

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

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TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditors' Report (Continued)

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

Auditors' Responsibility (Continued):

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis presented on pages 4 to 17 and the budgetary comparison schedules and historical pension and other postemployment benefits information presented on pages 80-86 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.

Independent Auditors' Report (Continued)

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

Other Matters (Continued):

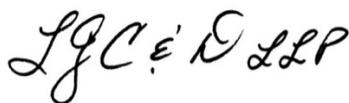
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary tax collector's annual report is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary tax collector's annual report is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary tax collector's annual report is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2013 on our consideration of the Town of Middletown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.



Providence, Rhode Island
December 16, 2013

Management's Discussion and Analysis

As management of the Town of Middletown, Rhode Island (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013 (FY 2013).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2013 by \$53,078,306 (*net position*). Net position includes \$40,591,202 of net investment in capital assets; \$1,095,549 of restricted net position; and \$11,391,555 of unrestricted net position that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$103,011,761 and total liabilities were \$49,933,455 at June 30, 2013. Total net position increased by \$4,407,765 in the current fiscal year.

As of June 30, 2013, the Town's governmental funds reported combined ending fund balances of \$14,958,379, a decrease of \$2,492,164 in comparison with the prior year. The unfavorable fiscal year results in the General Fund and Capital Projects funds were partially offset by favorable results in the School Department and other governmental funds, which resulted in the net decrease in fund balance. See page 9 for additional discussion regarding changes in the fund balance of the General Fund and School Department Special Revenue Fund.

As of June 30, 2013, the unassigned fund balance for the General Fund was \$4,966,598, or 9.9% of total budgeted 2013 General Fund expenditures and other financing uses totaling \$49,779,499. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations decreased by \$6,113,574 (12.8%) during the current fiscal year. The key factors causing this decrease were principal payments of \$3,122,597, the reduction of \$4,906,907 in pollution remediation obligations, a decrease in accrued compensated absences of \$43,953, offset by new capital lease proceeds of \$455,465, \$210,000 general obligation bond proceeds and \$1,335,000 in clean water loan proceeds.

Overview of the Financial Statements

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

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

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

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

Government-wide financial statements (continued)

The *statement of net position* presents information on the entire Town's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 18 and 19 of this report.

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

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

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

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

Governmental funds (continued)

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

The Town adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for the General Fund and the School Department to demonstrate compliance with this budget. These comparison statements can be found on pages 80-81 of this report.

The basic governmental fund financial statements can be found on pages 20-23 of this report.

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

The basic proprietary fund financial statements can be found on pages 24-27 of this report.

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

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-79 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. It presents a schedule detailing the Town's progress in funding its pension and other postemployment benefits obligations, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 80-86 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$53,078,306 at June 30, 2013.

Government-wide Financial Analysis (continued)

Net investment in capital assets comprise \$40,591,202, or 76.5%, of total net position. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Middletown's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 23,696,671	\$ 21,579,268	\$ 6,284,076	\$ 5,530,478	\$ 29,980,747	\$ 27,109,746
Capital assets	50,691,365	50,550,420	22,339,649	22,926,245	73,031,014	73,476,665
Total assets	74,388,036	72,129,688	28,623,725	28,456,723	103,011,761	100,586,411
Long-term liabilities	24,883,895	29,836,239	16,714,734	17,875,964	41,598,629	47,712,203
Other liabilities	7,453,551	2,865,977	881,275	1,337,690	8,334,826	4,203,667
Total liabilities	32,337,446	32,702,216	17,596,009	19,213,654	49,933,455	51,915,870
Net position:						
Net investment in capital assets	28,927,287	27,157,090	11,663,915	12,723,038	40,591,202	39,880,128
Restricted	1,095,549	3,540,758			1,095,549	3,540,758
Unrestricted	12,027,754	8,729,624	(636,199)	(3,479,969)	11,391,555	5,249,655
Total Net Position	\$ 42,050,590	\$ 39,427,472	\$ 11,027,716	\$ 9,243,069	\$ 53,078,306	\$ 48,670,541

A portion of the Town's net position, totaling \$1,095,549 (2.1%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position*, totaling \$11,391,555, may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2013, the Town is able to report positive balances in all three categories of net position both for the government as a whole, as well as for its separate governmental and business-type activities, with the exception of unrestricted net position for the business-type activities.

Governmental activities. Governmental activities increased the Town's net position by \$2,623,118 from the previous year, principally due to the decrease in long-term obligations for environmental remediation related to storm-water in the amount of \$3,273,150.

Business-type activities. Business-type activities increased the Town's net position by \$1,784,647, primarily due to the decrease in long-term obligations for environmental remediation related to wastewater in the amount of \$1,633,757.

Government-wide Financial Analysis (continued)

Town of Middletown's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$4,527,795	\$3,991,239	\$7,298,940	\$ 7,716,125	\$11,826,735	\$ 11,707,364
Operating grants and contributions	14,727,891	16,296,028			14,727,891	16,296,028
Capital grants and contributions	482,727	342,211			482,727	342,211
General revenues:						
Property taxes	42,641,416	41,664,045			42,641,416	41,664,045
Grants and contributions not restricted to specific programs	1,555,077	1,553,605			1,555,077	1,553,605
Other	362,520	171,074	5,171	3,771	367,691	174,845
Total revenues	64,297,426	64,018,202	7,304,111	7,719,896	71,601,537	71,738,098
Expenses:						
General government	3,864,341	3,844,946			3,864,341	3,844,946
Public safety	7,628,291	12,828,485			7,628,291	12,828,485
Public works/sanitation	8,737,627	6,382,000			8,737,627	6,382,000
Planning/inspection	680,543	548,445			680,543	548,445
Library	835,368	769,111			835,368	769,111
Education	38,351,349	39,290,202			38,351,349	39,290,202
Community services	598,720	578,144			598,720	578,144
Interest on long-term debt	842,728	877,327			842,728	877,327
Refuse and recycle			1,212,645	1,161,821	1,212,645	1,161,821
Parks and recreation			1,509,374	1,676,250	1,509,374	1,676,250
Sewer			2,932,786	3,879,379	2,932,786	3,879,379
Total expenses	61,538,967	65,118,660	5,654,805	6,717,450	67,193,772	71,836,110
Increase (decrease) in net position before transfers	2,758,459	(1,100,458)	1,649,306	1,002,446	4,407,765	(98,012)
Transfers	(135,341)	(84,910)	135,341	84,910	-	-
Increase (decrease) in net position	2,623,118	(1,185,368)	1,784,647	1,087,356	4,407,765	(98,012)
Net position – beginning	39,427,472	40,612,840	9,243,069	8,155,713	48,670,541	48,768,553
Net position – ending	\$42,050,590	\$ 39,427,472	\$11,027,716	\$ 9,243,069	\$53,078,306	\$ 48,670,541

Financial Analysis of the Government's Funds

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

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

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued). As of June 30, 2013, the Town's governmental funds reported combined ending fund balances of \$14,958,379. Of this amount, \$4,108,634 constitutes *unassigned fund balance*, which is available for spending by the Town. The remainder of fund balance is *nonspendable, restricted, committed, and assigned*, and is not available for new spending because it has already been identified for 1) generating income to pay for the perpetual care of the municipal cemetery in the amount of \$126,110; 2) long-term loans receivable in the amount of \$100,000; 3) grants in the amount of \$440,091; 4) prepaid expenses and other purposes in the amount of \$67,857; 5) various commitments for West Main Road development, special education and capital improvements totaling \$5,016,793 and 6) other specific purposes in the amount of \$5,098,894.

The General Fund is the chief operating fund of the Town. At June 30, 2013, unassigned fund balance of the General Fund was \$4,966,598, while total fund balance was \$9,397,117. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10.0% of total General Fund expenditures and other financing uses of \$49,449,931, while total fund balance represents 19.0% of that same amount.

During the fiscal year, the fund balance of the Town's General fund decreased by \$290,899, primarily due to an accrual of a tax appeal settlement covering multiple years in the amount of \$474,275.

The School Department, a special revenue fund of the Town, had a total fund balance of \$3,410,441, which includes an assigned fund balance of \$2,258,098 at June 30, 2013. The assigned fund balance represents 5.8% of total School Department expenditures of \$38,600,772. The School Department's fund balance increased by \$276,465 during the fiscal year ended June 30, 2013. The excess of revenue over expenditures is primarily due to the receipt of \$496,062 in Federal Impact Aid Basic Support payments from prior years.

The Capital Projects fund had a total deficit fund balance of \$857,964, which represents a \$2,972,144 decrease during the fiscal year ended June 30, 2013. The decrease in fund balance is due to capital project expenditures that are funded from the \$3,000,000 Bond Anticipation Note that is classified as a current liability and not recognized as revenue.

The Other Governmental Funds had a total fund balance of \$3,008,785, which represents a \$494,414 increase in fund balance during the fiscal year ended June 30, 2013. The increase in fund balance is primarily due to the excess of revenues over expenditures in the Public Private Venture special revenue funds in the amount of \$355,940.

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

Net position of the Sewer Fund at June 30, 2013 amounted to \$6,877,701, of which a deficit balance of \$820,885 is unrestricted. Parks and Recreation Fund net position amounted to \$3,984,490, of which \$168,623 is unrestricted. Refuse and Recycle Fund net position amounted to \$165,525, of which \$16,063 is unrestricted. The total growth (reduction) in net position for each of the three funds was \$1,795,154, \$89,134 and (\$99,641), respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY 2013 revenues totaled approximately \$530,000, primarily due to increases in Building Permit revenue and Intergovernmental revenue related to Hotel and Meals Tax, Public Service Tax, Airport Aid and State Revaluation Reimbursements. Further, there was an overall decrease in budgeted expenditures of approximately \$682,000. Major items contributing to the net decrease in expenditures are as follows:

- \$490,000 increase in Grant expenditures primarily from the Roadway Investment – Local Equity Aid Program (LEAP) funds budgeted for the paving of Berkeley Avenue and Crest Street, and from the Justice Assistance Grant (JAG) budgeted for police uniform and wearing apparel.
- \$61,000 increase in General Government primarily to fund legal services related to special litigation, and to fund various technology upgrades.
- \$36,000 increase in Other Expenditures for professional services to assist with the implementation of the new Town 401(a) defined contribution plan.
- \$290,000 decrease in Planning and Inspection expenditures as a result of deferring an asset management integration project, and deferring the recreation master plan and West Main Road development master planning project until next fiscal year.
- \$982,000 net decrease in Capital expenditures mainly due to the delay of various storm-water projects until next fiscal year, the removal of a budgeted air conditioning project at the Senior Center not funded through the Community Development Block Grant program, and design fees for the construction of the new Fire Department/DPW Facility invoiced in next fiscal year, combined with increases for drainage improvements, culvert improvements and vehicle purchases budgeted in the prior fiscal year that occurred in FY 2013.

Actual expenditures exceeded budgeted expenditures by approximately \$289,000 due primarily to the accrual of a property tax appeal settlement covering multiple years in the amount of \$474,275.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounts to \$73,031,014 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$445,655 (0.6%), of which \$140,945 increased for governmental activities and \$586,600 decreased for business-type activities.

Capital Asset and Debt Administration (continued)

Capital assets (continued).

Major capital asset events during FY 2013 included the following:

On-going:

- Residential street upgrades and improvements encompassing sewer lines, drainage, and road re-pavement
- Town-wide catch basin and storm drain improvement and reconstruction, and culvert replacements
- District-wide improvements to the school buildings, including roof replacement, parking lot paving, HVAC upgrades, water heater replacement, and outdoor lighting replacement at the turf field

Purchase of:

- Various public safety vehicles per fleet management schedules, including a fire pumper truck, two police cruisers, four DPW trucks, and a dump truck for use by the school district
- Library book collection, and science and foreign language textbook collection purchases for the School Department
- Two copier/scanners for the Library and a copier/scanner for Town Hall
- A conservation easement at the Corey-Sears farm to maintain and protect desirable open space in Middletown

Upgrades to:

- Various servers and network infrastructure equipment Town-wide
- Berkeley Peckham baseball field, including fencing and concrete restrooms and the installation of water service

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 7,492,536	\$ 7,292,536	\$ 2,779,046	\$ 2,779,046	\$ 10,271,582	\$ 10,071,582
Buildings and improvements	16,222,105	16,873,432	221,047	234,956	16,443,152	17,108,388
Land improvements	3,925,223	3,429,735	763,878	801,464	4,689,101	4,231,199
Furniture and equipment	2,202,265	2,670,753	1,241,950	1,560,151	3,444,215	4,230,904
Infrastructure	15,708,451	15,861,065	15,393,602	15,854,192	31,102,053	31,715,257
Construction in progress	1,815,912	2,685,620	1,843,648	1,583,578	3,659,560	4,269,198
Library books	53,582	52,663			53,582	52,663
Motor vehicles	3,271,291	1,684,616	96,474	112,858	3,367,765	1,797,474
Total	\$ 50,691,365	\$ 50,550,420	\$ 22,339,645	\$ 22,926,245	\$ 73,031,010	\$ 73,476,665

The Town’s active construction projects as of June 30, 2013 include Fire station addition and alterations, Esplanade drainage improvements, culvert replacement, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2013 total approximately \$4,941,800. The commitments for the Fire station addition and alterations are funded through the Public Private Venture (PPV) special revenue fund, a fund established to account for the proceeds received by the Town for public-safety related services at privatized military housing

Capital Asset and Debt Administration (continued)

Capital assets (continued).

in Middletown, and the Capital Projects Fund; Esplanade drainage improvements and road and drainage projects are funded primarily through the Capital Projects fund; the culvert replacement is funded through the PPV special revenue fund; the residential street paving project is funded through the Road Investment-Local Equity Aid Program grant. The commitments for sanitary sewer upgrades are funded through Sewer Fund operations and the 2013 Rhode Island Clean Water Finance Agency revenue bond.

Additional information on the Town's capital assets can be found in Notes 5 and 13 on pages 46-47 and 78-79, respectively, of this report.

Long-term debt

At June 30, 2013, the Town had total bonded debt outstanding of \$18,235,114, entirely backed by the full faith and credit of the Town. In addition, the Town has \$11,225,734 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$2,205,373. The repayment of capital leases is incumbent upon the appropriation of current financial resources to make annual lease payments. The Town fully expects to appropriate future financial resources for annual lease payments.

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$18,235,114	\$19,625,000			\$18,235,114	\$19,625,000
Loans payable	550,000	600,000	\$10,675,734	\$10,203,207	11,225,734	10,803,207
Capital leases	2,205,373	2,360,146			2,205,373	2,360,146
Total	\$20,990,487	\$22,585,146	\$10,675,734	\$10,203,207	\$31,666,221	\$32,788,353

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds approved pursuant to special acts or financed from non-tax revenues; additional special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2012 was \$2,691,767,647 limiting the amount of non-excepted general obligation bonds outstanding to \$80,753,029. At June 30, 2013, bonds outstanding totaled \$18,235,114, of which \$2,786,000 were issued subject to the 3% debt limit and \$15,449,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$18,235,114 represent .68% of assessed property value.

On May 21, 2013, the Town issued a \$3,000,000 bond anticipation note (BAN) to fund capital projects related to environmental remediation costs paid from the Capital Projects fund. The BAN has an interest rate of .91% and matures on February 14, 2014. In early February 2014, the Town plans on issuing bonds to repay the BAN.

Additional information on the Town's long-term debt can be found in Note 8 on pages 49-54 of this report.

Economic Factors

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

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

The Town had a 2010 U.S. Census Bureau population of 16,150. The Town is located in Newport County approximately 30 miles southeast of Providence and is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north. As of August 2013, Middletown had an employed labor force of approximately 7,325 and an unemployment rate of approximately 7.5% (not seasonally adjusted). The Town limits extend over an area of 14.7 square miles, including a land area of 12.9 square miles and an inland water area of 1.8 square miles.

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

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

Economic Factors (continued)

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

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

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

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

As a result of the past national economic climate, including limitations on lending, new commercial development in Middletown was limited in recent years. However, interest in redevelopment and expansion of existing commercial properties continues to increase. Of note, two recently closed auto dealerships have been renovated and reoccupied; one property will continue as an auto dealership under a different brand, with the other property being redeveloped for general retail use. Development of a new 92-room hotel was completed in the fall of 2013, while the expansion of the winery facility at Newport Vineyards nears completion. As the economy improves, it is anticipated that new office development will also continue. A new office building to house a local nonprofit organization was constructed during 2009 in the Aquidneck Corporate Park (the Park). The corporate headquarters of Bank Newport has recently been relocated to renovated office/industrial space in the Park and its back-office operations have been consolidated at this location. Additional expansion and rehabilitation of existing buildings in the Park is also expected due to low vacancy rates and expected growth of defense contractors. A proposed redevelopment of an existing motel property, abutting the Park, into a resort and conference facility including several hundred hotel rooms is also anticipated.

Economic Factors (continued)

Residential permitting activity is starting to increase. Construction of a 60-unit condominium development for residents age 55 and over is nearing completion. The Town is currently considering a proposal for a 14-lot single-family subdivision, and a new 12-lot subdivision is under construction. Over the past year, building permit activity has continued to rebound.

The U.S. Navy has declared 225 acres of Naval Station Newport land on Aquidneck Island surplus and available for reuse. Parcels include the former Navy Hospital in Newport; the former Navy Lodge parcel and Midway Pier in Middletown; tank farms 1 & 2 in Portsmouth; and portions of Defense Highway (Burma Rd.) in Middletown and Portsmouth. The Department of Defense recognized the Aquidneck Island Reuse Planning Authority (AIRPA) as the local redevelopment authority with the responsibility to produce and submit a reuse plan for all surplus land. The three communities have individually worked to develop reuse plans for the parcels within their jurisdictions. These plans were provided to AIRPA which compiled the single, unified reuse plan that was submitted to HUD and the Navy for approval in August 2011. A new implementing authority, the Aquidneck Island Reuse Implementation Authority (AIRIA) was recently established to replace AIRPA, and represent the three municipalities in the ongoing work toward conveyance of the properties. AIRIA is an independent body organized as a not for profit corporation under the laws of the State of Rhode Island. The voting members of the AIRIA are the City of Newport, the Town of Portsmouth, and the Town of Middletown. Each Member Municipality may appoint two (2) representatives, having full voting privileges, to the Board of Directors of the AIRIA. Each Municipal Member may appoint one (1) alternate representative who may attend and participate in meetings and vote in the absence of one of the regular voting representatives of the Municipal Member.

AIRIA's work includes a more in-depth evaluation of infrastructure and other potential constraints to development, and additional market analysis. The information gained from this work will be used by AIRIA to reevaluate the redevelopment alternatives included in the redevelopment plan, and assist with discussions with the Navy to make final selection of the appropriate conveyance mechanism(s) for each of the parcels.

Litigation

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

Litigation (continued)

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011; as of June 30, 2013 the remaining cost is estimated at \$6.0 million, which has been recorded as a long-term liability of the Sewer Fund.

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

The Town awarded the construction contract for Project (2) in August 2011, in the amount of \$3,269,000, and construction commenced soon thereafter. This project involved installation of an outfall diffuser pipe into the Atlantic Ocean. Soon after the first section of pipe was placed on the ocean floor, the Town's contractor, CB Utility Co. Inc. (CBUC) discovered that the pipe moved after installation. On April 13, 2012, CBUC halted construction pending investigation by the Town's Engineer and Construction Manager, Woodard & Curran (W&C). W&C acknowledged liability for the defective design and took steps to remediate it. Claims were asserted by W&C, CBUC, and the Town thereafter. Mediation occurred on December 3, 2012 regarding CBUC's delay and causeway repair claims. The mediation resulted in a settlement by CBUC in favor of the Town.

A contract amendment based upon W&C's re-design was entered into between the Town and CBUC on or about January 11, 2013. The Town also resolved the claims with W&C.

Project (2) was substantially completed on September 30, 2013 at a total cost of \$5,895,500. The Town is not aware of any pending or threatened claims or litigation concerning the project.

Project costs were funded by bond proceeds and the capital improvement program.

Subsequent Events

Construction commitments:

Subsequent to year-end, the Town executed three construction contracts and two construction management contracts totaling \$9,748,287. The first contract, awarded to C.B. Utility Co., Inc. in the amount of \$2,146,754, relates to the sewer and drainage improvements on Forest Avenue. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the Sewer Fund. The second contract, awarded to James J. Geremia & Associates, Inc. in the amount of \$256,853, relates to the construction management of sewer and drainage improvements on Forest Avenue. This contract will be paid from the Capital Improvement Program Special Revenue fund and the Sewer Fund. The third contract was awarded to National Water Main Cleaning Company in the amount of \$650,295 for the Easton's Point cured in place pipe project, which is part of the remediation costs associated with the consent decree; this contract will be paid from the Sewer Fund. The fourth contract, awarded to Iron Construction Group, LLC in the amount of \$6,545,000, relates to the building addition and alterations for the fire station and public works department. This contract will be paid from general obligation bonds. The fifth contract, awarded to J. Farrar & Associates, Inc. in the amount of \$149,385, relates to a project representative for the building addition and alterations for the fire station and public works department. This contract will be paid from general obligation bonds, which are expected to be issued prior to mid-February.

Pension and OPEB Trust funds:

The fair value of the Town's pension investment account as of October 31, 2013 is \$50,439,354, which represents an 8.1% increase in value since June 30, 2013. The fair value of the Town's OPEB investment account as of October 31, 2013 is \$4,128,062, which represents a 2.74% increase in value since June 30, 2013. The Town continues to review various options with its actuarial consultant and investment advisors regarding contributions, funded status, and actuarial assumptions of both plans.

Requests for Information

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

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 14,969,477	\$ 6,816,822	\$ 21,786,299
Investments	2,232,799		2,232,799
Accounts receivable, less allowance for doubtful accounts of \$361,976:			
Property taxes	1,071,899		1,071,899
Federal and state government	1,530,844		1,530,844
Assessments and user fees		401,594	401,594
Loans	100,000		100,000
Other	1,190,405	12,179	1,202,584
Inventory		22,132	22,132
Prepaid expenses	9,249		9,249
Internal balances	1,697,520	(1,692,309)	5,211
Pension asset	767,804		767,804
Noncurrent assessments and user fees		555,973	555,973
Deferred charges	126,087	167,685	293,772
Capital assets not being depreciated	9,308,448	4,622,694	13,931,142
Capital assets being depreciated, net	41,382,917	17,716,955	59,099,872
	<u>74,387,449</u>	<u>28,623,725</u>	<u>103,011,174</u>
LIABILITIES:			
Accounts payable and accrued expenses	3,988,761	881,275	4,870,036
BAN payable	3,000,000		3,000,000
Unearned revenue	57,890		57,890
OPEB liability	406,313		406,313
Long-term obligations:			
Due within one year	2,735,735	1,012,757	3,748,492
Due in more than one year	22,148,160	15,701,977	37,850,137
	<u>32,336,859</u>	<u>17,596,009</u>	<u>49,932,868</u>
Commitments and contingencies (Notes 11 and 12)			
NET POSITION:			
Net investment in capital assets	28,927,287	11,663,915	40,591,202
Restricted for:			
Prepaid items	9,249		9,249
Long-term loans receivable	100,000		100,000
Perpetual care	126,110		126,110
Principal of endowments	58,608		58,608
Grants	440,091		440,091
Other purposes, nonexpendable	361,491		361,491
Unrestricted	12,027,754	(636,199)	11,391,555
	<u>42,050,590</u>	<u>11,027,716</u>	<u>53,078,306</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,864,341	\$ 656,037	\$ 446,702	\$ -	\$ (2,761,602)		\$ (2,761,602)
Public safety	7,628,291	2,284,580	45,241		(5,298,470)		(5,298,470)
Public works and sanitation	8,737,627	7,701	3,260	482,727	(8,243,939)		(8,243,939)
Planning and inspection	680,543	766,046			85,503		85,503
Library	835,368	16,268	192,776		(626,324)		(626,324)
Education	38,351,349	797,163	13,897,593		(23,656,593)		(23,656,593)
Community services	598,720		142,319		(456,401)		(456,401)
Interest on long-term debt	842,728				(842,728)		(842,728)
Total governmental activities	61,538,967	4,527,795	14,727,891	482,727	(41,800,554)		(41,800,554)
Business-type activities:							
Sewer	2,932,786	4,722,951				\$ 1,790,165	1,790,165
Parks and recreation	1,509,374	1,577,031				67,657	67,657
Refuse and recycle	1,212,645	998,958				(213,687)	(213,687)
Total business-type activities	5,654,805	7,298,940				1,644,135	1,644,135
Total	\$ 67,193,772	\$ 11,826,735	\$ 14,727,891	\$ 482,727	(41,800,554)	1,644,135	(40,156,419)
General revenues:							
Property taxes					42,641,416		42,641,416
Grants and contributions not restricted to specific programs					1,555,077		1,555,077
Investment earnings					10,229	5,171	15,400
Insurance proceeds					176,500		176,500
Miscellaneous					175,791		175,791
Transfers					(135,341)	135,341	-
Total general revenues and transfers					44,423,672	140,512	44,564,184
Change in net position					2,623,118	1,784,647	4,407,765
Net position beginning of year					39,427,472	9,243,069	48,670,541
Net position end of year					\$ 42,050,590	\$ 11,027,716	\$ 53,078,306

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

ASSETS	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 9,469,261	\$ 2,804,806	\$ 2,631,932	\$ 63,478	\$ 14,969,477
Investments	2,232,799				2,232,799
Accounts receivable, less allowance for doubtful accounts of \$361,976:					
Property taxes	1,071,899				1,071,899
Federal and state government	863,164	667,680			1,530,844
Loans				100,000	100,000
Other	294,286	893,989		2,130	1,190,405
Prepaid expenses	9,249				9,249
Due from other funds	167,735	4,416	545,093	2,904,214	3,621,458
Total assets	\$ 14,108,393	\$ 4,370,891	\$ 3,177,025	\$ 3,069,822	\$ 24,726,131
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 1,266,004	\$ 933,617	\$ 1,034,989	\$ 21,051	\$ 3,255,661
BAN payable			3,000,000		3,000,000
Accrued compensated absences	98,440				98,440
Due to other funds	2,322,162	3,713		3,099	2,328,974
Deferred revenue	1,024,670	23,120		36,887	1,084,677
Total liabilities	4,711,276	960,450	4,034,989	61,037	9,767,752
Fund balances:					
Nonspendable:					
Prepaid items	9,249				9,249
Long-term loans receivable				100,000	100,000
Perpetual care				126,110	126,110
Principal of endowments				58,608	58,608
Restricted for grants		397,916		42,175	440,091
Committed to:					
West Main Road development	2,927,195				2,927,195
Special education		754,427			754,427
Capital improvements	1,335,171				1,335,171
Assigned	158,904	2,258,098		2,681,892	5,098,894
Unassigned	4,966,598		(857,964)		4,108,634
Total fund balances	9,397,117	3,410,441	(857,964)	3,008,785	14,958,379
Total liabilities and fund balances	\$ 14,108,393	\$ 4,370,891	\$ 3,177,025	\$ 3,069,822	\$ 24,726,131

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

JUNE 30, 2013

Total fund balances for governmental funds		\$	14,958,379
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	50,691,365	
Pension asset		767,804	
Deferred charges		<u>126,087</u>	51,585,256
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds.			1,026,787
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
OPEB liability		(406,313)	
Bonds payable		(18,345,192)	
Loans payable		(550,000)	
Capital leases		(2,205,373)	
Claims and judgments		(494,760)	
Deferred revenue		(789,600)	
Compensated absences payable		(2,498,970)	
Accrued interest		<u>(229,624)</u>	<u>(25,519,832)</u>
Net position of governmental activities:			<u>\$ 42,050,590</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2013

	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 42,552,299				\$ 42,552,299
Intergovernmental	2,589,234	\$ 12,524,811		\$ 1,209,074	16,323,119
Licenses, permits and fees	1,885,196	642,732			2,527,928
Interest and investment income	6,626		\$ 261	3,342	10,229
State contribution to teachers' pension plan		1,379,764			1,379,764
Other revenues	969,878	154,431		171,378	1,295,687
Total revenues	48,003,233	14,701,738	261	1,383,794	64,089,026
Expenditures:					
Current:					
General government	2,448,166		200,000		2,648,166
Public safety	8,162,084				8,162,084
Public works	1,694,602		2,923,473	22,757	4,640,832
Planning and inspection	629,790				629,790
Library	754,128				754,128
Education		38,600,772		900	38,601,672
Community services	291,172			122,365	413,537
Other expenditures	6,165,501				6,165,501
Grants	701,490				701,490
Capital outlay	1,139,474		333,274		1,472,748
Debt service:					
Debt issuance and fees	500		14,900		15,400
Principal	2,260,124				2,260,124
Interest	822,342				822,342
Total expenditures	25,069,373	38,600,772	3,471,647	146,022	67,287,814
Excess (deficiency) of revenues over expenditures	22,933,860	(23,899,034)	(3,471,386)	1,237,772	(3,198,788)
Other financing sources (uses):					
Bond proceeds			210,000		210,000
Capital lease proceeds	395,820	59,645			455,465
Insurance proceeds			176,500		176,500
Transfers from other funds	759,979	24,115,854	134,097	16,621	25,026,551
Transfers to other funds	(24,380,558)		(21,355)	(759,979)	(25,161,892)
Total other financing sources (uses)	(23,224,759)	24,175,499	499,242	(743,358)	706,624
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(290,899)	276,465	(2,972,144)	494,414	(2,492,164)
Fund balance, beginning of year	9,688,016	3,133,976	2,114,180	2,514,371	17,450,543
Fund balance, end of year	\$ 9,397,117	\$ 3,410,441	\$ (857,964)	\$ 3,008,785	\$ 14,958,379

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2013

Net change in fund balances for governmental funds		\$ (2,492,164)
Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as depreciation expense.		
Capital outlays, including amounts charged to current expenditures	\$ 2,907,312	
Depreciation expense	<u>(2,766,367)</u>	140,945
Governmental funds report bond issuance costs as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.		(5,989)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds		286,351
OPEB obligation is recorded in the statement of activities, but not in the governmental funds		38,183
Pension asset is recorded in the statement of activities, but not in the governmental funds		(292,634)
The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net position. Bond premiums and refunding charges are deferred and amortized as part of future interest expense.		
Principal repayment on long-term debt	2,260,124	
Issuance of general obligation bonds	(210,000)	
Issuance of capital lease	(455,465)	
Amortization of:		
Deferred charge on refunding	(56,883)	
Bond premiums	<u>48,115</u>	1,585,891
Some expenditures not requiring the use of current financial resources in governmental funds are accrued in the statement of activities:		
Claims and judgments	3,273,150	
Deferred revenue	49,350	
Accrued compensated absences	<u>43,953</u>	3,366,453
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds		<u>(3,918)</u>
Change in net position of governmental activities:		<u>\$ 2,623,118</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET POSITION - ENTERPRISE FUNDS

JUNE 30, 2013

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycle Fund</u>	<u>Total</u>
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 6,369,866	\$ 414,156	\$ 32,800	\$ 6,816,822
Accounts receivable:				
Assessments and user fees	342,871	9,561	49,162	401,594
Other		12,179		12,179
Inventory			22,132	22,132
Due from other funds	<u>380,732</u>		<u>25,254</u>	<u>405,986</u>
Total current assets	7,093,469	435,896	129,348	7,658,713
Noncurrent assets:				
Assessments and user fees receivable, less current portion	555,973			555,973
Deferred charges, net	167,685			167,685
Capital assets not being depreciated	2,000,338	2,622,356		4,622,694
Capital assets being depreciated, net	<u>16,373,982</u>	<u>1,193,511</u>	<u>149,462</u>	<u>17,716,955</u>
Total assets	<u>26,191,447</u>	<u>4,251,763</u>	<u>278,810</u>	<u>30,722,020</u>
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	640,886	95,047	107,872	843,805
Due to other funds	1,934,454	163,841	-	2,098,295
Accrued compensated absences	23,672	8,385	5,413	37,470
Current portion of loans payable	<u>1,012,757</u>			<u>1,012,757</u>
Total current liabilities	3,611,769	267,273	113,285	3,992,327
Noncurrent liabilities, loans payable, net of current portion	<u>15,701,977</u>			<u>15,701,977</u>
Total liabilities	<u>19,313,746</u>	<u>267,273</u>	<u>113,285</u>	<u>19,694,304</u>
NET POSITION:				
Net investment in capital assets	7,698,586	3,815,867	149,462	11,663,915
Unrestricted	<u>(820,885)</u>	<u>168,623</u>	<u>16,063</u>	<u>(636,199)</u>
Total net position	<u>\$ 6,877,701</u>	<u>\$ 3,984,490</u>	<u>\$ 165,525</u>	<u>\$ 11,027,716</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2013

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,698,624		\$ 979,696	\$ 5,678,320
Beach admittance and rental fees		\$ 1,315,155		1,315,155
Campground admittance and rental fees		207,042		207,042
Other revenues	24,327	54,834	19,262	98,423
Total operating revenues	4,722,951	1,577,031	998,958	7,298,940
Operating expenses:				
Salaries and benefits	630,427		56,407	686,834
Materials and supplies	38,539		1,187	39,726
Professional services	254,729		1,055,410	1,310,139
Repairs and maintenance	474,813			474,813
Utilities	121,405			121,405
Sewage disposal	832,240			832,240
Beaches		666,180		666,180
Lifeguards		228,006		228,006
Harbormaster		33,592		33,592
Security		27,338		27,338
Campground		31,911		31,911
Recreation		62,929		62,929
Parks and grounds		190,995		190,995
Civic appropriations		49,550		49,550
Miscellaneous	65,647	93,525		159,172
Depreciation	649,431	125,348	99,641	874,420
Total operating expenses	3,067,231	1,509,374	1,212,645	5,789,250
Operating income (loss)	1,655,720	67,657	(213,687)	1,509,690
Nonoperating revenues (expenses):				
Interest revenue	4,989	122	60	5,171
Environmental remediation	351,999			351,999
Interest expense	(201,161)			(201,161)
Amortization of bond issuance costs	(16,393)			(16,393)
Total nonoperating revenues (expenses)	139,434	122	60	139,616
Income (loss) before transfers	1,795,154	67,779	(213,627)	1,649,306
Transfers from other funds		21,355	113,986	135,341
Change in net position	1,795,154	89,134	(99,641)	1,784,647
Net position, beginning of year	5,082,547	3,895,356	265,166	9,243,069
Net position, end of year	<u>\$ 6,877,701</u>	<u>\$ 3,984,490</u>	<u>\$ 165,525</u>	<u>\$ 11,027,716</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2013

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 4,734,939	\$ 1,508,743	\$ 1,006,502	\$ 7,250,184
Cash received from other sources	24,327	54,834	19,262	98,423
Cash paid to employees	(633,766)	(899,766)	(54,178)	(1,587,710)
Cash paid to suppliers	(2,177,347)	(517,714)	(1,039,595)	(3,734,656)
Cash paid to civic groups	(49,550)	(49,550)	(49,550)	(49,550)
Net cash provided by (used in) operating activities	<u>1,948,153</u>	<u>96,547</u>	<u>(68,009)</u>	<u>1,976,691</u>
Cash flows from noncapital financing activities:				
Interfund balances	413,108	(102,355)	54,939	365,692
Environmental remediation	(960,537)	(960,537)	(960,537)	(960,537)
Net cash provided by (used in) noncapital financing activities	<u>(547,429)</u>	<u>(102,355)</u>	<u>54,939</u>	<u>(594,845)</u>
Cash flows from capital and related financing activities:				
Transfers from other funds	-	21,355	-	21,355
Capital contributions	49,253	-	-	49,253
Proceeds from borrowings	1,335,000	-	-	1,335,000
Acquisition and construction of fixed assets	(594,143)	(20,698)	-	(614,841)
Principal paid on bonds and notes	(862,473)	-	-	(862,473)
Interest paid on bonds and notes	(198,809)	-	-	(198,809)
Net cash provided by (used in) capital and related financing activities	<u>(271,172)</u>	<u>657</u>	<u>-</u>	<u>(270,515)</u>
Cash provided by investing activities, interest received	<u>4,989</u>	<u>122</u>	<u>60</u>	<u>5,171</u>
Net increase (decrease) in cash and cash equivalents	1,134,541	(5,029)	(13,010)	1,116,502
Cash and cash equivalents, beginning of year	<u>5,235,325</u>	<u>419,185</u>	<u>45,810</u>	<u>5,700,320</u>
Cash and cash equivalents, end of year	<u>\$ 6,369,866</u>	<u>\$ 414,156</u>	<u>\$ 32,800</u>	<u>\$ 6,816,822</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2013

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Recycle and Refuse Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,655,720	\$ 67,657	\$ (213,687)	\$ 1,509,690
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	649,431	125,348	99,641	874,420
Changes in assets and liabilities:				
Increase in:				
Accounts receivable, other		(13,454)		(13,454)
Accounts payable and accrued expenses			9,701	9,701
Accrued compensated absences			2,151	2,151
Decrease in:				
Accounts receivable, other	36,315		26,806	63,121
Inventory			7,379	7,379
Accounts payable and accrued expenses	(389,974)	(77,699)		(467,673)
Accrued compensated absences	(3,339)	(5,305)		(8,644)
Net cash provided by (used in) operating activities	<u>\$ 1,948,153</u>	<u>\$ 96,547</u>	<u>\$ (68,009)</u>	<u>\$ 1,976,691</u>
Supplemental disclosures, noncash capital and related financing activities:				
Environmental remediation adjustment *	\$ (351,999)			
Deferred charges included in prior year accounts payable paid from loan proceeds held by State of Rhode Island	<u>15,400</u>			
Total noncash capital and related financing activities	<u>\$ (336,599)</u>			

* Environmental remediation adjustment was made due to actual expenses being lower than estimated expenses.

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS

JUNE 30, 2013

	<u>Pension Trust Fund</u>	<u>Other Post- Employment Benefits Trust Fund</u>	<u>Clarke Scholarship Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS:				
Cash and cash equivalents				\$ 249,887
Investments:				
Mutual funds	\$ 28,837,911	\$ 1,536,411		
Group annuity	14,723,889			
Money market funds	3,113,585	2,481,625		138,824
Due from other funds	<u>325,064</u>	<u>20,284</u>	<u>\$ 20,557</u>	<u>39,131</u>
Total assets	<u>47,000,449</u>	<u>4,038,320</u>	<u>20,557</u>	<u>\$ 427,842</u>
LIABILITIES:				
Accounts payable	2,800			\$ 29,600
Deposits held in custody for others				<u>398,242</u>
Total liabilities	<u>2,800</u>			<u>\$ 427,842</u>
NET POSITION:				
Held in trust for pension/OPEB benefits and other purposes	<u>\$ 46,997,649</u>	<u>\$ 4,038,320</u>	<u>\$ 20,557</u>	

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2013

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund
	<u> </u>	<u> </u>	<u> </u>
Additions to net assets:			
Contributions:			
Employer	\$ 3,378,624	\$ 2,143,974	\$ -
Plan members	153,404	20,284	
	<u>3,532,028</u>	<u>2,164,258</u>	
Investment income, net:			
Interest income	1,150,030	36,067	
Net appreciation (depreciation) in fair value of investments	<u>5,501,164</u>	<u>(7,716)</u>	
	<u>6,651,194</u>	<u>28,351</u>	<u>-</u>
Total additions	<u>10,183,222</u>	<u>2,192,609</u>	<u>-</u>
Deductions from net assets:			
Benefits	4,373,848	1,834,182	
Administrative expense	241,004	17,351	
Scholarships			5,100
Total deductions	<u>4,614,852</u>	<u>1,851,533</u>	<u>5,100</u>
Change in net position	5,568,370	341,076	(5,100)
Net position, beginning of year	<u>41,429,279</u>	<u>3,697,244</u>	<u>25,657</u>
Net position, end of year	<u>\$ 46,997,649</u>	<u>\$ 4,038,320</u>	<u>\$ 20,557</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies:

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

Financial reporting entity:

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

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

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Town applied the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement Nos. 39 and 61. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Through the application of GASB criteria, the Town has identified no component units.

Basis of presentation:

Government-wide financial statements:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Government-wide financial statements (continued):

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

Fund financial statements:

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

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

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

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

Governmental funds:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Governmental funds (continued):

General Fund:

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

Special revenue funds:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Town's major special revenue fund is the School Department, which provides primary education to the Town's children.

Capital projects funds:

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

Permanent funds:

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

Proprietary funds:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Fiduciary funds:

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

Pension trusts:

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

Other postemployment benefits (OPEB) trust:

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

Private purpose trust:

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

Agency:

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

Measurement focus and basis of accounting:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

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

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

Property taxes:

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

Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 4.00% over that of the preceding fiscal year.

Intergovernmental revenues:

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

Use of estimates:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Recent accounting pronouncements:

Effective for the fiscal year ended June 30, 2013, the Town adopted Statement No. 63, of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). Deferred outflows of resources represent the consumption of the government's net assets that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period. GASB 63 prescribes the reporting requirements for these two elements and requires that the statement of net assets title be changed to statement of net position. The Town had no deferred inflows or outflows of resources at June 30, 2013.

Effective for the fiscal year ending June 30, 2014, the Town will adopt the provisions of Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of either assets, liabilities, deferred outflows of resources or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As a result of adopting GASB 65, the Town will be required to expense its deferred financing costs and estimates that net position as of July 1, 2013 will decrease by approximately \$126,100 as a result.

Cash and cash equivalents:

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

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

Investments:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Interfund transactions:

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

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

Capital assets:

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Capital assets (continued):

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

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

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

Bond issuance costs:

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

Compensated absences:

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Long-term obligations:

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

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

Fund equity:

Government-wide financial statements:

Net position:

The Town's net position has been segregated into the following three components:

Net investment in capital assets - represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to those assets, if any.

Restricted – assets that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law; reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted – a residual category for the balance of net position

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

1. Summary of significant accounting policies (continued):

Fund equity (continued):

Governmental fund financial statements:

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

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

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

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

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

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

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

Unassigned – amounts available for any purpose

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

2. Fund balances:

At June 30, 2013, Town's Capital Projects Fund and the School's Capital Improvement Fund had deficit (negative) fund balances of \$857,964 and \$457,940, respectively. These funds are the only Town funds that had a deficit fund balance.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

3. Deposits and investments (continued):

Investments (continued):

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2013 is \$50,439,354, which represents an 8.1% increase in value since June 30, 2013. The fair market value of the Town's OPEB investment account (Managed Funds) as of October 31, 2013 is \$4,128,062, which represents a 2.74% increase in value since June 30, 2013. The Town continues to review various options with its actuarial consultant and investment advisors regarding contributions, funded status, and actuarial assumptions of both plans,

Interest rate risk:

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

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

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

Credit risk:

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

Concentration of credit risk:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

3. Deposits and investments (continued):

Investments (continued):

As of June 30, 2013, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795 GAC	\$ 14,723,889
T. Rowe Price Equity Income Fund #71	6,095,454
Robeco All Cap Value Instl	6,022,040
T. Rowe Price Blue Chip Growth	5,298,790
Dodge & Cox Intl Stock FD #1048	2,523,938
William Blair SM Midcap CLI #1474	2,973,561
BlackRock Glb Alloc Fd I	2,545,662

As of June 30, 2013, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

Federated Adjustable Rate Sec Instl	\$ 511,937
PIMCO All Asset Instl FD #34	401,665
BlackRock Inflation Protected Bond I	225,416

Custodial credit risk:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

4. Interfund transactions:

Interfund receivables and payables at June 30, 2013 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Nonmajor funds	\$ 3,099
	School Department	795
	Parks and Recreation	163,841
		<u>167,735</u>
School Department	Agency funds	<u>4,416</u>
Capital Projects Fund	General Fund	<u>545,093</u>
Nonmajor governmental funds	Governmental funds, General Fund	969,760
	Enterprise funds, Sewer fund	<u>1,934,454</u>
		<u>2,904,214</u>
Enterprise funds:		
Sewer fund	Governmental funds, General Fund	<u>380,732</u>
Refuse and Recycle Fund	Governmental funds, General Fund	<u>25,254</u>
Fiduciary funds:		
Pension Trust fund	Governmental funds, General Fund	<u>325,064</u>
Other Post-Employment Benefits Trust Fund	Governmental funds, General Fund	<u>20,284</u>
Clarke Scholarship Private Purpose Trust Fund	Governmental funds, General Fund	<u>20,557</u>
Agency Funds	Governmental funds:	
	General Fund	35,418
	School Department	<u>3,713</u>
		<u>39,131</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2013

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2013 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General Fund	Governmental funds, Nonmajor funds	\$ 759,979
School Department	Governmental funds, General Fund	24,115,854
Capital Projects Fund	Governmental funds, General Fund	134,097
Nonmajor governmental funds	Governmental funds, General Fund	16,621
Enterprise funds: Parks and Recreation	Capital Projects Fund	21,355
Refuse and Recycle	Governmental funds, General Fund	113,986
		\$ 25,161,892

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

5. Capital assets:

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,292,536	\$ 200,000		\$ 7,492,536
Construction in progress:				
Infrastructure	1,275,129	502,554	\$ 304,864	1,472,819
Other	1,410,491	282,302	1,349,700	343,093
Total capital assets not being depreciated	<u>9,978,156</u>	<u>984,856</u>	<u>1,654,564</u>	<u>9,308,448</u>
Capital assets being depreciated:				
Infrastructure	30,931,657	548,746		31,480,403
Land improvements	4,554,419	719,551		5,273,970
Buildings and improvements	28,761,077	163,777		28,924,854
Furniture and equipment	5,649,357	98,581		5,747,938
Library books	1,518,013	19,982		1,537,995
Motor vehicles	4,614,538	2,026,383	226,581	6,414,340
Total capital assets being depreciated	<u>76,029,061</u>	<u>3,577,020</u>	<u>226,581</u>	<u>79,379,500</u>
Less accumulated depreciation for:				
Infrastructure	(15,070,592)	(701,360)		(15,771,952)
Land improvements	(1,124,684)	(224,063)		(1,348,747)
Buildings and improvements	(11,887,645)	(815,104)		(12,702,749)
Furniture and equipment	(2,978,604)	(567,069)		(3,545,673)
Library books	(1,465,350)	(19,063)		(1,484,413)
Motor vehicles	(2,929,922)	(439,708)	(226,581)	(3,143,049)
Total accumulated depreciation	<u>(35,456,797)</u>	<u>(2,766,367)</u>	<u>(226,581)</u>	<u>(37,996,583)</u>
Total capital assets being depreciated, net	<u>40,572,264</u>	<u>810,653</u>	-	<u>41,382,917</u>
Governmental activities capital assets, net	<u>\$ 50,550,420</u>	<u>\$ 1,795,509</u>	<u>\$ 1,654,564</u>	<u>\$ 50,691,365</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

5. Capital assets (continued):

	Beginning balances	Increases	Decreases	Ending balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,779,046		\$ -	\$ 2,779,046
Construction in progress	1,583,578	\$ 260,071		1,843,649
Total capital assets not being depreciated	<u>4,362,624</u>	<u>260,071</u>	<u>-</u>	<u>4,622,695</u>
Capital assets being depreciated:				
Land improvements	1,339,594	27,753		1,367,347
Buildings and improvements	362,916			362,916
Equipment	3,521,356			3,521,356
Sewer lines and pumps	18,350,709			18,350,709
Vehicles	190,116			190,116
Total capital assets being depreciated	<u>23,764,691</u>	<u>27,753</u>	<u>-</u>	<u>23,792,444</u>
Less accumulated depreciation for:				
Land improvements	(538,130)	(65,338)	-	(603,468)
Buildings and improvements	(127,960)	(13,909)		(141,869)
Equipment	(1,961,205)	(318,201)		(2,279,406)
Sewer lines and pumps	(2,496,517)	(460,587)		(2,957,104)
Vehicles	(77,258)	(16,384)		(93,642)
Total accumulated depreciation	<u>(5,201,070)</u>	<u>(874,419)</u>	<u>-</u>	<u>(6,075,489)</u>
Total capital assets being depreciated, net	<u>18,563,621</u>	<u>(846,666)</u>	<u>-</u>	<u>17,716,955</u>
Business-type activities capital assets, net	<u>\$ 22,926,245</u>	<u>\$ (586,595)</u>	<u>\$ -</u>	<u>\$ 22,339,650</u>
Depreciation was charged to functions as follows:				
Governmental activities:				
General government		\$ 204,670		
Public safety		706,109		
Public works and sanitation		927,093		
Planning and inspection		21,238		
Library		79,029		
Education		806,963		
Community services		21,265		
		<u>\$ 2,766,367</u>		
Business-type activities:				
Sewer fund		\$ 649,431		
Parks and recreation fund		125,348		
Refuse and recycle fund		99,641		
		<u>\$ 874,420</u>		

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

6. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued Interest	Total
Governmental activities:					
General Fund	\$ 982,799	\$ 188,104	\$ 95,101		\$ 1,266,004
School Department	753,141	87,007	93,469		933,617
Capital Projects Fund	1,034,989				1,034,989
Nonmajor funds	21,028	23			21,051
Reconciliation of balances in fund financial statements to government- wide financial statements		503,476		\$ 229,624	733,100
	<u>\$2,791,957</u>	<u>\$ 778,610</u>	<u>\$ 188,570</u>	<u>\$ 229,624</u>	<u>\$ 3,988,761</u>
Business-type activities:					
Sewer	\$ 392,577	\$ 181,166	\$ 23,672	\$ 67,143	\$ 664,558
Parks and Recreation	93,921	760	8,751		103,432
Refuse and Recycle	107,872		5,413		113,285
	<u>\$ 594,370</u>	<u>\$ 181,926</u>	<u>\$ 37,836</u>	<u>\$ 67,143</u>	<u>\$ 881,275</u>

7. Bond anticipation note payable:

On May 21, 2013, the Town issued a bond anticipation note (BAN) for \$3,000,000 with interest at .91%, the proceeds of which were used to fund a judgment against the Town (see Note 12). The BAN is due on February 14, 2014. Interest associated with the BAN is recorded in the General Fund. The BAN will be repaid either by rolling over the obligation or through the issuance of long-term debt.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

8. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2013 were as follows:

	<u>Balance, July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2013</u>	<u>Due within one year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 19,625,000	\$ 210,000	\$ 1,599,886	\$ 18,235,114	\$ 1,617,000
Deferred amounts:					
For issuance premiums	472,103	-	48,115	423,988	47,889
On refunding	(370,793)	-	(56,883)	(313,910)	(56,219)
Total bonds payable	19,726,310	210,000	1,591,118	18,345,192	1,608,670
Loan payable	600,000	-	50,000	550,000	50,000
Capital leases	2,360,146	455,465	610,238	2,205,373	515,657
Claims and judgments (Note 12)	3,767,910	2,794,089	6,067,239	494,760	413,618
Deferred revenue, grants	838,950	-	49,350	789,600	49,350
Accrued compensated absences	2,542,923	-	43,953	2,498,970	98,440
	<u>\$ 29,836,239</u>	<u>\$ 3,459,554</u>	<u>\$ 8,411,898</u>	<u>\$ 24,883,895</u>	<u>\$ 2,735,735</u>
Business-type activities:					
Loans payable	\$ 11,538,207	\$ -	\$ 862,473	\$ 10,675,734	\$ 1,012,757
Less undrawn loan proceeds held by the State	(1,335,000)	-	(1,335,000)	-	-
	10,203,207	-	(472,527)	10,675,734	\$ 1,012,757
Environmental remediation obligation (Note 12)	7,672,757	-	1,633,757	6,039,000	-
	<u>\$ 17,875,964</u>	<u>\$ -</u>	<u>\$ 1,161,230</u>	<u>\$ 16,714,734</u>	<u>\$ 1,012,757</u>

Compensated absences and claims and judgments typically have been liquidated in the General and School Department governmental funds.

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

YEAR ENDED JUNE 30, 2013

8. Long-term obligations (continued):

General obligation bonds and loan payable:

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds and the loan payable outstanding for governmental activities at June 30, 2013 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2012	New issues	Retired	Balance, June 30, 2013
General obligation bonds:								
Road, drainage, library construction and improvements, open space								
School refunding	\$ 2,395,000	10/29/02	3.0-4.0%	11/15/13	\$ 400,000		\$ 200,000	\$ 200,000
Road, drainage, open space	6,500,000	4/1/07	3.5-5.0%	6/15/27	4,875,000		325,000	4,550,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	4,800,000		300,000	4,500,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	4,800,000		500,000	4,300,000
Road, drainage, sidewalks and judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	4,750,000		250,000	4,500,000
Town General Bond #13	<u>210,000</u>	11/1/12	2.15%	11/5/17	<u>-</u>	<u>210,000</u>	<u>24,886</u>	<u>185,114</u>
Total general obligation bonds	24,990,000				19,625,000	210,000	1,599,886	18,235,114
Loan payable:								
Rhode Island Clean Water Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>600,000</u>		<u>50,000</u>	<u>550,000</u>
Total	<u>\$ 25,990,000</u>				<u>\$ 20,225,000</u>	<u>\$ 210,000</u>	<u>\$ 1,649,886</u>	<u>\$ 18,785,114</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

8. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

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

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds approved pursuant to special acts or financed from non-tax revenues; additional special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2012 was \$2,691,767,647, limiting the amount of non-excepted general obligation bonds outstanding to \$80,753,029. At June 30, 2013, bonds outstanding totaled \$18,235,114, of which \$2,786,000 were issued subject to the 3% debt limit and \$15,449,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$18,235,114 represent .68% of assessed property value.

On November 1, 2012, the Town issued \$210,000 in general obligation bonds with an interest rate of 2.15%; the proceeds were used to purchase a conservation easement on Wyatt Road.

On September 4, 2012, the Town extinguished its authority to issue bonds and/or notes pursuant to Chapter 422/487 of the public laws of 2006 for the construction, furnishing and equipping of a new police station in the amount of \$2,000,000.

As of June 30, 2013, previously authorized, but unissued, general obligation bonds amount to \$14,290,000.

On May 20, 2010, the Town issued \$4,885,000 in general obligation bonds with an average interest rate of 4.0% to advance refund \$4,800,000 of outstanding various purpose general obligation bonds. The net proceeds of \$5,219,217 (after payment of \$28,235 in underwriting fees), plus an additional \$362,452 of bond premium monies used to purchase U.S. Government securities, were deposited with an escrow agent to provide for all future debt service payments on the various purpose general obligation bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$371,689. This difference is being charged to operations through the year 2022 using the effective interest method. At June 30, 2013, the balance of the defeased debt totaled \$4,300,000.

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

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

8. Long-term obligations (continued):

Loans payable for business-type activities:

Loans payable for business-type activities are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2012	New issues	Maturities	Balance, June 30, 2013
Enterprise Fund, Sewer:								
Rhode Island Clean Water Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 315,158	\$ -	\$ 105,053	\$ 210,105
Rhode Island Clean Water Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	496,765		43,420	453,345
Rhode Island Clean Water Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,625,000		125,000	1,500,000
Rhode Island Clean Water Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	4,500,000		300,000	4,200,000
Rhode Island Clean Water Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,198,000		138,000	2,060,000
Rhode Island Clean Water Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	903,284		150,000	753,284
Rhode Island Clean Water Finance Agency	<u>1,500,000</u>	6/28/12	.22%-1.89%	9/1/22	<u>1,500,000</u>		<u>1,000.00</u>	<u>1,499,000</u>
	<u>\$ 17,249,282</u>				11,538,207	-	862,473	10,675,734
Less undrawn loan proceeds held by the State					<u>(1,335,000)</u>		<u>(1,335,000)</u>	<u>-</u>
					10,203,207			10,675,734
Less current portion					<u>(862,473)</u>			<u>(1,012,757)</u>
					<u>\$ 9,340,734</u>			<u>\$ 9,662,977</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

8. Long-term obligations (continued):

Capital lease obligations:

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated). Interest expense for the year ended June 30, 2013 of \$70,219 is reported within the governmental activities, interest on long-term debt on the statement of activities.

On October 12, 2012, the Town entered into a lease-purchase agreement in the amount of \$455,465 with an interest rate of 2.37%. The lease funded the purchase of Town and School vehicles in the amounts of \$395,820 and \$59,645, respectively.

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2012	New issues	Maturities	Balance, June 30, 2013
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,220,107		\$ 163,657	\$ 1,056,450
Vehicles	399,690	11/10/08	2.16%	8/1/12	82,539		82,539	-
Fire pumper and ladder	1,349,700	6/15/12	2.78%	10/1/15	1,057,500		268,963	788,537
Town and School vehicles	455,465	10/12/12	2.37%	11/5/17	-	\$ 455,465	95,079	360,386
	<u>\$ 4,480,855</u>				<u>\$ 2,360,146</u>	<u>\$ 455,465</u>	<u>\$ 610,238</u>	<u>\$ 2,205,373</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

8. Long-term obligations (continued):

At June 30, 2013, scheduled annual debt service requirements for the bonds payable, loans payable and capital leases (excluding interest adjustments for the undrawn balance) are as follows:

Year ending June 30,	Principal	Interest	Total
<i>Governmental activities:</i>			
<i>Bonds and loans payable:</i>			
2014	\$ 1,667,000	\$ 699,855	\$ 2,366,855
2015	1,457,000	653,465	2,110,465
2016	1,452,000	602,169	2,054,169
2017	1,447,000	552,003	1,999,003
2018	1,417,114	499,902	1,917,016
2019-2023	6,495,000	1,679,237	8,174,237
2024-2028	4,100,000	620,051	4,720,051
2029-2032	750,000	63,750	813,750
	<u>\$ 18,785,114</u>	<u>\$ 5,370,432</u>	<u>\$ 24,155,546</u>
 <i>Capital lease obligations:</i>			
2014	\$ 515,657	\$ 78,629	\$ 594,286
2015	531,630	62,657	594,287
2016	550,078	44,208	594,286
2017	291,470	25,058	316,528
2018	208,465	12,985	221,450
2019	108,074	2,647	110,721
	<u>\$ 2,205,374</u>	<u>\$ 226,184</u>	<u>\$ 2,431,558</u>
 <i>Business-type activities:</i>			
2014	\$ 1,012,757	\$ 192,358	\$ 1,205,115
2015	1,014,077	173,639	1,187,716
2016	910,386	156,224	1,066,610
2017	911,787	140,203	1,051,990
2018	916,513	123,697	1,040,210
2019-2023	3,780,214	347,111	4,127,325
2024-2028	2,130,000	132,710	2,262,710
	<u>\$ 10,675,734</u>	<u>\$ 1,265,942</u>	<u>\$ 11,941,676</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans:

All eligible employees of the Town are covered by one of four pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island, a hybrid plan with a defined contribution component for certain employees (Municipal Plan), the Town of Middletown Retirement Plan (Town Plan) or the new Town of Middletown Defined Contribution 401(a) Plan (currently in the process of being implemented). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees and all Public Works employees hired between July 1, 1999 and June 30, 2012, all Police Department employees sworn in on or after January 1, 2000, all Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Defined Contribution 401(a) Plan covers all Town Hall and Public Works employees hired on or after July 1, 2012. The Town Plan covers all other eligible employees. Total covered payroll under all defined benefit plans during 2013 was \$26,382,481. Total covered payroll under the defined contribution portion of the Municipal Plan was \$21,280,527. Total Town payroll was \$30,047,295 for the same period.

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

Legal challenges to legislatively enacted pension reforms are proceeding through the courts and as of the date of this report are in court-ordered mediation.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Teachers' Plan

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. Financial statements for the Teachers' Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886 or at www.ersri.org. Total covered payroll under the Teachers' Plan during 2013 was \$17,992,916, including \$483,220 of federally reimbursed payroll.

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

Legal challenges to legislatively enacted pension reforms are proceeding through the courts and, as of the date of this report, are in court-ordered mediation.

Schedule A Benefits:

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

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

Members are grandfathered under Schedule A if they were eligible to retire by September 30, 2009 with 28 years of service or were age 60 with 10 years of contribution service.

As of July 1, 2012, under RIRSA, Schedule A member retirement eligibility does not change. The compensation used to calculate the pension benefit remains based on three year average salary. Schedule A members retain the benefit rate they have accrued as of June 30, 2012, and effective July 1, 2012 the benefit accrual rate is 1% per year and they are required to participate in the defined contribution plan. Maximum benefit for Schedule A members is 80%.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Teachers' Plan (continued):

Plan description (continued):

Schedule B Benefits:

Schedule B benefits are provided to members who had less than ten years of contributory service on or before July 1, 2005. Schedule B provides unreduced benefits of 1.60% of earnings for each of the first ten years of service; 1.80% for each of the next ten years; 2.00% for years 21 through 25 inclusive; 2.25% for years 26 through 30 inclusive; 2.50% for years 31 through 37 inclusive; and 2.25% for 38 years of service. Such benefits are available to members who are at least age 65 with 10 years of service, or at least age 59 with 29 years of service. Actuarially reduced retirement is available at age 55 with 20 years of service; the benefit is reduced actuarially for each month that the age of the member is less than 65 years.

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

Rhode Island General Law relating to state employees and teachers benefits was amended during the fiscal year ended June 30, 2010. Members eligible to retire as of June 12, 2010 are not affected by the legislation. The legislation modifies the Cost of Living Adjustment (COLA).

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Teachers' Plan (continued):

Plan description (continued):

Schedule B Benefits (continued):

The COLA now applies to the first \$35,000 of retirement allowance, indexed annually, and shall commence upon the retiree's third anniversary of the date of retirement or when the retiree reaches age 65, whichever is later. The \$35,000 limit will increase annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) as published by the United States Department of Labor Statistics, determined as of September 30 of the prior calendar year or 3%, whichever is less.

Members are grandfathered under Schedule B if they were eligible to retire by September 30, 2009 were age 65 with 10 years of contribution service or age 59 with 29 years of service credit.

As of July 1, 2012, under RIRSA, Schedule B member retirement eligibility does not change if eligible to retire by September 30, 2009. The compensation used to calculate the pension benefit remains based on three year average salary. If eligible to retire after September 30, 2009 and prior to July 1, 2012, members may still retire based on Schedule B retirement eligibility, compensation used to calculate pension will be based on 5 year average salary. If the member is eligible to retire on or after July 1, 2012 and has 5 or more years of contributory service as of June 30, 2012 the retirement eligibility age becomes the Social Security Normal Retirement Age (SSNRA) with a proportional downward adjustment based on service credit as of June 30, 2012 (RIRSA age). If the RIRSA age is less than 59, it defaults to age 59. Compensation used to calculate the pension benefit is based on 5 year average salary. Schedule B members retain the benefit rate they have accrued as of June 30, 2012, and effective July 1, 2012 the benefit accrual rate is 1% per year and they are required to participate in the defined contribution plan. Maximum benefit for Schedule B members is 75%. If the Schedule B member is eligible to retire on or after July 1, 2012 and does not have 5 or more years of contributory service as of June 30, 2012, eligibility to retire is the SSNRA and 5 years of contributory service. The compensation used to calculate the pension benefit is the 5 year average salary, with a benefit accrual rate of 1% per year and a maximum benefit of 75%. These members are required to participate in the defined contribution plan.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Teachers' Plan (continued)

Plan description (continued):

Schedule A/B Benefits:

Schedule A/B benefits are provided to Schedule A members who had 10 years of contributory service prior to July 1, 2005 and were not eligible to retire as of September 30, 2009.

As of July 1, 2012, under RIRSA, Schedule A/B members must use a downward adjusted retirement eligibility age, proportionally scaled back from age 62 based on years of service as of September 30, 2009, called the Article 7 Date. If the Article 7 date is prior to July 1, 2012 there is no change in the eligibility to retire, compensation used to calculate the pension benefit is based on 5-year average salary, and members are required to participate in the defined contribution plan effective July 1, 2012. If the Article 7 date is after June 30, 2012, the retirement eligibility age becomes the SSNRA with a proportional downward adjustment based on service credit as of June 30, 2012 (RIRSA age). If the RIRSA age is less than 59, it defaults to age 59. Compensation used to calculate the pension benefit is based on 5 year average salary, and members are required to participate in the defined contribution plan effective July 1, 2012.

Funding policy:

Rhode Island General Law currently sets the defined benefit contribution rates of participating employees at 3.75% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years initially, but in conjunction with the implementation of RIRSA the amortization period was reset to 25 years as of June 30, 2010; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The Town participates in the optional Teachers Survivor Benefits Fund whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits. The Town contributed \$22,513 to this fund during fiscal year 2013.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Teachers' Plan (continued)

Funding policy (continued):

As prescribed by Rhode Island General Law, the State pays the entire portion of the defined benefit 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 2013, the Town's actuarial required contributions were 11.41% of participant salary (19.29% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 7.88% (\$1,379,764). The Town's required and actual contributions to the defined benefit portion of the Teachers' Plan for fiscal years 2013, 2012 and 2011 were \$2,090,418, \$2,511,297, and \$2,053,204, respectively.

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with the Act and GASB Statement No. 27 standards. Effective July 1, 2012, State Employees (excluding Correctional Officers) and Teachers will contribute 3.75% of their salary per year to the defined benefit plan, and 5.0% to the defined contribution plan, with an additional 2.0% contribution for those employees that do not participate in Social Security. The Town's required and actual contributions to the defined contribution portion of the Teachers' Plan for fiscal year 2013 was \$402,156, the State contribution on behalf of the Teachers was \$61,874, and the Federal contribution was \$14,497.

Municipal Plan

Plan description:

The Municipal Plan is an agent multiple-employer public employee retirement system administered by the State. Financial statements for the Municipal Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886 or at www.ersri.org. For fiscal year 2013, total covered payroll under the defined benefit portion of the Municipal Plan totaled \$8,389,515, including the police/fire unit. Total covered payroll under the defined contribution portion of the Municipal Plan, which does not include the police/fire unit, was \$5,329,635.

Effective July 1, 2012, RIRSA took effect and retirement eligibility became based on one of four schedules for municipal units and one of three schedules for the police and fire unit, depending on retirement eligibility status as of June 30, 2012. In addition, COLA provisions have changed for members who retire after June 30, 2012.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Plan description (continued):

For the general employee units:

Schedule 1 includes members eligible to retire on or before June 30, 2012. Their eligibility remains at 30 years of service or eligible to retire after ten years of service if they have attained age 58 or after 30 years of service regardless of age. Benefits are equal to 2% of final average salary for each year of service for municipal employees, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3% (not compounded) to allow for cost-of-living increases under an optional benefit provision adopted by the Town.

Schedule 2 members are those active as of July 1, 2012, not eligible to retire as of June 30, 2012 and have 5 or more years of service. Their retirement eligibility age is their SSNRA with a proportional downward adjustment based upon service credit as of June 30, 2012. This adjusted SSNRA is referred to as the RIRSA age. If RIRSA age is less than 59, it then defaults to age 59. Final average salary is computed using the highest five consecutive years of base earnings, exclusive of overtime, but cannot be lower than final compensation determined as of June 30, 2012. Benefits are equal to 2% of final average salary for years of service prior to June 30, 2012, and 1% for years of service after July 1, 2012. Maximum benefit is 75% of final average salary.

Schedule 3 members are those active as of July 1, 2012, not eligible to retire as of June 30, 2012 and have less than 5 years of service. Retirement eligibility age is the SSNRA, with at least 5 years of contributory service. Final average salary is computed using the highest five consecutive years of base earnings, exclusive of overtime, but cannot be lower than final compensation determined as of June 30, 2012. Benefits are equal to 2% of final average salary for years of service prior to June 30, 2012, and 1% for years of service after July 1, 2012. Maximum benefit is 75% of final average salary.

Schedule 4 members are those hired after July 1, 2012. Their retirement eligibility age is their SSNRA and they must have at least 5 years of contributory service. Final average salary is computed using the highest five consecutive years of base earnings, exclusive of overtime, with benefits equal to 1% of final average salary for each year of service, with a maximum benefit of 75% of final average salary. Municipal members in Schedule 1, 2, 3, and 4 are required to participate in the Defined Contribution (DC) plan as of July 1, 2012. There are additional transition rules for retirement eligibility that may apply to some of the municipal members.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Plan description (continued):

For the general employee units (continued):

For the municipal public safety unit, the benefit accrual rate for service prior to July 1, 2012 is 2.5% of final average salary for each year of service, and for service after July 1, 2012 it is 2.0% per year. The member contribution rate for contributions made prior to July 1, 2012 was 9.0% which included the COLA and a 20-year retirement benefit. After July 1, 2012 the member contribution rate is reduced to 8.0% for the defined benefit plan with the COLA component only. For Middletown, police and fire members contribute to Social Security and therefore are not required to participate in the DC plan. RIRSA eliminated the 20-year retirement with no age requirement, for members not eligible to retire on or before June 30, 2012. Five years of contributing service is required to vest in the defined benefit plan for new members and active members as of July 1, 2012.

Schedule 6 members include those with a 20-year retirement plan eligible to retire on or before June 30, 2012, with no age requirement. Members may retire based upon their original retirement eligibility if they are eligible to retire by June 30, 2012. Final average salary is computed using the three highest consecutive years of base earnings, exclusive of overtime, for service prior to June 30, 2012 and is computed using the five highest consecutive years of base earnings, exclusive of overtime, for service after June 30, 2012, and cannot be lower than final compensation determined as of June 30, 2012. Maximum benefit is 75% of final average salary.

Schedule 9 members are those with the 20-year retirement who are active as of July 1, 2012 but are not eligible to retire as of June 30, 2012. Effective on July 1, 2012 these members are eligible to retire after they reach age 55 and have 25 years of contributing service, or they may retire at their SSNRA if they have at least 5 years of service but do not have 25 year of service. Final compensation is computed using the five highest consecutive years of base earnings, exclusive of overtime, and cannot be lower than final compensation determined as of June 30, 2012.

Schedule 11 members are those hired after July 1, 2012, eligible to retire after age 55 with 25 years of contributing service, or at their SSNRA if they have at least 5 years of service but do not have 25 year of service. Final compensation is computed using the five highest consecutive years of base earnings, exclusive of overtime, with a benefit accrual rate of 2.0% per year. Municipal public safety members in Schedule 6, 9, and 11 are not required to participate in the DC plan as of July 1, 2012. There are additional transition rules for retirement eligibility that may apply to some of the municipal public safety members.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Plan description (continued):

The Municipal Plan also provides nonservice-connected disability benefits after five years of service; service-connected disability benefits with no minimum service requirement; vested benefits after ten years of service and effective July 1, 2012 a member with at least 5 years of service is vested, survivor's benefits for service-connected death; and certain lump-sum benefits.

As of June 30, 2013, 185 active employees (51 police and firefighters) were members of the Municipal Plan.

Funding policy:

Rhode Island General Law sets contributions of participating employees. Effective July 1, 2012, General employees contribute 1.00% of their salary per year, and police officers and firefighters contribute 7.00% to the defined benefit plan, and if the municipality has elected one of the optional cost-of-living provisions, an additional member contribution of 1.00% of salary is required. For the defined contribution plan, a 5.00% contribution, with an additional 2.00% contribution for those employees that do not participate in Social Security, is required for general municipal employees.

Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of June 30, 2010 over a closed period of 25 years. (23 years remaining as of June 30, 2012). Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with RIRSA and GASB Statement No. 27 standards.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Annual pension cost:

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost	\$ 1,068,522	\$ 1,561,094	\$ 1,309,967
Actual contributions:			
Employee	340,319	620,361	547,462
Employer	728,203	940,733	762,505
Percent of annual pension cost contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Defined contribution plan:

The municipal employees in the general unit participate in the defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF and the Employees' Retirement System of Rhode Island. Employees may choose among various investment options available to plan participants. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and the employer are established by the General Laws, which are subject to amendment by the General Assembly. Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The funding policy is outlined in RIGL: Chapter 36-10.3 (which can be amended by the Rhode Island General Assembly). Active (nonpolice/fire) plan members must contribute 5% of their compensation and the Town is required to contribute 1%.

The following table summarizes the actual contributions for the defined contribution portion of the Municipal Plan in FY 2013, the first year of this portion of the Plan.

	<u>2013</u>	<u>% of Covered Payroll</u>
Annual covered payroll	\$ 5,329,635	
Actual contributions:		
Employee	266,482	5.0%
Employer	53,297	1.0%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Funded status and funding progress:

As of June 30, 2012, the date of the most recent actuarial valuation available, the defined benefit portion of the Municipal Plan was 80.8% and 137.5% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$18,169,600 and \$2,275,546 for the general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$14,674,442 and \$3,129,072, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$3,495,158 and (\$853,526) for the general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the defined benefit portion of the Municipal Plan) was \$5,584,068 and \$2,657,659 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 62.6% and (32.1%), respectively.

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

Actuarial methods and significant assumptions:

The required contribution for fiscal year 2013 was determined as part of the actuarial valuation performed as of June 30, 2010. The most recent actuarial valuation of the plans within the system was performed as of June 30, 2012. The actuarial methods and assumptions used in those valuations are summarized as follows:

Actuarial cost method	Entry Age Normal – the individual Entry Age Actuarial Cost methodology is used
Amortization method	Level percent of payroll - closed
Equivalent single remaining amortization period	25 years as of June 30, 2010 23 years as of June 30, 2012
Asset valuation method	5 year smooth market

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

Investment rate of return	7.50% annually
Projected salary increases	4.00% - 8.00% - general employees 4.25% - 14.25% - police and fire employees
Inflation	2.75% annually
Cost-of-living adjustments	Equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - The COLA is to be applied to the first \$25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement. For MERS Police and Fire, COLA is delayed until the later of age 55 or 3 years after retirement. A 2% COLA is assumed after July 1, 2012
Retirement probability	100% at age 75 or upon eligibility (100% at age 65 or upon eligibility – police/fire)
Mortality:	
Healthy members	115% (for Male Employees) and 95% (for Female Employees) of the RP- 2000 Combined Healthy with White Collar adjustments, projected with Scale AA from 2000
Disabled members	60% of the PBGC Table Va (VIa for females) eligible for Social Security disability benefits.
Disability	Probabilities per 1,000 ranging from .08% at age 25 to 9.87% at age 60 (.43% at age 25 to 12.10% at age 65 for police and fire)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Town Plan

Plan description:

The Town Plan is a single-employer defined benefit pension plan established by the Town in accordance with the Town Charter. Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee. For fiscal year 2013, covered payroll under the Town Plan totaled \$1,837,941.

As of July 1, 2012, the latest actuarial valuation, employee membership data related to the Town Plan is as follows:

Active participants	21
Terminated vested participants	7
Retirees and beneficiaries	137
Disabled participants	<u>5</u>
Total	<u><u>170</u></u>

Benefit provisions:

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

The normal retirement benefit is determined as follows:

Police Department Members – 3% (2.5% if less than 20 years of service) of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.

Fire Department Members – 2.75% of average compensation multiplied by completed years and months of service (total maximum benefit equals 75% of average compensation). If a participant joined the Fire Department after July 1, 1983, only Fire Department service is considered.

School Custodial, Town Hall and School Clerical Members – 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.

Public Works Members – 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

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

Police and Fire Members – The pre-retirement benefit equals 67.5% of the pension benefit previously described payable until remarriage unless there are dependent children. A member is eligible upon completion of 20 years of service.

Other Members – The pre-retirement benefit equals 50% of the pension benefit previously described reduced by the Contingent Annuitant factor and Early Optional Retirement factor. Members are eligible if they are within five years of their normal retirement date and have completed at least ten years of service.

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

Funding policy and contributions:

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

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

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

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

Actuarial method and significant assumptions:

For 2013, the actuarial method used to compute the actuarially determined contribution requirements is the entry age normal method. Under the entry age normal method, the present value of projected benefits not provided for at the valuation date is the accrued liability. The unfunded accrued liability is being amortized over a closed six-year period beginning with the

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Town Plan (continued)

Actuarial method and significant assumptions (continued):

July 1, 2012 valuation. The actuarial assumptions include: a) 7.5% investment rate of return and b) projected salary increases of 5% per year. Assets used for valuation purposes are equal to the market value with a 5-year phase-in of investment gains and losses. The most recent valuation was performed as of July 1, 2012.

Annual pension cost and net pension asset:

The actuarially determined employer contribution requirement of \$3,456,284 was determined as described above and was based on an actuarial valuation as of July 1, 2012. The contribution consists of normal cost plus estimated expenses and one year of interest at 7.5%. Total contributions to the Town Plan in fiscal 2013 amounted to \$3,532,028, of which \$3,378,624 and \$153,404 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 183.8% and 8.3%, respectively, of covered payroll for the year.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal cost	\$ 208,712	\$ 256,225	\$ 391,189
Amortization of UAAL	2,922,437	2,686,115	2,105,802
Interest and plan expenses	325,135	298,076	264,674
Adjustment to annual required contribution	<u>146,956</u>	<u>229,197</u>	<u>69,741</u>
Annual pension cost	3,603,240	3,469,613	2,831,406
Contributions made	<u>(3,310,606)</u>	<u>(2,953,201)</u>	<u>(3,712,030)</u>
(Increase) decrease in net pension asset	292,634	516,412	(880,624)
Net pension asset, beginning of year	<u>(1,060,438)</u>	<u>(1,576,850)</u>	<u>(696,226)</u>
Net pension asset, end of year	<u>\$ (767,804)</u>	<u>\$ (1,060,438)</u>	<u>\$ (1,576,850)</u>
Percentage of annual pension cost contributed	<u>91.88%</u>	<u>85.12%</u>	<u>131.10%</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

9. Pension plans (continued):

Town Plan (continued)

Funded status and funding progress:

As of July 1, 2012, the Town Plan was 74.5% funded. The actuarial accrued liability for benefits was \$57,745,658 and the actuarial value of assets was \$42,999,380, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,746,278. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$1,837,941 and the ratio of the UAAL to the covered payroll was 802%.

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

10. Other postemployment benefits:

Plan description:

Through its single-employer defined benefit plan (OPEB Plan), the Town provides postretirement health care benefits to all Town employees who meet years of service and age requirements and, in some cases to their surviving spouses, who are eligible under the terms of collective bargaining agreements or personal contracts. The Plan does not issue a stand-alone financial report. The Town established the Other Postemployment Benefits Trust (the Trust) on June 20, 2011. The Trust's assets and liabilities at June 30, 2013 and its activity for the year then ended are included in the statements of fiduciary net position and changes in fiduciary net position.

The most recent actuarial valuation for the OPEB Plan was performed as of June 30, 2013.

Benefits and employee contributions:

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$1,834,182 for the year ended June 30, 2013.

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

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013

10. Other postemployment benefits (continued):

Covered participants:

As of June 30, 2013, the membership census is as follows:

Active employees	372
Retirees and beneficiaries	<u>271</u>
 Total	 <u><u>643</u></u>

Annual OPEB cost and net OPEB obligation:

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town. The Town has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a closed period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the amount actually contributed to the plan for the year ended June 30, 2013, and the Town's net OPEB obligation as of June 30, 2013.

Annual Required Contribution	\$ 2,120,378
Interest on net OPEB obligation	33,337
Adjustment to annual required contribution	<u>(27,640)</u>
 Annual OPEB cost	 2,126,075
Contributions made during the year	<u>2,164,258</u>
 Decrease in net OPEB obligation	 (38,183)
Net OPEB obligation at beginning of year	<u>444,496</u>
 Net OPEB obligation at end of year	 <u><u>\$ 406,313</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2013

10. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2011, 2012 and 2013 are as follows:

<u>Year ended June 30,</u>	<u>OPEB cost</u>	<u>Percentage of Annual OPEB cost contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 2,117,419	101.40%	\$ 629,383
2012	2,031,884	109.10%	444,496
2013	2,126,075	101.80%	406,313

Funded status and funding progress:

As of June 30, 2013, the funded status and funding progress were as follows:

Funded ratio	12.1%
Actuarial accrued liability for benefits	\$ 33,178,340
Actuarial value of assets	4,018,150
Unfunded actuarial accrued liability (UAAL)	29,160,190
Covered payroll	30,047,295
UAAL to covered payroll	97.05%

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

10. Other postemployment benefits (continued):

Actuarial methods and assumptions:

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

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

Measurement date:	June 30, 2013
Funding method:	Projected Unit Credit
Investment rate of return:	7.5%
Discount rate:	7.5%, reflecting an established OPEB trust
Participation:	90% of eligible school retirees, 100% of eligible police retirees, 90% of eligible fire retirees, and 80% of eligible Town employees are assumed to elect medical coverage.
Health Care Cost Trend Rates:	Medical pre-Medicare rate of 8.5% per year, decreasing to a rate of 4.5% per year after eight years; and post-Medicare rate of 6.5% per year, decreasing to a rate of 4.5% after eight years.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

10. Other postemployment benefits (continued):

Actuarial methods and assumptions (continued):

Federal health care reform provisions under the Affordable Care Act along with the State of Rhode Island pension reform have been considered and incorporated into the actuarial report.

11. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for property/liability and workers' compensation premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, the Town is insured for a maximum of \$5,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There were no significant reductions in this insurance coverage during the year ended June 30, 2013.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

12. Litigation and contingencies:

Litigation:

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

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011. The balance of this cost remaining at June 30, 2013 is estimated at \$6.0 million and has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

12. Litigation and contingencies (continued):

Litigation (continued):

The Town awarded the construction contract for Project (2) in August 2011, in the amount of \$3,269,000, and construction commenced soon thereafter. This project involved installation of an outfall diffuser pipe into the Atlantic Ocean. Soon after the first section of pipe was placed on the ocean floor, the Town's contractor, CB Utility Co. Inc. (CBUC) discovered that the pipe moved after installation. On April 13, 2012, CBUC halted construction pending investigation by the Town's Engineer and Construction Manager, Woodard & Curran (W&C). W&C acknowledged liability for the defective design and took steps to remediate it. Claims were asserted by W&C, CBUC, and the Town thereafter. Mediation occurred on December 3, 2012 regarding CBUC's delay and causeway repair claims. The mediation resulted in a settlement by CBUC in favor of the Town.

A contract amendment based upon W&C's re-design was entered into between the Town and CBUC on or about January 11, 2013. The Town also resolved the claims with W&C.

The Project was substantially completed on September 30, 2013. The total cost of the Project was \$5,895,500. The Town is not aware of any pending or threatened claims or litigation concerning the Project.

Project costs were funded by bond proceeds and the capital improvement program.

Other contingencies:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$3,275,000 for the year ended June 30, 2013.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

13. Commitments and subsequent events:

Construction commitments:

The Town has active construction projects as of June 30, 2013, including culvert replacement, corporate park road and drainage improvements, Esplanade drainage improvements, Continental Village sewer and drainage improvements, Tuckerman Ave drainage improvements, and drainage and sanitary upgrades in designated areas of the Town. At June 30, 2013, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Green End Ave Culvert Replacement: Green Acres Landscape & Construction	\$ 101,808	\$ 13,037
Fire Department Building Additions and Alterations: Lawrence Associates	257,914	196,616
Esplanade Drainage: C.B. Utility Company and Woodard & Curran	5,035,950	1,781,053
Aquidneck Ave Sewer Improvements: C.B. Utility Company and James J. Geremia and Associates, Inc.	48,858	710,197
Commodore Perry Cured in Place Pipe: National Water Main Cleaning Co.	565,184	124,424
Continental Village Sewer, Road drainage improvement: C.B. Utility Company and James J. Geremia and Associates, Inc.	2,693,843	512,733
Surveying & Engineering-Vernon and Fenner Avenue: James J. Geremia and Associates, Inc.	24,960	16,992
Berkeley Ave Paving: T Miozzi Inc.	336,113	24,194
Easton's Point Sewer Spot Repair: East Coast Construction	1,073,255	1,293,467
Forest Ave Sewer and Road drainage Improvements: James J. Geremia and Associates, Inc.	68,272	269,041
	<u>\$ 10,206,157</u>	<u>\$ 4,941,754</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

13. Commitments and subsequent events (continued):

Construction commitment (continued):

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

Subsequent events:

Subsequent to year-end, the Town executed three construction contracts and two construction management contracts totaling \$9,748,287. The first contract, awarded to C.B. Utility Co., Inc. in the amount of \$2,146,754, relates to the sewer and drainage improvements on Forest Avenue. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the Sewer Fund. The second contract, awarded to James J. Geremia & Associates, Inc. in the amount of \$256,853, relates to the construction management of sewer and drainage improvements on Forest Avenue. This contract will be paid from the Capital Improvement Program Special Revenue fund and the Sewer Fund. The third contract was awarded to National Water Main Cleaning Company in the amount of \$650,295 for the Easton's Point cured in place pipe project, which is part of the remediation costs associated with the consent decree; this contract will be paid from the Sewer Fund. The fourth contract, awarded to Iron Construction Group, LLC in the amount of \$6,545,000, relates to the building addition and alterations for the fire station and public works department. This contract will be paid from general obligation bonds. The fifth contract, awarded to J. Farrar & Associates, Inc. in the amount of \$149,385, relates to a project representative for the building addition and alterations for the fire station and public works department. This contract will be paid from general obligation bonds, which are expected to be issued prior to mid-February.

14. Joint venture:

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program; such amounts are deducted from the gross annual assessment. MSD's net assessment for 2013 was \$1,905,002. The towns have no equity interest in the net assets of NCRSEP, which totaled \$1,608,163 at June 30, 2013.

At June 30, 2013, a total of \$754,377 in Medicaid reimbursements due to MSD has been recorded as a liability of NCRSEP. This amount represents Medicaid reimbursements received by NCRSEP in excess of the budgeted receipts for Middletown. Separately audited financial statements of NCRSEP are available at Newport County Regional Special Education Program, Oliphant Lane, Middletown, RI 02842.

TOWN OF MIDDLETOWN, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 43,036,517	\$ 42,819,955	\$ 42,552,299	\$ (267,656)
Intergovernmental	2,112,541	2,646,006	2,589,234	(56,772)
Licenses, permits and fees	1,365,648	1,565,148	1,885,196	320,048
Interest and investment	24,400	24,400	6,626	(17,774)
Other revenues	257,133	271,238	349,310	78,072
Total revenues	46,796,239	47,326,747	47,382,665	55,918
Expenditures:				
Current:				
General government	2,538,711	2,599,844	2,448,166	151,678
Public safety	8,328,554	8,337,334	8,162,084	175,250
Public works and sanitation	1,673,338	1,696,150	1,694,602	1,548
Planning and inspection	922,002	632,002	629,790	2,212
Library	754,125	754,125	754,128	(3)
Community services	302,457	302,457	291,172	11,285
Other expenditures	5,538,979	5,575,918	6,136,831	(560,913)
Grants	164,686	655,263	701,490	(46,227)
Capital outlay	2,115,301	1,133,163	1,139,474	(6,311)
Debt service	3,095,785	3,065,785	3,082,966	(17,181)
Total expenditures	25,433,938	24,752,041	25,040,703	(288,662)
Excess of revenues over expenditures, budgetary basis	21,362,301	22,574,706	22,341,962	(232,744)
Other financing sources (uses):				
Transfers from other funds	2,944,331	1,946,932	1,883,870	(63,062)
Transfers to other funds	(30,910,632)	(25,027,458)	(25,022,993)	4,465
Reappropriated fund balance	200,000	110,000	110,000	-
Proceeds from financing	6,000,000	-	-	-
Proceeds from capital leases	404,000	395,820	395,820	-
Total other financing sources (uses)	(21,362,301)	(22,574,706)	(22,633,303)	(58,597)
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	\$ -	\$ -	(291,341)	\$ (291,341)
Adjustments of budgetary basis to U.S. GAAP basis			442	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(290,899)	
Fund balance, beginning of year			9,688,016	
Fund balance, end of year			\$ 9,397,117	

TOWN OF MIDDLETOWN, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:				
Intergovernmental	\$ 12,000,628	\$ 12,937,435	\$ 12,524,811	\$ (412,624)
Fees for service	600,394	591,239	642,732	51,493
Other revenues	<u>137,510</u>	<u>138,547</u>	<u>154,431</u>	<u>15,884</u>
Total revenues	<u>12,738,532</u>	<u>13,667,221</u>	<u>13,321,974</u>	<u>(345,247)</u>
Expenditures:				
Current:				
Salaries	20,546,270	20,805,675	20,849,652	(43,977)
Employee benefits	7,444,629	7,515,810	7,430,738	85,072
Purchased services	5,933,195	6,639,408	6,865,810	(226,402)
Supplies and materials	1,003,021	1,420,962	1,296,132	124,830
Other	1,566,700	-	-	-
Capital expenditures	<u>876,614</u>	<u>1,616,853</u>	<u>778,676</u>	<u>838,177</u>
Total expenditures	<u>37,370,429</u>	<u>37,998,708</u>	<u>37,221,008</u>	<u>777,700</u>
Excess of expenditures over revenues, budgetary basis	<u>(24,631,897)</u>	<u>(24,331,487)</u>	<u>(23,899,034)</u>	<u>432,453</u>
Other financing sources:				
Transfer from other funds	24,015,703	23,980,753	23,479,409	(501,344)
Reappropriated fund balance	<u>616,194</u>	<u>412,848</u>	<u>696,090</u>	<u>283,242</u>
Total other financing sources	<u>24,631,897</u>	<u>24,393,601</u>	<u>24,175,499</u>	<u>(218,102)</u>
Excess of expenditures and other financing uses over revenues and other financing sources	<u>\$ -</u>	<u>\$ 62,114</u>	276,465	<u>\$ 214,351</u>
Fund balance, beginning of year			<u>3,133,976</u>	
Fund balance, end of year			<u>\$ 3,410,441</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2013

Budget preparation and budgetary basis of accounting:

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

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

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

	<u>General Fund</u>
Reappropriated fund equity	\$ (110,000)
Adjustments of budgetary basis to GASB 54	<u>110,442</u>
Total adjustments	<u><u>\$ 442</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2013

Budget compliance:

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

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2013

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered payroll	UAAL as a % of covered payroll
<i>Municipal Pension Plan:</i>						
<i>General Employees Unit:</i>						
June 30, 2007	\$ 10,238,856	\$ 13,842,877	\$ 3,604,021	74.0%	\$ 4,674,046	77.1%
June 30, 2008	11,821,298	14,721,456	2,900,158	80.3%	4,892,626	59.3%
June 30, 2009	12,574,146	16,612,259	4,038,113	75.7%	5,268,332	76.6%
June 30, 2010	13,143,076	20,745,520	7,602,444	63.4%	5,015,060	151.6%
June 30, 2011	13,804,188	17,866,264	4,062,076	77.3%	5,464,167	74.3%
June 30, 2012	14,674,442	18,169,600	3,495,158	80.8%	5,584,068	62.6%
<i>Police and fire unit:</i>						
June 30, 2007	\$ 583,149	\$ 536,554	\$ (46,595)	108.7%	\$ 1,113,023	-4.2%
June 30, 2008	909,703	822,764	(86,939)	110.6%	1,335,759	-6.5%
June 30, 2009	1,328,917	1,090,815	(238,102)	121.8%	1,602,902	-14.9%
June 30, 2010	1,825,703	1,859,023	33,320	98.2%	1,639,380	2.0%
June 30, 2011	2,410,473	1,544,891	(865,582)	156.0%	2,185,236	(39.6%)
June 30, 2012	3,129,072	2,275,546	(853,526)	137.5%	2,657,659	(32.1%)
<i>Town Pension Plan:</i>						
July 1, 2008	\$ 43,215,258	\$ 51,273,315	\$ 8,058,057	84.3%	\$ 3,397,722	237.2%
July 1, 2009	40,503,976	53,436,040	12,932,064	75.8%	2,917,842	443.2%
July 1, 2010	42,526,359	54,547,798	12,021,439	78.0%	2,645,008	454.5%
July 1, 2011	43,503,856	57,057,680	13,553,824	76.2%	1,890,372	717.0%
July 1, 2012	42,999,380	57,745,658	14,746,278	74.5%	1,837,941	802.3%
<i>Other Postemployment Benefits Plan:</i>						
July 1, 2006	\$ 688,276	\$ 23,390,739	\$ 22,702,463	2.9%	\$ 27,184,895	83.5%
July 1, 2007	1,583,115	23,136,012	21,552,897	6.8%	28,710,668	75.1%
June 30, 2009	2,500,343	32,387,961	29,887,618	7.7%	28,675,833	104.2%
June 30, 2011	3,338,311	29,463,119	26,124,808	11.3%	30,052,962	86.9%
June 30, 2013	4,018,150	33,178,340	29,160,190	12.1%	30,047,295	97.0%

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2013

Town Pension Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 3,603,240	91.88%
2012	3,469,613	85.12%
2011	2,831,406	131.10%
2010	2,839,777	99.52%
2009	2,871,564	89.69%
2008	2,625,137	94.50%

Town OPEB Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 2,364,726	91.52%
2012	2,034,497	108.96%
2011	2,120,292	99.34%
2010	2,026,910	79.81%
2009	1,535,690	83.72%
2008	1,467,751	104.6%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

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

Valuation date	July 1, 2012
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	The unfunded accrued liability is amortized over a closed six-year period beginning with the July 1, 2012 actuarial valuation.
Asset valuation method	Market value with 5-year phase-in of investment gains and losses
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5.0% per annum
Cost-of-living adjustments	N/A

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2013

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2012</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2013</u>
2012	\$ -	\$ 42,569,846	\$ (260,923)	\$ 42,308,923	\$ 41,215,886	\$ 1,093,037
2011	1,176,331		(22,700)	1,153,631	1,075,071	78,560
2010	116,163		(16,319)	99,844	44,829	55,015
2009	41,949		(12,603)	29,346	3,200	26,146
2008	41,851		(6,930)	34,921	2,236	32,685
2007	34,629		(2,341)	32,288	346	31,942
2006	29,808		(2,615)	27,193	426	26,767
2005	27,812		(1,059)	26,753	7	26,746
2004	25,837		(3,167)	22,670	-	22,670
2003	22,499		(2,254)	20,245	81	20,164
2002	22,656		(15,290)	7,366	578	6,788
2001	21,920		(16,408)	5,512	76	5,436
Prior	29,438		(21,398)	8,040	121	7,919
	<u>\$ 1,590,893</u>	<u>\$ 42,569,846</u>	<u>\$ (384,007)</u>	<u>\$ 43,776,732</u>	<u>\$ 42,342,857</u>	1,433,875
						Less allowance for doubtful accounts <u>(361,976)</u>
						<u>\$ 1,071,899</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2013

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,448,211,434	\$ 39,509,278
Motor vehicles	145,503,342	1,667,472
Tangible personal	90,462,040	1,393,096
Total	2,684,176,816	42,569,846
Exemptions	102,990,329	
Current year assessment	<u>\$ 2,581,186,487</u>	<u>\$ 42,569,846</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 42,342,857
Revenue collected within 60 days subsequent to year ended June 30, 2013	<u>517,774</u>
	42,860,631
Prior year revenue received in current year	<u>(706,593)</u>
Current year real estate and personal property tax revenue	<u>\$ 42,154,038</u>