

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2011

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YEAR ENDED JUNE 30, 2011

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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, 2011, 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, 2011, 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 28, 2011 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 and other postemployment benefits information on pages 3 to 14 and pages 72 to 80 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 81 and 82 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

DeFlaatz, Jan. Finkel, Campi & DeGuzot, P.C.

December 28, 2011

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, 2011 (FY 2011).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2011 by \$48,768,553 (*net assets*). Net assets include \$35,738,275 invested in capital assets, net of related debt; \$7,340,598 of restricted net assets; and \$5,689,680 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$102,229,704 and total liabilities were \$53,461,151 at June 30, 2011. Total net assets decreased by \$8,696,562 in the current fiscal year.

As of June 30, 2011, the Town's governmental funds reported combined ending fund balances of \$19,911,459, a decrease of \$318,507 in comparison with the prior year. The unfavorable fiscal year results in the General Fund, School Department and other governmental funds were partially offset by favorable results in the Capital Projects Fund, which resulted in the net decrease in fund balance.

As of June 30, 2011, the unassigned fund balance for the General Fund was \$4,278,920, or 8.6% of total budgeted 2011 General Fund expenditures and other financing uses totaling \$49,609,885. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations increased by \$10,493,417 (27.1%) during the current fiscal year. The key factors in this increase were the issuance of \$5,000,000 in general obligation bonds and the recognition of an additional \$8,400,000 for pollution remediation obligations, partially offset by principal payments of \$2,951,851.

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 nine 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, School Department and Capital Projects Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. 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 27-71 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. It presents a schedule detailing the Town's progress in funding its pension and other postemployment benefits obligations, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 72-82 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$48,768,553 at June 30, 2011.

Government-wide Financial Analysis (Continued)

Net assets invested in capital assets, net of related debt, comprises \$35,738,275, or 73%, 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	
	2011	2010 Restated	2011	2010	2011	2010 Restated
Current and other assets	\$ 25,280,364	\$ 24,272,680	\$ 6,092,287	\$ 6,126,020	\$ 31,372,651	\$ 30,398,700
Capital assets	48,816,651	47,344,145	22,040,402	21,634,782	70,857,053	68,978,927
Total assets	74,097,015	71,616,825	28,132,689	27,760,802	102,229,704	99,377,627
Long-term liabilities	29,918,826	26,745,475	19,298,433	11,978,367	49,217,259	38,723,842
Other liabilities	3,565,349	2,399,715	678,543	788,955	4,243,892	3,188,670
Total liabilities	33,484,175	29,145,190	19,976,976	12,767,322	53,461,151	41,912,512
Net assets:						
Invested in capital assets, net of related debt	24,596,306	26,416,700	11,141,969	9,656,415	35,738,275	36,073,115
Restricted	7,340,598	7,940,446			7,340,598	7,940,446
Unrestricted	8,675,936	8,114,489	(2,986,256)	5,337,065	5,689,680	13,451,554
Total net assets	\$ 40,612,840	\$ 42,471,635	\$ 8,155,713	\$ 14,993,480	\$ 48,768,553	\$ 57,465,115

A portion of the Town's net assets, totaling \$7,340,598 (15.05%), represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$1,638,891 is nonspendable. *Unrestricted net assets*, totaling \$5,689,680, may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2011, the Town is able to report positive balances in all three categories of net assets both for the government as a whole, as well as for its separate governmental and business-type activities, with the exception of unrestricted net assets for the business-type activities.

Governmental activities. Governmental activities decreased the Town's net assets by \$1,858,795 from the previous year, principally due to the transfer to the other post-employment benefit trust fund in the amount of \$2,931,523.

Business-type activities. Business-type activities decreased the Town's net assets by \$6,837,767. Key elements of this decrease include the increase in long-term obligations for environmental remediation.

Government-wide Financial Analysis (Continued)

Town of Middletown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010 Restated	2011	2010	2011	2010 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 4,027,669	\$ 4,126,025	\$ 7,302,442	\$ 6,925,158	\$ 11,330,111	\$ 11,051,183
Operating grants and contributions	14,675,642	15,176,774	120,250	160,250	14,795,892	15,337,024
Capital grants and contributions	251,779	569,580			251,779	569,580
General revenues:						
Property taxes	40,544,664	39,437,498			40,544,664	39,437,498
Grants and contributions not restricted to specific programs	1,389,149	2,297,155			1,389,149	2,297,155
Other	1,319,999	349,797	7,877	(5,157)	1,327,876	344,640
Total revenues	62,208,902	61,956,829	7,430,569	7,080,251	69,639,471	69,037,080
Expenses:						
General government	3,839,331	3,120,972			3,839,331	3,120,972
Public safety	15,543,976	12,605,464			15,543,976	12,605,464
Public works/sanitation	2,723,757	3,059,321			2,723,757	3,059,321
Planning/inspection	752,199	588,504			752,199	588,504
Library	862,740	875,094			862,740	875,094
Education	39,135,672	36,727,758			39,135,672	36,727,758
Community services	435,422	344,485			435,422	344,485
Interest on long-term debt	834,750	767,648			834,750	767,648
Refuse and recycle			1,141,941	1,110,143	1,141,941	1,110,143
Parks and recreation			1,462,692	1,387,174	1,462,692	1,387,174
Sewer			11,603,553	3,060,430	11,603,553	3,060,430
Total expenses	64,127,847	58,089,246	14,208,186	5,557,747	78,336,033	63,646,993
Increase (decrease) in net assets before transfers	(1,918,945)	3,867,583	(6,777,617)	1,522,504	(8,696,562)	5,390,087
Transfers	60,150	(349,931)	(60,150)	349,931	-	-
Increase (decrease) in net assets	(1,858,795)	3,517,652	(6,837,767)	1,872,435	(8,696,562)	5,390,087
Net assets – beginning (Restated)	42,471,635	38,953,983	14,993,480	13,121,045	57,465,115	52,075,028
Net assets – ending	\$ 40,612,840	\$ 42,471,635	\$ 8,155,713	\$ 14,993,480	\$ 48,768,553	\$ 57,465,115

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, *unrestricted 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, 2011, the Town's governmental funds reported combined ending fund balances of \$19,911,459. Of this amount, \$4,273,199 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted, committed and assigned*, and is not available for new spending because it has already been identified for 1) Construction projects in the amount of \$2,091,775, 2) generating income to pay for the perpetual care of the municipal cemetery in the amount of \$124,710, 3) long-term loans receivable in the amount of \$100,000, 4) liquidating claims for stormwater management in the amount of \$3,174,647, 5) grants in the amount of \$435,285, 6) prepaid expenses and other purposes in the amount of \$510,763, 7) various commitments for West Main Road development, special education, capital improvements and a revaluation program totaling \$5,533,964 and 8) other specific purposes in the amount of \$3,667,116.

The General Fund is the chief operating fund of the Town. At June 30, 2011, unassigned fund balance of the General Fund was \$4,278,920, while total fund balance was \$9,997,210. Beginning of the year General Fund balance was adjusted to include the beginning fund balances of five special revenue funds in the amount of \$5,166,716 that had previously been reported in Other Governmental fund balance in prior years. This change in General Fund balance reporting is a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8.25% of total General Fund expenditures and other financing uses of \$51,849,600, while total fund balance represents 19.3% of that same amount.

During the fiscal year, the fund balance of the Town's General fund decreased by \$4,028,360, primarily due to the transfer of assets to the Other Postemployment Benefit Trust in the amount of \$2,931,523.

The School Department, a special revenue fund of the Town, had a total fund balance of \$2,561,846, which includes an assigned fund balance of \$1,189,409 at June 30, 2011. The assigned fund balance represents 3.1% of total School Department expenditures of \$38,078,374. The School Department's fund balance decreased by \$325,399 during the fiscal year ended June 30, 2011. The excess of expenditures over revenue in the capital improvement fund of approximately \$377,000 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, 2011 amounted to \$3,862,882, of which a deficit balance of \$3,010,333 is unrestricted. Parks and Recreation Fund net assets amounted to \$3,930,636, of which \$10,627 is unrestricted. Refuse and Recycle Fund net assets amounted to \$362,195, of which \$13,450 is unrestricted. The total growth (reduction) in net assets for each of the three funds was (\$6,701,030), (\$281,076) and \$144,339, 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 2011 totaled approximately \$520,000, primarily due to increases in Permit and License Fee revenues. Further, there was an increase in budgeted expenditures of approximately \$1,334,000. Major items contributing to the increased expenditures are as follows:

- \$80,000 increase in Grant expenditures for the Drug Free Communities (DFC) Grant that was awarded in September 2010 and for other federal restricted grant expenditures related to public safety.
- \$336,000 increase in Public Safety primarily to fund road details worked by Community Service Officers, police overtime expenses caused by unplanned vacancies, new officer expenses, and vehicle maintenance and repair expenses.
- \$60,000 increase in Public Works primarily to fund snow and ice weather events and vehicle maintenance and repair expenses.
- \$224,000 increase in General Government primarily to fund severance paid out for retirements during the fiscal year and for ongoing legal fees related to labor negotiations and special litigation.
- \$563,000 increase in Other Expenditures primarily to fund severance paid out for retirements during the fiscal year and for the annual required contribution to the Other Post-Employment Benefits Trust.
- For Capital Outlay, \$50,000 increase to fund vehicles, equipment, buildings and technology improvements.

Differences between expenditures actually incurred and those budgeted totaled approximately \$50,000.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$70,857,053 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total increase in the Town's investment in capital assets for the current fiscal year was \$1,878,126 (2.7%), of which \$1,472,506 increased for governmental activities and \$405,620 increased for business-type activities.

Capital Asset and Debt Administration (Continued)

Capital assets (continued). Major capital asset events during FY2011 included the following:

- Residential street upgrades encompassing sewer lines, improved drainage, and road re-pavement
- Town-wide catch basin improvement and reconstruction
- Purchase of integrated tax administration software, and permitting and licensing software
- School Department renovations to the Gaudet sports complex press box; upgrades to fire alarm systems, HVAC and electrical infrastructure, floor replacement, purchase of new intercom and telephone system, paving, sidewalks and drainage at Gaudet Middle School
- Purchase of various public safety vehicles, including police cruisers and SUV, fire SUV, rescue jet ski, surfboat vessels, gators, tractor and a large public works dump truck
- Renovations to the Town Hall building, including roof replacement and repairs, upgrade to fire sprinkler system and HVAC
- Upgrades to the Library fire alarm system, concrete flooring repairs
- Purchase of various equipment, including message display boards, manual defibrillators, portable radios, imaging cameras, solar school zone flashers and hoist and monorail system
- Upgrades to beach parking areas and ball field bleachers, installation of new showers at beach

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 7,292,536	\$ 7,291,781	\$ 2,779,046	\$ 2,779,046	\$ 10,071,582	\$ 10,070,827
Buildings and improvements	17,361,531	17,809,707	248,864	262,772	17,610,395	18,072,479
Land improvements	3,635,815	3,286,581	822,067	740,708	4,457,882	4,027,289
Furniture and equipment	2,195,105	1,950,414	1,666,695	1,683,760	3,861,800	3,634,174
Infrastructure	15,076,722	15,151,004	15,924,555	15,504,255	31,001,277	30,655,259
Construction in progress	1,678,250	307,203	477,069	563,687	2,155,319	870,890
Library books	45,509	77,673			45,509	77,673
Motor vehicles	1,531,183	1,469,782	122,106	100,554	1,653,289	1,570,336
Total	\$ 48,816,651	\$ 47,344,145	\$ 22,040,402	\$ 21,634,782	\$ 70,857,053	\$ 68,978,927

The Town's active construction projects as of June 30, 2011 include catch basin retrofit, corporate park road and drainage improvements, Esplanade drainage improvements, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2011 total approximately \$978,000. The commitments for the Esplanade drainage improvements and road and drainage projects are funded primarily through the Capital Projects fund and the corporate park improvements and residential street paving are funded primarily through the capital improvement program. The commitments for sanitary sewer upgrades were funded through Sewer Fund operations.

Additional information on the Town's capital assets can be found in Notes 5 and 12 on pages 42-45 and 70-71, respectively, of this report.

Long-term debt

At June 30, 2011, the Town had total bonded debt outstanding of \$21,195,000, entirely backed by the full faith and credit of the Town. In addition, the Town has \$11,548,433 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$1,537,631. 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	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$21,195,000	\$17,635,000			\$21,195,000	\$17,635,000
Loans payable	650,000	700,000	\$10,898,433	\$11,844,374	11,548,433	12,544,374
Capital leases	1,537,631	1,838,763		214,779	1,537,631	2,053,542
Total	\$23,382,631	\$20,173,763	\$10,898,433	\$12,059,153	\$34,281,064	\$32,232,916

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2010 was \$2,930,804,022, limiting the amount of non-excepted general obligation bonds outstanding to \$87,924,121. At June 30, 2011, bonds outstanding totaled \$21,195,000, or 0.72 % of assessed property value.

Additional information on the Town's long-term debt can be found in Note 6 on pages 46 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 2010 U.S. Census Bureau population of 16,150. The Town is located in Newport County approximately 30 miles southeast of Providence and is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north. As of September 2011, Middletown had an employed labor force of approximately 7,306 and an unemployment rate of approximately 7.9% (not seasonally adjusted). The Town limits extend over an area of 14.7 square miles, including a land area of 12.9 square miles and an inland water area of 1.8 square miles.

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

The State of Rhode Island's (the State) major airport facility, T.F. Green Airport, is located in the City of Warwick, approximately 30 miles from the Town, and offers scheduled service by several national and regional carriers. Boston's Logan International Airport is located approximately 70 miles to the north. Nationwide intercity rail passenger service is offered through AMTRAK with its stations in Providence and Kingston, RI. Regional commuter rail service to Boston and eastern Massachusetts is provided by the Massachusetts Bay Transportation Authority (MBTA). The MBTA currently provides service from Providence Station, 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.

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

Economic Factors (Continued)

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

As a result of the current national economic climate, including limitations on lending, new commercial development in Middletown during 2011 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. Development in 2012 is expected to include a new 92-room hotel which recently received planning and zoning approvals, as well as expansion of the winery facility at Newport Vineyards. As the economy improves, it is anticipated that new office development will also continue. A new office building to house a local nonprofit organization was constructed during 2009 in the Aquidneck Corporate Park (the Park). 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

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. 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 Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges, and issue the appropriate reports, which were completed in October 2011.

Subsequent Events (Continued)

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report was issued in October 2011. The report recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term plan combines further investigations with immediate mitigation measures currently under construction. The cost of implementing the most feasible alternative is estimated at approximately \$8.4 million, which has been recorded as a long-term liability in the government-wide financial statements.

In regard to the stormwater system, the projects evaluated were: (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. Project (1) was deemed not feasible; instead, the Town will perform other measures in the watershed to help mitigate stormwater runoff pollution, though this is not required by the consent decree. The Town awarded the construction contract for project (2) during August 2011, in the amount of \$3,175,000, which has been recorded as a long-term liability in the government-wide financial statements. Project (2) costs will be funded by bond proceeds issued on February 1, 2011.

Construction commitments:

Subsequent to year-end, the Town executed two construction contracts totaling approximately \$6,044,570 with CB Utility, Inc. The first contract, in the amount of \$2,775,385, relates to the Continental Village sewer, drainage & roadway improvements. The contract is to be paid as follows: \$1,500,000 from a revenue bond; \$240,230 from the Sewer Fund for sewer upgrades; and \$1,035,155 from a road and drainage bond. The second contract, in the amount of \$3,269,185, relates to the Esplanade Drainage Improvements project. The contract is to be paid as follows: \$2,100,000 from a judgment bond for stormwater improvements; \$649,647 from a road and drainage bond; \$425,000 from the capital improvement program; and \$94,538 from the Sewer Fund.

Pension fund:

The market value of the Town's pension investment account as of October 31, 2011 is \$40,423,139, which represents a 3.9% decrease in value since June 30, 2011. 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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 16,121,059	\$ 4,237,671	\$ 20,358,730
Investments	2,331,080		2,331,080
Accounts receivable, less allowance for doubtful accounts of \$289,455:			
Property taxes	1,508,169		1,508,169
Federal and state government	2,396,989		2,396,989
Assessments and user fees		653,161	653,161
Loans	100,000		100,000
Other	1,650,215	26,221	1,676,436
Prepaid expenses	452,155		452,155
Internal balances	(329,770)	329,770	
Net pension and OPEB asset	903,418		903,418
Noncurrent assessments and user fees		679,553	679,553
Deferred charges	147,049	165,911	312,960
Capital assets not being depreciated	8,970,786	3,256,115	12,226,901
Capital assets being depreciated, net	39,845,865	18,784,287	58,630,152
	<u>74,097,015</u>	<u>28,132,689</u>	<u>102,229,704</u>
LIABILITIES:			
Accounts payable and accrued expenses	3,503,908	678,543	4,182,451
Unearned revenue	61,441		61,441
Long-term obligations:			
Due within one year	5,300,611	860,226	6,160,837
Due in more than one year	24,618,215	18,438,207	43,056,422
	<u>33,484,175</u>	<u>19,976,976</u>	<u>53,461,151</u>
Commitments and contingencies (Notes 11 and 12)			
NET ASSETS:			
Invested in capital assets, net of related debt	24,596,306	11,141,969	35,738,275
Restricted for:			
Prepaid items	452,155		452,155
Long-term loans receivable	100,000		100,000
Perpetual care	124,710		124,710
Principal of endowments	58,608		58,608
Stormwater management	3,174,647		3,174,647
Construction projects	2,091,775		2,091,775
Grants	435,285		435,285
Other purposes, nonexpendable	903,418		903,418
Unrestricted	8,675,936	(2,986,256)	5,689,680
	<u>\$ 40,612,840</u>	<u>\$ 8,155,713</u>	<u>\$ 48,768,553</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,839,331	\$ 592,544	\$ 61,779	\$ 98,095	\$ (3,086,913)		\$ (3,086,913)
Public safety	15,543,976	2,165,946	220,696	35,775	(13,121,559)		(13,121,559)
Public works	2,723,757	21,501	293,080		(2,409,176)		(2,409,176)
Planning and inspection	752,199	488,936	79,738	117,909	(65,616)		(65,616)
Library	862,740	15,152	189,078		(658,510)		(658,510)
Education	39,135,672	743,590	13,765,448		(24,626,634)		(24,626,634)
Community services	435,422		65,823		(369,599)		(369,599)
Interest on long-term debt	834,750				(834,750)		(834,750)
Total governmental activities	64,127,847	4,027,669	14,675,642	251,779	(45,172,757)		(45,172,757)
Business-type activities:							
Sewer	11,603,553	4,895,589		-		\$ (6,707,964)	(6,707,964)
Parks and recreation	1,462,692	1,462,692					
Refuse and recycle	1,141,941	944,161	120,250		(77,530)		(77,530)
Total business-type activities	14,208,186	7,302,442	120,250	-	(6,785,494)		(6,785,494)
Total	\$ 78,336,033	\$ 11,330,111	\$ 14,795,892	\$ 251,779	(45,172,757)	(6,785,494)	(51,958,251)
General revenues:							
Property taxes					40,544,664		40,544,664
Grants and contributions not restricted to specific programs					1,389,149		1,389,149
Investment earnings					29,500	7,877	37,377
Miscellaneous					1,290,499		1,290,499
Transfers					60,150	(60,150)	
Total general revenues and transfers					43,313,962	(52,273)	43,261,689
Change in net assets					(1,858,795)	(6,837,767)	(8,696,562)
Net assets, beginning of year:							
As previously reported					41,525,090	14,993,480	56,518,570
Prior period adjustment (Note 13)					946,545		946,545
As restated					42,471,635	14,993,480	57,465,115
Net assets, end of year					\$ 40,612,840	\$ 8,155,713	\$ 48,768,553

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

ASSETS	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 7,945,311	\$ 915,684	\$ 5,097,515	\$ 2,162,549	\$ 16,121,059
Investments	2,221,070			110,010	2,331,080
Accounts receivable, less allowance for doubtful accounts of \$289,455:					
Property taxes	1,508,169				1,508,169
Federal and state government	716,575	1,680,414			2,396,989
Loans				100,000	100,000
Other	293,343	1,356,872			1,650,215
Prepaid expenses	452,155				452,155
Due from other funds	697,044		69,750	130,804	897,598
Total assets	\$ 13,833,667	\$ 3,952,970	\$ 5,167,265	\$ 2,503,363	\$ 25,457,265
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 1,338,970	\$ 1,231,473	\$ 109,936	\$ 40,444	\$ 2,720,823
Accrued compensated absences	173,548	26,967			200,515
Due to other funds	1,367,056	55,008		142,291	1,564,355
Deferred revenue	956,883	77,676		25,554	1,060,113
Total liabilities	3,836,457	1,391,124	109,936	208,289	5,545,806
Fund balances:					
Nonspendable:					
Prepaid items	452,155				452,155
Long-term loans receivable				100,000	100,000
Perpetual care				124,710	124,710
Principal of endowments				58,608	58,608
Restricted for:					
Stormwater management	288,844		2,885,803		3,174,647
Construction projects			2,091,775		2,091,775
Grants		381,384		53,901	435,285
Committed to:					
West Main Road development	3,000,000				3,000,000
Special education		946,545			946,545
Capital improvements	1,382,911	44,508			1,427,419
Revaluation program	160,000				160,000
Assigned	434,380	1,189,409	79,751	1,963,576	3,667,116
Unassigned	4,278,920			(5,721)	4,273,199
Total fund balances	9,997,210	2,561,846	5,057,329	2,295,074	19,911,459
Total liabilities and fund balances	\$ 13,833,667	\$ 3,952,970	\$ 5,167,265	\$ 2,503,363	\$ 25,457,265

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, 2011

Total fund balances for governmental funds		\$	19,911,459
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	48,816,651	
Net pension and OPEB asset		903,418	
Deferred charges		<u>147,049</u>	49,867,118
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds.			998,672
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable	(21,291,463)		
Loans payable	(650,000)		
Capital leases	(1,537,631)		
Claims and judgments	(3,333,672)		
Deferred revenue	(888,300)		
Compensated absences payable	(2,217,760)		
Accrued interest	<u>(245,583)</u>		<u>(30,164,409)</u>
Net assets of governmental activities		\$	<u><u>40,612,840</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2011

	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 40,461,076				\$ 40,461,076
Intergovernmental	2,363,414	\$ 13,223,429		\$ 1,127,304	16,714,147
Licenses, permits and fees	1,631,427	589,297			2,220,724
Interest and investment income	21,524		\$ 1,532	6,444	29,500
State contribution to teachers' pension plan		1,331,543			1,331,543
Other revenues	917,418	154,293		124,539	1,196,250
Total revenues	45,394,859	15,298,562	1,532	1,258,287	61,953,240
Expenditures:					
Current:					
General government	2,840,158				2,840,158
Public safety	8,700,749				8,700,749
Public works	1,673,346			48,612	1,721,958
Planning and inspection	609,223				609,223
Library	732,753			52	732,805
Education		38,078,374			38,078,374
Community services	273,047			50,250	323,297
Other expenditures	5,839,669				5,839,669
Grants	429,493				429,493
Capital outlay	2,584,342		156,423		2,740,765
Debt service:					
Debt issuance and fees	47,010				47,010
Principal	1,791,132				1,791,132
Interest	694,029				694,029
Total expenditures	26,214,951	38,078,374	156,423	98,914	64,548,662
Excess (deficiency) of revenues over expenditures	19,179,908	(22,779,812)	(154,891)	1,159,373	(2,595,422)
Other financing sources (uses):					
Bond proceeds	148,288		5,000,000		5,148,288
Transfers from other funds	2,278,093	22,454,413		27,048	24,759,554
Transfers to other funds	(25,634,649)			(1,996,278)	(27,630,927)
Total other financing sources (uses)	(23,208,268)	22,454,413	5,000,000	(1,969,230)	2,276,915
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(4,028,360)	(325,399)	4,845,109	(809,857)	(318,507)
Fund balance, beginning of year:					
As previously reported	8,858,854	1,940,700	212,220	8,271,647	19,283,421
Reclassification of fund balance - GASB 54	5,166,716			(5,166,716)	-
Prior period adjustment (Note 13)		946,545			946,545
As restated	14,025,570	2,887,245	212,220	3,104,931	20,229,966
Fund balance, end of year	\$ 9,997,210	\$ 2,561,846	\$ 5,057,329	\$ 2,295,074	\$ 19,911,459

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, 2011

Net change in fund balances for governmental funds		\$ (318,507)
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	\$ 3,889,279	
Depreciation expense	<u>(2,416,773)</u>	1,472,506
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.		29,236
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(647,756)
OPEB obligation is recorded in the statement of activities, but not in the governmental funds		(673,432)
Pension asset is recorded in the statement of activities, but not in the governmental funds		1,576,850
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	1,791,132	
Issuance of general obligation bonds	(5,148,288)	
Amortization of:		
Deferred charge on refunding	(30,417)	
Bond premiums	<u>16,087</u>	(3,371,486)
Some expenditures not requiring the use of current financial resources in governmental funds are accrued in the statement of activities:		
Claims and judgments	9,564	
Deferred revenue	49,350	
Accrued compensated absences	<u>139,221</u>	198,135
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds		<u>(124,341)</u>
Change in net assets of governmental activities		<u>\$ (1,858,795)</u>

See notes to basic financial statements.

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

JUNE 30, 2011

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 3,584,706	\$ 628,625	\$ 24,340	\$ 4,237,671
Accounts receivable:				
Assessments and user fees	575,212		77,949	653,161
Other		26,221		26,221
Due from other funds	829,515			829,515
Total current assets	4,989,433	654,846	102,289	5,746,568
Noncurrent assets:				
Assessments and user fees receivable, less current portion	679,553			679,553
Deferred charges, net	165,911			165,911
Capital assets not being depreciated	642,109	2,614,006		3,256,115
Capital assets being depreciated, net	17,129,539	1,306,003	348,745	18,784,287
Total assets	23,606,545	4,574,855	451,034	28,632,434
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	419,025	135,344	84,228	638,597
Due to other funds		496,891	2,854	499,745
Accrued compensated absences	26,205	11,984	1,757	39,946
Current portion of loans payable	860,226			860,226
Total current liabilities	1,305,456	644,219	88,839	2,038,514
Noncurrent liabilities, loans payable, net of current portion	18,438,207			18,438,207
Total liabilities	19,743,663	644,219	88,839	20,476,721
NET ASSETS:				
Invested in capital assets, net of related debt	6,873,215	3,920,009	348,745	11,141,969
Unrestricted	(3,010,333)	10,627	13,450	(2,986,256)
Total net assets	\$ 3,862,882	\$ 3,930,636	\$ 362,195	\$ 8,155,713

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, 2011

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,861,681		\$ 944,012	\$ 5,805,693
Beach admittance and rental fees		\$ 1,239,758		1,239,758
Campground admittance and rental fees		187,560		187,560
Other revenues	33,908	35,374	149	69,431
Total operating revenues	4,895,589	1,462,692	944,161	7,302,442
Operating expenses:				
Salaries and benefits	635,896		57,256	693,152
Materials and supplies	36,606		1,060	37,666
Professional services	455,836		975,782	1,431,618
Repairs and maintenance	122,397		1,507	123,904
Utilities	143,068			143,068
Sewage disposal	934,354			934,354
Beaches		762,172		762,172
Lifeguards		192,380		192,380
Harbormaster		29,262		29,262
Security		21,193		21,193
Campground		52,668		52,668
Recreation		88,846		88,846
Parks and grounds		56,907		56,907
Civic appropriations		43,050		43,050
Miscellaneous	18,573	108,083		126,656
Depreciation	626,548	108,131	99,641	834,320
Total operating expenses	2,973,278	1,462,692	1,135,246	5,571,216
Operating income (loss)	1,922,311	-	(191,085)	1,731,226
Nonoperating revenues (expenses):				
Interest revenue	6,934	739	204	7,877
Grant revenue			120,250	120,250
Environmental remediation	(8,400,000)			(8,400,000)
Interest expense	(212,410)		(6,695)	(219,105)
Amortization of bond issuance costs	(17,865)			(17,865)
Total nonoperating revenues (expenses)	(8,623,341)	739	113,759	(8,508,843)
Income (loss) before transfers	(6,701,030)	739	(77,326)	(6,777,617)
Transfers to other funds		(281,815)		(281,815)
Transfers from other funds			221,665	221,665
Change in net assets	(6,701,030)	(281,076)	144,339	(6,837,767)
Net assets, beginning of year	10,563,912	4,211,712	217,856	14,993,480
Net assets, end of year	<u>\$ 3,862,882</u>	<u>\$ 3,930,636</u>	<u>\$ 362,195</u>	<u>\$ 8,155,713</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2011

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 4,591,428	\$ 1,449,680	\$ 970,783	\$ 7,011,891
Cash received from other sources	33,908	10,976	149	45,033
Cash paid to employees	(634,305)	(843,859)	(56,780)	(1,534,944)
Cash paid to suppliers	(1,998,805)	(431,506)	(965,330)	(3,395,641)
Cash paid to civic groups		(43,050)		(43,050)
Net cash provided by (used in) operating activities	<u>1,992,226</u>	<u>142,241</u>	<u>(51,178)</u>	<u>2,083,289</u>
Cash flows from noncapital financing activities:				
Interfund balances		249,817	176,729	426,546
Operating grants			120,250	120,250
Cash provided by noncapital financing activities	<u>-</u>	<u>249,817</u>	<u>296,979</u>	<u>546,796</u>
Cash flows from capital and related financing activities:				
Transfers to other funds		(281,815)		(281,815)
Capital contributions	260,743			260,743
Acquisition and construction of fixed assets	(935,191)	(91,411)		(1,026,602)
Interfund balances	176,701			176,701
Principal paid on bonds and notes	(945,942)		(214,779)	(1,160,721)
Interest paid on bonds and notes	(218,443)		(6,886)	(225,329)
Net cash used in capital and related financing activities	<u>(1,662,132)</u>	<u>(373,226)</u>	<u>(221,665)</u>	<u>(2,257,023)</u>
Cash provided by investing activities, interest received	<u>6,934</u>	<u>739</u>	<u>204</u>	<u>7,877</u>
Net increase in cash and cash equivalents	337,028	19,571	24,340	380,939
Cash and cash equivalents, beginning of year	<u>3,247,678</u>	<u>609,054</u>	<u>-</u>	<u>3,856,732</u>
Cash and cash equivalents, end of year	<u>\$ 3,584,706</u>	<u>\$ 628,625</u>	<u>\$ 24,340</u>	<u>\$ 4,237,671</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2011

	<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)	\$ 1,922,311	\$ -	\$ (191,085)	\$ 1,731,226
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	626,548	108,131	99,641	834,320
Changes in assets and liabilities:				
Increase in:				
Accounts receivable, other	(270,253)	(2,036)		(272,289)
Accounts payable and accrued expenses		33,096	13,019	46,115
Accrued compensated absences	1,591	3,050	476	5,117
Decrease in:				
Accounts receivable, other			26,771	26,771
Accounts payable and accrued expenses	(287,971)			(287,971)
Net cash provided by (used in) operating activities	<u>\$ 1,992,226</u>	<u>\$ 142,241</u>	<u>\$ (51,178)</u>	<u>\$ 2,083,289</u>
Supplemental disclosures, noncash capital and related financing activities:				
Environmental remediation	\$ 8,400,000			\$ 8,400,000
Acquisition and construction of fixed assets paid from loan proceeds held by State of Rhode Island	<u>80,787</u>			<u>80,787</u>
Total noncash capital and related financing activities	<u>\$ 8,480,787</u>			<u>\$ 8,480,787</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2011

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund	Agency Funds
ASSETS:				
Cash and cash equivalents		\$ 3,338,311	\$ 30,653	\$ 253,135
Investments	\$ 42,076,745			262,241
Due from other funds	336,987			
	<u>42,413,732</u>	<u>3,338,311</u>	<u>30,653</u>	<u>\$ 515,376</u>
LIABILITIES:				
Deposits held in custody for others				<u>\$ 515,376</u>
NET ASSETS:				
Held in trust for pension benefits and other purposes	<u>\$ 42,413,732</u>	<u>\$ 3,338,311</u>	<u>\$ 30,653</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, 2011

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund
Additions to net assets:			
Contributions:			
Employer	\$ 3,795,486	\$ 5,078,984	
Plan members	174,670	149,224	
	<u>3,970,156</u>	<u>5,228,208</u>	
Investment income, net:			
Interest income	943,137	4,176	\$ 44
Net appreciation in fair value of investments	5,463,449		
	<u>6,406,586</u>	<u>4,176</u>	<u>44</u>
Total additions	<u>10,376,742</u>	<u>5,232,384</u>	<u>44</u>
Deductions from net assets:			
Benefits	3,862,000	1,875,968	
Administrative expense	227,417	18,105	
Scholarships			4,000
	<u>4,089,417</u>	<u>1,894,073</u>	<u>4,000</u>
Total deductions	<u>4,089,417</u>	<u>1,894,073</u>	<u>4,000</u>
Change in net assets	6,287,325	3,338,311	(3,956)
Net assets, beginning of year	<u>36,126,407</u>	<u></u>	<u>34,609</u>
Net assets, end of year	<u>\$ 42,413,732</u>	<u>\$ 3,338,311</u>	<u>\$ 30,653</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies:

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

Financial reporting entity:

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

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

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

Recent accounting pronouncement:

Effective July 1, 2010, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). This statement revises the governmental fund type definitions and provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The Town's beginning of year fund balances have been reclassified in accordance with GASB 54 requirements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation:

Government-wide financial statements:

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

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

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:

General Fund:

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

Special revenue funds:

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

Capital projects funds:

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

Permanent funds:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Proprietary funds:

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

Fiduciary funds:

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

Pension trusts:

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

Other post-employment benefits (OPEB) trust:

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

Private purpose trust:

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

Agency:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting:

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

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

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

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

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

Property taxes:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Property taxes (continued):

For 2011, Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 4.50% over that of the preceding fiscal year. The rate decreases annually by .25% to 4% in 2013.

Intergovernmental revenues:

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

Use of estimates:

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

Cash and cash equivalents:

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

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

Investments:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Interfund transactions:

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

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

Capital assets:

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Capital assets (continued):

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

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

Bond issuance costs:

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

Compensated absences:

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

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

Long-term obligations:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Long-term obligations (continued):

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

Fund equity:

Government-wide financial statements:

Net assets:

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

Governmental fund financial statements:

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

1. Summary of significant accounting policies (continued):

Fund equity (continued):

Governmental fund financial statements (continued):

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

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

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

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

Unassigned – amounts available for any purpose

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

2. Fund balances:

At June 30, 2011, none of the Town's funds had a deficit (negative) fund balance.

3. Deposits and investments:

Cash and cash equivalents (deposits):

At June 30, 2011, the carrying amount of the Town's deposits, including \$10,375,961 of cash equivalents, was \$23,980,829 and the bank balance was \$25,725,477. Of the bank balance, \$74,112 was uninsured and uncollateralized; \$25,651,365 was insured and collateralized.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. Deposits and investments (continued):

Cash and cash equivalents (deposits)(continued):

At June 30, 2011, deposits are categorized as follows:

	Insured/ collateralized in Town's name	Total bank balance	Carrying amount
Deposits:			
Demand deposits	\$ 15,349,516	\$ 15,349,516	\$ 13,604,868
Money market	10,301,849	10,375,961	10,375,961
	<u>\$ 25,651,365</u>	<u>\$ 25,725,477</u>	<u>\$ 23,980,829</u>

Investments:

Investments other than Pension Trust Fund:

	Carrying amount	Maturities	Rating
Certificates of deposit (governmental funds)	\$ 2,221,070	7/13/11 to 1/9/12	Not rated
Certificates of deposit (fiduciary funds)	262,241	6/30/11 to 5/27/12	Not rated
Mutual funds, U.S. Government securities (governmental funds)	110,010	Not applicable	Not rated
Total investments	<u>\$ 2,593,321</u>		

Pension Trust Fund investments:

	Carrying amount
Mutual funds	\$ 27,003,637
Group annuity	13,391,323
Money market funds	1,681,785
Total investments	<u>\$ 42,076,745</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. Deposits and investments (continued):

Investments (continued):

The market value of the Town's pension investment account (Managed Funds) as of October 31, 2011 is \$40,423,139, which represents a 3.9% decrease in value since June 30, 2011. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

Interest rate risk:

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

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

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

Credit risk:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. Deposits and investments (continued):

Concentration of credit risk (continued):

As of June 30, 2011, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795 GAC	\$ 13,391,323
T. Rowe Price Equity Income Fund #71	4,667,216
Robeco All Cap Value Instl	3,451,392
Dodge & Cox International Stock Fund #1048	3,117,655
T. Rowe Price Blue Chip Growth	2,839,201

Custodial credit risk:

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

4. Interfund transactions:

Interfund receivables and payables at June 30, 2011 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	School Department	\$ 55,008
	Nonmajor funds	142,291
	Parks and Recreation	496,891
	Refuse and Recycle	2,854
		697,044
Capital Projects Fund	Governmental funds, General Fund	69,750
Nonmajor governmental funds	Governmental funds, General Fund	130,804

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

4. Interfund transactions (continued):

Receivable Fund	Payable Fund	Amount
Due to/from:		
Enterprise funds, Sewer Fund:	Governmental funds, General Fund	\$ 829,515
Fiduciary funds, Pension Trust Fund	Governmental funds, General Fund	336,987
		<u>\$ 2,064,100</u>

Operating transfers between funds for the year ended June 30, 2011 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General Fund	Governmental funds, nonmajor funds	\$ 1,996,278
	Enterprise funds: Parks and Recreation	281,815
		<u>2,278,093</u>
School Department	Governmental funds, General Fund	<u>22,454,413</u>
Nonmajor governmental funds	Governmental funds, General Fund	<u>27,048</u>
Enterprise funds, Refuse and Recycle	Governmental funds, General Fund	<u>221,665</u>
Fiduciary funds, Other Post- Employment Benefit Trust Fund	Governmental funds, General Fund	<u>2,931,523</u>
		<u>\$ 27,912,742</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. Capital assets:

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,291,781	\$ 755		\$ 7,292,536
Construction in progress:				
Infrastructure	221,429	1,229,569		1,450,998
Other	85,774	227,252	\$ 85,774	227,252
Total capital assets not being depreciated	7,598,984	1,457,576	85,774	8,970,786
Capital assets being depreciated:				
Infrastructure	28,901,393	573,508		29,474,901
Land improvements	4,012,757	541,662		4,554,419
Buildings and improvements	28,101,415	343,742		28,445,157
Furniture and equipment	4,030,946	670,532	43,403	4,658,075
Library books	1,493,013			1,493,013
Motor vehicles	4,199,293	388,033	122,360	4,464,966
Total capital assets being depreciated	70,738,817	2,517,477	165,763	73,090,531

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. Capital assets (continued):

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities (continued):				
Capital assets being depreciated (continued):				
Less accumulated depreciation for:				
Infrastructure	\$ (13,750,389)	\$ (647,790)		\$ (14,398,179)
Land improvements	(726,176)	(192,428)		(918,604)
Buildings and improvements	(10,291,708)	(791,918)		(11,083,626)
Furniture and equipment	(2,080,532)	(425,841)	\$ 43,403	(2,462,970)
Library books	(1,415,340)	(32,164)		(1,447,504)
Motor vehicles	(2,729,511)	(326,632)	122,360	(2,933,783)
Total accumulated depreciation	(30,993,656)	(2,416,773)	165,763	(33,244,666)
Total capital assets being depreciated, net	39,745,161	100,704	-	39,845,865
Governmental activities capital assets, net	\$ 47,344,145	\$ 1,558,280	\$ 85,774	\$ 48,816,651
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,779,046			\$ 2,779,046
Construction in progress	563,688	\$ 450,569	\$ 537,188	477,069
Total capital assets not being depreciated	3,342,734	450,569	537,188	3,256,115

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. Capital assets (continued):

Business-type activities (continued):

Capital assets being depreciated:

	Beginning balances	Increases	Decreases	Ending balances
Land improvements	\$ 1,159,273	\$ 138,706	\$ -	\$ 1,297,979
Buildings and improvements	362,916			362,916
Equipment	3,086,145	287,819		3,373,964
Infrastructure	17,099,831	864,515		17,964,346
Vehicles	151,732	35,519		187,251

Total capital assets being depreciated

	21,859,897	1,326,559	-	23,186,456
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Less accumulated depreciation for:

Land improvements	(418,566)	(57,346)		(475,912)
Buildings and improvements	(100,144)	(13,908)		(114,052)
Equipment	(1,402,385)	(304,884)		(1,707,269)
Infrastructure	(1,595,576)	(444,215)		(2,039,791)
Vehicles	(51,178)	(13,967)		(65,145)

Total accumulated depreciation

	(3,567,849)	(834,320)	-	(4,402,169)
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Total capital assets being depreciated, net

	18,292,048	492,239	-	18,784,287
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Business-type activities capital assets, net

	\$ 21,634,782	\$ 942,808	\$ 537,188	\$ 22,040,402
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TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

5. Capital assets (continued):

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 167,483
Public safety	616,089
Public works and sanitation	847,422
Planning and inspection	17,590
Library	62,284
Education	686,024
Community services	<u>19,881</u>

\$ 2,416,773

Business-type activities:

Sewer Fund	\$ 626,548
Parks and Recreation Fund	108,131
Refuse and Recycle Fund	<u>99,641</u>

\$ 834,320

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

YEAR ENDED JUNE 30, 2011

6. Long-term obligations:

Changes in the long-term obligations of governmental activities during the year ended June 30, 2011 were as follows:

	Balance, July 1, 2010	Additions	Retirements	Balance, June 30, 2011	Due within one year
Bonds payable:					
General obligation bonds	\$ 17,635,000	\$ 5,000,000	\$ 1,440,000	\$ 21,195,000	\$ 1,570,000
Deferred amounts:					
For issuance premiums	364,390	148,288	16,087	496,591	24,488
On refunding	(430,545)		(30,417)	(400,128)	(29,335)
Total bonds payable	17,568,845	5,148,288	1,425,670	21,291,463	1,565,153
Loans payable	700,000	-	50,000	650,000	50,000
Capital leases	1,838,763	-	301,132	1,537,631	234,985
Claims and judgments (Note 11)	3,343,236	-	9,564	3,333,672	3,200,608
Deferred revenue, grants	937,650	-	49,350	888,300	49,350
Accrued compensated absences	2,356,981	-	139,221	2,217,760	200,515
Total long-term obligations	<u>\$ 26,745,475</u>	<u>\$ 5,148,288</u>	<u>\$ 1,974,937</u>	<u>\$ 29,918,826</u>	<u>\$ 5,300,611</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, 2011

6. Long-term obligations (continued):

Changes in the long-term obligations of business-type activities during the year ended June 30, 2011 were as follows:

	Balance, July 1, 2010	Additions	Retirements	Balance, June 30, 2011	Due within one year
Loans payable	\$ 11,844,374	\$ -	\$ 945,941	\$ 10,898,433	
Less undrawn loan proceeds held by the State	(80,786)	80,786	-	-	
	11,763,588	80,786	945,941	10,898,433	\$ 860,226
Environmental remediation obligation	-	8,400,000	-	8,400,000	-
Capital leases	214,779	-	214,779	-	-
Total long-term obligations	\$ 11,978,367	\$ 8,480,786	\$ 1,160,720	\$ 19,298,433	\$ 860,226

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

YEAR ENDED JUNE 30, 2011

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, 2011 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2010	New issues	Retired	Balance, June 30, 2011
General obligation bonds:								
Town Refunding	\$ 2,960,000	4/19/94	3.2-5.75%	7/15/10	\$ 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	500,000		250,000	250,000
School refunding	2,395,000	10/29/02	3.0-4.0%	11/15/13	815,000		210,000	605,000
School improvements	4,390,000	10/29/02	3.0-5.0%	3/15/12	460,000		230,000	230,000
Road, drainage, open space	6,500,000	4/1/07	3.5-5.0%	6/15/27	5,525,000		325,000	5,200,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	5,400,000		300,000	5,100,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	4,885,000		75,000	4,810,000
Road, Drainage, Sidewalks & Judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	-	5,000,000	-	5,000,000
Total general obligation bonds	37,230,000				17,635,000	5,000,000	1,440,000	21,195,000
Loans payable:								
Rhode Island Clean Water Protection Finance Agency, Open Space	1,000,000	11/13/03	1.17%	9/1/23	700,000		50,000	650,000
Total	\$ 38,230,000				\$ 18,335,000	\$ 5,000,000	\$ 1,490,000	\$ 21,845,000

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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.

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2010 was \$2,930,804,022, limiting the amount of non-excepted general obligation bonds outstanding to \$87,924,121. At June 30, 2011, bonds outstanding totaled \$21,195,000.

On February 1, 2011, the Town issued \$5,000,000 in general obligation bonds with an average interest rate of 4.0%. Of this amount, \$2,000,000 will be used to fund road construction, drainage, and sidewalk improvements. The remaining \$3,000,000 will fund the costs resulting from the Consent Decree and Order related to environmental remediation (Note 11). As of June 30, 2011, previously authorized, but unissued, general obligation bonds amount to \$6,000,000.

On May 20, 2010, the Town issued \$4,885,000 in general obligation bonds with an average interest rate of 4.0% to advance refund \$4,800,000 of outstanding various purpose general obligation bonds. The net proceeds of \$5,219,217 (after payment of \$28,235 in underwriting fees), plus an additional \$362,452 of bond premium monies used to purchase U.S. Government securities, were deposited with an escrow agent to provide for all future debt service payments on the various purpose general obligation bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$371,689. This difference is being charged to operations through the year 2012 using the effective interest method. At June 30, 2011, the balance of the defeased debt totaled \$4,885,000.

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

6. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

At June 30, 2011, 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
2012	\$ 1,620,000	\$ 812,486	\$ 2,432,486
2013	1,625,000	749,605	2,374,605
2014	1,625,000	696,288	2,321,288
2015	1,415,000	650,800	2,065,800
2016	1,410,000	600,405	2,010,405
2017-2021	6,980,000	2,224,813	9,204,813
2022-2026	4,995,000	982,372	5,977,372
2027-2031	2,175,000	206,800	2,381,800
	\$ 21,845,000	\$ 6,923,569	\$ 28,768,569

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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, 2010	New issues	Maturities	Balance, June 30, 2011
Enterprise Fund, Sewer:								
Rhode Island Clean Water Protection Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 525,266	\$ -	\$ 105,053	\$ 420,213
Rhode Island Clean Water Protection Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	666,826		127,888	538,938
Rhode Island Clean Water Protection Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,875,000		125,000	1,750,000
Rhode Island Clean Water Protection Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	5,100,000		300,000	4,800,000
Rhode Island Clean Water Protection Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,474,000		138,000	2,336,000
Rhode Island Clean Water Protection Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	1,203,282		150,000	1,053,282
	<u>\$ 15,749,282</u>				11,844,374	-	945,941	10,898,433
Less undrawn loan proceeds held by the State					(80,786)	80,786		
					11,763,588	80,786	945,941	10,898,433
Less current portion					(865,156)			(860,226)
					<u>\$ 10,898,432</u>			<u>\$ 10,038,207</u>

At June 30, 2010, the Sewer Enterprise Fund had \$80,786 due from the State for undrawn loan proceeds available for sewer construction projects. There were no undrawn loan proceeds at June 30, 2011.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

6. Long-term obligations (continued):

Loans payable for business-type activities (continued):

At June 30, 2011, 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
2012	\$ 860,226	\$ 202,738	\$ 1,062,964
2013	861,473	185,756	1,047,229
2014	862,757	168,547	1,031,304
2015	864,077	151,110	1,015,187
2016	760,386	135,300	895,686
2017-2021	3,377,075	474,410	3,851,485
2022-2026	2,746,439	183,415	2,929,854
2027-2031	566,000	8,060	574,060
	<u>\$10,898,433</u>	<u>\$ 1,509,336</u>	<u>\$ 12,407,769</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, 2011 of \$86,569 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, 2011 of \$6,695 is recorded in the Refuse and Recycle Fund.

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

YEAR ENDED JUNE 30, 2011

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, 2010	New issues	Maturities	Balance, June 30, 2011
Governmental activities:								
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,524,590	\$ -	\$ 148,557	\$ 1,376,033
Vehicles	360,518	12/1/05	4.21%	7/1/10	76,846	-	76,846	-
Vehicles	399,690	11/10/08	2.16%	8/1/12	237,327	-	75,728	161,599
Total	<u>\$ 3,036,208</u>				<u>\$ 1,838,763</u>	<u>\$ -</u>	<u>\$ 301,131</u>	<u>\$ 1,537,632</u>
Business-type activities:								
Enterprise Fund, Refuse and Recycle	<u>\$ 710,457</u>	11/6/07	4.26%	6/15/11	<u>\$ 214,779</u>	<u>\$ -</u>	<u>\$ 214,779</u>	<u>\$ -</u>

At June 30, 2011, annual debt service requirements to maturity for capital lease obligations are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
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	189,232	32,218	221,450
2017-2019	515,155	38,466	553,621
	<u>\$ 1,537,632</u>	<u>\$ 295,579</u>	<u>\$ 1,833,211</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

7. Accounts payable and accrued expenses:

	Vendors	Other governments	Employees	Accrued interest	Total
Governmental activities:					
General Fund	\$ 1,320,773	\$ 18,197	\$ 173,548	\$	\$ 1,512,518
School Department	1,105,577		152,863		1,258,440
Capital Projects fund	109,936				109,936
Nonmajor funds	40,444				40,444
Reconciliation of balances in fund financial statements to government-wide financial statements		336,987		\$ 245,583	582,570
	<u>\$ 2,576,730</u>	<u>\$ 355,184</u>	<u>\$ 326,411</u>	<u>\$ 245,583</u>	<u>\$ 3,503,908</u>
Business-type activities:					
Sewer Fund	\$ 168,942	\$ 179,693	\$ 26,205	\$ 70,390	\$ 445,230
Parks and Recreation Fund	134,344	1,000	11,984		147,328
Refuse and Recycle Fund	84,228		1,757		85,985
	<u>\$ 387,514</u>	<u>\$ 180,693</u>	<u>\$ 39,946</u>	<u>\$ 70,390</u>	<u>\$ 678,543</u>

The above amounts include accrued compensated absences.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans:

All eligible employees of the Town are covered by one of three pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), or the Town of Middletown Retirement Plan (Town Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees, all Public Works employees hired on or after July 1, 1999, all Police Department employees sworn in on or after January 1, 2000, all Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Plan covers all other eligible employees. Total covered payroll under all plans during 2011 was \$27,679,318. Total Town payroll was \$29,924,118 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 2011 was \$17,805,087, including \$646,031 of federally reimbursed payroll.

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

Schedule A Benefits:

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Teachers' Plan (continued)

Plan description (continued):

Schedule B Benefits:

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Teachers' Plan (Continued)

Plan description (continued):

Sweeping pension system reform was passed by the Rhode Island General Assembly on November 17, 2011 and signed into law by Governor Chafee on November 18, 2011, which will be implemented effective July 1, 2012. The Rhode Island Retirement Security Act of 2011 (RIRSA) makes substantial changes to the Teachers' Plan pension benefits, adds a defined contribution element, and creates a hybrid plan as opposed to the current defined benefit plan.

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

Funding policy:

Rhode Island General Law currently sets the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The Town participates in the optional Teachers Survivor Benefits Fund whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits. The Town contributed \$22,546 to this fund during fiscal year 2011.

As prescribed by Rhode Island General Law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2011, the Town's actuarial required contributions were 11.25% of participant salary (19.01% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 7.76% (\$1,331,543). The Town's required and actual contributions to the Teachers' Plan for fiscal years 2011, 2010 and 2009 were \$2,053,204, \$1,846,356, and \$2,023,597, respectively.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

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 2011, covered payroll under the Municipal Plan totaled \$7,229,223.

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

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

Sweeping pension system reform was passed by the Rhode Island General Assembly on November 17, 2011 and signed into law by Governor Chafee on November 18, 2011, which will be implemented effective July 1, 2012. The Rhode Island Retirement Security Act of 2011 (RIRSA) makes substantial changes to the Municipal Plan's pension benefits, adds a defined contribution element, and creates a hybrid plan as opposed to the current defined benefit plan.

As of June 30, 2011, 176 active employees (46 police and firefighters) were members of the Municipal Plan.

Funding policy:

Rhode Island General Law sets contributions of participating employees at 6% of salary (8% for police). An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of June 30, 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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Municipal Plan (continued)

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.

	2011	2010	2009
Annual pension costs	\$ 1,309,967	\$ 1,247,102	\$ 1,304,627
Actual contributions:			
Employee	547,462	493,358	502,801
Employer	762,505	753,744	801,826
Percent of annual pension costs contributed	100.0%	100.0%	100.0%

Funded status and funding progress:

As of June 30, 2010, the date of the most recent actuarial valuation available, the Municipal Plan was 63.4% and 98.2% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$20,745,520 and \$1,859,023 for general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$13,143,076 and \$1,825,703, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$7,602,445 and \$33,320 for general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$5,015,060 and \$1,639,380 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 151.6% and 2.0%, respectively.

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

Actuarial methods and significant assumptions:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

Significant actuarial assumptions used in the June 30, 2010 valuation are summarized as follows:

Asset appreciation:	7.50% annually
Salary increases:	4.00% annually – general employees 4.25% annually – police/fire employees
Cost-of-living adjustments:	2.75%, non-compounded
Retirement probability:	100% at age 70 or upon eligibility (100% at age 65 or upon eligibility – police/fire)
Mortality:	Healthy members – 115% (for Male Employees) and 95% (for Female Employees) of the RP-2000 Combined Healthy with White Collar adjustments, projected with Scale AA. Disabled members – 65% of the PBGC Table Va (Via for females)
Disability:	Probabilities per 1,000 ranging from .08% at age 25 to 9.87% at age 60 (.43% at age 25 to 18.15% at age 50 for police and fire)

Town Plan

Plan description:

The Town Plan is a single-employer defined benefit pension plan established by the Town in accordance with the Town Charter. Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee. For fiscal year 2011, covered payroll under the Town Plan totaled \$2,645,008.

As of July 1, 2010, the latest actuarial valuation, employee membership data related to the Town Plan is as follows:

Active participants	33
Terminated vested participants	9
Retirees and beneficiaries	131
Disabled participants	<u>4</u>
Total	<u><u>177</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions:

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

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

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

The normal retirement benefit is determined as follows:

- a. Police Department Members – 3% (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.
- c. School Custodial, Town Hall and School Clerical Members – 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- d. Public Works Members – 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Town Plan (continued)

Benefit provisions (continued):

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

In lieu of the normal form of benefit, a Police or Fire member may elect a pension that provides, upon the member's death, for a 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.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Town Plan (continued)

Funding policy and contributions:

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

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

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

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

Actuarial method and significant assumptions:

For 2010, 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 as of July 1, 2010.

Annual pension costs and net benefit obligation:

The actuarially determined employer contribution requirement of \$2,761,665 was determined as described above and was based on an actuarial valuation as of July 1, 2010. 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 2011 amounted to \$3,970,156, of which \$3,795,486 and \$174,670 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 143.5% and 6.6%, respectively, of covered payroll for the year.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

8. Pension plans (continued):

Town Plan (continued):

Annual pension costs and net benefit obligation (continued):

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal cost	\$ 391,189	\$ 460,481	\$ 594,542
Amortization of UAAL	2,105,802	2,053,817	1,852,714
Interest and plan expenses	264,674	265,973	268,469
Adjustment to annual required contribution	<u>69,741</u>	<u>59,506</u>	<u>155,839</u>
Annual pension cost	2,831,406	2,839,777	2,871,564
Contributions made	<u>(3,712,030)</u>	<u>2,826,050</u>	<u>(2,575,587)</u>
(Increase) decrease in net pension asset	(880,624)	13,727	295,977
Net pension asset, beginning of year	<u>(696,226)</u>	<u>(709,953)</u>	<u>(1,005,930)</u>
Net pension asset, end of year	<u><u>\$ (1,576,850)</u></u>	<u><u>\$ (696,226)</u></u>	<u><u>\$ (709,953)</u></u>
Percentage of annual pension cost contributed	<u>131.10%</u>	<u>99.52%</u>	<u>89.69%</u>

Funded status and funding progress:

As of July 1, 2010, the Town Plan was 78.0% funded. The actuarial accrued liability for benefits was \$54,547,798 and the actuarial value of assets was \$42,526,359, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,021,439. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$2,645,008 and the ratio of the UAAL to the covered payroll was 454.5%.

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

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2011

9. Other postemployment benefits:

Plan description:

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

The most recent actuarial valuation for the OPEB plan was performed as of June 30, 2011 and is expected to be issued in final form in early 2012.

Benefits and employee contributions:

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$2,140,776 for the year ended June 30, 2011.

The Trust's investments consist of money market funds reported as cash and cash equivalents on the statement of fiduciary net assets.

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

Covered participants:

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

Active employees	372
Retirees and beneficiaries	<u>273</u>
 Total	 <u><u>645</u></u>

Annual OPEB cost and net OPEB obligation:

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town. The Town has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a closed period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the amount actually contributed to the plan for the year ended June 30, 2011, and the Town's net OPEB asset as of June 30, 2011.

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

9. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

Annual OPEB Cost	
Annual Required Contribution	\$ 2,149,520
Interest on net OPEB obligation	49,434
Adjustment to annual required contribution	(37,186)
Annual OPEB cost	2,161,768
Contributions made during the year	2,147,461
Increase in net OPEB obligation	14,307
Net OPEB obligation at beginning of year	659,125
Net OPEB obligation at end of year	\$ 673,432

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2009, 2010 and 2011 are as follows:

Year ended June 30,	OPEB cost	Percentage of Annual OPEB cost contributed	Net OPEB Obligation
2009	1,535,690	83.72%	249,956
2010	2,026,910	79.81%	659,125
2011	2,161,768	99.34%	673,432

Funded status and funding progress:

As of June 30, 2011, the funded status and funding progress were as follows:

Funded ratio	9.7%
Actuarial accrued liability for benefits	34,283,705
Actuarial value of assets	3,338,311
Unfunded actuarial accrued liability (UAAL)	30,945,394
Covered payroll	30,052,962
UAAL to covered payroll	103.0%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

9. Other postemployment benefits (continued):

Funded status and funding progress (continued):

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

Actuarial methods and assumptions:

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

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

- Measurement date – June 30, 2011
- Funding method – Projected Unit Credit
- Investment rate of return – 7.5%
- Discount rate – 7.5%, reflecting an established OPEB trust
- Participation – 80% of eligible school retirees and 90% of eligible Town are assumed to elect medical and dental coverage
- Health Care Cost Trend Rates – Medical 8.0% per year, decreasing to an ultimate rate of 5.0% per year over 7 years

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for property/liability and workers' compensation premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, the Town is insured for a maximum of \$5,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There were no significant reductions in this insurance coverage during the year ended June 30, 2011.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. Contingencies and subsequent events:

Litigation:

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleges that the Town's sanitary sewer and 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. On March 24, 2010, the Town and Environment Rhode Island settled the matter by entering into a Consent Decree and Order that includes specific requirements and milestones for the Town to evaluate potential alternatives and implement optimal alternatives to address the Town's storm water and wastewater discharges. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and stormwater discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The report issued recommends implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term plan combines further investigations with immediate mitigation measures currently under construction. The cost of implementing the most feasible alternative is estimated at approximately \$8.4 million, which has been recorded as a long-term liability in the government-wide financial statements.

In regard to the stormwater system, the projects evaluated were: (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. Project (1) was deemed not feasible; instead, the Town will perform other measures in the watershed to help mitigate stormwater runoff pollution, though this is not required by the consent decree. The Town awarded the construction contract for project (2) during August 2011, in the amount of \$3,175,000, which has been recorded as a long-term liability in the government-wide financial statements. Project (2) costs will be funded by bond proceeds issued on February 1, 2011.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

11. Contingencies and subsequent events (continued):

Other contingencies:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$3,961,600 for the year ended June 30, 2011.

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, 2011, including catch basin retrofit, corporate park road and drainage improvements, Esplanade drainage improvements, residential street paving, and drainage and sanitary upgrades in designated areas of the Town. At June 30, 2011, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Aquidneck Corporate Park Improvements: Catalano Construction and Maguire Group	\$ 1,238,095	\$ 220,892
Miantonomi Avenue Drainage Project: East Coast Construction	127,649	14,056
Esplanade Drainage Design: Woodard & Curran	152,374	3,075
Prospect Ave Culvert Design: St Jean Engineering	3,240	1,740
Gaudet School & Newport Ave Retrofit Design: DiPrete Engineering	2,645	4,255
Continental Village Sewer, Road drainage improvement design and management: James Geremia Engineering	96,290	228,424
Newport Ave Design: DiPrete Engineering	38,051	164,949
Catch Basin Retrofit-Easton Point: East Coast Construction	75,297	340,931
Totals	<u>\$ 1,733,641</u>	<u>\$ 978,322</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

12. Commitments and subsequent events (continued):

Construction commitment (continued):

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

Subsequent to June 30, 2011, the Town executed two construction contracts totaling approximately \$6,044,570 with CB Utility, Inc. The first contract, in the amount of \$2,775,385, relates to the Continental Village sewer, drainage & roadway improvements. The contract is to be paid as follows: \$1,500,000 from a revenue bond; \$240,230 from the Sewer Fund; and \$1,035,155 from a road and drainage bond. The second contract, in the amount of \$3,269,185, relates to the Esplanade Drainage Improvements project. The contract is to be paid as follows: \$2,100,000 from a judgment bond; \$649,647 from a road and drainage bond; \$425,000 from the capital improvement program; and \$94,538 from the Sewer Fund.

13. Joint venture and prior period adjustment:

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 2011 was \$1,776,227. The towns have no equity interest in the net assets of NCRSEP, which totaled approximately \$5,494 at June 30, 2011.

At June 30, 2011, 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, over a number of years, in excess of the budgeted receipts for Middletown. This amount was previously recorded as deferred revenue of the MSD, resulting in a cumulative understatement in fund balance. The net assets of the governmental activities and the fund balance of the School Department at June 30, 2010 have been restated to correct the misstatement in deferred revenue.

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

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 40,257,886	\$ 40,662,909	\$ 40,461,076	\$ (201,833)
Intergovernmental	2,624,222	2,267,148	2,284,069	16,921
Licenses, permits and fees	1,278,480	1,639,880	1,631,427	(8,453)
Interest and investment	100,000	100,000	21,279	(78,721)
Other revenues	251,457	361,957	407,047	45,090
Total revenues	44,512,045	45,031,894	44,804,898	(226,996)
Expenditures:				
Current:				
General government	2,386,016	2,609,694	2,698,850	(89,156)
Public safety	8,469,401	8,805,907	8,661,839	144,068
Public works and sanitation	1,566,820	1,625,927	1,668,867	(42,940)
Planning and inspection	628,037	633,889	609,223	24,666
Library	715,233	715,233	717,753	(2,520)
Community services	254,941	254,941	273,045	(18,104)
Other expenditures	5,265,615	5,828,529	5,839,670	(11,141)
Grants	292,796	372,185	429,493	(57,308)
Capital outlay	2,633,300	2,681,847	2,584,342	97,505
Debt service	2,519,410	2,537,320	2,532,171	5,149
Total expenditures	24,731,569	26,065,472	26,015,253	50,219
Excess of revenues over expenditures, budgetary basis	19,780,476	18,966,422	18,789,645	(176,777)
Other financing sources (uses):				
Transfers from other funds	4,037,119	4,346,173	4,319,500	(26,673)
Transfers to other funds	(23,832,745)	(23,544,413)	(23,544,413)	-
Reappropriated fund balance	15,150	83,530	83,530	-
Proceeds from financing		148,288	148,288	-
Total other financing sources (uses)	(19,780,476)	(18,966,422)	(18,993,095)	(26,673)
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	\$ -	\$ -	(203,450)	\$ (203,450)
Adjustments of budgetary basis to U.S. GAAP basis			(3,824,910)	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(4,028,360)	
Fund balance, beginning of year			14,025,570	
Fund balance, end of year			\$ 9,997,210	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 13,376,075	\$ 14,034,823	\$ 13,223,429	\$ (811,394)
Fees for service	663,510	648,019	589,297	(58,722)
Other revenues	83,000	112,470	154,293	41,823
Total revenues	14,122,585	14,795,312	13,967,019	(828,293)
Expenditures:				
Current:				
Salaries	21,055,272	21,080,874	20,928,940	151,934
Employee benefits	6,665,416	6,841,153	6,807,686	33,467
Purchased services	6,800,246	7,127,072	6,584,205	542,867
Supplies and materials	1,375,633	1,371,732	1,370,735	997
Other	117,170	120,048	96,435	23,613
Capital expenditures	1,184,678	1,455,963	958,830	497,133
Total expenditures	37,198,415	37,996,842	36,746,831	1,250,011
Excess of expenditures over revenues, budgetary basis	(23,075,830)	(23,201,530)	(22,779,812)	421,718
Other financing sources:				
Transfer from other funds	22,328,713	22,454,413	22,454,413	-
Reappropriated fund balance	747,117	747,117	747,117	-
Total other financing sources	23,075,830	23,201,530	23,201,530	-
Excess of revenues and other financing sources over expenditures, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	421,718	<u>\$ 421,718</u>
Adjustment of budgetary basis to U.S. GAAP basis:				
Reappropriated fund balance			(747,117)	
Excess of expenditures over revenues and other financing sources, U.S. GAAP basis			(325,399)	
Fund balance, beginning of year, as restated			<u>2,887,245</u>	
Fund balance, end of year			<u>\$ 2,561,846</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2011

Budget preparation and budgetary basis of accounting:

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

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

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

	General Fund	School Department
Reappropriated fund equity	\$ (83,530)	\$ (747,117)
Change in reserve for encumbrances	(160,788)	
Adjustments of budgetary basis to GASB 54	<u>(3,580,592)</u>	
Total adjustments	<u>\$ (3,824,910)</u>	<u>\$ (747,117)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2011

Budget compliance:

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

TOWN OF MIDDLETOWN, RHODE ISLAND

MUNICIPAL PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2011

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
<i>General employee unit:</i>						
June 30, 2008	\$ 11,821,298	\$ 14,721,456	\$ 2,900,158	80.3%	\$ 4,892,626	59.3%
June 30, 2009	12,574,146	16,612,259	4,038,113	75.7%	5,268,332	76.6%
June 30, 2010	13,143,076	20,745,520	7,602,445	63.4%	5,015,060	151.6%
<i>Police and fire unit:</i>						
June 30, 2008	\$ 909,703	\$ 822,764	\$ (86,939)	110.6%	\$ 1,335,759	(6.5%)
June 30, 2009	1,328,917	1,090,815	(238,102)	121.8%	1,602,902	(14.9%)
June 30, 2010	1,825,703	1,859,023	33,320	98.2%	1,639,380	2.0%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2011

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)*	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
July 1, 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%
July 1, 2010	42,526,359	54,547,798	12,021,439	78.0%	2,645,008	454%

* 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, 2011

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
July 1, 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%
July 1, 2010	3,338,311	34,283,705	30,945,394	9.7%	30,052,962	103.0%

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2011

Town Pension Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 2,831,406	131.10%
2010	2,839,777	99.52%
2009	2,871,564	89.69%
2008	2,625,137	94.50%
2007	2,465,612	111.27%
2006	2,693,913	95.23%

Town OPEB Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 2,149,520	99.34%
2010	2,026,910	79.81%
2009	1,535,690	83.72%
2008	1,467,751	104.6%
2007	1,652,945	104.6%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

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, 2010
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, 2009 actuarial valuation.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2011

Real estate and personal property taxes receivable:

Year	Balance, July 1, 2010	Current year assessment	Adjustments/ abatements	Amount to be collected	Collections	Balance, June 30, 2011
2010	\$ -	\$ 40,344,153	\$ (73,400)	\$ 40,270,753	\$ 38,834,742	\$ 1,436,011
2009	1,515,055		(113,690)	\$ 1,401,365	1,305,352	96,013
2008	100,818		(1,744)	99,074	51,078	47,996
2007	42,622		(5,634)	36,988	1,408	35,580
2006	32,641		(987)	31,654	781	30,873
2005	28,111		1,151	29,262	1,253	28,009
2004	26,086		(57)	26,029	70	25,959
2003	23,018			23,018	349	22,669
2002	23,775		(21)	23,754	664	23,090
2001	22,427			22,427	507	21,920
2000	28,089			28,089	485	27,604
1999	3,752		(1,852)	1,900	-	1,900
	<u>\$ 1,846,394</u>	<u>\$ 40,344,153</u>	<u>\$ (196,234)</u>	<u>\$ 41,994,313</u>	<u>\$ 40,196,689</u>	<u>\$ 1,797,624</u>
					Less allowance for doubtful accounts	<u>(289,455)</u>
						<u>\$ 1,508,169</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2011

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,675,932,400	\$ 37,489,816
Motor vehicles	135,174,263	1,517,289
Tangible personal	<u>102,552,192</u>	<u>1,337,048</u>
Total	2,913,658,855	40,344,153
Exemptions	<u>104,691,085</u>	<u>-</u>
Current year assessment	<u>\$ 2,808,967,770</u>	<u>\$ 40,344,153</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 40,196,689
Revenue collected within 60 days subsequent to year ended June 30, 2011	<u>871,289</u>
	41,067,978
Prior year revenue received in current year	<u>(1,025,367)</u>
Current year real estate and personal property tax revenue	<u>\$ 40,042,611</u>