

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2010

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YEAR ENDED JUNE 30, 2010

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island as of June 30, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

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

The Management's Discussion and Analysis, budgetary comparison schedules and historical pension information on pages 3 to 14 and pages 68 to 76 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary tax collector's annual report on pages 77 and 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hefkaatz, Jan Funke, Charpi e' de Genzo P.C.

December 30, 2010

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, 2010 (FY 2010).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2010 by \$56,518,570 (*net assets*). Net assets include \$36,073,115 invested in capital assets, net of related debt; \$6,993,901 of restricted net assets; and \$13,451,554 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$99,377,627 and total liabilities were \$42,859,057 at June 30, 2010. Total net assets increased by \$5,136,925 in the current fiscal year.

As of June 30, 2010, the Town's governmental funds reported combined ending fund balances of \$19,283,421, an increase of \$875,676 in comparison with the prior year. The favorable fiscal year results in other governmental funds, partially offset by unfavorable conditions in the General Fund and School Department, resulted in the net increase in fund balance.

As of June 30, 2010, the unreserved fund balance for the General Fund was \$4,951,215, or 10.6% of total budgeted 2010 General Fund expenditures and other financing uses (\$46,781,311). This portion is unreserved and available for spending at the Town's discretion.

The Town's long-term obligations decreased by \$446,862 (1.1%) during the current fiscal year. The key factors in this decrease were the issuance of \$4,885,000 by an advance refunding, \$1,286,336 of clean water loan proceed drawdowns, the recognition of an additional \$20,250 for pollution remediation obligations, an increase in deferred revenue of \$987,000 and the repayment of principal of \$7,581,189.

Overview of the Financial Statements

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

- government-wide financial statements
- fund financial statements, and
- notes to the financial statements.

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, 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 15 and 16 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 thirty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement revenues, expenditures, and changes in fund balances for the General Fund and School Department, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation.

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

The basic governmental fund financial statements can be found on pages 17-20 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 21-24 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 25-26 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 27-66 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 benefits obligation, 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 68-76 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$56,518,570 at June 30, 2010.

Government-wide Financial Analysis (Continued)

Net assets invested in capital assets, net of related debt, makes up \$36,073,115, or 63.8%, of total net assets. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Middletown's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$24,272,680	\$23,035,083	\$ 6,126,020	\$ 4,413,969	\$30,398,700	\$27,449,052
Capital assets	47,344,145	46,076,488	21,634,782	21,439,581	68,978,927	67,516,069
Total assets	71,616,825	69,111,571	27,760,802	25,853,550	99,377,627	94,965,121
Long-term liabilities	26,745,475	27,408,957	11,978,367	11,761,747	38,723,842	39,170,704
Other liabilities	3,346,260	3,442,014	788,955	970,758	4,135,215	4,412,772
Total liabilities	30,091,735	30,850,971	12,767,322	12,732,505	42,859,057	43,583,476
Net assets:						
Invested in capital assets, net of related debt	26,416,700	24,432,116	9,656,415	9,677,834	36,073,115	34,109,950
Restricted	6,993,901	6,746,338			6,993,901	6,746,338
Unrestricted	8,114,489	7,082,146	5,337,065	3,443,211	13,451,554	10,525,357
Total net assets	\$41,525,090	\$38,260,600	\$14,993,480	\$13,121,045	\$56,518,570	\$51,381,645

A portion of the Town's net assets, totaling \$6,993,901 (12.4%), represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$181,978 is permanently restricted and is nonexpendable. *Unrestricted net assets*, totaling \$13,451,554, may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2010, the Town is able to report positive balances in all three categories of net assets both for the government as a whole, as well as for its separate governmental and business-type activities. The same is true for the prior fiscal year.

Governmental activities. Governmental activities increased the Town's net assets by \$3,264,490 over the previous year due to a reduction in expenses offset by decreased revenues.

Business-type activities. Business-type activities increased the Town's net assets by \$1,872,435. Key elements of this increase include investment in capital items.

Government-wide Financial Analysis (Continued)

Town of Middletown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 4,126,025	\$ 3,778,136	\$ 6,925,158	\$ 6,456,373	\$ 11,051,183	\$ 10,234,509
Operating grants and contributions	14,923,612	16,319,921	160,250	166,750	15,083,862	16,486,671
Capital grants and contributions	569,580	240,570			569,580	240,570
General revenues:						
Property taxes	39,437,498	38,581,791			39,437,498	38,581,791
Grants and contributions not restricted to specific programs	2,297,155	2,757,540			2,297,155	2,757,540
Other	349,797	467,430	(5,157)	43,238	344,640	510,668
Total revenues	61,703,667	62,145,388	7,080,251	6,666,361	68,783,918	68,811,749
Expenses:						
General government	3,120,972	7,215,075			3,120,972	7,215,075
Public safety	12,605,464	11,551,825			12,605,464	11,551,825
Public works/sanitation	3,059,321	2,969,102			3,059,321	2,969,102
Planning/inspection	588,504	589,549			588,504	589,549
Library	875,094	836,568			875,094	836,568
Education	36,727,758	37,361,388			36,727,758	37,361,388
Community services	344,485	516,593			344,485	516,593
Interest on long-term debt	767,648	920,120			767,648	920,120
Refuse and recycle			1,110,143	1,138,305	1,110,143	1,138,305
Parks and recreation			1,387,174	1,297,225	1,387,174	1,297,225
Sewer			3,060,430	2,589,291	3,060,430	2,589,291
Total expenses	58,089,246	61,960,220	5,557,747	5,024,821	63,646,993	66,985,041
Increase in net assets before transfers	3,614,421	185,168	1,522,504	1,641,540	5,136,925	1,826,708
Transfers	(349,931)	(578,209)	349,931	578,209	-	-
Increase (decrease) in net assets	3,264,490	(393,041)	1,872,435	2,219,749	5,136,925	1,826,708
Net assets – beginning	38,260,600	38,653,641	13,121,045	10,901,296	51,381,645	49,554,937
Net assets – ending	\$ 41,525,090	\$ 38,260,600	\$ 14,993,480	\$ 13,121,045	\$ 56,518,570	\$ 51,381,645

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, *unreserved 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, 2010, the Town's governmental funds reported combined ending fund balances of \$19,283,421. Of this amount, \$15,093,804 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$251,582), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$123,370), 3) for long-term loans receivable (\$100,000), 4) to liquidate claims for stormwater management (\$3,158,250), and 5) prepaid expenses and other restricted purposes (\$556,415).

The General Fund is the chief operating fund of the Town. At June 30, 2010, unreserved fund balance of the General Fund was \$4,951,215 with \$15,150 designated to balance the fiscal 2011 budget (see Note 2 to the basic financial statements), while total fund balance declined to \$8,858,854. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.6% of total General Fund expenditures and other financing uses (\$51,548,952), while total fund balance represents 17.2% of that same amount. The fund balance of the Town's General fund decreased by \$82,643 during the fiscal year ended June 30, 2010, primarily due to the increase of \$91,000 of accrued salary expense.

The School Department, a special revenue fund of the Town, had an unreserved fund balance at June 30, 2010 of \$1,940,700, with \$747,117 designated to balance the fiscal 2011 budget. The resulting unreserved-undesignated fund balance is \$1,193,583, representing 3.2% of total School Department expenditures (\$36,927,026). The recognition of approximately \$293,000 of total accrued salary expenditures for the year ended June 30, 2010 was the primary reason for the decrease in fund balance of the School Department.

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

Net assets of the Sewer Fund at June 30, 2010 amounted to \$10,563,912, of which \$5,021,471 is unrestricted. Parks and Recreation Fund net assets amounted to \$4,211,712, of which \$331,345 is unrestricted. Refuse and Recycle Fund net assets amounted to \$217,856, of which (\$15,751) is unrestricted. The total growth in net assets for each of the three funds was \$1,734,789, \$31,373 and \$106,271, 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 2010 totaled a decrease in revenue of approximately \$847,000 primarily due to state and federal grant funding and capital project funding deferred to FY2011. Further, there was a decrease in budgeted expenditures of approximately \$1,300,000. Major items contributing to this decrease are as follows:

- \$1,700,000 decrease in Grant expenditures for funding of the Aquidneck Corporate Park Improvement Project which commenced in FY2011, and a \$260,000 decrease in Grant expenditures for a COPS grant that was budgeted for but not awarded.
- \$580,000 increase in Public Safety primarily to fund road details worked by Community Service Officers, police overtime expenses caused by unplanned vacancies, new officer expenses, small equipment and other facility-related expenditures.
- \$108,000 increase in General Government to fund ongoing legal fees related to labor negotiations and special litigation.
- For Capital Outlay, \$550,000 increase to fund vehicles, equipment, building and technology improvements, and a \$566,000 reduction in budgeted costs related to road resurfacing deferred to FY2011.

Differences between expenditures actually incurred and those budgeted totaled approximately \$755,000. The major factors contributing to this favorable decrease are as follows:

- Budgeted Capital Outlay projects were deferred to fiscal year 2011
- Grant funds budgeted in Planning and Community Service were not fully expended
- Position vacancies in the Fire Department resulted in a favorable difference of approximately \$150,000.
- Overall spending reductions in all departments resulted in a favorable decrease in General Government, Public Works and Sanitation, and Planning/Inspections expenditures

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, 2010 amounts to \$68,978,927 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total increase in the Town's investment in capital assets for the current fiscal year was \$1,462,858 (2.2%), of which \$1,267,657 increased for governmental activities and \$195,201 increased for business-type activities.

Capital Asset and Debt Administration (Continued)

Capital assets (continued). Major capital asset events during FY2010 included the following:

- Residential street upgrades encompassing sewer lines, water lines, improved drainage, and road re-pavement
- Purchase of integrated sewer system management software
- School Department renovations to the football field and track; upgrades to fire alarm systems HVAC and plumbing throughout the district, floor replacement, paving of the front parking lot and upgrades to the 4th and 5th grade wing at Gaudet Middle School
- Purchase of various public safety vehicles, including police cruisers, a street sweeper, a rescue jet ski, and a large public works utility truck
- Completed the construction of the new police station, including the replacement of the radio master console in the dispatch office
- Renovations to the Town Hall building, including roof replacement and repairs, boiler replacement with two efficient natural gas units, and the town clerk vault renovation project
- Upgrades to the Library fire alarm system
- Purchase of salt brine snow and ice management equipment and new plotter/scanner equipment
- Upgrades to the Recreation Complex to include new restrooms and landscaping, purchase of a large mower, and playground equipment for Linden Park

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 7,291,781	\$ 7,291,781	\$ 2,779,046	\$ 2,779,046	\$10,070,827	\$10,070,827
Buildings and improvements	17,809,707	10,047,609	262,772	205,357	18,072,479	10,252,966
Land improvements	3,286,581	1,845,994	740,708	662,171	4,027,289	2,508,165
Furniture and equipment	1,950,414	984,121	1,683,760	1,444,801	3,634,174	2,428,922
Infrastructure	15,151,004	13,969,095	15,504,255	12,076,136	30,655,259	26,045,231
Construction in progress	307,203	10,625,561	563,687	4,159,907	870,890	14,785,468
Library books	77,673	57,018			77,673	57,018
Motor vehicles	1,469,782	1,255,309	100,554	112,163	1,570,336	1,367,472
Total	\$47,344,145	\$46,076,488	\$21,634,782	\$21,439,581	\$68,978,927	\$67,516,069

The Town’s active construction projects as of June 30, 2010 include Town Hall roof repairs, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2010 total approximately \$124,000. The commitments for the residential street paving and road drainage are funded primarily through the capital improvement program special revenue fund. The commitments for sanitary sewer upgrades were funded through Sewer Fund operations and loans from the Rhode Island Clean Water Finance Agency.

Additional information on the Town’s capital assets can be found in Notes 5 and 12 on pages 41-44 and 64, respectively, of this report.

Long-term debt

At June 30, 2010, the Town had total bonded debt outstanding of \$17,635,000, entirely backed by the full faith and credit of the Town. In addition, the Town has \$12,544,374 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$2,053,542. 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	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$17,635,000	\$18,920,000			\$17,635,000	\$18,920,000
Loans payable	700,000	750,000	\$11,844,374	\$12,708,177	12,544,374	13,458,177
Capital leases	1,838,763	2,130,236	214,779	420,692	2,053,542	2,550,928
Total	\$20,173,763	\$21,800,236	\$12,059,153	\$13,128,869	\$32,232,916	\$34,929,105

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2009 was \$2,861,566,970, limiting the amount of non-excepted general obligation bonds outstanding to \$85,847,009. At June 30, 2010, bonds outstanding totaled \$17,635,000, or 0.62 % of assessed property value.

Additional information on the Town's long-term debt can be found in Note 6 on pages 45 to 53 of this report.

Economic Factors

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

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

Economic Factors (Continued)

The Town had a 2000 U.S. Census Bureau population of 17,334. The Town is located 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. It is located in Newport County, which had an employed labor force of approximately 35,487 for the first quarter of 2010 and an unemployment rate of approximately 9.7% (not seasonally adjusted) as of October 2010. 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 State 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, and the new multi-modal station at T.F. Green Airport in Warwick. Future expanded service is expected to serve Wickford, RI, as well as Fall River and New Bedford, MA. Middletown is also served with scheduled bus service by the Rhode Island Public Transit Authority (RIPTA) and its statewide system, as well as Peter Pan Bus Lines, which provides service to Providence, Boston and New York City. Freight transportation is provided by local and long distance trucking firms. Railroad freight service is available on the mainland. The nearby Port of Providence provides the Town with excellent shipping facilities.

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

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

Economic Factors (Continued)

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 current national economic climate, including limitations on lending, new commercial development in Middletown during 2010 was limited. However, interest in redevelopment and expansion of existing commercial properties continues. Of note, two recently closed auto dealerships have been renovated and reoccupied; one property will continue as an auto dealership under a different brand, with the other property being redeveloped for general retail use. 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). Expansion and rehabilitation of existing buildings in the Park is also expected due to low vacancy rates and expected growth of defense contractors. A proposed redevelopment of an existing motel property, abutting the Park, into a resort and conference facility, including several hundred hotel rooms, is also anticipated.

Residential development has also slowed; however, construction of a 60-unit condominium development for residents age 55 and over continues. The Town is currently considering a proposal for a 14-lot single-family subdivision. Over the past year, building permit activity has begun to rebound.

Subsequent Events

The Town executed a construction contract of approximately \$1,170,000 with Catalano Construction, Inc. related to the Aquidneck Industrial Park Improvement Project. The contract is to be paid as follows: \$852,000 from the Capital Improvement Program/Special Revenue Fund; \$200,500 from the Sewer Fund; and \$118,000 from an SBA grant. In addition, subsequent to June 30, 2010, the Town entered into a contract with Waterline Services, LLC for \$405,000 related to the Wave Avenue Pump Station-Check Valve Modification & Enhancement and Rail Lift System Project. The contract is to be paid out of the Sewer Fund.

Subsequent Events (Continued)

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 stormwater 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. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges, and issue the appropriate reports, which will be completed in the spring of 2011. 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 stormwater and wastewater discharges.

The market value of the Town’s pension investment account as of October 31, 2010 is \$39,205,699, which represents a 9.3% increase in the value since June 30, 2010. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Requests for Information

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

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 18,023,484	\$ 3,856,732	\$ 21,880,216
Investments	2,316,674		2,316,674
Accounts receivable, less allowance for doubtful accounts of \$264,854:			
Property taxes	1,581,540		1,581,540
Federal and state government	2,056,901		2,056,901
Assessments and user fees		409,679	409,679
Loans	100,000		100,000
Other	289,812	24,185	313,997
Prepaid expenses	497,807		497,807
Internal balances	(711,351)	711,351	-
Assessments and user fees		940,297	940,297
Deferred charges	117,813	183,776	301,589
Capital assets not being depreciated	7,598,984	3,342,734	10,941,718
Capital assets being depreciated, net	39,745,161	18,292,048	58,037,209
	<u>71,616,825</u>	<u>27,760,802</u>	<u>99,377,627</u>
Total assets			
LIABILITIES:			
Accounts payable and accrued expenses	3,323,809	788,955	4,112,764
Unearned revenue	22,451		22,451
Long-term obligations:			
Due within one year	2,069,451	1,079,935	3,149,386
Due in more than one year	24,676,024	10,898,432	35,574,456
	<u>30,091,735</u>	<u>12,767,322</u>	<u>42,859,057</u>
Total liabilities			
Commitments and contingencies (Notes 11 and 12)			
NET ASSETS:			
Invested in capital assets, net of related debt	26,416,700	9,656,415	36,073,115
Restricted for:			
Education	1,940,700		1,940,700
Perpetual care:			
Expendable	10,584		10,584
Nonexpendable	123,370		123,370
Other:			
Expendable	4,860,639		4,860,639
Nonexpendable	58,608		58,608
Unrestricted	8,114,489	5,337,065	13,451,554
	<u>41,525,090</u>	<u>14,993,480</u>	<u>56,518,570</u>
Total net assets			

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,120,972	\$ 499,562	\$ 22,922	\$ -	\$ (2,598,488)		\$ (2,598,488)
Public safety	12,605,464	2,479,172	259,394	340,795	(9,526,103)		(9,526,103)
Public works and sanitation	3,059,321	13,606	294,836		(2,750,879)		(2,750,879)
Planning and inspection	588,504	308,568	115,039		(164,897)		(164,897)
Library	875,094	11,901	198,744		(664,449)		(664,449)
Education	36,727,758	813,216	13,924,529	138,785	(21,851,228)		(21,851,228)
Community services	344,485		108,148	90,000	(146,337)		(146,337)
Interest on long-term debt	767,648				(767,648)		(767,648)
Total governmental activities	<u>58,089,246</u>	<u>4,126,025</u>	<u>14,923,612</u>	<u>569,580</u>	<u>(38,470,029)</u>		<u>(38,470,029)</u>
Business-type activities:							
Sewer	3,060,430	4,802,641		-		\$ 1,742,211	1,742,211
Parks and recreation	1,387,174	1,416,284				29,110	29,110
Refuse and recycle	1,110,143	706,233	160,250			(243,660)	(243,660)
Total business-type activities	<u>5,557,747</u>	<u>6,925,158</u>	<u>160,250</u>	<u>-</u>		<u>1,527,661</u>	<u>1,527,661</u>
Total	<u>\$ 63,646,993</u>	<u>\$ 11,051,183</u>	<u>\$ 15,083,862</u>	<u>\$ 569,580</u>	<u>(38,470,029)</u>	<u>1,527,661</u>	<u>(36,942,368)</u>
General revenues:							
Property taxes					39,437,498		39,437,498
Grants and contributions not restricted to specific programs					2,297,155		2,297,155
Investment earnings					75,182	15,725	90,907
Loss on disposal of capital assets						(20,882)	(20,882)
Miscellaneous					274,615		274,615
Transfers					(349,931)	349,931	-
Total general revenues and transfers					<u>41,734,519</u>	<u>344,774</u>	<u>42,079,293</u>
Change in net assets					3,264,490	1,872,435	5,136,925
Net assets, beginning of year					<u>38,260,600</u>	<u>13,121,045</u>	<u>51,381,645</u>
Net assets, end of year					<u>\$ 41,525,090</u>	<u>\$ 14,993,480</u>	<u>\$ 56,518,570</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,984,518	\$ 3,803,769	\$ 5,235,197	\$ 18,023,484
Investments	2,209,604		107,070	2,316,674
Accounts receivable, less allowance for doubtful accounts of \$264,854:				
Property taxes	1,581,540			1,581,540
Federal and state government	534,445	1,522,456		2,056,901
Loans			100,000	100,000
Other	117,549	1,879	170,384	289,812
Prepaid expenses	497,807			497,807
Due from other funds	375,351	9,224	3,052,371	3,436,946
	<u>\$ 14,300,814</u>	<u>\$ 5,337,328</u>	<u>\$ 8,665,022</u>	<u>\$ 28,303,164</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 624,193	\$ 2,334,027	\$ 27,010	\$ 2,985,230
Accrued compensated absences	177,396	39,941		217,337
Due to other funds	3,967,810	76,115	104,372	4,148,297
Deferred revenue	672,561	946,545	49,773	1,668,879
	<u>5,441,960</u>	<u>3,396,628</u>	<u>181,155</u>	<u>9,019,743</u>
Fund balances:				
Reserved for:				
Encumbrances	251,582			251,582
Stormwater management	3,158,250			3,158,250
Long-term loans receivable			100,000	100,000
Perpetual care			123,370	123,370
Prepaid expenses and other	497,807		58,608	556,415
Unreserved, reported in:				
General Fund	4,951,215			4,951,215
Special revenue funds		1,940,700	8,185,022	10,125,722
Permanent funds			16,867	16,867
	<u>8,858,854</u>	<u>1,940,700</u>	<u>8,483,867</u>	<u>19,283,421</u>
Total liabilities and fund balances	<u>\$ 14,300,814</u>	<u>\$ 5,337,328</u>	<u>\$ 8,665,022</u>	<u>\$ 28,303,164</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

JUNE 30, 2010

Total fund balances for governmental funds		\$	19,283,421
Assets used in governmental activities which are not financial resources and therefore are not reported in the funds:			
Capital assets, net	\$	47,344,145	
Deferred charges		<u>117,813</u>	47,461,958
Some taxes and grants will be collected after year-end but are not available soon enough to pay for the current period expenditures; therefore, they are reported as deferred revenue in the funds.			1,646,428
Liabilities not due and payable in the current period and therefore not reported in the funds:			
Bonds payable	(17,568,845)		
Loan payable	(700,000)		
Capital leases	(1,838,763)		
Claims and judgments	(3,343,236)		
Deferred revenue	(937,650)		
Compensated absences payable	(2,356,981)		
Accrued interest	<u>(121,242)</u>		<u>(26,866,717)</u>
Net assets of governmental activities		\$	<u>41,525,090</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, 2010

	<u>General Fund</u>	<u>School Department</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 39,361,026			\$ 39,361,026
Intergovernmental	3,106,301	\$ 12,397,792	\$ 1,749,230	17,253,323
Licenses, permits and fees	1,596,505	557,241		2,153,746
Interest and investment	56,298		18,884	75,182
State contribution to teachers' pension plan		1,273,575		1,273,575
Other revenues	216,736	255,975	722,053	1,194,764
Total revenues	<u>44,336,866</u>	<u>14,484,583</u>	<u>2,490,167</u>	<u>61,311,616</u>
Expenditures:				
Current:				
General government	2,675,398		19,390	2,694,788
Public safety	8,698,317		49,963	8,748,280
Public works and sanitation	1,764,131		21,234	1,785,365
Planning and inspection	578,937			578,937
Library	768,857			768,857
Education		36,927,026	7,045	36,934,071
Community services	102,363		66,800	169,163
Other expenditures	4,096,951			4,096,951
Grants	289,886			289,886
Capital outlay	967,291		498,127	1,465,418
Debt service:				
Debt issuance and fees	47,336			47,336
Principal	1,711,473			1,711,473
Interest	856,796			856,796
Total expenditures	<u>22,557,736</u>	<u>36,927,026</u>	<u>662,559</u>	<u>60,147,321</u>
Excess (deficiency) of revenues over expenditures	<u>21,779,130</u>	<u>(22,442,443)</u>	<u>1,827,608</u>	<u>1,164,295</u>
Other financing sources (uses):				
Refunding bond proceeds	5,219,217			5,219,217
Payment to refunding bond escrow agent	(5,157,905)			(5,157,905)
Transfers from other funds	1,910,226	22,228,713	2,721,560	26,860,499
Transfers to other funds	(23,833,311)		(3,377,119)	(27,210,430)
Total other financing sources (uses)	<u>(21,861,773)</u>	<u>22,228,713</u>	<u>(655,559)</u>	<u>(288,619)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(82,643)	(213,730)	1,172,049	875,676
Fund balance, beginning of year	<u>8,941,497</u>	<u>2,154,430</u>	<u>7,311,818</u>	<u>18,407,745</u>
Fund balance, end of year	<u>\$ 8,858,854</u>	<u>\$ 1,940,700</u>	<u>\$ 8,483,867</u>	<u>\$ 19,283,421</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2010

Net change in fund balances for governmental fund		\$ 875,676
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	\$ 3,401,464	
Depreciation expense	<u>(2,133,807)</u>	1,267,657
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		(10,602)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund:		392,051
The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Bond premiums and refunding charges are deferred and amortized as part of future interest expense		
Principal repayment on long-term debt	1,711,473	
Issuance of general obligation bonds	(4,861,312)	
Payment to refunding bond escrow agent	4,800,000	
Amortization of:		
Deferred charge on refunding	(20,733)	
Bond premiums	<u>35,751</u>	1,665,179
Some expenditures not requiring the use of current financial resources in governmental funds are accrued in the statement of activities		
Claims and judgment	5,711	
Deferred revenue	(937,650)	
Accrued compensated absences	<u>(69,758)</u>	(1,001,697)
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 the governmental fund:		
	<u>76,226</u>	<u>76,226</u>
Change in net assets of governmental activities		<u>\$ 3,264,490</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF NET ASSETS – ENTERPRISE FUNDS

JUNE 30, 2010

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 3,247,678	\$ 609,054		\$ 3,856,732
Accounts receivable:				
Assessments and user fees	304,959		\$ 104,720	409,679
Other		24,185		24,185
Due from other funds	1,011,216			1,011,216
Total current assets	4,563,853	633,239	104,720	5,301,812
Noncurrent assets:				
Assessments and user fees receivable, less current portion	940,297			940,297
Deferred charges, net	183,776			183,776
Capital assets not being depreciated	672,144	2,670,590		3,342,734
Capital assets being depreciated, net	16,633,885	1,209,777	448,386	18,292,048
Total assets	22,993,955	4,513,606	553,106	28,060,667
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	636,840	45,886	71,400	754,126
Due to other funds	5,001	247,074	47,790	299,865
Accrued compensated absences	24,614	8,934	1,281	34,829
Current portion of loans payable	865,156		214,779	1,079,935
Total current liabilities	1,531,611	301,894	335,250	2,168,755
Noncurrent liabilities, loans payable, net of current portion	10,898,432			10,898,432
Total liabilities	12,430,043	301,894	335,250	13,067,187
NET ASSETS:				
Invested in capital assets, net of related debt	5,542,441	3,880,367	233,607	9,656,415
Unrestricted	5,021,471	331,345	(15,751)	5,337,065
Total net assets	\$ 10,563,912	\$ 4,211,712	\$ 217,856	\$ 14,993,480

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2010

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,769,321		\$ 706,233	\$ 5,475,554
Beach admittance and rental fees		\$ 1,225,224		1,225,224
Campground admittance and rental fees		156,848		156,848
Other revenues	33,320	34,212		67,532
	<u>4,802,641</u>	<u>1,416,284</u>	<u>706,233</u>	<u>6,925,158</u>
Total operating revenues				
Operating expenses:				
Salaries and benefits	570,266		44,756	615,022
Materials and supplies	24,999		1,717	26,716
Professional services	428,370		945,951	1,374,321
Repairs and maintenance	116,170		1,507	117,677
Utilities	162,927		1,000	163,927
Sewage disposal	888,492			888,492
Beaches		697,832		697,832
Lifeguards		204,995		204,995
Harbormaster		26,673		26,673
Security		17,226		17,226
Campground		34,568		34,568
Recreation		96,104		96,104
Parks and grounds		65,233		65,233
Civic appropriations		43,050		43,050
Miscellaneous	124,600	105,464		230,064
Depreciation	497,806	96,029	99,642	693,477
	<u>2,813,630</u>	<u>1,387,174</u>	<u>1,094,573</u>	<u>5,295,377</u>
Total operating expenses				
Operating income (loss)	<u>1,989,011</u>	<u>29,110</u>	<u>(388,340)</u>	<u>1,629,781</u>
Nonoperating revenues (expenses):				
Interest revenue	13,460	2,265		15,725
Grant revenue			160,250	160,250
Loss on disposal of capital asset	(20,882)			(20,882)
Interest expense	(229,665)		(15,570)	(245,235)
Amortization of bond issuance costs	(17,135)			(17,135)
	<u>(254,222)</u>	<u>2,265</u>	<u>144,680</u>	<u>(107,277)</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	1,734,789	31,375	(243,660)	1,522,504
Transfers from special revenue funds			349,931	349,931
Change in net assets	1,734,789	31,375	106,271	1,872,435
Net assets, beginning of year	<u>8,829,123</u>	<u>4,180,337</u>	<u>111,585</u>	<u>13,121,045</u>
Net assets, end of year	<u>\$ 10,563,912</u>	<u>\$ 4,211,712</u>	<u>\$ 217,856</u>	<u>\$ 14,993,480</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2010

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 4,803,164	\$ 1,430,997	\$ 880,918	\$ 7,115,079
Cash received from other sources	33,320	6,287		39,607
Cash paid to employees and for benefits	(590,259)	(814,771)	(44,756)	(1,449,786)
Cash paid to suppliers	(1,562,323)	(420,795)	(951,655)	(2,934,773)
Cash paid to civic groups		(43,050)		(43,050)
Net cash provided by (used in) operating activities	<u>2,683,902</u>	<u>158,668</u>	<u>(115,493)</u>	<u>2,727,077</u>
Cash flows from noncapital financing activities:				
Interfund balances	5,000	27,049	176,535	208,584
Operating grants			160,250	160,250
Cash provided by noncapital financing activities	<u>5,000</u>	<u>27,049</u>	<u>336,785</u>	<u>368,834</u>
Cash flows from capital and related financing activities:				
Capital contributions	(150,417)			(150,417)
Acquisition and construction of fixed assets	314,506	(288,630)		25,876
Interfund balances	(16,643)			(16,643)
Principal paid on bonds and notes	(863,803)		(205,913)	(1,069,716)
Interest paid on bonds and notes	(235,051)		(15,379)	(250,430)
Net cash used in capital and related financing activities	<u>(951,408)</u>	<u>(288,630)</u>	<u>(221,292)</u>	<u>(1,461,330)</u>
Cash provided by investing activities, interest received	<u>13,460</u>	<u>2,265</u>		<u>15,725</u>
Net increase in cash and cash equivalents	1,750,954	(100,648)	-	1,650,306
Cash and cash equivalents, beginning of year	<u>1,496,724</u>	<u>709,702</u>	<u>-</u>	<u>2,206,426</u>
Cash and cash equivalents, end of year	<u>\$ 3,247,678</u>	<u>\$ 609,054</u>	<u>\$ -</u>	<u>\$ 3,856,732</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

	<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)	\$ 1,989,011	\$ 29,110	\$ (388,340)	\$ 1,629,781
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	497,805	96,029	99,642	693,476
Changes in assets and liabilities:				
Increase in:				
Accounts payable and accrued expenses	173,529	12,531		186,060
Decrease in:				
Accrued compensated absences	(10,286)			(10,286)
Accounts receivable, other	33,843	21,000	174,685	229,528
Accounts payable and accrued expenses			(1,480)	(1,480)
Net cash provided by (used in) operating activities	<u>\$ 2,683,902</u>	<u>\$ 158,670</u>	<u>\$ (115,493)</u>	<u>\$ 2,727,079</u>
Supplemental disclosure, noncash capital and related financing activities:				
Acquisition and construction of fixed assets paid from loan proceeds held by State of Rhode Island				<u>\$ 1,286,336</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS

JUNE 30, 2010

	Pension Trust Fund	Clarke Scholarship Private Purpose Trust Fund	Agency Funds
ASSETS:			
Cash and cash equivalents		\$ 34,609	\$ 208,487
Investments	\$ 35,870,499		252,881
Accounts receivable	255,908		
	<hr/>	<hr/>	<hr/>
Total assets	<u>36,126,407</u>	<u>34,609</u>	<u>\$ 461,368</u>
LIABILITIES:			
Deposits held in custody for others			<u>\$ 461,368</u>
NET ASSETS:			
Held in trust for pension benefits and other purposes	<u>\$ 36,126,407</u>	<u>\$ 34,609</u>	

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2010

	Pension Trust Fund	Clarke Scholarship Private Purpose Trust Fund
	<u> </u>	<u> </u>
Additions to net assets:		
Contributions:		
Employer	\$ 2,826,050	
Plan members	<u>186,890</u>	
	<u>3,012,940</u>	
Investment income, net:		
Interest income	1,081,564	\$ 80
Net appreciation in fair value of investments	<u>2,027,118</u>	
	<u>3,108,682</u>	<u>80</u>
Total additions	<u>6,121,622</u>	<u>80</u>
Deductions from net assets:		
Benefits	3,540,363	
Administrative expense	208,165	
Scholarships		<u>5,000</u>
Total deductions	<u>3,748,528</u>	<u>5,000</u>
Change in net assets	2,373,094	(4,920)
Net assets, beginning of year	<u>33,753,313</u>	<u>39,529</u>
Net assets, end of year	<u>\$ 36,126,407</u>	<u>\$ 34,609</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies:

The financial statements of the Town of Middletown, Rhode Island (the Town) have been prepared in conformity with accounting principles generally accepted in the United States applicable to governmental entities. 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, sanitation), social services, parks and recreation, planning, zoning and inspection, and general administrative services. The Superintendent of Schools, appointed by the School Committee, serves as the chief administrative agent for the School Department, which provides elementary and secondary education to Town residents.

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

Basis of presentation:

Government-wide financial statements:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Government-wide financial statements (continued):

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

Fund financial statements:

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

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

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

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

Governmental funds:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 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 the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. 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 resources restricted for the acquisition or construction of specific capital projects or items. The Town's Capital Project Fund is a nonmajor fund.

Permanent funds:

Permanent funds account for 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, Sewer Fund, and 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, 2010

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 and other postemployment benefits to the 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, 2010

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.

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Effective for periods beginning after June 15, 2010, the Town will be required to adopt the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). GASB 54 requires changes to the classifications and reporting of fund balance classifications. The Town will also be required to assess the activities reported in each fund according to the clarified definitions of the governmental fund types. The Town does not expect the adoption of GASB 54 to have a material effect on its financial statements.

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 4.75% over that of the preceding fiscal year for 2010. The rate decreases annually by .25% to 4% in 2013.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Use of estimates:

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

Cash and cash equivalents:

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

Under Rhode Island general laws, depository institutions must insure deposits of municipalities or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of 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 (Managed Funds). The Town's Pension Trust Fund Investment Advisory Committee is responsible for the supervision of the investment of the Town's Managed Funds investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

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.

Interfund receivables and payables are classified as "due from other funds" or "due to other funds."

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Capital assets:

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method. 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 term of the bonds using the straight-line method. In governmental funds, bond issuance costs are recognized as expenditures in the current period.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Compensated absences:

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

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

Long-term obligations:

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

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 uses while discounts are reported as other financing sources.

Fund equity:

Government-wide financial statements:

Net assets:

The Town's net assets have been segregated into the following three components in accordance with GASB Statement No. 34:

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

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

Unrestricted – a residual category for the balance of net assets.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Fund equity (continued):

Fund financial statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

2. Fund balances:

As of June 30, 2010, unreserved fund balance designations are as follows:

	<u>Town</u>	<u>School Department</u>
To balance fiscal 2011 budget	\$ 15,150	\$ 747,117

3. Deposits and investments:

Cash and cash equivalents (deposits):

At June 30, 2010, the carrying amount of the Town's deposits, including \$7,834,362 of cash equivalents, was \$22,123,312 and the bank balance was \$19,853,703. Of the bank balance, \$2,562,453 was uninsured and uncollateralized, \$16,746,235 was uninsured and collateralized with securities held by the pledging financial institution, but not in the Town's name.

At June 30, 2010, deposits are categorized as follows:

	<u>Insured/ collateralized in Town's name</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Deposits:			
Demand deposits	\$ 545,015	\$ 12,019,341	\$ 14,288,950
Money market		7,834,362	7,834,362
	<u>\$ 545,015</u>	<u>\$ 19,853,703</u>	<u>\$ 22,123,312</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

Investments:

Investments other than Pension Trust Fund:

	<u>Carrying amount</u>	<u>Maturities</u>	<u>Rating</u>
Certificates of deposit (governmental funds)	\$ 2,209,604	8/25/10 to 5/20/11	Not rated
Certificates of deposit (fiduciary funds)	252,881	10/26/10 to 5/28/12	Not rated
Mutual funds, U.S. Government securities (governmental funds)	<u>107,070</u>	Not applicable	Not rated
Total investments	<u><u>\$ 2,569,555</u></u>		

Pension Trust Fund investments:

	<u>Carrying amount</u>
Mutual funds	\$ 19,726,382
Group annuity	14,066,453
Money market funds	<u>2,077,664</u>
Total investments	<u><u>\$35,870,499</u></u>

The market value of the Town's pension investment account (Managed Funds) as of October 31, 2010 is \$39,205,699, which represents a 9.3% increase in the value since June 30, 2010. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Interest rate risk:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

Interest rate risk (continued):

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

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

Credit risk:

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization to debt securities. The Town does not hold debt investments. 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.

As of June 30, 2010, 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	\$ 14,066,453
Citizens Select Prime Money Market Fund #463	2,077,664
T. Rowe Price Equity Income Fund #71	3,170,663
Robeco All Cap Value Instl	2,220,479
T. Rowe Price Blue Chip Growth	2,094,915
Dodge & Cox International Stock Fund #1048	2,373,263

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

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.

4. Interfund transactions:

Interfund receivables and payables at June 30, 2010 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	School Department	\$ 76,115
	Nonmajor funds	104,372
	Parks and Recreation	147,074
	Refuse and Recycle	47,790
		375,351
School Department	Governmental funds,	
	General Fund	9,224
Nonmajor governmental funds	Governmental funds,	
	General Fund	2,947,371
	Enterprise funds:	
	Sewer	5,000
	Parks and Recreation	100,000
		3,052,371
Enterprise funds, Sewer Fund	Governmental funds, General Fund	1,011,216
		\$ 4,448,162

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2010 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General Fund	Governmental funds, nonmajor funds	<u>\$ 1,910,226</u>
School Department	Governmental funds: General Fund Nonmajor funds	<u>21,928,713</u> <u>300,000</u>
		<u>22,228,713</u>
Nonmajor governmental funds	Governmental funds: General Fund Nonmajor funds	<u>1,776,332</u> <u>945,228</u>
		<u>2,721,560</u>
Enterprise funds: Refuse and Recycle	Governmental funds: General Fund Nonmajor funds	<u>128,266</u> <u>221,665</u>
		<u>349,931</u>
		<u>\$ 27,210,430</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Capital assets:

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,291,781			\$ 7,291,781
Construction in progress:				
Infrastructure	9,432,426	\$ 154,839	\$ (9,365,836)	221,429
Other	<u>1,193,135</u>	<u>85,774</u>	<u>(1,193,135)</u>	<u>85,774</u>
Total capital assets not being depreciated	<u>17,917,342</u>	<u>240,613</u>	<u>(10,558,971)</u>	<u>7,598,984</u>
Capital assets being depreciated:				
Infrastructure	27,078,870	1,822,523		28,901,393
Land improvements	2,431,094	1,581,663		4,012,757
Buildings and improvements	19,660,369	8,441,046		28,101,415
Furniture and equipment	2,946,135	1,293,272	(208,461)	4,030,946
Library books	1,432,686	60,327		1,493,013
Motor vehicles	<u>4,094,463</u>	<u>520,991</u>	<u>(416,161)</u>	<u>4,199,293</u>
Total capital assets being depreciated	<u>57,643,617</u>	<u>13,719,822</u>	<u>(624,622)</u>	<u>70,738,817</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities (continued):				
Capital assets being depreciated (continued):				
Less accumulated depreciation for:				
Infrastructure	\$ (13,109,775)	\$ (640,614)		\$(13,750,389)
Land improvements	(585,100)	(141,076)		(726,176)
Buildings and improvements	(9,612,760)	(678,948)		(10,291,708)
Furniture and equipment	(1,962,014)	(326,979)	\$ 208,461	(2,080,532)
Library books	(1,375,668)	(39,672)		(1,415,340)
Motor vehicles	(2,839,154)	(306,518)	416,161	(2,729,511)
Total accumulated depreciation	<u>(29,484,471)</u>	<u>(2,133,807)</u>	<u>624,622</u>	<u>(30,993,656)</u>
Total capital assets being depreciated, net	<u>28,159,146</u>	<u>11,586,015</u>	<u>- 0 -</u>	<u>39,745,161</u>
Governmental activities capital assets, net	<u>\$ 46,076,488</u>	<u>\$ 11,826,628</u>	<u>\$(10,558,971)</u>	<u>\$ 47,344,145</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,779,046			\$ 2,779,046
Construction in progress	<u>4,159,907</u>	<u>\$ 537,189</u>	<u>\$ (4,133,408)</u>	<u>563,688</u>
Total capital assets not being depreciated	<u>6,938,953</u>	<u>537,189</u>	<u>(4,133,408)</u>	<u>3,342,734</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Business-type activities (continued):				
Capital assets being depreciated:				
Land improvements	\$ 1,028,943	\$ 130,330		\$ 1,159,273
Buildings and improvements	291,979	70,937		362,916
Equipment	2,779,544	516,139	\$ (209,538)	3,086,145
Sewer lines and pumps	13,317,723	3,788,374	(6,266)	17,099,831
Vehicles	151,732			151,732
Total capital assets being depreciated	<u>17,569,921</u>	<u>4,505,780</u>	<u>(215,804)</u>	<u>21,859,897</u>
Less accumulated depreciation for:				
Land improvements	(366,772)	(51,794)		(418,566)
Buildings and improvements	(86,622)	(13,522)		(100,144)
Equipment	(1,334,743)	(260,213)	192,571	(1,402,385)
Sewer lines and pumps	(1,241,587)	(356,338)	2,349	(1,595,576)
Vehicles	(39,569)	(11,609)		(51,178)
Total accumulated depreciation	<u>(3,069,293)</u>	<u>(693,476)</u>	<u>194,920</u>	<u>(3,567,849)</u>
Total capital assets being depreciated, net	<u>14,500,628</u>	<u>3,812,304</u>	<u>(20,884)</u>	<u>18,292,048</u>
Business-type activities capital assets, net	<u>\$ 21,439,581</u>	<u>\$ 4,349,493</u>	<u>\$ (4,154,292)</u>	<u>\$ 21,634,782</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Capital assets (continued):

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 132,593
Public safety	447,099
Public works and sanitation	840,028
Planning and inspection	11,559
Library	59,424
Education	625,743
Community services	17,361

\$ 2,133,807

Business-type activities:

Sewer Fund	\$ 497,805
Parks and Recreation Fund	96,029
Refuse and Recycle Fund	99,642

\$ 693,476

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

6. Long-term obligations:

Changes in the long-term obligations of governmental activities during the year ended June 30, 2010 were as follows:

	<u>Balance, July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2010</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 18,920,000	\$ 4,885,000	\$ 6,170,000	\$ 17,635,000	\$ 1,440,000
Deferred amounts:					
For issuance premiums	65,924	334,217	35,751	364,390	16,087
On refunding	<u>(93,373)</u>	<u>(357,905)</u>	<u>(20,733)</u>	<u>(430,545)</u>	<u>(30,416)</u>
Total bonds payable	18,892,551	4,861,312	6,185,018	17,568,845	1,425,671
Loan payable	750,000		50,000	700,000	50,000
Capital leases	2,130,236		291,473	1,838,763	301,132
Claims and judgments (Note 11)	3,348,947	20,250	25,961	3,343,236	25,961
Deferred revenue, grants	- 0 -	987,000	49,350	937,650	49,350
Accrued compensated absences	<u>2,287,223</u>	<u>69,758</u>		<u>2,356,981</u>	<u>217,337</u>
Total long-term obligations	<u>\$ 27,408,957</u>	<u>\$ 5,938,320</u>	<u>\$ 6,601,802</u>	<u>\$ 26,745,475</u>	<u>\$ 2,069,451</u>

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

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

Changes in the long-term obligations of business-type activities during the year ended June 30, 2010 were as follows:

	<u>Balance, July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2010</u>	<u>Due within one year</u>
Loans payable	\$ 12,708,177		\$ 863,803	\$ 11,844,374	
Less undrawn loan proceeds held by the State	<u>(1,367,122)</u>	\$ 1,286,336		<u>(80,786)</u>	
	11,341,055			11,763,588	\$ 865,156
Capital leases	<u>420,692</u>		205,913	<u>214,779</u>	<u>214,779</u>
Total long-term obligations	<u>\$ 11,761,747</u>			<u>\$ 11,978,367</u>	<u>\$ 1,079,935</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

General obligation bonds and loan payable:

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds and loan payable outstanding for governmental activities at June 30, 2010 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2009	New issues	Retired	Balance, June 30, 2010
General obligation bonds:								
Town refunding	\$ 2,960,000	4/19/94	3.2-5.75%	7/15/10	\$ 100,000		\$ 50,000	\$ 50,000
Road, drainage, library construction and improvements, open space, Police and Town Hall repairs	5,100,000	11/1/01	3.2-5.5%	7/15/11	3,250,000		2,750,000	500,000
School refunding	2,395,000	10/29/02	3.0-4.0%	11/15/13	1,030,000		215,000	815,000
School improvements	4,390,000	10/29/02	3.0-5.0%	3/15/12	2,990,000		2,530,000	460,000
Road, drainage, open space	6,500,000	4/1/07	3.5-5.0%	6/15/27	5,850,000		325,000	5,525,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	5,700,000		300,000	5,400,000
Town refunding bond	<u>4,885,000</u>	5/20/10	2.0-5.0%	7/15/22	- 0 -	\$ 4,885,000		<u>4,885,000</u>
Total general obligation bonds	32,230,000				18,920,000	4,885,000	6,170,000	17,635,000
Loan payable:								
Rhode Island Clean Water Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>750,000</u>		<u>50,000</u>	<u>700,000</u>
Total	<u>\$ 33,230,000</u>				<u>\$ 19,670,000</u>	<u>\$ 4,885,000</u>	<u>\$ 6,220,000</u>	<u>\$ 18,335,000</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

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

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 2001 various purpose general obligation bonds and 2002A general obligation school bonds with an average interest rate of 4.6%. 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 2001 various purpose general obligation bonds and 2002A general obligation school bonds. As a result, the 2001 various purpose general obligation bonds and 2002A general obligation school bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$371,689. This difference, reported in the accompanying financial statements as an addition to interest paid, is being charged to operations through the year 2012 using the effective interest method. The Town completed the advance refunding to reduce its total debt service payments over the next 12 years by \$237,116 and to obtain an economic gain of \$362,452.

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

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2009 was \$2,861,566,970, limiting the amount of non-excepted general obligation bonds outstanding to \$85,847,009. At June 30, 2010, bonds outstanding totaled \$17,635,000.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

At June 30, 2010, annual debt service requirements to maturity for general obligation bonds and loan payable for governmental activities are as follows:

Year ending June 30,	Principal	Interest	Total
2011	\$ 1,490,000	\$ 612,195	\$ 2,102,195
2012	1,370,000	623,111	1,993,111
2013	1,375,000	567,730	1,942,730
2014	1,375,000	521,913	1,896,913
2015	1,165,000	483,925	1,648,925
2016-2020	5,750,000	1,783,873	7,533,873
2021-2025	4,260,000	733,441	4,993,441
2026-2030	1,550,000	111,450	1,661,450
	<u>\$18,335,000</u>	<u>\$ 5,437,638</u>	<u>\$ 23,772,638</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

Loans payable for business-type activities:

Loans payable for business-type activities are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2009	New issues	Maturities	Balance, June 30, 2010
Enterprise Fund, Sewer:								
Rhode Island Clean Water Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 630,319	\$ - 0 -	\$ 105,053	\$ 525,266
Rhode Island Clean Water Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	712,576		45,750	666,826
Rhode Island Clean Water Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	2,000,000		125,000	1,875,000
Rhode Island Clean Water Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	5,400,000		300,000	5,100,000
Rhode Island Clean Water Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,612,000		138,000	2,474,000
Rhode Island Clean Water Finance Agency	<u>1,503,282</u>	12/13/07	1.91%	9/1/27	<u>1,353,282</u>		<u>150,000</u>	<u>1,203,282</u>
	<u>\$ 15,749,282</u>				12,708,177	<u>\$ - 0 -</u>	<u>\$ 863,803</u>	11,844,374
Less undrawn loan proceeds held by the State					<u>(1,367,122)</u>			<u>(80,786)</u>
					11,341,055			11,763,588
Less current portion					<u>(863,803)</u>			<u>(865,156)</u>
					<u>\$ 10,477,252</u>			<u>\$ 10,898,432</u>

At June 30, 2010, the Sewer Fund has \$80,786 due from the State for undrawn loan proceeds available for sewer construction projects.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

Loans payable for business-type activities (continued):

At June 30, 2010, scheduled annual debt service requirements for the loans payable (excluding interest adjustments for the undrawn balance) are as follows:

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2011	\$ 865,156	\$ 220,920	\$ 1,086,076
2012	866,548	204,081	1,070,629
2013	867,981	186,987	1,054,968
2014	869,458	169,665	1,039,123
2015	870,977	152,109	1,023,086
2016-2020	3,557,322	542,278	4,099,600
2021-2025	2,942,932	238,748	3,181,680
2026-2030	1,004,000	23,556	1,027,556
	<u>\$11,844,374</u>	<u>\$ 1,738,344</u>	<u>\$ 13,582,718</u>

Capital lease obligations:

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated) and for the Refuse and Recycle Fund (recorded in the business-type activities capital assets being depreciated). Interest expense for the year ended June 30, 2010 of \$96,228 is reported within the governmental activities, interest on long-term debt on the statement of activities.

Interest expense related to capital leases of business-type activities for the year ended June 30, 2010 of \$15,570 is recorded in the Refuse and Recycle Fund.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

Capital lease obligations (continued):

Capital lease obligations currently outstanding are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2009	New issues	Maturities	Balance, June 30, 2010
Governmental activities:								
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,666,129	\$ - 0 -	\$ 141,539	\$ 1,524,590
Vehicles	360,518	12/1/05	4.21%	7/1/10	150,587		73,741	76,846
Vehicles under contract	<u>399,690</u>	11/10/08	2.16%	8/1/12	<u>313,520</u>		<u>76,193</u>	<u>237,327</u>
Total	<u>\$ 3,036,208</u>				<u>\$ 2,130,236</u>	<u>\$ - 0 -</u>	<u>\$ 291,473</u>	<u>\$ 1,838,763</u>
Business-type activities:								
Enterprise Fund, Refuse and Recycle	<u>\$ 710,457</u>	11/6/07	4.26%	6/15/11	<u>\$ 420,692</u>	<u>\$ - 0 -</u>	<u>\$ 205,913</u>	<u>\$ 214,779</u>

At June 30, 2010, annual debt service requirements to maturity for capital lease obligations are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2011	\$ 301,132	\$ 86,569	\$ 387,701
2012	234,985	72,635	307,620
2013	246,196	61,424	307,620
2014	171,773	49,677	221,450
2015	180,291	41,159	221,450
2016-2019	<u>704,386</u>	<u>70,684</u>	<u>775,070</u>
	<u>\$ 1,838,763</u>	<u>\$ 382,148</u>	<u>\$ 2,220,911</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Long-term obligations (continued):

Capital lease obligations (continued):

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2011	\$ 214,779	\$ 6,886	\$ 221,665

7. Accounts payable and accrued expenses:

	Vendors	Other governments	Employees	Accrued interest	Total
Governmental activities:					
General Fund	\$ 495,923	\$ 37,270	\$ 268,396		\$ 801,589
School Department	2,040,779		333,189		2,373,968
Nonmajor funds	27,010				27,010
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 121,242	121,242
	<u>\$ 2,563,712</u>	<u>\$ 37,270</u>	<u>\$ 601,585</u>	<u>\$ 121,242</u>	<u>\$ 3,323,809</u>
Business-type activities:					
Sewer Fund	\$ 157,571	\$ 402,846	\$ 24,614	\$ 76,423	\$ 661,454
Parks and Recreation Fund	29,886		24,934		54,820
Refuse and Recycle Fund	71,209		1,281	191	72,681
	<u>\$ 258,666</u>	<u>\$ 402,846</u>	<u>\$ 50,829</u>	<u>\$ 76,614</u>	<u>\$ 788,955</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans:

All eligible employees of the Town are covered by one of three pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), or the Town of Middletown Retirement Plan (Town Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees, all new Public Works employees hired on or after July 1, 1999, all new Police Department employees sworn in on or after January 1, 2000, all new Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Plan covers all other eligible employees. Total covered payroll under all plans during 2010 was \$26,423,560. Total Town payroll was \$29,182,615 for the same period.

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, 40 Fountain Street, Providence, RI 02903. Total covered payroll under the Teachers' Plan during 2010 was \$16,927,759, including \$515,707 of federally reimbursed payroll.

Participants' rights to pension benefits become fully vested after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age. Benefits are equal to 1.7% of final average salary for each of the first 10 years of service, 1.9% for each of the next ten years, 3% for each of the next 14 years thereafter, and 2% for the 35th year, resulting in a maximum benefit of 80% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings. Retirees' benefits are subject to a 3% compounded annual cost of living increase, commencing on the January 1st following the third anniversary of an employee's retirement.

The Teachers' Plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

Funding policy:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Teachers' Plan (Continued)

Funding policy (continued):

As prescribed by Rhode Island general laws, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2010, the Town's actuarial required contributions were 11.25% of participant salary (19.01% for federally reimbursed salary). This resulted in a contribution rate paid by the State on behalf of Town teachers of 7.76% (\$1,273,575). The Town's required and actual contributions to the Teacher's Plan for fiscal years 2010, 2009 and 2008 were \$1,846,356, \$2,023,597, and \$2,326,471, respectively.

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, 40 Fountain Street, Providence, RI 02903. For fiscal year 2010, covered payroll under the Municipal Plan totaled \$6,577,959.

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 (age 55 for police and fire) or after 30 years of service (20 years for police and fire) regardless of age. Benefits are equal to 2% of final average salary for each year of service for municipal employees, and 2.5% of final average salary for each year of service for fire and police, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3% (not compounded) to allow for cost-of-living increases under an optional benefit provision adopted by the Town.

The Municipal Plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2010, 157 active employees (35 police and firefighters) were members of the Municipal Plan.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Municipal Plan (continued)

Funding policy:

Rhode Island general laws set contributions of participating employees at 6% of salary (8% for police). An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of June 30, 1999 over a closed period of 30 years. Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

Annual pension costs:

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual pension costs	\$ 1,247,102	\$ 1,304,627	\$ 1,103,577
Actual contributions:			
Employee	493,358	502,801	463,120
Employer	753,744	801,826	640,457
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Funded status and funding progress:

As of June 30, 2009, the date of the most recent actuarial valuation available, the Municipal Plan was 75.7% and 121.8% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$16,612,259 and \$1,090,815 for general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$12,574,146 and \$1,328,917, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$4,038,113 and (\$238,102) for general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$5,268,332 and \$1,602,902 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 76.6% and (14.9%), respectively.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Municipal Plan (continued)

Funded status and funding progress (continued):

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

Actuarial methods and significant assumptions:

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

Significant actuarial assumptions used in the June 30, 2009 valuation are summarized as follows:

Asset appreciation:	8.25% annually
Salary increases:	4.50% annually – general employees 4.75% annually – police/fire employees
Cost-of-living adjustments:	3.0%, not compounded
Retirement probability:	100% at age 75 or upon eligibility (100% at age 65 or upon eligibility – police/fire)
Mortality:	Healthy members – 1994 Group Annuity Mortality Tables Disabled members – PBGC Table set to age 65 (55 for police and fire employees)
Disability:	Probabilities per 1,000 ranging from .09% at age 25 to 9.87% at age 60 (.43% at age 25 to 3.03% at age 50 for police and fire)

Town Plan

Plan description:

The Town Plan is a single-employer defined benefit pension plan established by the Town in accordance with the Town Charter. Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee. For fiscal year 2010, covered payroll under the Town Plan totaled \$2,917,842.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Town Plan (continued)

Plan description (continued):

As of July 1, 2009, the date of the latest actuarial valuation, employee membership data related to the Town Plan is as follows:

Active participants	39
Terminated vested participants	10
Retirees and beneficiaries	127
Disabled participants	<u>4</u>
Total	<u><u>180</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 twenty years of service. (If the member joined the Fire Department after July 1, 1983, only Fire Department service is used to determine years of service). School Department custodial and clerical members may retire the first day of the month following the member's completion of 30 years of service, but not later than age 65 with five years of service. Public Works members may retire the first day of the month following the completion of 30 years of service, but not later than age 60 with ten years of service. Town Hall members may retire the first day of the month coincident with or following the member's attainment of age 65 with five years of service.

The normal retirement benefit is determined as follows:

- a. Police Department Members – 3% (2½% if less than 20 years of service) of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- b. Fire Department Members – 2.75% of average compensation multiplied by completed years and months of service (total maximum benefit equals 75% of average compensation). If a participant joined the Fire Department after July 1, 1983, only Fire Department service is considered.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

- c. School Custodial, Town Hall and School Clerical Members – 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- d. Public Works Members – 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

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 67½% 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 2/3% of salary.

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

- a. Police and Fire Members – The pre-retirement benefit equals 67½% of the pension benefit previously described payable until remarriage unless there are dependent children. A member is eligible upon completion of 20 years of service.
- b. Other Members – The pre-retirement benefit equals 50% of the pension benefit previously described reduced by the Contingent Annuitant factor and Early Optional Retirement factor. Members are eligible if they are within five years of their normal retirement date and have completed at least ten years of service.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

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	6%
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 2009, 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 eight years starting with the 2009 actuarial 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. The most recent valuation was performed on July 1, 2009.

Annual pension costs:

The actuarially determined employer contribution requirement of \$2,780,271 was determined as described above and was based on an actuarial valuation as of July 1, 2009. 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 2010 amounted to \$3,012,940, of which \$2,826,050 and \$186,890 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 96.9% and 6.4%, respectively, of covered payroll for the year.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Pension plans (continued):

Town Plan (continued)

Annual pension costs (continued):

A summary of annual pension costs and contributions over the preceding three years is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual pension cost	\$ 2,839,777	\$ 2,871,564	\$ 2,625,137
Actual contributions	<u>(3,012,940)</u>	<u>(2,791,839)</u>	<u>(2,480,745)</u>
Increase (decrease) in net pension obligation	<u>\$ (173,163)</u>	<u>\$ 79,725</u>	<u>\$ 144,392</u>

Funded status and funding progress:

As of July 1, 2009, the Town Plan was 75.8% funded. The actuarial accrued liability for benefits was \$53,436,040 and the actuarial value of assets was \$40,503,976, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,932,064. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$2,917,842 and the ratio of the UAAL to the covered payroll was 443.2%.

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.

9. Other postemployment benefits:

In addition to pension benefits, the Town and School Department provide, under the provisions of various union contracts and other employment agreements, postemployment health insurance benefits, or compensation in lieu of postemployment health insurance benefits, to eligible retirees for a specified maximum number of years. Eligibility is determined based on years of service, employee age, and other available health care coverage. The Town and School Department fund these benefits on a pay-as-you-go basis. During the year ended June 30, 2010, expenditures for postemployment benefits totaling \$1,483,369 were received by 180 participants.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Other postemployment benefits (continued):

The Town engaged an actuary to prepare an actuarial valuation of its postemployment benefits program as of July 1, 2009. The purpose of the valuation was to analyze the current funded position of the Town's postemployment benefits program, determine the level of contributions necessary to assure sound funding, and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties.

Based on the July 1, 2009 actuarial valuation, the following amounts were determined for fiscal year 2010: Normal Cost of \$413,645; Amortization of UAL of \$1,592,583; Annual Required Contribution (ARC) \$2,026,910; benefit payments of \$1,617,741 and increase in annual cost to fund the Plan of \$409,169.

The Town budgeted and set aside funds in fiscal year 2010 totaling \$446,703 (in a nonmajor special revenue fund) for the purpose of funding the UAL. As of June 30, 2010, the Town had set aside a total of \$2,938,208 to fund its UAL. Based upon the July 1, 2009 valuation report, the estimated 2010 ARC is \$2,026,208 and the Town has budgeted funding of \$2,071,192, which is adequate for fiscal year 2010. In fiscal 2011, the Town plans to establish, and remit the accumulated funds to, an Other Postemployment Benefits (OPEB) Trust, which was authorized by the Rhode Island General Assembly on June 26, 2008. By doing so, the Town expects to implement the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Funded status and funding progress:

As of July 1, 2009, the funded status and funding progress were as follows:

Funded ratio	7.7%
Actuarial accrued liability for benefits	\$ 32,387,961
Actuarial value of assets	\$ 2,500,343
Unfunded actuarial accrued liability (UAAL)	\$ 29,887,618
Covered payroll	\$ 28,675,833
UAAL to covered payroll	104.2%

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multilayer 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, 2010

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for 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 insurance coverage during the year ended June 30, 2010.

11. 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 stormwater 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. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges, and issue the appropriate reports, which will be completed in the spring of 2011. 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 stormwater and wastewater discharges.

In regard to the sanitary sewer system, the projects being evaluated are: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The cost for these evaluations will be \$472,000 and is included in the Sewer Fund operating budget. The Town anticipates receiving the report on these evaluations in the spring of 2011. The cost of implementing one or more of the alternatives cannot be reasonably estimated at this time.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

11. Contingencies (continued):

Litigation (continued):

In regard to the stormwater system, the projects being evaluated are: (1) construction of a gravel wetland to manage stormwater for the Newport Avenue catchment area; and (2) redirection of Esplanade Outfall 1 to Esplanade Outfall 2. The estimated cost for these evaluations will be \$223,520 and is included in the General Fund operating budget. The Town will be proceeding with project (2) first, the redirection of the Esplanade Outfall 1 to Esplanade Outfall 2 project, in the spring of 2011. The estimated probable cost of implementing this alternative is \$2,225,000. The estimated probable cost of both projects is \$3,158,250 based upon a stormwater treatment feasibility study completed by the Town in May 2009, and subsequently revised during 2010. This amount has been recorded as a long-term liability in the government-wide financial statements.

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 \$3,939,000 for the year ended June 30, 2010.

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

12. Commitments and subsequent events:

Construction commitment:

The Town has active construction projects as of June 30, 2010, including Town Hall roof repairs and road drainage and sanitary sewer upgrades in designated areas of the Town. At June 30, 2010, the Town's commitments with contractors are as follows:

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. Commitments and subsequent events (continued):

Construction commitment (continued):

Project	Spent to-date	Remaining commitment
Town Hall roof repairs: The Damon Company	\$ 80,538	\$ 20,732
Miantonomi Avenue Drainage Project: Road drainage upgrades and sanitary sewer	529,524	82,804
West Main Road Sewer Upgrade: Road drainage upgrades and sanitary sewer	791,052	20,548
Totals	<u>\$ 1,401,114</u>	<u>\$ 124,084</u>

The commitments for land improvements, residential street paving, and road drainage are funded through operations and construction-in-process funds. The commitments for sanitary sewer upgrades are funded through loans from the Rhode Island Clean Water Finance Agency.

Subsequent to June 30, 2010, the Town executed a construction contract of approximately \$1,170,000 with Catalano Construction, Inc. related to the Aquidneck Industrial Park Improvement Project. The contract is to be paid as follows: \$852,000 from the Capital Improvement Program/Special Revenue Fund; \$200,500 from the Sewer Fund; and \$118,000 from an SBA grant. In addition, subsequent to June 30, 2010, the Town entered into a contract with Waterline Services, LLC for \$405,000 related to the Wave Avenue Pump Station-Check Valve Modification & Enhancement and Rail Lift System Project. The contract is to be paid out of the Sewer Fund.

13. Joint ventures:

Newport County Regional Special Education Program:

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. NCRSEP also administers the federally funded IDEA Part B program for each of the towns. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program; such amounts are deducted from the gross annual assessment. MSD's net assessment for 2010 was \$1,656,717. The towns have no equity interest in the net assets of NCRSEP, which totaled approximately \$260,000 at June 30, 2010.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

13. Joint ventures (continued):

Newport County Regional Special Education Program (continued):

At June 30, 2010, a total of \$946,545 in Medicaid reimbursements due to the MSD has been recorded as a liability of the NCRSEP. This amount represents Medicaid reimbursements received by the NCRSEP in excess of the budgeted receipts for Middletown, over a number of years, and is recorded as deferred revenue of the MSD.

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

The Health Pool and Dental Pool:

The Town participates in joint ventures through the Rhode Island Interlocal Risk Management Trust entitled the Health Pool and the Dental Pool (the Pools), formerly known as The Governmental Health Group of Rhode Island, Inc.. The Pools are a part of a not-for-profit organization formed to provide programs of liability, workers' compensation, and health and dental insurance coverage to Rhode Island cities, towns and other governmental units. The Pools are governed by a Board of Directors (Board).

Upon joining the Pools, members execute member agreements. Those documents, pursuant to which the Pools were established and operate, outline the rights and responsibilities of both the members and the Pools. Members of the Pools 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.

Using the rate calculations prepared by BCBSRI for the Health Pool and by Delta Dental for the Dental Pool, the Pools each set annual contribution rates for the subscribers of each member for each program offered. The Pool agreements require that those contribution rates be set at a level sufficient, in the aggregate, to satisfy the funding requirements of the Pools. The contributions of each member are deposited into the General Fund, and are used to pay for claims, reinsurance and all administrative expenses. The Pool agreements provide for an annual, independent audit of each Pool's financial statements.

A member's share of surplus or deficit is equal to the ratio of the member's subscribers (employees and retirees) participating in the Pool's plan for each month of the one-year period immediately prior to the member's effective date of termination, divided by the sum of all subscribers in the Pool for the same period.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

13. Joint ventures (continued):

The Health Pool and Dental Pool (continued):

The Pool agreements provide the Pools' Board a discretionary, fully allocable assessment feature with respect to specified circumstances.

After it has been a member of the Pools for an initial three-year period, a member may withdraw from the Pools by providing the Pools' Board with 90 days notice; liquidated damages would also be assessed at that time. The Pools may terminate a member's coverage for failure to pay amounts due.

For the year ended June 30, 2010, unaudited results indicate that the Health Pool generated \$97,124,000 in revenues and excess of expenses over revenues of \$447,000. The Health Pool had \$21,281,000 in total assets and \$5,363,000 in total equity as of June 30, 2010.

For the year ended June 30, 2010, unaudited results indicate that the Dental Pool generated \$3,667,558 in revenues and excess of revenues over expenses of \$115,000. The Dental Pool had \$822,749 in total assets and \$115,000 in total equity as of June 30, 2010.

The Pools retain certain levels of insurance risk and acquire reinsurance for specific losses in the Health Pool in excess of \$550,000. As of June 30, 2010, the Pools' membership consisted of 37 cities, towns or other governmental units.

Separate financial statements are available at the Rhode Island Interlocal Risk Management Trust, 501 Wampanoag Trail, Suite 301, East Providence, RI 02915.

TOWN OF MIDDLETOWN, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 38,928,990	\$ 39,110,146	\$ 39,361,026	\$ 250,880
Intergovernmental	4,922,415	3,470,970	3,106,301	(364,669)
Licenses, permits and fees	1,191,400	1,615,031	1,596,505	(18,526)
Interest and investment	270,000	270,000	56,298	(213,702)
Other revenues	238,551	238,551	216,736	(21,815)
	<u>45,551,356</u>	<u>44,704,698</u>	<u>44,336,866</u>	<u>(367,832)</u>
Total revenues				
Expenditures:				
Current:				
General government	2,479,458	2,613,489	2,532,996	80,493
Public safety	8,211,599	8,781,426	8,656,399	125,027
Public works and sanitation	1,575,143	1,690,143	1,700,754	(10,611)
Planning and inspection	524,615	524,615	490,160	34,455
Library	737,234	735,264	734,687	577
Community services	97,363	102,363	102,363	-
Other expenditures	4,345,805	4,167,732	4,096,951	70,781
Grants	2,327,789	454,389	289,886	164,503
Capital outlay	1,377,607	1,301,216	967,291	333,925
Debt service	2,572,720	2,572,720	2,616,904	(44,184)
	<u>24,249,333</u>	<u>22,943,357</u>	<u>22,188,391</u>	<u>754,966</u>
Total expenditures				
Excess of revenues over expenditures, budgetary basis	<u>21,302,023</u>	<u>21,761,341</u>	<u>22,148,475</u>	<u>387,134</u>
Other financing sources (uses):				
Transfers from other funds	2,618,567	2,037,613	1,910,226	(127,387)
Transfers to other funds	(23,920,590)	(23,837,954)	(23,833,311)	4,643
Reappropriated fund balance	-	39,000	39,000	-
Proceeds from financing	-	-	5,219,217	5,219,217
Payment to refunding bond escrow agent	-	-	(5,157,905)	(5,157,905)
	<u>(21,302,023)</u>	<u>(21,761,341)</u>	<u>(21,822,773)</u>	<u>(61,432)</u>
Total other financing sources (uses)				
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	325,702	<u>\$ 325,702</u>
Adjustments of budgetary basis to U.S. GAAP basis			<u>(408,345)</u>	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(82,643)	
Net assets, beginning of year			<u>8,941,497</u>	
Net assets, end of year			<u>\$ 8,858,854</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 11,969,433	\$ 12,359,189	\$ 12,397,792	\$ 38,603
Fees for service	987,623	840,815	557,241	(283,574)
Other revenues	99,000	73,246	255,975	182,729
Total revenues	13,056,056	13,273,250	13,211,008	(62,242)
Expenditures:				
Current:				
Salaries	17,902,547	19,897,710	19,652,411	245,299
Employee benefits	6,182,997	6,714,928	6,434,454	280,474
Purchased services	9,353,484	7,061,708	6,977,286	84,422
Supplies and materials	1,581,498	1,488,968	1,483,164	5,804
Other	187,951	115,299	149,549	(34,250)
Capital expenditures	149,000	930,676	956,587	(25,911)
Total expenditures	35,357,477	36,209,289	35,653,451	555,838
Excess of expenditures over revenues, budgetary basis	(22,301,421)	(22,936,039)	(22,442,443)	493,596
Other financing sources:				
Transfer from other funds	22,001,421	22,228,713	22,228,713	-
Reappropriated fund balance	300,000	707,326	707,326	-
Total other financing sources	22,301,421	22,936,039	22,936,039	-
Excess of revenues and other financing sources over expenditures, U.S. GAAP basis	\$ -	\$ -	493,596	\$ 493,596
Adjustment of budgetary basis to U.S. GAAP basis:				
Reappropriated fund balance			(707,326)	
Excess of expenditures over revenues and other financing sources, U.S. GAAP basis			(213,730)	
Net assets, beginning of year			2,154,430	
Net assets, end of year			<u>\$ 1,940,700</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2010

Budget preparation and budgetary basis of accounting:

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

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

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

	<u>General Fund</u>	<u>School Department</u>
Reappropriated fund equity	\$ (39,000)	\$ (707,326)
Change in reserve for encumbrances	<u>(369,345)</u>	<u> </u>
Total adjustments	<u>\$ (408,345)</u>	<u>\$ (707,326)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 of the seven-member Town Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Unencumbered and unexpended appropriations lapse at fiscal year-end.

TOWN OF MIDDLETOWN, RHODE ISLAND
MUNICIPAL PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
<i>General employee 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%
<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%)

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2010

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
July 1, 2007	\$ 41,266,807	\$ 49,694,529	\$ 8,427,722	83.0%	\$ 3,560,276	237%
July 1, 2008	43,215,258	51,273,315	8,058,057	84.3%	3,397,722	237%
July 1, 2009	40,503,976	53,436,040	12,932,064	75.8%	2,917,842	443%

* The ARC is calculated using the aggregate actuarial cost method. Information in this schedule is calculated using the entry age normal method as a surrogate for the funding progress of the plan.

TOWN OF MIDDLETOWN, RHODE ISLAND
OTHER POSTEMPLOYMENT BENEFITS PLAN
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
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%
July 1, 2009	2,500,343	32,387,961	29,887,618	7.7%	28,675,833	104.2%

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDED JUNE 30, 2010

Town Pension Plan:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2010	\$ 2,839,777	106.07%
2009	2,871,564	97.22%
2008	2,625,137	94.50%
2007	2,465,612	111.27%
2006	2,693,913	95.23%
2005	2,427,677	97.97%

Town OPEB Plan:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2007	\$ 1,652,945	104.6%
2008	1,467,751	104.6%
2009	1,535,690	102.6%
2010	2,026,910	102.2%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

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, 2009
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	The unfunded accrued liability is being amortized over 8 years beginning with the 2009 actuarial valuation.
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5% per annum
Cost-of-living adjustments	N/A

(1) There have been no changes in the above actuarial assumptions or methods from the July 1, 2008 actuarial valuation.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2010

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2009</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2010</u>
2009	\$ -	\$ 39,247,059	\$ (63,735)	\$ 39,183,324	\$ 37,668,269	\$ 1,515,055
2008	1,360,581		(23,386)	1,337,195	1,236,377	100,818
2007	66,200		(18,664)	47,536	4,914	42,622
2006	36,222		(17,409)	18,813	(13,828)	32,641
2005	29,086		(3,741)	25,345	(2,766)	28,111
2004	24,402		3,082	27,484	1,398	26,086
2003	23,585		(20)	23,565	547	23,018
2002	26,222		(363)	25,859	2,084	23,775
2001	23,394		(244)	23,150	723	22,427
2000	30,003		(195)	29,808	1,719	28,089
1999	3,752		(9)	3,743	(9)	3,752
	<u>\$ 1,623,447</u>	<u>\$ 39,247,059</u>	<u>\$ (124,684)</u>	<u>\$ 40,745,822</u>	<u>\$ 38,899,428</u>	1,846,394
					Less allowance for doubtful accounts	<u>(264,854)</u>
						<u>\$ 1,581,540</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2010

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,670,492,300	\$ 37,910,090
Motor vehicles	127,415,773	2,045,023
Tangible personal	97,301,432	1,288,274
Total	2,895,209,505	41,243,387
Exemptions	135,910,733	1,996,328
Current year assessment	<u>\$ 2,759,298,772</u>	<u>\$ 39,247,059</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 38,899,428
Revenue collected within 60 days subsequent to year ended June 30, 2010	<u>1,025,367</u>
	39,924,795
Prior year revenue received in current year	<u>(904,174)</u>
Current year real estate and personal property tax revenue	<u>\$ 39,020,621</u>