2010 the State reduced the reimbursement amount for the 3rd and 4th quarters of the fiscal year. Effective July 1, 2010 the State reduced the exemption amount to \$500 per vehicle however the Town was required to maintain the rate frozen at \$41.95.

The State of Rhode Island has also passed legislation to phase-out wholesale and retail inventory tax over a ten-year period effective July 1, 1999. The phase-out of this tax was supposed to be supplemented through an increase in General Revenue Sharing (GRS). The GRS was supposed to be increased from the effective rate of 1% on June 30, 1998 to 4.7% on June 30, 2009. Based on fiscal problems with the State budget over the last few years the program did not increase as scheduled in the 2006, 2007, 2008 or 2009 fiscal years. In fiscal 2004, 2.7% of total State tax revenues were earmarked for GRS to cities and towns. In fiscal 2005 an additional \$1 million was added to the total GRS to cities and towns rather than the planned increase to 3% of the State tax revenues. In fiscal 2006 GRS was increased to 3% of the State tax revenues. In fiscal 2007 GRS was increased by \$137,875 and then cut by \$10,000,000 in fiscal 2008. During the 2009 fiscal year GRS was cut by another \$25,111,876 through the final adopted supplemental State budget. For fiscal 2010 the Governor's budget has eliminated all GRS to Cities and Towns resulting in a loss of \$25,000,000 to the Cities and Towns in the State of Rhode Island.

An automatic lien is placed on the taxpayer's property if payment has not been received by the due date. Interest is charged on past due accounts at a rate of 12% per annum calculated on the unpaid portion of the total tax. The Town does not record interest on delinquent taxes until payment is received.

Net property taxes levied for fiscal year 2012 were based on a net assessed value of approximately \$2,388,515,900 at December 31, 2010 and amounted to approximately \$67,218,014. Collections on this assessment recognized as revenue for the year ended June 30, 2012 amounted to approximately \$63,339,175 which represents approximately 94% of the total tax levy.

The Town recognizes property tax revenues in accordance with Section P70, "Property Taxes" of the Codification of Governmental Accounting and Financial Reporting Standards on the Fund statements. Unpaid property taxes as of June 30, 2012 (\$5,588,024) are recorded as a receivable, net of an allowance for uncollectible property taxes of \$3,850,000. Those net property taxes receivable which were not collected within the 60 days immediately following June 30, 2012 are recorded as deferred revenue and amounted to \$4,553,714 at June 30, 2012. Property taxes recognized as revenue on the Fund statements for the fiscal year ended June 30, 2012 (due to their collection within the 60 days immediately following June 30, 2012) amounted to \$1,034,310.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

5. ACCOUNTS RECEIVABLE

At June 30, 2012 General Fund accounts receivable on the fund statements consisted of the following:

	Receivable <u>Balance</u>	<u>Allowance</u>	Net <u>Receivable</u>	Recognized 60 Day <u>Rule Collections</u>	Fund Statement Deferred <u>Revenue</u>
Property taxes	\$ 9,438,024	(\$3,850,000)	\$5,588,024	\$1,034,310	\$4,553,714
Tax lien property	364,161	(364,161)	0	0	0
Municipal Court fees	185,386	(123,772)	61,614	0	61,614
EMS Rescue billings	1,548,089	(603,755)	944,334	0	944,334
Other receivables	125,781	(0)	125,781	125,781	0
Total	\$11,661,441	(\$4,941,688)	\$6,719,753	\$1,160,091	\$5,559,662

6. CAPITAL ASSETS

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

	Balances <u>7/1/11</u>	<u>Additions</u>	Retirements & <u>Disposals</u>	Balances <u>6/30/12</u>
Governmental Activity:				
Nondepreciable Assets:				
Land	\$15,582,648	\$ 601,502		\$16,184,150
Total nondepreciable assets	15,582,648	601,502	\$ 0	16,184,150
Depreciable Assets:				
Buildings and improvements	44,558,515	523,056		45,081,571
Land improvements	264,560			264,560
Vehicles	4,881,367	1,058,004	(83,455)	5,855,916
Equipment, furniture and fixtures	2,792,128	408,265		3,200,393
Infrastructure	6,465,302	809,789		7,275,091
Total depreciable assets	58,961,872	2,799,114	(83,455)	61,677,531
Total cost	74,544,520	3,400,616	(83,455)	77,861,681
Accumulated Depreciation:				
Buildings and improvements	(20,296,814)	(806,054)		(21,102,868)
Land improvements	(194,674)	(5,517)		(200,191)
Vehicles	(4,115,796)	(313,207)	(83,455)	(4,345,548)
Equipment, furniture and fixtures	(1,380,059)	(290,924)		(1,670,983)
Infrastructure	(3,224,022)	(264,440)		(3,488,462)
Total accumulated depreciation	(29,211,365)	(1,680,142)	(83,455)	(30,808,052)
Net capital assets	\$45,333,155	\$ 1,720,474	\$ 0	\$47,053,629

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. CAPITAL ASSETS (Continued)

	<u>Balances</u> <u>7/1/11</u>	<u>Additions</u>	<u>Retirements &</u> <u>Disposals</u>	<u>Balances</u> <u>6/30/12</u>
Business- type Activities:				
Machinery, equipment and furniture	\$ 93,795			\$93,795
Accumulated Depreciation:				
Machinery, equipment and furniture	(93,795)			(93,795)
Net capital assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Depreciation expense for the year ended June 30, 2012 was charged to the following functions/programs of the Town:

Governmental Activities:

Legislative, judicial, and administrative	\$ 97,448
Public safety.....	570,240
Public services/works	208,506
Grants and Contributions.....	161,966
Education	<u>641,982</u>
Total	<u>\$ 1,680,142</u>

7. TAX ANTICIPATION NOTE PAYABLE

On December 21, 2011 the Town entered into a tax anticipation note payable on June 26, 2012 in the amount of \$4,000,000. The note bears interest at an annual rate of 3.75%. The note payable obligation was paid in full as of June 30, 2012 and therefore there are no short-term obligations presented in the Fund Statements as of June 30, 2012.

<u>Balance</u> <u>7/1/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2012</u>
<u>\$4,000,000</u>	<u>\$4,000,000</u>	<u>\$8,000,000</u>	<u>\$0</u>

On August 1, 2012 the Town entered into a new tax anticipation note obligation in the amount of \$3,500,000 with interest at 3.50%. The note is due in full on December 6, 2012.

8. DUE FROM FEDERAL AND STATE GOVERNMENTS

Due from federal and state governments represent balances on contracts, awards, and grants as well as for services provided and consisted of the following at June 30, 2012:

	<u>Due From</u>
General Fund:	
State of Rhode Island	\$ 747,715
Other Governmental Funds:	
State of Rhode Island	1,964,520
School Cafeteria Fund:	
State of Rhode Island	<u>25,601</u>
Total all fund types.....	<u>\$2,737,836</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

9. INTERFUND BALANCES

Interfund balances represent short-term advances from one fund (primarily the General Fund) to another fund. The advances may represent balances resulting from operating advances or reimbursement for expenditures paid by one fund on behalf of another fund. The composition of interfund balances at June 30, 2012 is as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
<u>Governmental Funds:</u>		
<i>Major Governmental Funds:</i>		
General Fund	\$ 2,243,539	\$ 2,940,548
School Unrestricted Fund	2,479,874	286,398
Debt Service Fund	0	576,180
<i>Non-major Governmental Funds:</i>		
Police Grants	0	4,223
Community Development Block Grant	0	113,346
Dare Fund Program	1,739	0
Fireworks/Parade	7,230	0
Federal Drug Forfeiture Fund	0	444
Emergency Management	33,605	0
EPA Grant	0	111,648
Fire Prevention Fund	53,462	0
Historical Records Trust	36,280	0
Land Trust Reserve Fund	123,733	0
Recording Fees Fund	7,441	0
Substance Abuse Task Force	29,788	0
Recycling Fund	95,351	0
Stormwater Grant	0	991
Comprehensive Plan Grant	0	1,107
Roadway Aid Grant	0	317,863
State Energy Grant	219,263	0
School Restricted Fund	302,503	1,084,240
Capital Project Fund	0	202,217
School Capital Reserve Fund	3,360	0
<i>Proprietary Funds:</i>		
School Cafeteria Fund	2,037	0
<i>Total Interfund Balances</i>	<u>\$5,639,205</u>	<u>\$5,639,205</u>

Generally Accepted Accounting Principles (GAAP) requires that fund balance be reported as nonspendable for the amount due from other funds which is not expected to be collected within one year. As of June 30, 2012 management has not reported nonspendable fund balance for amounts due from other funds due to the belief that all interfund receivable balances will be collected during the fiscal year ended June 30, 2013.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG-TERM DEBT

(a) At June 30, 2012, the Town's long-term debt outstanding and activity consisted of the following:

<u>Description</u>	<u>Date Issued</u>	<u>Original Principal</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:									
General obligation bonds:									
General Obligation Bonds.....	10/15/03	\$16,500,000	10/15/23	2.0% - 4.55%	\$12,435,000		\$ 700,000	\$11,735,000	\$ 735,000
Rhode Island Clean Water	06/01/94	1,597,000	09/01/14	4.03%	319,400		79,850	239,550	79,850
General Obligation Refunding	06/29/01	17,165,000	09/15/14	2.7-4.7%	6,245,000		1,455,000	4,790,000	1,525,000
Various Purpose Bond	07/15/99	1,500,000	07/15/11	5.75%	150,000		150,000	0	0
General Obligation Bonds.....	10/01/01	4,500,000	09/15/21	4.52-4.56%	2,475,000		225,000	2,250,000	225,000
General Obligation Bond.....	02/15/07	3,500,000	6/12 & 6/27	4.0-5.375%	2,800,000		175,000	2,625,000	175,000
Premium on deficit reduction bond.....	07/15/10	60,632			48,506		12,126	36,380	12,126
Deficit Funding Bond.....	07/15/10	<u>10,500,000</u>	07/15/15	2.8-4.12%	<u>10,500,000</u>		<u>1,975,000</u>	<u>8,525,000</u>	<u>2,035,000</u>
Total general obligation bonds.....		<u>\$56,622,632</u>			<u>34,972,906</u>	\$ 0	<u>4,771,976</u>	<u>30,200,930</u>	<u>4,786,976</u>
Notes and Lease purchase obligations:									
Telephone Lease (Town).....	04/01/09	\$ 59,437	04/01/14	7.00%	35,047		12,035	23,012	12,905
Camp Meehan Loan.....	06/01/12	300,000	10/01/13	0%	0	300,000	0	300,000	150,000
Back Hoe Loader.....	09/10/11	84,300	09/10/15	2.70%	0	84,300	17,770	66,530	15,974
2012 Ladder Truck.....	09/09/11	<u>667,854</u>	09/09/21	2.90%	<u>0</u>	<u>667,854</u>	<u>74,285</u>	<u>593,569</u>	<u>58,666</u>
Total lease purchase obligations..		<u>\$ 1,111,591</u>			<u>35,047</u>	<u>1,052,154</u>	<u>104,092</u>	<u>983,109</u>	<u>237,545</u>
Compensated absences					9,136,944	0	1,435,549	7,701,395	950,000
Net pension obligation.....					5,585,860	112,029	0	5,697,889	0
Net OPEB obligation.....					7,134,661	1,925,569	0	9,060,230	0
IBNR claims					<u>391,590</u>	<u>386,342</u>	<u>391,590</u>	<u>386,342</u>	<u>386,342</u>
					<u>22,249,055</u>	<u>2,423,940</u>	<u>1,827,139</u>	<u>22,845,856</u>	<u>1,336,342</u>
Governmental activities long-term liabilities.....					<u>\$57,257,008</u>	<u>\$3,476,094</u>	<u>\$6,703,207</u>	<u>\$54,029,895</u>	<u>\$6,360,863</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG-TERM DEBT (Continued)

(b) Additional Debt Information

State law limits the amount of bonded debt that a municipality can enter into without legislation. The debt cap can not exceed 3% of the assessed value of taxable property of the Town. Accordingly, the maximum bonded debt obligations that the Town of North Providence could enter into is approximately \$71,655,500 which is 3% of the assessed value of property at December 31, 2010 (\$2,388,516,000). The Town's total bonded debt at June 30, 2012 was \$30,164,550 which is less than the maximum amount allowed. Also some of the Town's bonded debt may be exempt from the 3% calculation resulting in additional amounts available within the cap. The total long-term debt of the Town (\$54,029,895) represents approximately 2.3% of the assessed value of the taxable property of the Town at June 30, 2012.

Interest accrued on debt obligations is reported as a liability and expense in the government-wide financial statements. However, it is not reported in the Fund Statements until it is paid with measurable and available resources. Accrued interest expense recorded for the tax anticipation note obligations and long-term debt obligations of the Governmental Activities was approximately \$384,000 at June 30, 2012.

Compensated absences of \$7,701,395 at June 30, 2012 represent vested sick, personal, and vacation time earned by employees as of June 30, 2012 in accordance with their applicable employment contracts. This balance is comprised of \$5,352,594 for Town personnel and \$2,348,801 for School Department personnel.

(c) Debt Service Requirements

The Town's future debt service requirements relating to outstanding bond and lease purchase obligations consist of the following and are planned to be raised through future property tax levies, fee assessments, and state aid for school housing and library improvements. The future maturities presented below does not include the amortization of the bond premium.

Governmental Activities

Year(s) ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,012,395	\$ 1,142,838	\$ 6,155,233
2014	5,181,729	961,825	6,143,554
2015	5,203,816	771,529	5,975,345
2016	3,571,222	607,714	4,178,936
2017	1,360,773	514,048	1,874,821
2018 – 2022	7,482,724	1,475,915	8,958,639
2023 – 2027	3,335,000	223,600	3,558,600
Total	<u>\$31,147,659</u>	<u>\$5,697,469</u>	<u>\$36,845,128</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. LONG-TERM DEBT (Continued)

(d) Advanced and Current Refundings and Defeased Debt

Proceeds of refunding bonds are deposited into an irrevocable escrow trust. The trust is held by an independent trustee and is invested in obligations of the United States Government which mature and bear interest in such amounts and at such times as will be sufficient to pay the principal and interest of the defeased bonds upon maturity. Accordingly, the escrow trust fund, as well as the defeased bonds, would not be reflected in the financial statements of the Town of North Providence, Rhode Island.

The Town does not have any defeased bonds outstanding at June 30, 2012.

(e) Schedule of long-term debt by purpose at June 30, 2012 is as follows:

	<u>Amount</u>	<u>Percent</u>
School and public improvement bonds.....	\$21,639,550	40%
Deficit reduction bond and bond premium.....	8,561,380	16%
Lease purchase obligations – Public Safety.....	683,109	1%
Note payable – land acquisition.....	300,000	1%
Net pension obligation – Public Safety – Police Plan.....	5,697,889	11%
Net OPEB obligation.....	9,060,230	16%
IBNR claims.....	386,342	1%
Compensated absences.....	7,701,395	14%
Total	<u>\$54,029,895</u>	<u>100%</u>

11. FUND EQUITY BALANCES (DEFICITS)

(a) Fund Balances

As stated in Note 1, Fund Balance may be classified as one of five categories: Nonspendable, Restricted, Committed, Assigned, or Unassigned. See Note 1 of these financial statements for definitions of these five Fund Balance categories. The detail of the composition of Nonspendable, Restricted, and Committed Fund Balance

At June 30, 2012 **Nonspendable Fund Balance** consisted of the following:

MAJOR GOVERNMENTAL FUNDS:

General fund:

Prepaid expenditures – health care deposits	\$ 568,000
Prepaid expenditures – miscellaneous.....	22,289
Total nonspendable fund balance	<u>\$ 590,289</u>

At June 30, 2012 **Restricted Fund Balance** consisted of the following:

MAJOR GOVERNMENTAL FUNDS:

Debt Service Fund:

Funds restricted for debt service payments on the deficit reduction bond obligation.....	<u>\$1,593,811</u>
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(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

11. FUND EQUITY BALANCES (DEFICITS) (Continued)

(a) Fund Balances (Continued)

At June 30, 2012 **Restricted Fund Balance** consisted of the following (Continued):

NONMAJOR GOVERNMENTAL FUNDS:

Special Revenue Funds:

Community development programs.....	\$ 22,983
Police/Public safety programs	982,970
Preservation of records and technology	280,846
Community events	7,230
Educational programs	85,692

Capital Projects Funds:

Educational facilities and equipment	407,093
Public work improvements	68,088

Total NonMajor Governmental Fund **\$1,854,902**

At June 30, 2012 **Committed Fund Balance** consisted of the following:

MAJOR GOVERNMENTAL FUNDS:

School Unrestricted Fund:

Committed for education services	<u>\$ 372,248</u>
--	--------------------------

NONMAJOR GOVERNMENTAL FUNDS:

Special Revenue Funds:

Land acquisition and preservation	\$ 123,733
Recycling program	95,143

Capital Projects Funds:

Elementary School improvements	23,440
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Total NonMajor Governmental Fund **\$ 242,316**

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

(b) Fund Deficits

The following individual funds had deficit net assets at June 30, 2012:

Business-Type Activities:

School Cafeteria	<u>\$59,538</u>
------------------------	------------------------

Management will continued to review the School Cafeteria Fund to determine ways to increase profitability through an increase in user fees and/or cost saving strategies, or appropriation from the School Unrestricted Fund.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

11. FUND EQUITY BALANCES (DEFICITS) (Continued)

(b) Fund Deficits (Continued)

The following individual funds had operating deficits for the fiscal year ending June 30, 2012:

Nonmajor Governmental Funds:

Special Revenue Funds

Dare Fund Program	\$ 1,459
Federal Drug Forfeiture	30,416
State Drug Forfeiture	15,111
Fire Alarm Tie-In	2,837
Fire Prevention Fund	975

Capital Project Funds

School Capital Reserve	12,961
Capital Projects Fund	<u>19,383</u>

Total deficits non-major governmental activities.. **\$ 83,142**

12. INTERFUND TRANSFERS

The principal purpose of interfund transfers is to provide a financing source to various funds that may not have the ability to cover all operating costs with revenue generated by the fund. The composition of interfund transfers for the year ended June 30, 2012 is as follows:

	School Unrestricted Fund	Non-major Governmental Funds	Debt Service Fund	Total Transfer Out
<u>Transfer Out</u>				
General Fund	<u>\$31,561,788</u>	<u>\$101,219</u>	<u>\$2,832,508</u>	<u>\$34,495,515</u>
Total transfer in	<u>\$31,561,788</u>	<u>\$101,219</u>	<u>\$2,832,508</u>	<u>\$34,495,515</u>

13. DEFINED BENEFIT PENSION PLANS

(a) General Municipal Employees' Pension Plan

The Town of North Providence participates in the Municipal Employees' Retirement System (MERS) of the State of Rhode Island ("System"), an agent multiple employer defined benefit plan. The System includes a normal plan for general employees and both a normal and optional plan for fire personnel. All full-time Town and non-certified School Department general employees participate in the System.

The covered payroll for employees covered by the System for the year ended June 30, 2012 was approximately \$7,188,000 and the Town-wide payroll was approximately \$43,200,000.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(a) General Municipal Employees' Pension Plan (Continued)

Plan Description

The MERS was established under section one of chapter 2784 of the Rhode Island Public Laws of 1951 and placed under the management of the Retirement Board for the purpose of providing retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate.

The plan generally provides retirement benefits equal to 2 percent of a member's final average salary multiplied by the number of years of total service up to a maximum benefit of 75 percent of final average salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses or severance pay. Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that provides for the payment of a larger benefit before the attainment of age sixty-two and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two, including cost of living increases, minus the member's estimated social security benefit payable at age sixty-two. Such benefits are available to members at least age 58 with 10 years of service or after 30 years regardless of age. An optional cost of living provision may be elected. The general employees of the Town of North Providence have not elected the cost of living provision. The plan also provides nonservice-connected disability benefits after 5 years of service, service-connected disability pensions with no minimum service requirement, vested benefits after 10 years of service; survivor's benefits, and certain lump sum death benefits.

In November 2011, the State enacted The Rhode Island Retirement Security Act of 2011 (the Act) as described in S1111A and H6319A. The Act makes significant changes to the Employees Retirement System and becomes effective July 1, 2012. Two of the most significant changes resulting from the act are a change in structure from a defined benefit plan to a hybrid plan that includes a smaller defined benefit plan and a supplemental defined contribution plan. In addition, there was a re-amortization of the Unfunded Actuarial Accrued Liability to 25 years from the current 19 year schedule as of June 30, 2010.

Contributions Required and Contributions Made

Town of North Providence general employees are required by State Statute to contribute 6 percent of their annual earnings until the maximum benefit (75 percent of final average salary) is accrued. The Town is required to contribute based on an actuarially computed amount and as provided by State Statute for each participating municipality. The actuarial method used is the entry age normal cost with part of each municipality's unfunded actuarial liability funded over a fixed amortization period and the balance funded over the projected future payroll of active members. Due to large fluctuations in the contribution rates of certain municipalities, the plan has adopted a procedure which would allow a unit the option of paying a smoothed contribution rate. The smoothed contribution rate equals the previous fiscal year's contribution rate plus the greater of 2 percent or one eighth of the increase in contribution rate plus the cost of any benefit improvements. The actuarially determined contribution amount for the Town was determined as described above and was based on an actuarial valuation as of June 30, 2009.

The annual required contribution for the Town which equals the annual pension cost for the year ended June 30, 2012 was \$69,368 for general employees. This contribution represents .97% of covered payroll. General municipal employees were required to contribute approximately \$429,033. This contribution represents 6% of covered payroll for the period July 1, 2011 to June 30, 2012.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(a) General Municipal Employees' Pension Plan (Continued)

Contributions Required and Contributions Made

The most significant change in assumptions noted in the June 30, 2011 actuarial valuation report was the re-amortization of the Unfunded Actuarial Accrued Liability to 25 years from the 19 year schedule as of June 30, 2010. There were no other current year changes in actuarial assumptions, benefit provisions, or the actuarial funding method that would significantly affect the contribution requirement. Significant actuarial assumptions and other actuarial information are presented at the end of this note disclosure.

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$40,500	100%	\$0
2011	\$ 0	100%	\$0
2012	\$69,368	100%	\$0

Trend information showing the System's progress (See RSI - 3) in accumulating sufficient assets to pay benefits when due is presented in the State of Rhode Island's Employee Retirement System's June 30, 2011 annual financial report, which may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 50 Service Ave, Warwick, Rhode Island. This report is the most recent report available from the State, who administers the Plan.

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the General Municipal Employees' Pension Plan with a valuation date of June 30, 2011 which is the most recent report available from the State who administers this plan.

- | | |
|--|--|
| - Actuarial value of assets - \$25,878,674 | - Actuarial accrued liability - \$25,279,111 |
| - Funding Excess - \$599,563 | - Funded Ratio - 102.4% |
| - Annual covered payroll - \$7,137,183 | |
| - Funding Excess as percentage of covered payroll - 8.4% | |

(b) Municipal Fire Pension Plan

The Town of North Providence participates in the Municipal Employees' Retirement System of the State of Rhode Island ("System"), an agent multiple employer defined benefit plan. The System includes a normal plan for general employees and both a normal and optional plan for police and firemen. All full-time fire employees participate in the System.

The covered payroll for employees covered by the System for the year ended June 30, 2012 was approximately \$4,936,700 and the Town-wide payroll was approximately \$43,200,000.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(b) Municipal Fire Pension Plan (Continued)

Plan Description

The following eligibility and benefit provisions are established by State Statute. The System provides the following retirement benefits to employees at or after age 55 with 10 years of service or after 25 years of service with no restriction on age. Members may retire receive reduced benefit if they are at least age 50 and have at least 20 years of service. Fire personnel may elect for an optional cost-of-living provision. However, the Town of North Providence has not opted for the optional cost-of-living provision under MERS. The Town of North Providence has elected the optional 20-year retirement provision for its firefighters and accordingly an additional 1% contribution is required by all participating employees (normal employee contribution rate 7% plus option provision 1% - total employee contribution 8%).

Monthly retirement benefits are equal to 2.5% of the member's monthly final average compensation for each year of service, up to 30 years (75% of final average compensation maximum). Final average compensation is the three highest consecutive years of earned salary exclusive of overtime, bonuses or severance pay. The plan also provides non-occupational disability benefits after 5 years of service, occupational disability benefits with no minimum service requirement, survivors' benefits, and certain lump sum death benefits. Employees are vested in their retirement benefits on completion of 10 years of service. Retirees' benefits are adjusted annually by 3 percent, not compounded, to allow for increases in the cost of living.

Contributions Required and Contributions Made

Fire personnel are required by State Statute to contribute 8 percent until the maximum benefit (75 percent of final average salary) is accrued. The Town is required to contribute based on an actuarially computed amount and as provided by State Statute for each participating municipality. The actuarial method used is the entry age normal cost with part of each municipality's unfunded actuarial liability funded over a fixed amortization period and the balance funded over the projected future payroll of active members. Due to large fluctuations in the contribution rates of certain municipalities, the plan has adopted a procedure which would allow a unit the option of paying a smoothed contribution rate. The smoothed contribution rate equals the previous fiscal year's contribution rate plus the greater of 2 percent or one eighth of the increase in contribution rate plus the cost of any benefit improvements. The actuarially determined contribution amount for the Town was determined as described above and was based on an actuarial valuation as of June 30, 2009.

The annual required contribution for the Town which equals the annual pension cost for the year ended June 30, 2012 was approximately \$567,000. This contribution represents 11.86% of covered payroll for the fiscal year ended June 30, 2012. Employees were required to contribute approximately \$383,000 or 8% of the covered payroll for the fiscal year ended June 30, 2012.

The most significant change in assumptions noted in the June 30, 2011 actuarial valuation report was the re-amortization of the Unfunded Actuarial Accrued Liability to 25 years from the 19 year schedule as of June 30, 2010. There were no other current year changes in actuarial assumptions, benefit provisions, or the actuarial funding method that would significantly affect the contribution requirement. Significant actuarial assumptions and other actuarial information are presented at the end of this note disclosure.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(b) Municipal Fire Pension Plan (Continued)

Trend Information

Municipal Fire Pension Plan:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$617,000	100%	\$0
2011	\$494,000	100%	\$0
2012	\$567,000	100%	\$0

Trend information showing the System's progress (See RSI - 3) in accumulating sufficient assets to pay benefits when due is presented in the State of Rhode Island's Employee Retirement System's June 30, 2011 annual financial report, which may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 50 Service Ave, Warwick, Rhode Island. This report is the most recent report available from the State, who administers the Plan.

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the Municipal Fire Pension Plans with a valuation date of June 30, 2011, which is the most recent report available from the State who administers this plan.

- | | |
|---|--|
| - Actuarial value of assets - \$27,154,563 | - Actuarial accrued liability - \$35,959,733 |
| - Unfunded actuarial accrued liability (UAAL) - \$8,805,170 | |
| - Funded Ratio - 75.5% | - Annual covered payroll - \$4,839,707 |
| - UAAL as percentage of payroll - 181.9% | |

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

The information which is presented in the required supplementary schedules was determined as part of the annual actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	General Municipal Employees <u>Pension Plan</u>	Municipal Fire <u>Pension Plan</u>
Valuation Date	6/30/11	6/30/11
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level % Closed – 25 years from June 30, 2010	Same as General Plan
Remaining Amortization Period	24 years	24 years
Asset Valuation Method	5-year Smoothed Market Value	5-Year Smoothed Market Value
Actuarial assumptions:		
Investment rate of return	7.5%, compounded annually	7.5%, compounded annually
Projected Salary Increases	4.0% to 8.0%, compounded annually	4.25% to 14.25%, compounded annually
Inflation Adjustment	2.75% included in projected salary increases	2.75%
Cost-of-living Adjustments	2% per annum. Actual COLA based on five year average investment rate of return less 5.5% & will range from 0% to 4%.	Same as General Plan
Participant Information (June 30, 2011) .	Active Employees 240 Retirees and beneficiaries <u>162</u> 402	Active Employees 84 Retirees and beneficiaries <u>64</u> <u>148</u>

Note: Town of North Providence has opted 20-year optional Fire Plan but not the COLA for either the General Municipal Employees or the Fire Plan.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(c) Teacher's Pension Plan

All North Providence School Department certified school personnel participate in the Employees' Retirement System (ERS) of the State of Rhode Island ("System"), a cost-sharing multiple-employer public employee retirement system. In addition to classified employees, the System covers substantially all employees of the State of Rhode Island. The covered payroll for employees covered by the System for the year ended June 30, 2012 was approximately \$19,800,000, which consisted of approximately \$760,000 for employees charged to federal programs and approximately \$19,040,000 for all other certified employees. The School Department's total payroll was approximately \$27,300,000. The Town-wide payroll for the year ended June 30, 2012 was approximately \$43,200,000.

Plan Description

The ERS was established under section two of chapter 2334 of the Rhode Island Public Laws of 1951 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, or title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of title 16 of the Rhode Island General Laws. The plan provides a two tier benefit structure referred to as schedules A and B as follows:

Schedule A Benefits: Schedule A benefits are available to members who possess 10 years or more of contributory service on or before July 1, 2005. Schedule A provides unreduced benefits of 1.7% of earnings for each of the first ten years of service; 1.9% for each of the next ten years of service; 3.0% per year for each of the next fourteen years; and 2% for the 35th year. Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that provides for the payment of a larger benefit before the attainment of age 62 and a reduced amount thereafter. The reduced amount is equal to the benefit before age 62, including cost-of-living increases, minus the member's estimated social security benefit payable at age 62. The maximum benefit is 80% of "final average" (FAC) earnings after 35 years of service. Final average earnings are the three highest consecutive years of earned salary excluding overtime, bonuses, or severance pays. Such benefits are available to members at least age 60 with 10 years of service, or after 28 years at any age. On the third January after retirement, a cost-of-living increase of 3% (compounded annually) is provided independent of actual changes in the consumer price index. The plan also provides nonservice-connected disability benefits after five years of service; service connected disability pensions with no minimum service requirements; vested benefits after ten years of service; survivor's benefits for service connected death; and certain lump sum death benefits. For Schedule A members who are not grandfathered, i.e., members who had at least 10 years of creditable service at June 30, 2005 but who were not eligible to retire on September 30, 2009, benefits are based on Schedule A for services through September 30, 2009 and on Schedule B for services after September 30, 2009. Maximum benefit is 80% of FAC.

Schedule B Benefits: Schedule B benefits are provided to members who have less than 10 years of contributory service on or before July 1, 2005. For Schedule B members, the plan provides unreduced benefits of 1.6% of earnings for each of the first ten years of service; 1.8% for each of the next ten years; 2.0% per year for years 21 through 25 inclusive; 2.25% per year for years 26 through 30 inclusive; 2.5% per year 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 his or her average highest three years of compensation after 38 years of service. Such benefits are available to members at least age 65 with 10 years of service, or after 29 years of service and age 59. Actuarially reduced retirement is available at age 55 and 20 years of service, the benefit is reduced actuarially for each month that the age of the member is less than sixty-five years. On the month following the third anniversary date of the retirement, and on the month following the anniversary date of each succeeding year, a cost of living increase of 3% (compounded annually) or the percentage of 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, whichever is less is provided for Schedule B members.

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(c) Teacher's Pension Plan (Continued)

Plan Description (Continued)

The ERS plan also provides a survivor benefit to public school teachers via a "Teachers Survivor Benefits Fund" in lieu of Social Security. The details of the survivor death benefits and other death benefits are provided in the financial section of the Annual Financial Report of the Employees' Retirement System of Rhode Island for the fiscal year ending June 30, 2011 which can be found at www.ersri.org.

In November 2011, the State enacted The Rhode Island Retirement Security Act of 2011 (the Act) as described in S1111A and H6319A. The Act makes significant changes to the Employees Retirement System and becomes effective July 1, 2012. Three of the most significant changes resulting from the act are a change in structure from a defined benefit plan to a hybrid plan that includes a smaller defined benefit plan and a supplemental defined contribution plan; re-amortization of the Unfunded Actuarial Accrued Liability to 25 years from the current 19 year schedule as of June 30, 2010; and teacher personnel not covered by Social Security will participate in additional defined contribution allocations equal to 2% member plus 2% employer.

Funding Policy

Rhode Island general laws set the contribution rates for participating plan employees at 9.5% of salary. Annual 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 School Department was required to contribute 13.23%, 11.25%, and 11.25% for all full-time employees for fiscal years 2012, 2011, and 2010, respectively. 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. (As noted above, effective June 30, 2011 the amortization period has been revised to be 25 years from June 30, 2010.) Normal cost is determined using the entry age normal cost method with frozen initial liability. A variety of significant actuarial assumptions are used to determine the standardized measure of the pension benefit obligation and these assumptions are summarized below:

- (a) **Mortality** – RP-2000 Combined Mortality Tables
- (b) **Investment return** – 7.5 percent, compounded annually.
- (c) **Salary increase** - Salaries will increase at a rate of 4.0 – 12.75 percent, compounded annually.
- (d) **Retirement age** – 75% of Schedule B members who reach the age of 59 with 29 years of service before age 65 are assumed to retire when first eligible. 75% of other members are expected to retire when first eligible, at age 65 with 10 years of service. Because of enactment of Article 7 in 2009, the retirement assumption was modified for members not eligible for retirement by October 1, 2009. Members who would have been assumed to retire prior to age 62 under the rules in effect before the enactment of Article 7 are assumed to retire when first eligible for an unreduced benefit under Article 7.
- (e) **Cost of living adjustments** – 2%

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, actuarial required contributions were 22.32% of the participant's salary. This resulted in contribution rates paid by the State on behalf of the School Department of 9.09% of non-federally reimbursable payrolls which contribution totaled approximately \$1,796,000 for the fiscal year ended June 30, 2012. The School Department contributed the remaining 13.23% of the required 22.32%.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(c) Teacher's Pension Plan (Continued)

The School Department does not have any investments or related party investments with the State Plan. The School Department's contributions for the year ended June 30, 2011 represented approximately 2.2% percent of total contributions required of all local employers participating for the fiscal year ended June 30, 2011 (latest available information).

The amounts contributed to the plan were as follows:

<u>Years Ending June 30,</u>	<u>Employee (approximate)</u>	<u>Town's Portion of Annual Required Contributions</u>	<u>Percentage Contributed</u>
2012	\$1,948,936	\$2,775,928	100%
2011	\$2,032,000	\$2,478,400	100%
2010	\$2,046,000	\$2,481,000	100%

In accordance with GASB 27, "Accounting for Pensions by State and Local Governmental Employers," the School Department has determined that there are no assets or liabilities relating to the funding requirements of the plan.

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Rhode Island's Employee Retirement System's June 30, 2011 annual financial report, which may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 50 Service Ave, Warwick, Rhode Island. This report is the most recent report available from the State, who administers the Plan.

(d) Police Pension Plan

All North Providence Police Officers participate in a single-employer retirement plan which was established in accordance with the North Providence Town Charter. The plan is considered part of the Town's financial reporting entity and is included as a pension trust fund (Fiduciary Fund) in the annual financial report for the fiscal year ended June 30, 2012. The covered payroll for employees covered by the plan for the year ended June 30, 2012 was approximately \$3,648,000 while the Town-wide payroll for the year ended June 30, 2012 was approximately \$43,200,000.

Plan Description

The plan became effective July 1, 1978. All police officers working 1000 hours or more in a plan year and contributing to the plan are eligible for retirement benefits. Participants are eligible for vested benefits after 10 years of service. The plan provides retirement benefits as well as death and disability benefits. Participants in the plan are eligible to retire at the completion of 20 years of service. Normal retirement benefit is 2.5% of average compensation for each year of credited service, up to 20 years, plus 2% of average compensation for each year of credited service in excess of 20 years with a maximum of 75% of average compensation. Benefit is payable as an unreduced 67.5% Joint and Survivor Annuity. Average compensation is defined as the average of the 3 highest non-consecutive years during the last 10 years of base annual pay including longevity pay and excluding overtime.

Participants are eligible for non-occupational disability benefits after 7 years of service. Occupational disability benefits are provided to all employees immediately. Non-occupational disability benefits are 50% of average compensation as of the disability date while occupational disability benefits are equal to 66.67% of average compensation as of the date of disability.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(d) Police Pension Plan (Continued)

Plan Description (Continued)

Pre-Retirement Spouse's Death Benefit is immediate. The spouse is entitled to 40% of final average salary plus 10% for dependent children, subject to a maximum of 50%. If no surviving spouse, 15% of final average salary for each dependent subject to maximum of 45% and ceasing when the last child has attained his/her 18th birthday. The benefit is payable immediately following the death of the participant.

The plan provides benefits prior and subsequent to retirement. The death benefit prior to retirement is \$400 times the number of years of service, subject to a minimum of \$2,000 and a maximum of \$8,000, but no less than the employee accumulation. If death occurs after termination of employment, only the employee accumulation is payable. The death benefit subsequent to retirement is determined as above reduced by ¼ for each year subsequent to retirement, subject to a minimum of \$2,000 or the employee accumulation less annuity payments received. If employment is terminated prior to his/her retirement date, only the employee accumulation less payments received is payable.

Cost of living increases – Participants retiring between July 1, 1986 and prior to July 1, 2004, with 20 years of service, a lump sum payment will be made on each January 1st. The payment is initially 3% of the annual retirement allowance, increasing each year by 1% to a maximum of 12%. For participants retiring after July 1, 2004 and prior to July 1, 2006, with 20 years of service, a lump sum payment will be made on each January 1st beginning January 1, 2007. The payment is 3% of the initial annual retirement allowance, not compounded, for a period of 15 years. Those retiring after July 1, 2004 but prior to January 1, 2006 shall receive the COLA set forth above until January 1, 2007 at which time the 3% COLA will commence. Those participants retiring after July 1, 2006, with 20 years of service will receive a lump sum payment on each January 1st following the date of retirement and each January thereafter for 25 years. The payment is 3% per year of the original benefit, not compounded. At the end of 25 years, the COLA will not increase, but the final benefit will continue to be paid thereafter.

Contributions Required and Contributions Made

Under the provisions of the plan, employees are required to contribute 8% of their compensation effective January 1, 2007. Prior to January 1, 2007 the employee's contributions were 7% of their compensation. The plan actuarial valuation dated July 1, 2010 was used to determine the Town's annual required contribution for the fiscal year ended June 30, 2012. The Town's annual required contribution for the fiscal year ended June 30, 2012 was \$1,675,153 while actual contributions made were approximately \$1,568,500. The employer required contribution (ARC) represents 46.7% of the covered payroll. The actual contribution made during fiscal 2012 represented approximately 43% of covered payroll.

The Town's annual pension cost (APC) and net pension benefit obligation (NPO) for the Police Pension Fund for the year ended June 30, 2012 was as follows:

Annual required contribution (ARC).....	\$1,675,153
Interest on net pension obligation.....	404,975
Adjustment to ARC	(399,599)
Annual pension cost (APC).....	1,680,529
Town contributions made.....	1,568,500
Increase in net pension obligation	112,029
Net pension benefit obligation, June 30, 2011	5,585,860
Net pension benefit obligation, June 30, 2012.....	<u>\$5,697,889</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(d) Police Pension Plan (Continued)

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Town Contribution</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$1,568,500	\$1,680,529	93.33%	\$5,697,889
6/30/2011	\$ 789,227	\$1,440,230	54.80%	\$5,585,860
6/30/2010	\$ 746,432	\$1,459,506	51.14%	\$4,934,857

The net pension obligation of \$5,697,889 at June 30, 2012 is included as a long-term obligation in the government-wide statement of net assets.

Actuarial Methods and Assumptions:

The following are the actuarial methods and assumptions used in the Police Pension Plan Annual Actuarial Valuation as of July 1, 2010 dated November 9, 2011 (latest available). There have been no significant changes in the actuarial assumptions from the previous valuation. The schedule of funding progress is presented in the Required Supplementary Information Section of these financial statements as RSI-3. The unfunded actuarial accrued liability at July 1, 2010 has been calculated at approximately \$16,575,000.

Entry Age Normal Method

Investment Return – 7.25%

Amortization Period – Level dollar amount over 25 years effective 7/1/2007 – 22 years remaining at 7/1/2010

Salary Increases – 4.0% annually **Payroll Growth Rate** – 4%

Healthy Mortality – RP-2000 Combined Healthy Table

Disabled Mortality – RP – 2000 Disabled Table

Retirements – 25% of active members are assumed to retire on completion of 20 years of service; 5% retire at each age thereafter; 100% are assumed to have retired by age 55.

Turnover – 25% of the Sarason T-1 Table

Disability – The United Auto Workers Table. 50% of disabilities are assumed to be duty related.

Survivors – 90% of men and 75% of women are assumed to be married, with wives four years younger than husbands. 100% of active members are assumed to have one dependent child.

Plan Expenses - None (Prior year - Administrative expenses are estimated using prior year's actual expenses increased by 3%, rounded to the nearest \$1,000).

A complete copy of the Town of North Providence, Rhode Island Police Pension Plan Annual Actuarial Valuation as of July 1, 2010 for Fiscal Year 2011-2012 (latest available) can be obtained by contacting the Finance Department, Town of North Providence, 2000 Smith Street, North Providence, RI 02911.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

13. DEFINED BENEFIT PENSION PLANS (Continued)

(d) Police Pension Plan (Continued)

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the Police Pension Plans with a valuation date of July 1, 2010, which is the most recent report available from the Actuary hired by the Town to conduct a valuation.

Police Pension Plan:

- | | |
|--|--|
| - Actuarial value of assets - \$13,748,156 | - Actuarial accrued liability - \$30,323,300 |
| - Unfunded actuarial accrued liability (UAAL) - \$16,575,144 | |
| - Funded Ratio – 45.3% | - Annual covered payroll - \$3,583,371 |
| - UAAL as percentage of payroll – 462.6% | |

14. DEFERRED COMPENSATION PLAN

The Town offers its municipal employees a deferred compensation plan established in accordance with the provisions of Internal Revenue Code Section 457 (g). The Town has not reported these plans on its financial statements in accordance with GASB No. 32, "Accounting for Internal Revenue Code Section 457 Deferred Compensation Plans", since the Town does not have fiduciary responsibility for these plans. The Plans, available to all municipal employees, permit the deferral of a portion of their salary. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by an outside agency and the Town is only liable for remitting employee withholdings.

15. RISK MANAGEMENT AND HEALTH CARE MANAGEMENT PLAN

The Town of North Providence is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation claims; and natural disasters for which the Town carries commercial insurance. Premiums are charged as expenditures as incurred. Settled claims resulting from these risks have not created additional premiums to the Town over the past several years and it is not anticipated that additional premiums will result from current year activity. There have been no significant reductions in insurance coverage from prior years.

The Town has a cost-plus financing plan in order to finance the costs of its health, dental, and workers compensation insurance benefits. Under this cost-plus plan the Town pays for the actual cost of covered health care and dental services plus a fee to the provider for the administration of the program. During fiscal 2009 the Town became a member of Rhode Island Municipal Insurance Corporation (RIMIC), a collaborative of various municipal entities, for health and dental insurance claims. All departments of the Town participate in the self insurance program (cost plus basis) through RIMIC.

The Town currently maintains stop loss insurance to protect the taxpayers from catastrophic loss resulting from excessive health insurance claims. At June 30, 2012 the stop loss insurance contract covered all claims exceeding \$160,000 per individual on an annual basis. In addition, specific stop loss maximum for the Town for the year is maintained at approximately \$1.8 million.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

15. RISK MANAGEMENT AND HEALTH CARE MANAGEMENT PLAN (Continued)

The Town's Finance Department oversees the self-insured program for all Town employees and claims payment services are provided by Blue Cross and Blue Shield of Rhode Island (Plan Administrator). At June 30, 2012 the Town has estimated a liability for incurred but not reported claims (IBNR) based on actual claims paid subsequent to year end but related to claims incurred prior to July 1, 2012. Approximate changes in the balances of self insured claims liabilities as of and during the year ended June 30, 2012 were as follows:

Incurred but not reported claims (IBNR), June 30, 2011	\$ 391,590
Approximate amount of incurred claims	9,816,120
Paid claims including amount in accounts payable at June 30, 2012	(9,821,368)
Estimated IBNR Claims outstanding at June 30, 2012	<u>\$ 386,342</u>

Approximate changes in the balances of self insured claims liabilities as of and during the year ended June 30, 2011 were as follows:

Incurred but not reported claims (IBNR), June 30, 2010	\$ 558,691
Approximate amount of incurred claims	9,482,024
Paid claims including amount in accounts payable at June 30, 2011	(9,649,125)
Estimated IBNR Claims outstanding at June 30, 2011	<u>\$ 391,590</u>

The estimated IBNR claims liability represents claims which occurred prior to June 30, 2012 but which were not reported until after year-end. These claims are recorded as a long-term obligation in the Governmental Activities in the government-wide Statement of Net Assets as they are not expected to be paid with current measurable and available resources at June 30, 2012. The IBNR claims outstanding at June 30, 2012 are comprised of approximately \$186,298 and \$200,044 related to Town and School employees, respectively.

At June 30, 2012 the Town of North Providence has a deposit with the Plan Administrator totaling approximately \$568,000. This deposit was required as part of the contract with the Plan Administrator to ensure reimbursement of claims is made in a timely manner. This deposit has been classified as a prepaid expense and as such has been included in nonspendable fund balance in the governmental activities of the Fund Statements.

16. COMMITMENTS AND CONTINGENCIES

Liabilities for legal cases and other claims against governmental funds are recorded in the governmental funds when the ultimate liability can be estimated and such cases are expected to be settled with available expendable financial resources.

The Town, including the School Department has received grants from various federal and state agencies for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. Town officials are of the opinion that such disallowances, if any, would be immaterial.

During the ordinary course of its operations, the Town is a party to various claims, other legal actions and complaints. These various legal actions include disputes in property valuations and torts for which the Town has been named as a defendant. In the opinion of the Town's management and legal counsel they do not anticipate any of the claims to have a material financial impact, or at this time legal counsel has been unable to assess the liability, if any, on the part of the Town. Accordingly, no liability has been reported in the government-wide Statement of Net Assets at June 30, 2012.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

17. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 13, the Town provides post employment health care benefits and dental in accordance with certain union contracts. These benefits are currently recognized on a pay-as-you go basis. A description of these OPEB benefits, by employee group is described below:

ELIGIBILITY:

School Teachers and Administrators: Members who have retired under the Employees' Retirement System of Rhode Island (ERSRI), with a minimum of 15 years of service (20 years of service for Schedule B members) with the North Providence School System, shall be eligible to receive medical and dental benefits for self and spouse. Eligibility for retirement is as follows: If vested by 7/1/2005 (Schedule A): The earlier of 28 years of service, or age 60 with 10 years of service. If vested after 7/1/2005 (Schedule B): Normal retirement is the earlier of age 65 with 10 years of service, or age 59 with 29 years of service. Early retirement is age 55 with 20 years of service. Cost Sharing – 50% retiree paid coverage is pre-65 only. Members eligible for retirement after July 1, 2012, with at least five years of service as of June 30, 2012 are eligible for Normal Retirement at an individually determined age. This age is based on the members' social security retirement age with a proportional downward adjustment based on years of service prior to July 1, 2012. The minimum retirement age is 59 with 5 years of service.

Police: Members who have retired under the Town's Police Retirement Plan with at least 20 years of service, shall be eligible to receive medical and dental benefits for self and spouse. Cost Sharing: 100% Town paid up to age 65. Upon retiree reaching age 65, under age 65 spouse and dependents can elect COBRA for 36 months.

Fire: Members who have retired under the MERS for firefighters shall be eligible to receive medical and dental benefits for self and spouse. Eligibility for retirement is completion of 20 years of service regardless of age for all members eligible to retire prior to July 1, 2012. For all members eligible to retire on or after July 1, 2012 eligibility for retirement is age 55 with 25 years of service. Cost Sharing: 100% Town paid up to age 65. Upon retiree reaching age 65, under age 65 spouse and dependents can elect COBRA for 36 months.

General Employees:

Town Council 94 – Members who have retired under MERS with at least 18 years of service receive medical and dental for self and spouse.

Town Local 1033 – Members who have retired under MERS with at least 20 years of service receive medical and dental for self and spouse.

School Local 2435 – Members hired after 7/1/1989 and who have retired under MERS with at least 20 years of service (10 years if hired prior to 7/1/1989) receive medical and dental for self and spouse.

General employees listed above receive 100% paid benefits for retiree and spouse for a period of up to 36 months.

Additional information on the description of benefits and coverage is provided in the report of the *Town of North Providence – Other Post-Employment Benefits Program July 1, 2012 Valuation*. This report dated January 30, 2013 can be obtained by contacting the Town's Finance Department.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

17. OTHER POST EMPLOYMENT BENEFITS (Continued)

Funding Policy:

The Annual Required Contribution (ARC) for OPEB consists of two pieces: A Normal Cost (the cost of benefits earned each year which should be accrued in that year) plus a Past Service Cost (a catch-up accrual to amortize the unfunded accrued liability). The actuarial valuation selected a 30 year amortization (starting in fiscal 2009) period for past service costs (this is the maximum period allowed by GASB).

The ARC and Net OPEB cost for the fiscal year ended June 30 was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ARC	\$4,686,000	\$4,549,000	\$4,289,000
Net OPEB Cost.....	\$4,696,569	\$4,562,637	\$4,299,024

The ARC noted above for fiscal 2012 represents approximately \$889,000 and \$3,797,000, for School and Town (police, fire and other Town) personnel, respectively.

The current year expenditures for these post-retirement benefits are recognized on a pay-as-you-go basis, as the monthly costs for the benefits become due. During the year ended June 30, 2012, expenditures of approximately \$2,348,000 were recognized for post-retirement benefits. Of this amount approximately \$1,838,000 was paid for 103 Town retirees, and \$510,000 was paid for approximately 72 School retirees. Current year estimated expenditures noted below represent approximately 59% of the ARC.

As noted above the Town did not comply with the funding requirements for the fiscal year ended June 30, 2012 which was determined by the actuarial valuation report with a valuation date of July 1, 2010. As a result, the government-wide financial statements include a long-term liability of \$9,060,230 and an expense for this Net OPEB Obligation (NOO) of approximately \$1,925,569. The NOO at June 30, 2012 was calculated as follows:

Annual Required Contribution	\$4,686,000
Interest on the NOO	285,386
Adjustment to ARC.....	<u>(274,817)</u>
Annual OPEB Cost.....	4,696,569
Contributions made during fiscal 2012..... **	<u>(2,771,000)</u>
Increase in NOO.....	1,925,569
NOO at June 30, 2011	<u>7,134,661</u>
NOO at June 30, 2012	<u>\$ 9,060,230</u>

** Amount estimated by actuary.

Funded Status of Plan:

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB Plan with a valuation date of July 1, 2012 which is the most recent report available from the actuary who was hired by the Town to value the plan.

- Actuarial value of assets - \$0 -
- Actuarial accrued liability (AAL) - \$66,227,000
- Unfunded actuarial accrued liability (UAAL) - \$66,227,000
- Funded ratio – 0.00%
- Annual covered payroll – \$41,332,000
- UAAL as percent of payroll – 160.2%

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

17. OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status of Plan (Continued):

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect 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, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Assumptions:

- a. Valuation Date: July 1, 2012
- b. Actuarial Method: Projected Unit Credit. Recommended annual contributions consist of two pieces: Normal Cost plus a payment towards the Unfunded Accrued Liability.
- c. Payroll Growth Rate: 3.5% (Prior valuation utilized 4%)
- d. Amortization Period: 30 year closed (26 years remaining at July 1, 2012)
- e. Asset Valuation Method: Market Value
- f. Investment Rate of Return: 4.0% reflects Town had not established an OPEB Trust
- g. Medical Inflation: Derived from the "Getzen Model." Inflation rate of 4.7% over period of 70 years for pre-65 and 69 years for post 65.
- h. Mortality tables: Teachers: 97% and 92% of rates for male and female, respectively, of GRS table projected with Scale AA from 2000. Police – RP-2000 Combined Healthy Table with generational projection per Scale AA. All others – 115% of the RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA. 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA.

Number of Participants:

At July 1, 2012 the total number of participants under the plan was 977. The plan participants include 272 current retirees and spouses of retirees (174 Town and 98 School) and 705 active employees (270 Town and 435 School).

18. SUBSEQUENT EVENT

The Town participated in a federal probe into illegal online prescription drug sales by Canadian companies. This federal probe resulted in a \$500 million federal forfeiture settlement that Google, Inc. entered into with the US Department of Justice. As a result, in April of 2012, the Town was notified that it was allocated \$60 million of the \$500 million federal forfeiture settlement. Subsequently, the Town filed a request of the US Department of Justice to allow for \$20.6 million to be applied to the unfunded liability in the Town's Police Pension Fund. On January 11, 2013, the U.S. Department of Justice approved the Town's request to use \$20.6 million of the Google forfeiture funds to finance its Police Pension Trust Fund. The application of the \$20.6 million will result in eliminating most of the Town's unfunded liability at June 30, 2012 which is projected to be approximately \$22.4 million. It will also result in a significant reduction to the Town's annual contribution to the Police Pension Trust Fund which was estimated to exceed \$2.2 million annually without application of the forfeiture funds. This event essentially represents a gain contingency and accordingly, the revenue will not be recognized in the Town-wide financial statements until it is received.

(CONCLUDED)

TOWN OF NORTH PROVIDENCE

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund - Budgetary Basis****For the Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes:				
Current taxes	\$ 64,504,226	\$ 64,504,226	\$ 63,339,175	\$ (1,165,051)
Prior taxes	1,200,000	1,200,000	2,986,951	1,786,951
Total taxes current and prior	65,704,226	65,704,226	66,326,126	621,900
Interest on delinquent accounts	300,000	300,000	490,443	190,443
Total property taxes	66,004,226	66,004,226	66,816,569	812,343
State & Federal Aid:				
School construction aid	983,996	983,996	1,172,248	188,252
Meal Tax	350,824	350,824	273,013	(77,811)
State motor vehicle phase-out	350,127	350,127	347,631	(2,496)
Telephone tax	350,839	350,839	386,059	35,220
State PILOT	421,392	421,392	528,650	107,258
State aid to education	12,138,987	12,138,987	12,160,857	21,870
Medicaid reimbursement (Education Department)	375,000	375,000	765,942	390,942
State community relief fund	624,043	624,043	620,828	(3,215)
Total state aid - Town	15,595,208	15,595,208	16,255,228	660,020
Licenses, fees and rents:				
Pool & fitness center/recreation	220,000	220,000	213,737	(6,263)
Data processing services	14,000	14,000	14,000	-
Rental of Town properties	160,000	160,000	206,021	46,021
Total licenses, fees and rents	394,000	394,000	433,758	39,758
Investment income - short term	-	-	987	987
Departmental revenues:				
Building inspection revenue	400,000	400,000	270,704	(129,296)
Town clerk receipts	600,000	600,000	570,813	(29,187)
Municipal court revenue	160,000	160,000	111,237	(48,763)
Total departmental revenues	1,160,000	1,160,000	952,754	(207,246)
Miscellaneous revenues:				
Housing authority - in lieu of taxes	16,500	16,500	25,539	9,039
Miscellaneous Receipts	400,000	400,000	173,368	(226,632)
Sale of surplus equipment	5,000	5,000	13,561	8,561
EMS rescue services	700,000	700,000	1,020,672	320,672
Total miscellaneous revenues	1,121,500	1,121,500	1,233,140	111,640
Use of Surplus Fund Balance	-	1,100,000	1,100,000	-
Total Revenues	84,274,934	85,374,934	86,792,436	1,417,502

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund - Budgetary Basis****For the Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures:				
Legislative, judicial and general administrative:				
Administration	210,559	210,559	179,591	30,968
Town council	117,546	117,546	102,524	15,022
Town clerk	202,628	202,628	221,610	(18,982)
Legal department	325,834	325,834	411,253	(85,419)
Public Buildings	953,766	953,766	785,189	168,577
Board of canvassers	120,876	120,876	117,389	3,487
Human resources	35,596	35,596	35,157	439
Zoning board of review	15,750	15,750	9,085	6,665
Computer systems	103,300	103,300	107,734	(4,434)
Planning department /economic development	206,403	206,403	168,426	37,977
Other (departments)	186,500	186,500	156,564	29,936
Total general government	2,478,758	2,478,758	2,294,522	184,236
Department of Finance:				
Finance Director/Town Treasurer	251,728	251,728	261,709	(9,981)
Tax collector	272,926	272,926	248,164	24,762
Tax assessor	177,812	177,812	164,271	13,541
Purchasing	59,879	59,879	61,193	(1,314)
Auditing financial records	30,000	30,000	29,900	100
Total department of finance	792,345	792,345	765,237	27,108
Public Safety:				
Fire Department	8,133,064	8,133,064	8,669,257	(536,193)
Police Department	5,889,821	5,889,821	5,499,986	389,835
Communication Division	25,870	25,870	20,271	5,599
Division of inspections	282,261	282,261	258,951	23,310
Division of automotive repair	389,806	389,806	478,546	(88,740)
Civil Defense	12,525	12,525	10,605	1,920
Fire hydrants	200,000	200,000	194,263	5,737
Total public safety	14,933,347	14,933,347	15,131,879	(198,532)
Public Services/Works:				
Street lights	450,000	450,000	380,985	69,015
Beautification	3,000	3,000	1,944	1,056
Department of public works	1,494,474	1,494,474	1,189,781	304,693
Recreation department	364,004	364,004	347,630	16,374
Environmental protection	1,964,779	1,964,779	1,812,202	152,577
Local welfare	10,574	10,574	9,611	963
Total public services	4,286,831	4,286,831	3,742,153	544,678
Grants & Contributions:				
Grants to organizations	11,000	11,000	11,140	(140)
Grant to senior center	491,286	491,286	491,286	-
Grant to library	609,122	609,122	611,545	(2,423)
Total grants and contributions	1,111,408	1,111,408	1,113,971	(2,563)

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund - Budgetary Basis****For the Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other expenditures:				
Insurance	643,250	643,250	571,988	71,262
Fringe benefits	9,640,000	9,640,000	9,079,858	560,142
Appropriation - deficit reduction	2,832,508	2,832,508	2,832,508	-
Appropriation deficit - Police Pension	508,000	508,000	508,000	-
Various miscellaneous - contingencies	130,000	130,000	369,176	(239,176)
Total other expenditures	13,753,758	13,753,758	13,361,530	392,228
Debt Service:				
Bond and note principal	2,784,850	2,784,850	2,784,850	-
Bond and note interest	1,157,862	1,157,862	1,165,821	(7,959)
Total debt service	3,942,712	3,942,712	3,950,671	(7,959)
Total expenditures	41,299,159	41,299,159	40,359,963	939,196
Excess of revenues over expenditures	42,975,775	44,075,775	46,432,473	2,356,698
Other financing sources (uses):				
Transfer to School - Town Appropriation	(30,461,788)	(31,561,788)	(31,561,788)	-
Transfer to School - State Aid for Education	(12,138,987)	(12,138,987)	(12,160,857)	(21,870)
Transfer to School - Miscellaneous Receipts	(375,000)	(375,000)	(765,942)	(390,942)
Total other financing uses	(42,975,775)	(44,075,775)	(44,488,587)	(412,812)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	1,943,886	\$ 1,943,886
Less use of prior year fund balance appropriated to supplement School appropriation.....			(1,100,000)	
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP Basis - (See Exhibit B-2)			\$ 843,886	

(CONCLUDED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
School Unrestricted Fund - Budgetary Basis****For the Year Ended June 30, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
State Aid	\$ 12,196,827	\$ 12,196,827	\$ 12,160,857	\$ (35,970)
Medicaid Reimbursement	375,000	375,000	765,942	390,942
Miscellaneous Revenue	114,000	114,000	191,799	77,799
Use of property, preschool and other	167,968	167,968	-	(167,968)
Total revenues	12,853,795	12,853,795	13,118,598	264,803
Expenditures:				
Salaries	25,863,868	25,793,967	25,719,108	74,859
Employee benefits	10,324,100	10,294,062	9,833,344	460,718
Purchased services	6,691,364	6,691,364	7,208,023	(516,659)
Supplies and materials	1,743,000	1,572,625	1,221,455	351,170
Capital outlay	41,000	41,000	19,231	21,769
Other	52,500	52,500	124,499	(71,999)
Total expenditures	44,715,832	44,445,518	44,125,660	319,858
Excess of revenues over (under) expenditures before other financing sources (uses)	(31,862,037)	(31,591,723)	(31,007,062)	584,661
Other financing sources (uses):				
Operating transfer from the Town	30,461,788	30,461,788	30,461,788	-
Operating transfer - Town appropriation-Supplemental	-	1,129,935	1,100,000	(29,935)
Total other financing sources (uses)	30,461,788	31,591,723	31,561,788	(29,935)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ (1,400,249)	\$ -	\$ 554,726	\$ 554,726

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Required Supplementary Information
Schedule of Funding Progress For Pension Plans
June 30, 2012
UNAUDITED**

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funding Excess (Deficit)	Funded Ratio	Covered Payroll	Funding Excess (Deficit) as a percentage of Covered Payroll
General municipal employees pension plan.....	6/30/2008	\$ 27,486,433	\$ 22,054,179	\$ 5,432,254	124.6%	\$ 7,070,071	76.8%
	6/30/2009	\$ 27,063,016	\$ 23,197,133	\$ 3,865,883	116.7%	\$ 7,197,732	53.7%
	6/30/2010	\$ 26,260,322	\$ 26,570,377	\$ (310,055)	98.8%	\$ 7,249,635	-4.3%
A	6/30/2011	\$ 25,878,674	\$ 25,279,111	\$ 599,563	102.4%	\$ 7,137,183	8.4%
Fire pension plan.....	6/30/2008	\$ 27,521,038	\$ 28,699,306	\$ (1,178,268)	95.9%	\$ 5,636,596	-20.9%
	6/30/2009	\$ 27,898,425	\$ 30,293,297	\$ (2,394,872)	92.1%	\$ 5,251,101	-45.6%
	6/30/2010	\$ 27,623,708	\$ 35,889,123	\$ (8,265,415)	77.0%	\$ 5,223,668	-158.2%
A	6/30/2011	\$ 27,154,563	\$ 35,959,733	\$ (8,805,170)	75.5%	\$ 4,839,707	-181.9%

The information included above was obtained from the annual actuarial valuation report of the State of Rhode Island's Employee Retirement System for each of the dates indicated. The June 30, 2011 report is the most recent report available as of the date of the audited financial statements. The State of Rhode Island's Employee Retirement System is currently in the process of compiling the information to complete the June 30, 2012 report.

A - In November 2011 the State of Rhode Island passed legislation on Pension Reform. The changes made as a result of this Pension Reform Legislation are reflected in the June 30, 2011 valuation information.

Police pension plan.....	7/1/2006	(2) \$ 18,763,757	\$ 27,794,462	\$ (9,030,705)	67.5%	\$ 3,881,749	-232.6%
	7/1/2007	(2) \$ 20,331,967	\$ 29,701,976	\$ (9,370,009)	68.5%	\$ 3,833,169	-244.4%
	7/1/2010	(2) \$ 13,748,156	\$ 30,323,300	\$ (16,575,144)	45.3%	\$ 3,583,371	-462.6%

The police pension plan noted above is a plan administered by the Town of North Providence. The Town's schedule of funding progress information was obtained from the actuarial valuation report for the periods noted. The July 1, 2010 report is the most recent available as of the date of the audited financial statements.

Subsequent to June 30, 2012 the Town received approval to utilize \$20.6 million of federal forfeiture funds to help finance the Police Pension Plan. The Town expects to utilize these funds during fiscal 2013 which will result in a reduction in the funding deficit for this plan. The impact will be seen in future valuations.

(2) The Entry Age Normal funding method was used for the valuation year beginning July 1, 2006.

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Required Supplementary Information
Schedule of Funding Progress OPEB
June 30, 2012
UNAUDITED**

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funding Excess (Deficit)	Funded Ratio	Covered Payroll	Funding Excess (Deficit) as a percentage of Covered Payroll
General municipal employees							
OPEB.....	7/1/2008	\$ -	\$ 2,024,000	\$ (2,024,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 2,601,000	\$ (2,601,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 3,019,000	\$ (3,019,000)	0.0%	N/A	N/A
Fire Department employees							
OPEB.....	7/1/2008	\$ -	\$ 24,028,000	\$ (24,028,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 29,236,000	\$ (29,236,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 29,023,000	\$ (29,023,000)	0.0%	N/A	N/A
Police Department employees							
OPEB.....	7/1/2008	\$ -	\$ 17,363,000	\$ (17,363,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 18,683,000	\$ (18,683,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 24,869,000	\$ (24,869,000)	0.0%	N/A	N/A
School Teachers							
OPEB.....	7/1/2008	\$ -	\$ 8,105,000	\$ (8,105,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 9,278,000	\$ (9,278,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 7,637,000	\$ (7,637,000)	0.0%	N/A	N/A
Other School employees							
OPEB.....	7/1/2008	\$ -	\$ 1,238,000	\$ (1,238,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 1,480,000	\$ (1,480,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 1,679,000	\$ (1,679,000)	0.0%	N/A	N/A
Total North Providence OPEB Information	7/1/2008	\$ -	\$ 52,758,000	\$ (52,758,000)	0.0%	N/A	N/A
	7/1/2010	\$ -	\$ 61,278,000	\$ (61,278,000)	0.0%	N/A	N/A
	7/1/2012	\$ -	\$ 66,227,000	\$ (66,227,000)	0.0%	\$ 41,332,000	-160.2%

The information presented above was provided by Department to provide additional information for the user of the financial statements.

The information included in this schedule of funding progress was obtained from the actuarial valuation reported dated January 30, 2013 prepared by Milliman. The July 1, 2012 valuation is the most recent report available as of the date of the audited financial statements.

TOWN OF NORTH PROVIDENCE

OTHER SUPPLEMENTARY INFORMATION

TOWN OF NORTH PROVIDENCE

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are restricted or committed to expenditure for particular purposes. The following special revenue funds are reported as nonmajor governmental funds.

Police Grants
Dare Fund Program
Emergency Management
Federal Drug Forfeiture
Fire Alarm Tie-in
Historical Records Trust
Recording Fees Fund
Substance Abuse Task Force
Recycling Fund
Roadway Aid Grant
Federal Energy Grant
School Restricted Funds

Community Development Block Grants
Drug Free Community Grant
EPA Grant
State Drug Forfeiture
Fire Prevention Fund
Land Trust Reserve Fund
Decon Grant
Fireworks Parade Fund
Stormwater Grant
Comprehensive Plan Grant
State Energy Grant

The School Restricted Funds noted above is comprised of the following restricted grant funds administered by the North Providence School Department:

Title I
Project IDEA
Title II
Perkins
Beatrice Ward Auditorium
UASI Grant
RTTT Instructional Impr. System

RISCA Big Yellow Bus
IDEA Preschool
eRate
Substance Abuse Task Force
Education Jobs Grant
RTTT Standard & Curriculum
RTTT Educator Effectiveness

(CONTINUED)

TOWN OF NORTH PROVIDENCE

NONMAJOR GOVERNMENTAL FUNDS (Continued)

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

School Capital Reserve - This fund is used to account for the capital project activity maintained by the North Providence School Department.

Capital Project Fund – This fund is used to account for \$3.5 million in bond proceeds received in fiscal 2007 to be used for various capital acquisitions and improvements including public works facility, public safety facility, recreation projects, etc... This Fund also accounts for acquisition of capital assets utilizing note obligations and lease purchase agreements.

Kids Klub School Improvement Fund – This fund was created by Town Council Ordinance #09-014 in September 2009. The purpose of this fund is to record the revenue received from Kids Klub for the use of school facilities. The proceeds will be utilized for capital projects related to the Town's elementary schools.

(CONCLUDED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

<u>SPECIAL REVENUE FUNDS</u>										
	<u>Police Grants</u>	<u>Community Development Block Grants</u>	<u>Dare Fund Program</u>	<u>Drug Free Community Grant</u>	<u>Federal Drug Forfeiture</u>	<u>State Drug Forfeiture</u>	<u>Emergency Management</u>	<u>Fire Alarm Tie-In</u>	<u>EPA Grant</u>	<u>Historical Records Trust</u>
ASSETS										
Cash and cash equivalents		\$ 25,073			\$ 972,650	\$ 44,596				
Accounts and other receivable(net)		215,299								
Due from federal & state governments	\$ 6,775	121,831							\$ 114,179	\$ 36,280
Due from other funds			\$ 1,739				\$ 33,605			
TOTAL ASSETS	\$ 6,775	\$ 362,203	\$ 1,739	\$ -	\$ 972,650	\$ 44,596	\$ 33,605	\$ -	\$ 114,179	\$ 36,280
LIABILITIES										
Accounts payable	\$ 1,113	\$ 10,575			\$ 123,259				\$ 2,531	\$ 5,149
Accrued liabilities										
Due to other funds	4,223	113,346			444				111,648	
Deferred revenue	-	215,299								
TOTAL LIABILITIES	5,336	339,220	\$ -	\$ -	123,703	\$ -	\$ -	\$ -	114,179	5,149
FUND BALANCES										
Nonspendable										
Restricted	1,439	22,983	1,739	-	848,947	44,596	33,605	-	-	31,131
Committed										
Unassigned										
TOTAL FUND BALANCES	1,439	22,983	1,739	-	848,947	44,596	33,605	-	-	31,131
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,775	\$ 362,203	\$ 1,739	\$ -	\$ 972,650	\$ 44,596	\$ 33,605	\$ -	\$ 114,179	\$ 36,280

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

SPECIAL REVENUE FUNDS										
	Fire Prevention Fund	Land Trust Reserve Fund	Recording Fees Fund	Decon Grant	Substance Abuse Task Force	Fireworks Parade Fund	Recycling Fund	Stormwater Grant	Roadway Aid Grant	Comprehensive Plan Grant
ASSETS										
Cash and cash equivalents			\$ 242,424							
Accounts and other receivable(net)										
Due from federal & state governments								\$ 24,000	\$ 634,249	\$ 10,247
Due from other funds	\$ 53,462	\$ 123,733	7,441	\$ -	\$ 29,788	\$ 7,230	\$ 95,351			
TOTAL ASSETS	\$ 53,462	\$ 123,733	\$ 249,865	\$ -	\$ 29,788	\$ 7,230	\$ 95,351	\$ 24,000	\$ 634,249	\$ 10,247
LIABILITIES										
Accounts payable	\$ 818		\$ 150				\$ 208	\$ 18,992	\$ 316,386	\$ 9,140
Accrued liabilities								991	317,863	1,107
Due to other funds					\$ 29,788			4,017		
Deferred revenue										
TOTAL LIABILITIES	818	\$ -	150	\$ -	29,788	\$ -	208	24,000	634,249	10,247
FUND BALANCES										
Nonspendable										
Restricted	52,644		249,715	-	-	7,230		-	-	-
Committed		123,733					95,143			
Unassigned										
TOTAL FUND BALANCES	52,644	123,733	249,715	-	-	7,230	95,143	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 53,462	\$ 123,733	\$ 249,865	\$ -	\$ 29,788	\$ 7,230	\$ 95,351	\$ 24,000	\$ 634,249	\$ 10,247

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	SPECIAL REVENUE FUNDS				CAPITAL PROJECT FUNDS				
	Federal Energy Grant	State Energy Grant	School Restricted Funds	Total Special Revenue Funds	School Capital Reserve	Capital Project Fund	Kids Klub School Improvements	Total Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS									
Cash and cash equivalents			\$ 64,190	\$ 1,348,933	\$ 422,403	\$ 20,305	\$ 23,440	\$ 466,148	\$ 1,815,081
Accounts and other receivable(net)				215,299				-	215,299
Due from federal & state governments			803,239	1,714,520		250,000		250,000	1,964,520
Due from other funds	\$ -	\$ 219,263	302,503	910,395	3,360			3,360	913,755
TOTAL ASSETS	\$ -	\$ 219,263	\$ 1,169,932	\$ 4,189,147	\$ 425,763	\$ 270,305	\$ 23,440	\$ 719,508	\$ 4,908,655
LIABILITIES									
Accounts payable		\$ 134,586		\$ 622,907	\$ 18,670			\$ 18,670	\$ 641,577
Accrued liabilities				-				-	-
Due to other funds			\$ 1,084,240	1,633,862		\$ 202,217		202,217	1,836,079
Deferred revenue		84,677		333,781				-	333,781
TOTAL LIABILITIES	\$ -	219,263	1,084,240	2,590,550	\$ 18,670	\$ 202,217	\$ -	220,887	2,811,437
FUND BALANCES									
Nonspendable				-				-	-
Restricted	-	-	85,692	1,379,721	407,093	68,088		475,181	1,854,902
Committed				218,876			23,440	23,440	242,316
Unassigned				-				-	-
TOTAL FUND BALANCES	-	-	85,692	1,598,597	407,093	68,088	23,440	498,621	2,097,218
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 219,263	\$ 1,169,932	\$ 4,189,147	\$ 425,763	\$ 270,305	\$ 23,440	\$ 719,508	\$ 4,908,655

(CONCLUDED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012**

	SPECIAL REVENUE FUNDS									
	<u>Police Grants</u>	<u>Community Development Block Grants</u>	<u>Dare Fund Program</u>	<u>Drug Free Community Grant</u>	<u>Federal Drug Forfeiture</u>	<u>State Drug Forfeiture</u>	<u>Emergency Management</u>	<u>Fire Alarm Tie-In</u>	<u>EPA Grant</u>	<u>Historical Records Trust</u>
REVENUES:										
Interest and investment income		\$ 1,294								
Fees and assessments		6,243						\$ 9,691		\$ 19,685
Intergovernmental	\$ 75,131	121,831		\$ 30,203	\$ 354,151	\$ 25,401	\$ 117,130		\$ 114,179	
Contributions										
Other										
Total revenues	75,131	129,368	\$ -	30,203	354,151	25,401	117,130	9,691	114,179	19,685
EXPENDITURES:										
Current:										
Public safety	71,239		-	30,203	384,567	40,512	114,692	12,528		
Education										
Other expenses		129,631	1,459							4,674
Debt Service:										
Debt service principal					-					
Interest expense					-					
Capital improvements									207,598	
Total expenditures	71,239	129,631	1,459	30,203	384,567	40,512	114,692	12,528	207,598	4,674
Excess (deficiency) of revenues over (under) expenditures	3,892	(263)	(1,459)	-	(30,416)	(15,111)	2,438	(2,837)	(93,419)	15,011
OTHER FINANCING SOURCES (USES)										
Proceeds from issuance of debt obligations									93,419	
Transfers in	-	7,800								
Transfers out	-									
Total other financing sources (uses)	-	7,800	-	-	-	-	-	-	93,419	-
Net change in fund balances	3,892	7,537	(1,459)	-	(30,416)	(15,111)	2,438	(2,837)	-	15,011
Fund balances - beginning of year	(2,453)	15,446	3,198	-	879,363	59,707	31,167	2,837	-	16,120
Fund balances - end of year	\$ 1,439	\$ 22,983	\$ 1,739	\$ -	\$ 848,947	\$ 44,596	\$ 33,605	\$ -	\$ -	\$ 31,131

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012**

	SPECIAL REVENUE FUNDS									
	<u>Fire Prevention Fund</u>	<u>Land Trust Reserve Fund</u>	<u>Recording Fees Fund</u>	<u>Decon Grant</u>	<u>Substance Abuse Task Force</u>	<u>Fireworks Parade Fund</u>	<u>Recycling Fund</u>	<u>Stormwater Grant</u>	<u>Roadway Aid Grant</u>	<u>Comprehensive Plan Grant</u>
REVENUES:										
Interest and investment income							\$ 78,746			
Fees and assessments	\$ 20,193	\$ 3,500	\$ 28,331	\$ 51,656	\$ 31,085			\$ 19,883	\$ 634,249	\$ 11,355
Intergovernmental						\$ 20,366				
Contributions										
Other										
Total revenues	<u>20,193</u>	<u>3,500</u>	<u>28,331</u>	<u>51,656</u>	<u>31,085</u>	<u>20,366</u>	<u>78,746</u>	<u>\$ 19,883</u>	<u>634,249</u>	<u>11,355</u>
EXPENDITURES:										
Current:										
Public safety	21,168				31,085	-				
Education										
Other expenses		-	4,267	20,115		13,136	5,147	19,883		11,355
Debt Service:										
Debt service principal	-									
Interest expense	-									
Capital improvements				31,541					634,249	-
Total expenditures	<u>21,168</u>	<u>-</u>	<u>4,267</u>	<u>51,656</u>	<u>31,085</u>	<u>13,136</u>	<u>5,147</u>	<u>19,883</u>	<u>634,249</u>	<u>11,355</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(975)</u>	<u>3,500</u>	<u>24,064</u>	<u>-</u>	<u>-</u>	<u>7,230</u>	<u>73,599</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)										
Proceeds from issuance of debt obligations										
Transfers in										
Transfers out										
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(975)</u>	<u>3,500</u>	<u>24,064</u>	<u>-</u>	<u>-</u>	<u>7,230</u>	<u>73,599</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - beginning of year	<u>53,619</u>	<u>120,233</u>	<u>225,651</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,544</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u>\$ 52,644</u>	<u>\$ 123,733</u>	<u>\$ 249,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,230</u>	<u>\$ 95,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012**

	SPECIAL REVENUE FUNDS				CAPITAL PROJECT FUNDS				
	Federal Energy Grant	State Energy Grant	School Restricted Funds	Total Special Revenue Funds	School Capital Reserve	Capital Project Fund	Kids Klub School Improvements	Total Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES:									
Interest and investment income			\$ 1	\$ 1,295		\$ 95	\$ 39	\$ 134	\$ 1,429
Fees and assessments				166,389			13,400	13,400	179,789
Intergovernmental		\$ 317,219	2,216,898	4,120,371	\$ 141,438	250,000		391,438	4,511,809
Contributions				20,366				-	20,366
Other				-	630			630	630
Total revenues	\$ -	317,219	2,216,899	4,308,421	142,068	250,095	13,439	405,602	4,714,023
EXPENDITURES:									
Current:									
Public safety				705,994				-	705,994
Education			2,061,598	2,061,598				-	2,061,598
Other expenses	-			209,667				-	209,667
Debt Service:									
Debt service principal				-				-	-
Interest expense				-				-	-
Capital improvements	-	317,219	141,785	1,332,392	155,029	569,478		724,507	2,056,899
Total expenditures	-	317,219	2,203,383	4,309,651	155,029	569,478	-	724,507	5,034,158
Excess (deficiency) of revenues over (under) expenditures	-	-	13,516	(1,230)	(12,961)	(319,383)	13,439	(318,905)	(320,135)
OTHER FINANCING SOURCES (USES)									
Proceeds from issuance of debt obligations						300,000		300,000	300,000
Transfers in				101,219		-		-	101,219
Transfers out				-		-		-	-
Total other financing sources (uses)	-	-	-	101,219	-	300,000	-	300,000	401,219
Net change in fund balances	-	-	13,516	99,989	(12,961)	(19,383)	13,439	(18,905)	81,084
Fund balances - beginning of year	-	-	72,176	1,498,608	420,054	87,471	10,001	517,526	2,016,134
Fund balances - end of year	\$ -	\$ -	\$ 85,692	\$ 1,598,597	\$ 407,093	\$ 68,088	\$ 23,440	\$ 498,621	\$ 2,097,218

(CONCLUDED)

TOWN OF NORTH PROVIDENCE

AGENCY FUNDS

Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, and other governments. The following funds are reported in this section:

Unclaimed Estates – To account for unclaimed estates that are in probate.

Seized Property – To account for property that was obtained by the Town during police investigations and is to be remitted to the State or Federal Government or returned to the original owner.

Low Cost Spay/Neuter – To provide assistance to low income families for pet spay or neutering.

Animal Care Donations – To provide financial support to low income families whose pets are in need of miscellaneous care.

Animal Care Adoptions – To provide financial support families seeking to adopt animals from the Town's animal shelter.

Realty Tax Transfer – To collect fees on real estate property transfers. This account is used to hold the portion of the fees that are due to the State of Rhode Island.

Student Activities Fund – To account for funds held in various school programs. During fiscal 2012 the North Providence School Department was administering approximately 29 separate accounts for student activity funds.

Food Pantry Fund – To account for funds received which are to be used to support low income families seeking assistance.

Performance Bond Fund – To account for funds received from developers as security to ensure that projects are completed in accordance with Town requirements. Bond payments are refunded to contractors/developers once the project is completed and approved by the Town.

TOWN OF NORTH PROVIDENCE, RHODE ISLANDStatement of Changes in Assets and Liabilities
Agency Funds
Year ended June 30, 2012

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Unclaimed Estates</u>				
ASSETS:				
Cash	\$ 42,292	\$ -	\$ 306	\$ 41,986
TOTAL ASSETS	\$ 42,292	\$ -	\$ 306	\$ 41,986
LIABILITIES:				
Deposits held in custody for others	\$ 42,292	\$ -	\$ 306	\$ 41,986
TOTAL LIABILITIES	\$ 42,292	\$ -	\$ 306	\$ 41,986
<u>Seized Property:</u>				
ASSETS:				
Cash	\$ 1,857	\$ 12,032	\$ -	\$ 13,889
TOTAL ASSETS	\$ 1,857	\$ 12,032	\$ -	\$ 13,889
LIABILITIES:				
Deposits held in custody for others	\$ 1,857	\$ 12,032	\$ -	\$ 13,889
TOTAL LIABILITIES	\$ 1,857	\$ 12,032	\$ -	\$ 13,889
<u>Low Cost Spay/Neuter:</u>				
ASSETS:				
Other receivables	\$ 685	\$ 85	\$ 180	\$ 590
TOTAL ASSETS	\$ 685	\$ 85	\$ 180	\$ 590
LIABILITIES:				
Deposits held in custody for others	\$ 685	\$ 85	\$ 180	\$ 590
TOTAL LIABILITIES	\$ 685	\$ 85	\$ 180	\$ 590
<u>Animal Care Donations:</u>				
ASSETS:				
Other receivables	\$ 3,931	\$ 5,206	\$ 691	\$ 8,446
TOTAL ASSETS	\$ 3,931	\$ 5,206	\$ 691	\$ 8,446
LIABILITIES:				
Deposits held in custody for others	\$ 3,931	\$ 5,206	\$ 691	\$ 8,446
TOTAL LIABILITIES	\$ 3,931	\$ 5,206	\$ 691	\$ 8,446
<u>Animal Care Adoptions:</u>				
ASSETS:				
Other receivables	\$ 3,324	\$ 3,785	\$ -	\$ 7,109
TOTAL ASSETS	\$ 3,324	\$ 3,785	\$ -	\$ 7,109
LIABILITIES:				
Deposits held in custody for others	\$ 3,324	\$ 3,785	\$ -	\$ 7,109
TOTAL LIABILITIES	\$ 3,324	\$ 3,785	\$ -	\$ 7,109

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

Statement of Changes in Assets and Liabilities
 Agency Funds
 Year ended June 30, 2012

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Realty Tax Transfer Account:</u>				
ASSETS:				
Cash	\$ 35,028	\$ 288,751	\$ 282,117	\$ 41,662
TOTAL ASSETS	\$ 35,028	\$ 288,751	\$ 282,117	\$ 41,662
LIABILITIES:				
Deposits held in custody for others	\$ 35,028	\$ 288,751	\$ 282,117	\$ 41,662
TOTAL LIABILITIES	\$ 35,028	\$ 288,751	\$ 282,117	\$ 41,662
<u>Student Activities Fund</u>				
ASSETS:				
Cash	\$ 351,774	\$ 529,633	\$ 558,051	\$ 323,356
TOTAL ASSETS	\$ 351,774	\$ 529,633	\$ 558,051	\$ 323,356
LIABILITIES:				
Deposits held in custody for others	\$ 351,774	\$ 529,633	\$ 558,051	\$ 323,356
TOTAL LIABILITIES	\$ 351,774	\$ 529,633	\$ 558,051	\$ 323,356
<u>Food Pantry Fund</u>				
ASSETS:				
Cash	\$ 6	\$ 2,759	\$ 2,715	\$ 50
TOTAL ASSETS	\$ 6	\$ 2,759	\$ 2,715	\$ 50
LIABILITIES:				
Deposits held in custody for others	\$ 6	\$ 2,759	\$ 2,715	\$ 50
TOTAL LIABILITIES	\$ 6	\$ 2,759	\$ 2,715	\$ 50
<u>Performance Bond Fund</u>				
ASSETS:				
Cash	\$ 20,925	\$ 39	\$ -	\$ 20,964
TOTAL ASSETS	\$ 20,925	\$ 39	\$ -	\$ 20,964
LIABILITIES:				
Deposits held in custody for others	\$ 20,925	\$ 39	\$ -	\$ 20,964
TOTAL LIABILITIES	\$ 20,925	\$ 39	\$ -	\$ 20,964
<u>Total - All Agency Funds</u>				
ASSETS:				
Cash	\$ 451,882	\$ 833,214	\$ 843,189	\$ 441,907
Other receivables	7,940	9,076	871	16,145
TOTAL ASSETS	\$ 459,822	\$ 842,290	\$ 844,060	\$ 458,052
LIABILITIES:				
Deposits held in custody for others	\$ 459,822	\$ 842,290	\$ 844,060	\$ 458,052
TOTAL LIABILITIES	\$ 459,822	\$ 842,290	\$ 844,060	\$ 458,052

(CONCLUDED)

TOWN OF NORTH PROVIDENCE

SINGLE AUDIT SECTION

This section contains information regarding federal grant activity for the year ended June 30, 2012, which was audited in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States and under the guidelines of the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996 and the United States Office of Management and Budget's Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<i>Federal Grantor</i> <i>Pass-Through Grantor</i> <i>Program title</i>	<i>Federal</i> <i>CFDA</i> <i>Number</i>	<i>Expenditures</i>
<i>U.S. Department of Energy</i>		
<i>Passed through Rhode Island Office of Energy Resources</i>		
Energy Efficiency and Conservations Block Grant (EECBG) - ARRA	81.128	<u>\$ 317,219</u>
<i>U.S. Department of Transportation</i>		
<i>Passed through Rhode Island Department of Transportation</i>		
Driving Under the Influence Grant	20.608	8,983
State and community highway safety	20.600	10,100
Highway Planning and Construction	20.205	634,249
Child Passenger Seat Incentive Grant	20.613	<u>2,479</u>
<i>Total U.S. Department of Transportation</i>		<u>655,811</u>
<i>U.S. Department of Justice</i>		
<i>Passed through Rhode Island Department of Justice</i>		
Byrne Memorial Grant	16.727	40,103
Bulletproof Vest Grant	16.607	<u>1,113</u>
<i>Total U.S. Department of Justice</i>		<u>41,216</u>
<i>U.S. Department of Homeland Security</i>		
<i>Passed through Rhode Island Emergency Management Agency</i>		
Disaster Grants - Public Assistance	97.036	117,130
Homeland Security Grant Program	97.067	<u>151,549</u>
<i>Total U.S. Department of Homeland Security</i>		<u>268,679</u>
<i>U.S. Department of Environmental Protection Agency</i>		
Congretonally Mandated Projects - Evergreen Project	66.202	<u>114,179</u>
<i>U.S. Department of Health and Human Services</i>		
<i>Passed through Rhode Island Department of Health</i>		
Tobacco Compliance Grant	93.XXX	<u>194</u>
<i>U.S. Department of Housing and Urban Development</i>		
<i>Passed through Rhode Island Office of Housing & Community Development</i>		
Community Development Block Grant	14.228	<u>121,831</u>

(Continued)

(Continued)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor Pass-Through Grantor Program title	Federal CFDA Number		<u>Expenditures</u>
U.S. Department of Education			
Passed through Rhode Island Department of Education			
Title I	84.010		791,246
Race to the Top Fund - ARRA Funding	84.395A		65,235
Title II	84.367		237,786
Education Jobs Fund - ARRA Funding	84.410		8,196
Perkins	84.048		93,485
Project IDEA - Part B	84.027	**	844,141
Early learning (89-313) - Preschool	84.173	**	22,085
Total U.S. Department of Education			<u>2,062,174</u>
U.S. Department of Agriculture			
Passed through Rhode Island Department of Education			
National Lunch Program	10.555	***	<u>727,760</u>
Total U.S. Department of Agriculture			<u>727,760</u>
Total Federal Expenditures			<u>\$ 4,309,063</u>

** - Denotes program cluster which is considered to be one program for testing purposes.

*** - Includes commodities of \$65,980 for fiscal 2012.

(Concluded)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Town of North Providence, Rhode Island. All federal awards received from federal agencies are included on the Schedule of Expenditures of Federal Awards. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The accompanying Schedule of Expenditures of Federal Awards also includes \$65,980 for the value of food commodities which is reported as a component of the Federal School Lunch Program. These commodities are not reported in revenue or expenses of the Business-Type Activities for financial statement purposes.

3. Determination of Major Programs

The determination of major federal financial assistance programs was based upon the overall level of expenditures for all federal programs for the Town of North Providence, Rhode Island. As such, the threshold for determining Type A programs is defined as those with program expenditures greater than \$300,000 or 3 percent of total expenditures when the total expenditures are over \$10,000,000. For the fiscal year ended June 30, 2012, the following programs were considered major programs:

Title I	CFDA # 84.010
Project IDEA Part B.....	CFDA # 84.027 *
Early Learning (89-313) Preschool.....	CFDA # 84.173 *
Highway Planning and Construction	CFDA # 20.205
Energy Efficiency & Conservations Block Grant....	CFDA # 81.128

* - Denote program cluster which is considered to be one program for compliance testing purposes.

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

To the Honorable Mayor
and Members of the Town Council
Town of North Providence
North Providence, Rhode Island

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of North Providence, Rhode Island as of and for the year ended June 30, 2012, which collectively comprise the Town of North Providence, Rhode Island's basic financial statements and have issued our report thereon dated January 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of North Providence, Rhode Island is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of North Providence, Rhode Island's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Providence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of North Providence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs (noted as item 2012-1) to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of North Providence, Rhode Island in a separate letter titled Communication of Matters Prescribed by Statement on Auditing Standards #115 for the fiscal year ended June 30, 2012.

This report is intended solely for the information and use of management, the Town Council, School Committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brian M.", is positioned above the typed name and date.

Brian M.
Providence, Rhode Island
January 31, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor
and Members of the Town Council
Town of North Providence
North Providence, Rhode Island

Compliance

We have audited the Town of North Providence, Rhode Island's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Town of North Providence, Rhode Island's major federal programs for the year ended June 30, 2012. The Town of North Providence, Rhode Island's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of North Providence, Rhode Island's management. Our responsibility is to express an opinion on the Town of North Providence, Rhode Island's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Providence, Rhode Island's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of North Providence, Rhode Island's compliance with those requirements.

As described in item 2012-2 in the accompanying schedule of findings and questioned costs, the Town of North Providence, Rhode Island, did not comply with requirements regarding allowable costs/cost principles that are applicable to its Project IDEA Part B and Early Learning – Preschool program. Compliance with such requirements is necessary, in our opinion, for the Town of North Providence, Rhode Island, to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town of North Providence, Rhode Island, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of North Providence, Rhode Island, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of North Providence, Rhode Island's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Providence, Rhode Island's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Town of North Providence, Rhode Island's response to the compliance findings identified in our audit is described in the corrective action plan in the accompanying schedule of findings and questioned costs. We did not audit the Town of North Providence, Rhode Island's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Town Council, School Committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Providence, Rhode Island
January 31, 2013

TOWN OF NORTH PROVIDENCE, RHODE ISLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expressed an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of North Providence, Rhode Island.
2. One deficiency in internal control over financial reporting has been identified and is described in Part B below as item 2012-1. We consider this item to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of North Providence, Rhode Island were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal programs were reported.
5. The auditors' report on compliance for the major federal award programs for the Town of North Providence, Rhode Island expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Town of North Providence are reported in Part C of this schedule.
7. The programs tested as major programs were:

Title I	CFDA # 84.010
Project IDEA Part B.....	CFDA # 84.027 *
Early Learning (89-313) Preschool.....	CFDA # 84.173 *
Highway Planning and Construction	CFDA # 20.205
Energy Efficiency & Conservations Block Grant....	CFDA # 81.128

* - Denotes program cluster which is considered to be one program for compliance testing purposes.

8. The threshold for distinguishing Type A and B programs is described in Note 3 to the Schedule of Expenditures of Federal Awards.
9. The Town of North Providence, Rhode Island was determined not to be a low-risk auditee.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

- 2012-1:** The Town receives various grants which are reported as non-major governmental funds in the Fund financial statements. Many of these grants are administered by personnel outside of the Town's Finance Department, including some that are administered by a contracted consultant. During our audit we noted a lack of control over the recording of the activity related to some of these grants. We noted deficiencies in recording the financial activity related to these grants which resulted in the overstatement or understatement of revenues, receivables, expenditures, and accounts payable in the internal financial records maintained by the Town.

Prior Year Findings:

- 2011-1:** The Town and School Department currently maintain approximately 60 governmental, proprietary, and fiduciary funds which are reported in the annual financial statements. At various times throughout the year these funds may conduct activity which could impact another Town or School Department Fund. As such it is imperative that all interfund transactions, activity, and balances be monitored and recorded in a timely and efficient manner. During our audit process, we noted that during the fiscal year ended June 30, 2011 there were no policies or procedures for preparing periodic reconciliations of these interfund balances or activity. **Status: During fiscal 2012 Town and School personnel were communicating on an ongoing basis and the interfund balances were periodically reconciled. As a result, it appears that although there are no formal policies or procedures regarding periodic reconciliations, interfund balances and activity is being monitored on an ongoing basis.**
- 2011-2:** Several years ago the Town Council adopted a formal capitalization policy requiring assets with a useful life of two or more years and a cost basis of \$5,000 or more to be capitalized and depreciated over the estimated useful life of the asset. In addition, the Town utilizes the MUNIS accounting system to maintain the detailed capital asset records whereby invoices for qualifying capital assets are coded as such when the invoice is entered into accounts payable. We noted that there is a lack of procedures in place to ensure that government-wide capital asset records are fairly stated. Also, there is no policy or procedure to ensure that School Department acquisitions are reported in the capital asset listing maintained by the Town. Failure to properly record capital asset acquisitions made by all Departments and Funds of the Town may result in a material misstatement of the total assets reported by the Governmental Activities in the Government-Wide Financial Statements. **Status: During fiscal 2012 Town personnel began reviewing and updating the capital asset records on a periodic basis. In addition, School Department personnel obtained access to the capital asset record database and were able to properly account for capital acquisitions. The control deficiency was deemed cleared in fiscal 2012.**

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2012-2: Allowable Costs – Payroll Allocations

Project IDEA Part B – CFDA # 84.027 and Early Learning (89-313) Preschool – CFDA #84.173

Criteria: Federal regulations require that time and effort reports be maintained to support the allocation of payroll and related fringe benefits to federally funded programs. OMB Circular A-87 requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

Condition: The North Providence School Department did not maintain all time and effort reports in accordance with the requirements of OMB Circular A-87. The Department does maintain personnel files and attendance reports for federally funded employees however, these reports were not maintained for part time teacher assistants charged to the IDEA Grant Program.

Effect: Failure to properly maintain time and effort reports could result in the disallowance of costs allocated to the federally funded program and require the payback of the grant award.

Questioned Costs: Questioned costs relating to Project IDEA Part B program totaled approximately \$38,000.

Recommendation: We recommend that management review the current policies and procedures for allocating personnel costs to federally funded programs and implement procedures to ensure that time and effort reports are maintained in accordance with OMB Circular A-87.

Corrective Action Plan: The North Providence School Department is maintaining the time and effort reports and certifications for the majority of the required personnel. The couple of instances noted were related to part-time teacher assistants that work 100% in the program but for whom the Department failed to maintain adequate documentation. The School's Finance Director will review all personnel charged to federal programs and ensure that proper time and effort documentation is obtained and maintained to ensure compliance with the federal regulations.

(CONTINUED)

TOWN OF NORTH PROVIDENCE, RHODE ISLAND

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Prior Year Findings:

2011-3: Allowable Costs – Payroll Allocations

Title I – CFDA # 84.010; Title I - ARRA Funding – CFDA # 84.389; Project IDEA Part B – CFDA # 84.027

Criteria: Federal regulations require that time and effort reports be maintained to support the allocation of payroll and related fringe benefits to federally funded programs. OMB Circular A-87 requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

Condition: The North Providence School Department does not maintain all time and effort reports in accordance with the requirements of OMB Circular A-87. The Department does maintain personnel files and attendance reports however these reports do not meet the federal requirements as outlined above and noted in OMB Circular A-87.

Effect: Failure to properly maintain time and effort reports could result in the disallowance of costs allocated to the federally funded program and require the payback of the grant award.

Questioned Costs: Questioned costs relating to the Title I Grant Cluster amounted to approximately \$13,500 while we noted Project IDEA Part B program questioned costs of approximately \$21,500.

Recommendation: We recommend that management review the current policies and procedures for allocating personnel costs to federally funded programs to ensure that time and effort reports are maintained in accordance with OMB Circular A-87.

Corrective Action Plan: The North Providence School Department has historically maintained the required time and effort reports and/or certifications when applicable. However, due to various vacancies and staff turnover the Department did not complete the reports during fiscal 2011. Beginning in fiscal 2012 the Finance Director of the North Providence School Department will implement a policy and procedures requiring all certifications to be completed and maintained in accordance with the federal requirements.

Status: See current year finding 2012-2.

(CONCLUDED)