

**TOWN OF MIDDLETOWN, RHODE ISLAND**

**BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2014

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TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2014

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## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

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

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

*A Limited Liability Partnership*

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## **Independent Auditors' Report (Continued)**

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

### ***Auditors' Responsibility (Continued):***

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, for the year ended June 30, 2014, the Town adopted new accounting guidance affecting the accounting for bond issuance costs and the reporting of deferred inflows and outflows of resources. Due to the adoption of this guidance, the Town restated its 2013 financial statements, resulting in a decrease in net position of \$293,772 at July 1, 2013. The Town also adopted new accounting guidance requiring additional disclosures regarding certain pension plans. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis presented on pages 4 to 18 and the budgetary comparison schedules and historical pension and other postemployment benefits information presented on pages 88-97 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Independent Auditors' Report (Continued)**

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

### ***Other Matters (Continued):***

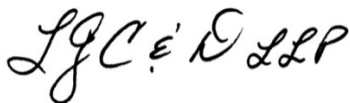
#### ***Other Information***

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2014 on our consideration of the Town of Middletown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.



Providence, Rhode Island  
December 11, 2014

## 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, 2014 (FY2014).

### Financial Highlights

The assets and deferred outflows of the Town exceeded its liabilities as of June 30, 2014 by \$55,501,958 (*net position*). Net position includes \$39,844,380 of net investment in capital assets; \$1,412,617 of restricted net position; and \$14,244,961 of unrestricted net position that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$106,369,860; total deferred outflows were \$257,691; and total liabilities were \$51,125,593 at June 30, 2014. Total net position increased by \$2,717,423 in the current fiscal year.

As of June 30, 2014, the Town's governmental funds reported combined ending fund balances of \$22,714,201, an increase of \$7,755,822 in comparison with the prior year. The favorable fiscal year results in the General Fund, Capital Projects Fund and Other Governmental Funds were partially offset by unfavorable results in the School Department, which resulted in the net increase in fund balance. See page 9 for additional discussion regarding changes in the fund balance of the General Fund and School Department Special Revenue Fund.

As of June 30, 2014, the unassigned fund balance for the General Fund was \$5,276,321, or 10.3% of total budgeted 2014 General Fund expenditures and other financing uses, totaling \$51,006,639. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations increased by \$3,959,858 (9.4%) during the current fiscal year. The key factors causing this increase were general obligation bond proceeds of \$10,565,773 and new capital lease proceeds of \$290,425, offset by principal payments of \$3,266,941 and a reduction of \$3,413,000 in pollution remediation obligations.

Effective for the fiscal year ended June 30, 2014, the Town adopted the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of either assets, liabilities, deferred outflows of resources, or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by GASB 65, effective July 1, 2013, financing costs are expensed as incurred; previously, financing costs were deferred and amortized using the straight-line method over the life of the related debt. Due to the adoption of GASB 65, the Town has restated its 2013 financial statements, resulting in a \$293,772 decrease in net position at July 1, 2013, as reported in the accompanying statement of activities. In addition, the Town's deferred loss on advance refunding of debt, totaling \$313,910 at June 30, 2013, has been reclassified from long-term obligations to deferred outflow of resources as of July 1, 2013. For 2014, the adoption of GASB 65 resulted in a decrease in net position of \$29,152.

## Overview of the Financial Statements

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

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

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

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

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

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

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

The government-wide financial statements can be found on pages 19-20 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*.

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

The Town adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for the General Fund and the School Department to demonstrate compliance with this budget. These comparison statements can be found on pages 88-89 of this report.

The basic governmental fund financial statements can be found on pages 21-24 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 25-28 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 29-30 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 31-87 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 schedules providing information about the Town’s pension and other postemployment benefit plans, 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 88-98 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets and deferred outflows exceeded liabilities by \$55,501,958 at June 30, 2014.

Net investment in capital assets comprise \$39,844,380, or 71.8%, of total net position. This represents the Town’s investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Town of Middletown’s Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013 Restated	2014	2013 Restated	2014	2013 Restated
Current and other assets-restated	\$ 28,171,942	\$ 23,570,584	\$ 4,598,862	\$ 6,116,391	\$ 32,770,804	\$ 29,686,975
Capital assets	51,700,392	50,691,365	21,898,664	22,339,649	73,599,056	73,031,014
Total assets	79,872,334	74,261,949	26,497,526	28,456,040	106,369,860	102,717,989
Deferred outflows-restated	257,691	313,910			257,691	313,910
Long-term liabilities-restated	33,583,420	25,197,805	12,288,977	16,714,734	45,872,397	41,912,539
Other liabilities	4,119,888	7,453,551	1,133,308	881,275	5,253,196	8,334,826
Total liabilities	37,703,308	32,651,356	13,422,285	17,596,009	51,125,593	50,247,365
Net position:						
Net investment in capital assets	27,608,693	28,927,287	12,235,687	11,663,915	39,844,380	40,591,202
Restricted	1,412,617	1,095,549			1,412,617	1,095,549
Unrestricted	13,405,407	11,901,667	839,554	(803,883)	14,244,961	11,097,784
<b>Total Net Position</b>	<b>\$ 42,426,717</b>	<b>\$ 41,924,503</b>	<b>\$ 13,075,241</b>	<b>\$ 10,860,032</b>	<b>\$ 55,501,958</b>	<b>\$ 52,784,535</b>

A portion of the Town’s net position, totaling \$1,412,617 (2.5%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position*, totaling \$14,244,961, may be used to meet the Town’s ongoing obligations to citizens and creditors.

At June 30, 2014, the Town is able to report positive balances in all three categories of net position both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities.** Governmental activities increased the Town’s net position by \$502,214 from the previous year, principally due to the increase of one-time building permit revenue for several large projects and the timing of FEMA reimbursements received in the current year which were expensed in prior years in the amount of \$450,000.

## Government-wide Financial Analysis (continued)

**Business-type activities.** Business-type activities increased the Town's net position by \$2,215,209, primarily due to the net decrease in long-term obligations for environmental remediation related to wastewater in the amount of \$1,656,937 and the investment in capital items of \$545,570.

### Town of Middletown's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013 Restated	2014	2013 Restated	2014	2013 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 4,679,469	\$ 4,527,795	\$ 7,603,131	\$ 7,298,940	\$ 12,282,600	\$ 11,826,735
Operating grants and contributions	14,146,688	14,727,891			14,146,688	14,727,891
Capital grants and contributions	12,882	482,727			12,882	482,727
General revenues:						
Property taxes	43,604,849	42,641,416			43,604,849	42,641,416
Grants and contributions not restricted to specific programs	1,762,073	1,555,077			1,762,073	1,555,077
Other	664,813	362,520	4,196	5,171	669,009	367,691
Total revenues	64,870,774	64,297,426	7,607,327	7,304,111	72,478,101	71,601,537
Expenses:						
General government	3,462,608	3,864,341			3,462,608	3,864,341
Public safety	13,411,466	7,628,291			13,411,466	7,628,291
Public works/sanitation	5,127,290	8,737,627			5,127,290	8,737,627
Planning/inspection	720,206	680,543			720,206	680,543
Library	861,469	835,368			861,469	835,368
Education	39,136,282	38,351,349			39,136,282	38,351,349
Community services	471,044	598,720			471,044	598,720
Interest on long-term debt	958,325	842,728			958,325	842,728
Refuse and recycle			1,196,183	1,212,645	1,196,183	1,212,645
Parks and recreation			1,567,952	1,509,374	1,567,952	1,509,374
Sewer			2,847,853	2,932,786	2,847,853	2,932,786
Total expenses	64,148,690	61,538,967	5,611,988	5,654,805	69,760,678	67,193,772
Increase in net position before transfers	722,084	2,758,459	1,995,339	1,649,306	2,717,423	4,407,765
Transfers	(219,870)	(135,341)	219,870	135,341	-	-
Increase in net position	502,214	2,623,118	2,215,209	1,784,647	2,717,423	4,407,765
Net position – beginning - restated	41,924,503	39,301,385	10,860,032	9,075,385	52,784,535	48,376,770
Net position – ending	\$ 42,426,717	\$ 41,924,503	\$ 13,075,241	\$ 10,860,032	\$ 55,501,958	\$ 52,784,535

### Financial Analysis of the Government's Funds

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

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

## **Financial Analysis of the Government's Funds (continued)**

**Governmental funds (continued).** As of June 30, 2014, the Town's governmental funds reported combined ending fund balances of \$22,714,201. Of this amount, \$5,276,321 constitutes *unassigned fund balance*, which is available for spending by the Town. The remainder of fund balance is *nonspendable, restricted, committed, and assigned*, and is not available for new spending because it has already been identified for 1) generating income to pay for the perpetual care of the municipal cemetery in the amount of \$128,430; 2) long-term loans receivable in the amount of \$100,000; 3) grants in the amount of \$419,923; 4) prepaid expenses and other purposes in the amount of \$88,485; 5) various commitments for West Main Road development, special education, revaluation program, storm-water management and capital improvements totaling \$11,529,149 and 6) other specific purposes in the amount of \$5,171,893. See page 21.

The General Fund is the chief operating fund of the Town. At June 30, 2014, unassigned fund balance of the General Fund was \$5,276,321, while total fund balance was \$9,837,012. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10.6% of total General Fund expenditures and other financing uses of \$49,863,767, while total fund balance represents 19.7% of that same amount.

During the fiscal year, the fund balance of the Town's General Fund increased by \$439,895, principally due to the increase of one-time building permit revenue for several large projects and the timing of FEMA reimbursements received in the current year which were expensed in prior years in the amount of \$450,000.

The School Department, a special revenue fund of the Town, had a total fund balance of \$3,322,895, which includes an assigned fund balance of \$2,186,001 at June 30, 2014. The assigned fund balance represents 5.6% of total School Department expenditures of \$38,876,576. The School Department's fund balance decreased by \$87,546 during the fiscal year ended June 30, 2014. The excess of expenditures over revenues is primarily due to federal impact aid basic support received being \$75,462 less than anticipated. A total of \$592,174 of the School Department fund balance as of June 30, 2014 is budgeted to use in FY2015, which includes \$70,370 restricted fund balance, \$60,654 committed fund balance, and \$461,150 assigned fund balance.

The Capital Projects fund had a total fund balance of \$6,355,357, which represents a \$7,213,321 increase during the fiscal year ended June 30, 2014. The increase in fund balance is due to unspent loan proceeds that have been recorded as revenue for which the associated capital project expenditures have yet to be incurred.

The Other Governmental Funds had a total fund balance of \$3,198,937, which represents a \$190,152 increase in fund balance during the fiscal year ended June 30, 2014. The increase in fund balance is primarily due to the excess of revenues over expenditures in the Public Private Venture special revenue fund in the amount of \$309,317.

**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.

## **Financial Analysis of the Government's Funds (continued)**

*Proprietary funds (continued).* Net position of the Sewer Fund at June 30, 2014 amounted to \$9,074,763, of which \$622,470 is unrestricted. Parks and Recreation Fund net position amounted to \$3,951,167, of which \$201,021 is unrestricted. Refuse and Recycle Fund net position amounted to \$49,311, of which \$16,063 is unrestricted. The total growth (reduction) in net position for each of the three funds was \$2,364,746, \$(33,323) and \$(116,214), 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 FY2014 revenues totaled approximately \$85,000, primarily due to increases in Building Permit revenue and Grant revenue, the receipt of Federal Restricted Revenue to reimburse Hurricane Sandy and Superstorm Nemo costs, offset with reductions in Delinquent Tax revenue and Intergovernmental revenue reduced in the Governor's Final Budget in FY 2014 for State Municipal Incentive Aid and State RICAP Aid. See page 88.

Further, there was an overall decrease in budgeted expenditures of approximately \$733,000. The major items contributing to the net decrease in expenditures are as follows:

- \$136,000 increase in Grant expenditures primarily for public safety grant expenditures, including the Justice Assistance Grant (JAG) expenditures for police overtime related to CALEA accreditation activities, Blue Riptide Speed Management Grant expenditures for police radar and message sign equipment, Emergency Management Preparedness Grant (EMPG) expenditures for fire department portable radios, and the Community Oriented Policing Services (COPS) Grant expenditures for two School Resource Officers. Other grant expenditures include library self-checkout equipment funded from the Champlin Foundation Grant, the Nonpoint Source Grant related expenditures for the North Easton Pond Watershed Study, and the Newport Chamber of Commerce Grant funded expenditures for the Town Center and Shoreline Greenway Park development studies.
- \$24,000 net increase in General Government expenditures due to a combination of increases for professional development and training, technology upgrades, legal costs and re-allocated net contingency expenses offset by a reduction in building maintenance expenditures scheduled for Town Hall deferred to next fiscal year.
- \$95,000 increase in Public Safety expenditures primarily due to increases in private detail pay, new officer expenses, and custodial services.
- \$81,000 overall decrease in Other Expenditures due to a combination of additional one-time costs to implement the new Town 401(a) Plan and Town 457(b) Retirement Plan under a single vendor, increased street lighting expense, severance costs and tax claim settlement expenses, offset by re-allocated net contingency expenses and a decrease in expenditures for general liability insurance premiums, insurance deductible expenses, and hydrant rental fees as a result of changes to the fee structure for municipal hydrant rental.
- \$17,000 increase in Community Services due to re-allocated net contingency expenses

## General Fund Budgetary Highlights (continued)

- \$89,000 increase in Planning and Inspection expenditures primarily due to costs for the Recreation Facilities Master Plan.
- \$799,000 net decrease in Capital expenditures mainly due to reduced expenditures for the Forest Avenue road/drainage project on-going during the fiscal year with the majority of the expenditures continuing into next fiscal year, combined with increases for vehicle purchases, the completion of Town Hall restroom renovations, upgrades to the public works fueling station infrastructure, the implementation of the public safety fiber optic project, ongoing fire station/dpw facility construction costs, and other public safety technology infrastructure improvements.
- \$219,000 net decrease in Debt Service expenditures as a result of one payment for bond interest and principal anticipated during the fiscal year actually was not due until the following fiscal year, combined with an increase in the lease payment for the new dpw vehicle.

Actual expenditures were lower than budgeted expenditures by approximately \$353,000 primarily as a result of the timing of filling several vacant positions during the fiscal year, expenditure reductions due to several employees out on unpaid leave status, legal fees being less than anticipated, and a planned generator purchase not included in the fiscal year grant award.

## 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, 2014 amounts to \$73,599,056 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total net increase in the Town's investment in capital assets for the current fiscal year was \$568,046 or 0.8%, of which \$1,009,027 increased for governmental activities and \$440,981 decreased for business-type activities.

Major capital asset events during FY2014 included the following:

### On-going:

- Residential street upgrades and improvements encompassing sewer lines, drainage, and road re-pavement
- Town-wide catch basin and storm drain improvement and reconstruction
- District-wide improvements to the school buildings, including HVAC upgrades, playground equipment, kitchen equipment, intercom system and bleachers at the high school
- Fire department building addition and public works building renovation
- Town-wide fiber optic system

## Capital Asset and Debt Administration (continued)

### Capital assets (continued)

Purchase of:

- Various public safety vehicles per fleet management schedules, including three police cruisers; a fire outboard motor and a fire sports utility vehicle and a DPW catch basin cleaner
- Library book collection
- A copier/scanners for the finance office
- Gazebo at Paradise Park
- Precast concrete restroom facility at Berkeley Peckham ball field

Upgrades to:

- Various servers and network infrastructure equipment Town-wide, including a data management recovery system
- Town hall restrooms

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 7,492,536	\$ 7,492,536	\$ 3,123,005	\$ 2,779,046	\$ 10,615,541	\$ 10,271,582
Buildings and improvements	15,470,795	16,222,105	256,438	221,047	15,727,233	16,443,152
Land improvements	4,006,263	3,925,223	726,737	763,879	4,733,000	4,689,102
Furniture and equipment	1,938,523	2,202,265	944,737	1,241,950	2,883,260	3,444,215
Infrastructure	15,407,061	15,708,451	14,981,351	15,393,605	30,388,412	31,102,056
Construction in progress	4,135,569	1,815,912	1,783,999	1,843,649	5,919,568	3,659,561
Library books	50,507	53,582			50,507	53,582
Motor vehicles	3,199,138	3,271,291	82,397	96,474	3,281,535	3,367,765
Total	\$ 51,700,392	\$ 50,691,365	\$ 21,898,664	\$ 22,339,650	\$ 73,599,056	\$ 73,031,015

The Town's active construction projects as of June 30, 2014 include Fire station addition and alterations, Esplanade drainage improvements, culvert replacement, and drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2014 total approximately \$9,190,000. The commitments for the Fire station addition and alterations are funded through the Public Private Venture (PPV) special revenue fund, a fund established to account for the proceeds received by the Town for public-safety related services at privatized military housing in Middletown, and the Capital Projects Fund. Esplanade drainage improvements and road and drainage projects are funded primarily through the Capital Projects fund; the culvert replacement is funded through the PPV special revenue fund. The commitments for sanitary sewer upgrades are funded through Sewer Fund operations and the 2014 Rhode Island Clean Water Finance Agency revenue bond.

Additional information on the Town's capital assets can be found in Notes 5 and 12 on pages 48-49 and 85-86, respectively, of this report.

## Long-term debt

At June 30, 2014, the Town had total bonded debt outstanding of \$26,738,114, entirely backed by the full faith and credit of the Town. In addition, the Town has \$10,162,977 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$1,908,614. 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	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$26,738,114	\$18,235,114			\$26,738,114	\$18,235,114
Loans payable	500,000	550,000	\$ 9,662,977	\$10,675,734	10,162,977	11,225,734
Capital leases	1,908,614	2,205,373			1,908,614	2,205,373
Total	\$29,146,728	\$20,990,487	\$ 9,662,977	\$10,675,734	\$38,809,705	\$31,666,221

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds approved pursuant to special acts or financed from non-tax revenues; additional special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2013 was \$2,697,818,001, limiting the amount of non-excepted general obligation bonds outstanding to \$80,934,540. At June 30, 2014, bonds outstanding totaled \$26,738,114, of which \$5,275,000 were issued subject to the 3% debt limit and \$21,463,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$26,738,114 represent .99% of assessed property value.

On February 12, 2014, the Town issued \$10,120,000 in general obligation bonds with interest ranging from .47% to 4.00%; the proceeds were used to repay a \$3,000,000 bond anticipation note used for the fire department building addition and alterations.

Additional information on the Town's long-term debt can be found in Note 7 on pages 51-56 of this report.

## Economic Factors

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



## **Economic Factors (continued)**

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

The Town had a 2010 U.S. Census Bureau population of 16,150. The Town is located in Newport County approximately 30 miles southeast of Providence and is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north. As of September 2014, Middletown had an employed labor force of approximately 7,486 and an unemployment rate of approximately 5.8% (not seasonally adjusted). The Town limits extend over an area of 14.7 square miles, including a land area of 12.9 square miles and an inland water area of 1.8 square miles.

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

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

## **Economic Factors (continued)**

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

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

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

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

As a result of the past national economic climate, including limitations on lending, new commercial development in Middletown was limited in recent years. However, interest in redevelopment and expansion of existing commercial properties continues to increase. Of note, with the recent additions of Sports Authority in the Middletown Square shopping center and Aldi food market in a former Best Buy store, there are currently no vacant large retail spaces in Middletown. Development of a new 92-room hotel was completed in the fall of 2013, while the expansion of the winery facility at Newport Vineyards was recently completed. As the economy improves, it is anticipated that new office development will also continue. A new office building to house a local nonprofit organization was constructed during 2009 in the Aquidneck Corporate Park (the Park). The corporate headquarters of Bank Newport has recently been relocated to renovated office/industrial space in the Park and its back-office operations have been consolidated at this location. 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 permitting activity is starting to increase. Construction of a 60-unit condominium development for residents age 55 and over was recently completed. The Town recently approved a 14-lot single-family subdivision, and a new 12-lot subdivision is under construction. Over the past year, building permit activity has continued to rebound.

## **Economic Factors (continued)**

The U.S. Navy has declared 225 acres of Naval Station Newport land on Aquidneck Island surplus and available for reuse. Parcels include the former Navy Hospital in Newport; the former Navy Lodge parcel and Midway Pier in Middletown; tank farms 1 and 2 in Portsmouth; and portions of Defense Highway (Burma Rd.) in Middletown and Portsmouth. The Department of Defense recognized the Aquidneck Island Reuse Planning Authority (AIRPA) as the local redevelopment authority with the responsibility to produce and submit a reuse plan for all surplus land. The three communities have individually worked to develop reuse plans for the parcels within their jurisdictions. These plans were provided to AIRPA which compiled the single, unified reuse plan that was submitted to HUD and the Navy for approval in August 2011.

Each of the communities is now working independently with the Navy to facilitate transfer of the properties using various conveyance mechanisms. In Middletown's case, we are seeking to acquire the three-acre former Navy Lodge site, located at the intersection of West Main Rd and Coddington Highway. This parcel is proposed to be combined with approximately 13 acres of adjoining town-owned land to create a mixed-use town center. The development will include commercial, municipal, and possible residential uses in a walkable village style development. It will greatly enhance this section of West Main Rd., and provide an attractive gateway to promote economic development in Middletown and the North End of Newport. The town will also seek the transfer through a no-cost public benefit conveyance of 25 acres of land along the Narragansett Bay shoreline for development of a public park.

The Town continues to invest in its future, including long-range planning and infrastructure improvements. The Planning Board recently completed the drafting of the new Middletown Comprehensive Community Plan, which provides the vision, goals and action steps to reach that vision over the next ten years. The draft is currently under review by the Town Council. Improvements to the sewer and storm-water systems are ongoing in several locations. The Town is also studying a sewer pump station consolidation on the west side and the feasibility of implementing a storm water utility. Construction of a fire station expansion and new DPW offices is underway, and development of a new recreation field complex is currently under consideration.

The Town and several local partners received federal grant funding of \$2.3 million recently for various Sachuest Bay coastal resiliency projects designed to protect the Sachuest Bay and Maidford River area from such anticipated impacts of climate change as more frequent and intense coastal storms, increased precipitation and flooding, sea level rise, and temperature driven changes to native species and habitats. This partnership will ensure the safety and stability of this precious natural resource.

The Town is also working with regional partners on economic development initiatives, including efforts to provide affordable fiber optic broadband service to Aquidneck Island, and creation of a regional economic development office to serve as a one-stop shop and point of contact for prospective businesses and existing businesses looking to expand in the area. These efforts recognize the need to pool resources to best promote economic development for the entire region.

## **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 alleged that the Town's sanitary sewer and storm-water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizen's groups sought 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 included specific requirements and milestones for the Town to evaluate potential alternatives and implement optimal alternatives to address the Town's storm-water and wastewater discharges. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and storm-water discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommended implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011. This estimate has since been revised, with the balance of this cost remaining at June 30, 2014 estimated at \$2.6 million, which has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

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

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

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

The total cost of the Project is projected to be \$6.5 million, and the Project is expected to be completed by November 30, 2014. The Town is not aware of any pending or threatened claims or litigation concerning the construction of the Project.

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

## **Subsequent Events**

### *Construction commitments:*

Subsequent to year-end, the Town executed one building demolition contract, one construction contract amendment, and four construction contracts totaling \$1,468,230. The first contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$29,485, relates to the demolition of a building located on a recently purchased property. This contract will be paid from the Sewer Fund. The second item is a contract amendment for the sewer and drainage improvements on Forest Avenue awarded to CBUC. This contract amendment, in the amount of \$475,608, was for the removal and disposal of existing roadway pavement and the installation of 2 1/2" modified binder. This contract amendment will be paid from the Capital Improvement Program Special Revenue Fund. The third contract was awarded to JAM Construction Co., Inc., in the amount of \$52,784, for a walking path at the Senior Center. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the Parks and Recreation Fund. The fourth contract, awarded to Quality Improvement in the amount of \$388,300, related to a roof replacement at the high school. This contract will be paid from the Town's Capital Improvement Program Special Revenue Fund. The fifth contract, awarded to Arden Engineering in the amount of \$411,000, relates to the replacement of HVAC for the school district. This contract will be paid from the Town's Capital Improvement Program Special Revenue Fund. The sixth contract, awarded to Tri-Mark in the amount of \$111,053, is for kitchen upgrades for the school district. This contract will be paid from the Town's Capital Improvement Program Special Revenue Fund.

### *Pension and OPEB Trust funds:*

The fair value of the Town's pension investment account as of October 31, 2014 is \$53,511,630, which represents a .2% increase in value since June 30, 2014. The fair value of the Town's OPEB investment account as of October 31, 2014 is \$4,570,839, which represents a .2% decrease in value since June 30, 2014. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during the fiscal year in order to update and expand permissible asset classes, while maintaining the goals of increasing asset value, controlling volatility, and maintaining sufficient liquidity to meet anticipated cash needs. The Town continues to review various options with its actuarial consultant and investment advisors regarding contributions, funded status, and actuarial assumptions of both plans.

### *Other:*

On October 14, 2014, Rhode Island Department of Environmental Management (DEM) notified the town that the Consent Agreements executed between the Town and DEM in 2004, 2005, and 2008 related to storm-water runoff and sanitary sewer overflows had each been resolved and all requirements had been met. DEM recognized the extensive work the Town has undertaken to upgrade its sewerage and storm water systems, resulting in greatly reduced frequency and volume of sanitary sewer overflows. The Town is continuing its efforts to reduce and eliminate these overflows.

## **Requests for Information**

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

## TOWN OF MIDDLETOWN, RHODE ISLAND

## STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 19,437,758	\$ 5,771,444	\$ 25,209,202
Investments	2,218,272		2,218,272
Accounts receivable, less allowance for doubtful accounts of \$383,029:			
Property taxes	1,112,139		1,112,139
Federal and state government	1,233,247		1,233,247
Assessments and user fees		398,347	398,347
Loans	100,000		100,000
Other	1,211,151	-	1,211,151
Inventory		15,960	15,960
Prepaid expenses	10,677		10,677
Internal balances	2,097,163	(2,089,215)	7,948
Pension asset	751,535		751,535
Noncurrent assessments and user fees		502,326	502,326
Capital assets not being depreciated	11,628,105	4,907,005	16,535,110
Capital assets being depreciated, net	40,072,287	16,991,659	57,063,946
	<u>79,872,334</u>	<u>26,497,526</u>	<u>106,369,860</u>
<b>DEFERRED OUTFLOWS:</b>			
Advance refundings	257,691		257,691
	<u>257,691</u>		<u>257,691</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	3,700,332	1,133,308	4,833,640
Unearned revenue	343,800		343,800
OPEB obligation	75,756		75,756
Long-term obligations:			
Due within one year	3,071,207	1,014,077	4,085,284
Due in more than one year	30,512,213	11,274,900	41,787,113
	<u>37,703,308</u>	<u>13,422,285</u>	<u>51,125,593</u>
Commitments and contingencies (Notes 11 and 12)			
<b>NET POSITION:</b>			
Net investment in capital assets	27,608,693	12,235,687	39,844,380
Restricted for:			
Prepaid items	10,677		10,677
Long-term loans receivable	100,000		100,000
Perpetual care	128,430		128,430
Principal of endowments	58,608		58,608
Other receivables	19,200		19,200
Grants	419,923		419,923
Other purposes, nonexpendable	675,779		675,779
Unrestricted	13,405,407	839,554	14,244,961
	<u>\$ 42,426,717</u>	<u>\$ 13,075,241</u>	<u>\$ 55,501,958</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 3,462,608	\$ 889,838	\$ 427,888	\$ -	\$ (2,144,882)		\$ (2,144,882)
Public safety	13,411,466	2,190,096	80,953	12,882	(11,127,535)		(11,127,535)
Public works and sanitation	5,127,290	12,659	14,420	-	(5,100,211)		(5,100,211)
Planning and inspection	720,206	691,638	9,000		(19,568)		(19,568)
Library	861,469	18,200	204,902		(638,367)		(638,367)
Education	39,136,282	877,038	13,277,381		(24,981,863)		(24,981,863)
Community services	471,044		132,144		(338,900)		(338,900)
Interest on long-term debt	958,325				(958,325)		(958,325)
Total governmental activities	64,148,690	4,679,469	14,146,688	12,882	(45,309,651)		(45,309,651)
<b>Business-Type activities:</b>							
Sewer	2,847,853	5,004,768				\$ 2,156,915	2,156,915
Parks and recreation	1,567,952	1,534,480				(33,472)	(33,472)
Refuse and recycle	1,196,183	1,063,883				(132,300)	(132,300)
Total business-type activities	5,611,988	7,603,131				1,991,143	1,991,143
Total	\$ 69,760,678	\$ 12,282,600	\$ 14,146,688	\$ 12,882	(45,309,651)	1,991,143	(43,318,508)
General revenues:							
Property taxes					43,604,849		43,604,849
Grants and contributions not restricted to specific programs					1,762,073		1,762,073
Investment earnings					9,673	4,196	13,869
Miscellaneous					655,140		655,140
Transfers					(219,870)	219,870	-
Total general revenues and transfers					45,811,865	224,066	46,035,931
Change in net position					502,214	2,215,209	2,717,423
Net position, beginning of year:							
As previously reported					42,050,590	11,027,717	53,078,307
Prior period adjustment (Note 1)					(126,087)	(167,685)	(293,772)
As restated					41,924,503	10,860,032	52,784,535
Net position, end of year					\$ 42,426,717	\$ 13,075,241	\$ 55,501,958

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2014

ASSETS	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 9,375,128	\$ 2,851,839	\$ 7,155,086	\$ 55,705	\$ 19,437,758
Investments	2,218,272				2,218,272
Accounts receivable, less allowance for doubtful accounts of \$383,029:					
Property taxes	1,112,139				1,112,139
Federal and state government	809,695	423,552			1,233,247
Loans				100,000	100,000
Other	291,149	900,802		19,200	1,211,151
Prepaid expenses	10,677				10,677
Due from other funds	327,174	6,669	467,831	3,070,907	3,872,581
<b>Total assets</b>	<b>\$ 14,144,234</b>	<b>\$ 4,182,862</b>	<b>\$ 7,622,917</b>	<b>\$ 3,245,812</b>	<b>\$ 29,195,825</b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 529,622	\$ 785,882	\$ 1,267,560	\$ 21,295	\$ 2,604,359
Accrued payroll	221,846	59,435			281,281
Accrued compensated absences	90,449				90,449
Due to other funds	2,161,915			1,296	2,163,211
Unearned revenue	6,646	14,650		24,284	45,580
<b>Total liabilities</b>	<b>3,010,478</b>	<b>859,967</b>	<b>1,267,560</b>	<b>46,875</b>	<b>5,184,880</b>
Deferred inflows (Note 1)	1,296,744				1,296,744
Fund balances:					
Nonspendable:					
Prepaid items	10,677				10,677
Long-term loans receivable				100,000	100,000
Perpetual care				128,430	128,430
Principal of endowments				58,608	58,608
Other receivable				19,200	19,200
Restricted for:					
Stormwater management			329,373		329,373
Construction projects			6,025,984		6,025,984
Grants		382,518		37,405	419,923
Committed to:					
West Main Road development	2,912,154				2,912,154
Special education		754,376			754,376
Capital improvements	1,422,462				1,422,462
Revaluation program	84,800				84,800
Assigned	130,598	2,186,001		2,855,294	5,171,893
Unassigned	5,276,321				5,276,321
<b>Total fund balances</b>	<b>9,837,012</b>	<b>3,322,895</b>	<b>6,355,357</b>	<b>3,198,937</b>	<b>22,714,201</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 14,144,234</b>	<b>\$ 4,182,862</b>	<b>\$ 7,622,917</b>	<b>\$ 3,245,812</b>	<b>\$ 29,195,825</b>

See notes to basic financial statements.



TOWN OF MIDDLETOWN, RHODE ISLAND

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

JUNE 30, 2014

Total fund balances for governmental funds		\$ 22,714,201
Assets used in governmental activities which are not financial resources and therefore are not reported in the funds:		
Capital assets, net	\$ 51,700,392	
Pension asset	<u>751,535</u>	52,451,927
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 unearned revenue in the funds.		998,524
Liabilities not due and payable in the current period which therefore are not reported in the funds:		
OPEB liability	(75,756)	
Bonds payable	(27,298,192)	
Loans payable	(500,000)	
Capital leases	(1,908,614)	
Claims and judgments	(306,868)	
Unearned revenue	(740,250)	
Compensated absences payable	(2,571,805)	
Accrued interest	<u>(336,450)</u>	<u>(33,737,935)</u>
Net position of governmental activities		<u>\$ 42,426,717</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, 2014

	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 43,625,520				\$ 43,625,520
Intergovernmental	2,611,382	\$ 11,851,928		\$ 1,108,463	15,571,773
Licenses, permits and fees	1,891,397	609,200			2,500,597
Interest and investment income	9,314		\$ 357	2	9,673
State contribution to teachers' pension plan		1,448,573			1,448,573
Other revenues	934,036	267,838		226,739	1,428,613
<b>Total revenues</b>	<b>49,071,649</b>	<b>14,177,539</b>	<b>357</b>	<b>1,335,204</b>	<b>64,584,749</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	2,361,114				2,361,114
Public safety	8,504,048				8,504,048
Public works	1,619,080		1,195,052	23,344	2,837,476
Planning and inspection	602,160				602,160
Library	762,989				762,989
Education		38,876,576			38,876,576
Community services	309,515				309,515
Other expenditures	6,440,745				6,440,745
Grants	322,719				322,719
Capital outlay	1,313,918		2,032,539		3,346,457
<b>Debt service:</b>					
Debt issuance and fees			48,802		48,802
Principal	2,254,184				2,254,184
Interest	798,470				798,470
<b>Total expenditures</b>	<b>25,288,942</b>	<b>38,876,576</b>	<b>3,276,393</b>	<b>23,344</b>	<b>67,465,255</b>
Excess (deficiency) of revenues over expenditures	23,782,707	(24,699,037)	(3,276,036)	1,311,860	(2,880,506)
<b>Other financing sources (uses):</b>					
Bond proceeds			10,565,773		10,565,773
Capital lease proceeds	226,524	63,901			290,425
Transfers from other funds	1,005,489	24,547,590		11,244	25,564,323
Transfers to other funds	(24,574,825)		(76,416)	(1,132,952)	(25,784,193)
<b>Total other financing sources (uses)</b>	<b>(23,342,812)</b>	<b>24,611,491</b>	<b>10,489,357</b>	<b>(1,121,708)</b>	<b>10,636,328</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	439,895	(87,546)	7,213,321	190,152	7,755,822
Fund balances, beginning of year	9,397,117	3,410,441	(857,964)	3,008,785	14,958,379
Fund balances, end of year	<u>\$ 9,837,012</u>	<u>\$ 3,322,895</u>	<u>\$ 6,355,357</u>	<u>\$ 3,198,937</u>	<u>\$ 22,714,201</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2014

Net change in fund balances for governmental funds		\$ 7,755,822
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	\$ 3,882,761	
Depreciation expense	<u>(2,873,734)</u>	1,009,027
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(28,263)
Change in OPEB obligation is recorded in the statement of activities, but not in the governmental funds		330,557
Change in pension asset is recorded in the statement of activities, but not in the governmental funds		(16,269)
The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of position. Bond premiums and refunding charges are deferred and amortized as part of future interest expense.		
Principal repayment on long-term debt	2,254,184	
Issuance of general obligation bonds	(10,565,773)	
Issuance of capital lease	(290,425)	
Amortization of:		
Deferred outflows on advance refunding	(56,219)	
Bond premiums	<u>51,992</u>	(8,606,241)
Some expenditures not requiring the use of current financial resources in governmental funds are recorded in the statement of activities:		
Claims and judgments	187,892	
Unearned revenue	49,350	
Accrued compensated absences	<u>(72,835)</u>	164,407
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>(106,826)</u>
Change in net position of governmental activities		<u>\$ 502,214</u>

See notes to basic financial statements.

## TOWN OF MIDDLETOWN, RHODE ISLAND

## STATEMENT OF NET POSITION – ENTERPRISE FUNDS

JUNE 30, 2014

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycle Fund</u>	<u>Total</u>
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 5,159,737	\$ 587,057	\$ 24,650	\$ 5,771,444
Accounts receivable, assessments and user fees	320,717	350	77,280	398,347
Inventory			15,960	15,960
Total current assets	5,480,454	587,407	117,890	6,185,751
Noncurrent assets:				
Assessments and user fees receivable, less current portion	502,326			502,326
Capital assets not being depreciated	2,284,649	2,622,356		4,907,005
Capital assets being depreciated, net	15,830,621	1,127,790	33,248	16,991,659
Total assets	24,098,050	4,337,553	151,138	28,586,741
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accrued expenses	883,092	47,222	86,981	1,017,295
Due to other funds	1,808,109	270,863	10,243	2,089,215
Accrued payroll	12,491	55,193	439	68,123
Accrued compensated absences	30,618	13,108	4,164	47,890
Current portion of loans payable	1,014,077			1,014,077
Total current liabilities	3,748,387	386,386	101,827	4,236,600
Noncurrent liabilities, loans payable, net of current portion	11,274,900			11,274,900
Total liabilities	15,023,287	386,386	101,827	15,511,500
<b>NET POSITION:</b>				
Net investment in capital assets	8,452,293	3,750,146	33,248	12,235,687
Unrestricted	622,470	201,021	16,063	839,554
Total net position	<u>\$ 9,074,763</u>	<u>\$ 3,951,167</u>	<u>\$ 49,311</u>	<u>\$ 13,075,241</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2014

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,983,409		\$ 1,032,528	\$ 6,015,937
Beach admittance and rental fees		\$ 1,288,173		1,288,173
Campground admittance and rental fees		197,547		197,547
Other revenues	21,359	48,760	31,355	101,474
	<u>5,004,768</u>	<u>1,534,480</u>	<u>1,063,883</u>	<u>7,603,131</u>
Total operating revenues				
Operating expenses:				
Salaries and benefits	798,911		28,616	827,527
Materials and supplies	34,738		50,651	85,389
Professional services	196,956		147,882	344,838
Repairs and maintenance	511,912		353	512,265
Utilities	212,370			212,370
Sewage disposal	859,074			859,074
Refuse disposal			852,467	852,467
Beaches		703,015		703,015
Lifeguards		270,699		270,699
Harbormaster		37,506		37,506
Security		28,635		28,635
Campground		31,433		31,433
Recreation		173,648		173,648
Civic appropriations		49,550		49,550
Miscellaneous	12,994	152,408		165,402
Depreciation	640,717	121,058	69,257	831,032
	<u>3,267,672</u>	<u>1,567,952</u>	<u>1,149,226</u>	<u>5,984,850</u>
Total operating expenses				
Operating income (loss)	<u>1,737,096</u>	<u>(33,472)</u>	<u>(85,343)</u>	<u>1,618,281</u>
Nonoperating revenues (expenses):				
Interest revenue	3,952	149	95	4,196
Environmental remediation	602,638			602,638
Interest expense	(182,819)			(182,819)
Loss on disposition of assets			(46,957)	(46,957)
	<u>423,771</u>	<u>149</u>	<u>(46,862)</u>	<u>377,058</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	2,160,867	(33,323)	(132,205)	1,995,339
Transfers from other funds	203,879	-	15,991	219,870
Change in net position	<u>2,364,746</u>	<u>(33,323)</u>	<u>(116,214)</u>	<u>2,215,209</u>
Net position, beginning of year:				
As originally reported	6,877,702	3,984,490	165,525	11,027,717
Restatement	(167,685)			(167,685)
As restated	<u>6,710,017</u>	<u>3,984,490</u>	<u>165,525</u>	<u>10,860,032</u>
Net position, end of year	<u>\$ 9,074,763</u>	<u>\$ 3,951,167</u>	<u>\$ 49,311</u>	<u>\$ 13,075,241</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2014

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 5,005,562	\$ 1,507,110	\$ 1,004,410	\$ 7,517,082
Cash received from other sources	21,359	48,760	31,355	101,474
Cash paid to employees	(779,474)	(923,738)	(29,426)	(1,732,638)
Cash paid to suppliers	(2,154,930)	(412,587)	(1,054,578)	(3,622,095)
Cash paid to civic groups	(49,550)	(49,550)		(49,550)
Net cash provided by (used in) operating activities	<u>2,092,517</u>	<u>169,995</u>	<u>(48,239)</u>	<u>2,214,273</u>
Cash flows from noncapital financing activities:				
Interfund balances	254,388	107,022	39,994	401,404
Environmental remediation	(2,237,343)			(2,237,343)
Net cash provided by (used in) noncapital financing activities	<u>(1,982,955)</u>	<u>107,022</u>	<u>39,994</u>	<u>(1,835,939)</u>
Cash flows from capital and related financing activities:				
Transfers from other funds	203,879			203,879
Capital contributions	53,647			53,647
Acquisition and construction of fixed assets	(379,503)	(104,265)		(483,768)
Principal paid on bonds and notes	(1,012,757)			(1,012,757)
Interest paid on bonds and notes	(188,909)			(188,909)
Net cash used in capital and related financing activities	<u>(1,323,643)</u>	<u>(104,265)</u>		<u>(1,427,908)</u>
Cash provided by investing activities, interest received	<u>3,952</u>	<u>149</u>	<u>95</u>	<u>4,196</u>
Net increase (decrease) in cash and cash equivalents	(1,210,129)	172,901	(8,150)	(1,045,378)
Cash and cash equivalents, beginning of year	<u>6,369,866</u>	<u>414,156</u>	<u>32,800</u>	<u>6,816,822</u>
Cash and cash equivalents, end of year	<u>\$ 5,159,737</u>	<u>\$ 587,057</u>	<u>\$ 24,650</u>	<u>\$ 5,771,444</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2014

	<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)	\$ 1,737,096	\$ (33,472)	\$ (85,343)	\$ 1,618,281
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	640,717	121,058	69,257	831,032
Changes in assets and liabilities:				
Increase in:				
Accounts receivable			(28,118)	(28,118)
Accounts payable and accrued expenses		1,103		1,103
Accrued payroll	12,491	55,193	439	68,123
Accrued compensated absences	6,946	4,723		11,669
Decrease in:				
Accounts receivable	22,153	21,390		43,543
Inventory			6,172	6,172
Accounts payable and accrued expenses	(326,886)		(9,397)	(336,283)
Accrued compensated absences			(1,249)	(1,249)
Net cash provided by (used in) operating activities	<u>\$ 2,092,517</u>	<u>\$ 169,995</u>	<u>\$ (48,239)</u>	<u>\$ 2,214,273</u>
Supplemental disclosures, noncash capital and related financing activities:				
Donation of extra carts to another community that started a recycling program			<u>\$ (46,957)</u>	<u>\$ (46,957)</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
STATEMENT OF FIDUCIARY NET POSITION –  
FIDUCIARY FUNDS  
JUNE 30, 2014

	<u>Pension Trust Fund</u>	<u>Other Post- Employment Benefits Trust Fund</u>	<u>Clarke Scholarship Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>ASSETS:</b>				
Cash and cash equivalents				\$ 262,197
Investments:				
Mutual funds	\$ 39,204,190	\$ 1,565,941		141,148
Group annuity	14,146,362			
Money market funds	46,221	3,013,570		
Due from other funds	<u>334,129</u>	<u>19,724</u>	<u>\$ 15,557</u>	<u>18,383</u>
Total assets	<u>53,730,902</u>	<u>4,599,235</u>	<u>15,557</u>	<u>\$ 421,728</u>
<b>LIABILITIES:</b>				
Accounts payable		3,200		\$ 24,025
Due to other funds				5,200
Deposits held in custody for others				<u>392,503</u>
Total liabilities		<u>3,200</u>		<u>\$ 421,728</u>
<b>NET POSITION:</b>				
Restricted for pension benefits	<u>\$ 53,730,902</u>			
Held in trust for other purposes		<u>\$ 4,596,035</u>	<u>\$ 15,557</u>	

See notes to basic financial statements.



TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund
	<u>          </u>	<u>          </u>	<u>          </u>
Additions to net position:			
Contributions:			
Employer	\$ 3,670,263	\$ 2,387,492	\$ -
Plan members	119,499	19,724	
	<u>3,789,762</u>	<u>2,407,216</u>	<u>-</u>
Investment income, net:			
Interest income	1,057,799	47,144	-
Net appreciation in fair value of investments	6,545,646	177,775	
	<u>7,603,445</u>	<u>224,919</u>	<u>-</u>
Total additions	<u>11,393,207</u>	<u>2,632,135</u>	<u>-</u>
Deductions from net position:			
Benefits	4,395,204	1,994,833	
Investment expenses	264,750	79,587	
Scholarships			5,000
	<u>4,659,954</u>	<u>2,074,420</u>	<u>5,000</u>
Total deductions	<u>4,659,954</u>	<u>2,074,420</u>	<u>5,000</u>
Change in net position	6,733,253	557,715	(5,000)
Net position, beginning of year	<u>46,997,649</u>	<u>4,038,320</u>	<u>20,557</u>
Net position, end of year	<u>\$ 53,730,902</u>	<u>\$ 4,596,035</u>	<u>\$ 15,557</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies:

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

*Financial reporting entity:*

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

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

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

*Basis of presentation:*

*Government-wide financial statements:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Government-wide financial statements (continued):*

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

*Fund financial statements:*

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

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

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

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

*Governmental funds:*

Governmental funds are used to account for operations that supply basic government services.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Fund financial statements (continued):*

*Governmental funds (continued):*

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 Projects Fund is a major fund.

*Permanent funds:*

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

*Proprietary funds:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Fund financial statements (continued):*

*Fiduciary funds:*

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

*Pension trusts:*

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

*Other postemployment benefits (OPEB) trust:*

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

*Private purpose trust:*

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

*Agency:*

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

*Measurement focus and basis of accounting:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Measurement focus and basis of accounting (continued):*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available for liquidating liabilities of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days). 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 unearned revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Measurement focus and basis of accounting (continued):*

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

*Deferred inflows and outflows of resources:*

Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources represent the consumption of net assets that is applicable to a future reporting period.

At June 30, 2014, the Town's deferred inflows, as reported on the accompanying Balance Sheet – Governmental Funds, consist of the following:

Property taxes paid in advance of applicable fiscal year	\$ 289,737
Property tax receivable for payments not received within 60 days after year-end	537,220
Grants not received within 60 days after year-end	249,124
Records preservation revenue received in advance of corresponding expenditure	143,834
Other receivables not received within 60 days after year-end	74,115
Revenue received before year-end that applies to future periods	<u>2,714</u>
Total deferred inflows	<u>\$ 1,296,744</u>

The Town's deferred outflows of resources on the accompanying statement of net position consist of the excess of the reacquisition price over the net carrying amount of the old debt related to advance refundings.

*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, 2014

1. Summary of significant accounting policies (continued):

*Property taxes (continued):*

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

*Intergovernmental revenues:*

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

*Use of estimates:*

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

*Recent accounting pronouncements:*

Effective for the fiscal year ended June 30, 2014, the Town adopted the provisions of Statement No. 65 of the Governmental Accounting Standards Board (GASB), *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of assets, liabilities, deferred outflows of resources or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by GASB 65, effective July 1, 2013, the Town expenses financing costs as incurred; previously, financing costs were deferred and amortized over the life of the related debt. Due to the adoption of GASB 65, the Town has restated its 2013 financial statements, resulting in a decrease in net position of \$293,772 at July 1, 2013, as reported in the accompanying statement of activities. The portion of this restatement applicable to the Sewer Fund (\$167,685) has also been reflected in the accompanying statement of revenues, expenses and changes in net position-enterprise funds.



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Recent accounting pronouncements (continued):*

Effective for the fiscal year ended June 30, 2014, the Town also adopted Statement No. 67 of the GASB, *Financial Reporting for Pension Plans* (GASB 67). This Statement replaces the requirements of Statement Nos. 25 and 50, as they relate to pension plans administered through trusts or equivalent arrangements. The Town has included enhanced note disclosures and schedules of required supplementary information, including information on changes in net pension liabilities from year to year, in accordance with GASB 67.

Effective for the fiscal year ending June 30, 2015, the Town will adopt Statement No. 68 of the GASB, *Accounting and Financial Reporting for Pensions* (GASB 68), which establishes standards for governmental employer recognition, measurement, and presentation of information about pensions. GASB 68 replaces the requirements of Statement No. 27 as they relate to pension plans administered through trusts or equivalent arrangements. The Town has not yet determined the potential impact, if any, of GASB 68 on its financial statements.

*Cash and cash equivalents:*

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

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

*Investments:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Interfund transactions:*

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

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

*Capital assets:*

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Capital assets (continued):*

The ranges of estimated useful lives by type of asset are as follows:

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

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

*Bond issuance costs:*

As a result of adopting GASB 65, bond issuance costs for governmental funds, government-wide operations and enterprise funds are recognized as expenditures/expenses in the current period.

*Compensated absences:*

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Long-term obligations:*

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

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

*Fund equity:*

*Government-wide financial statements:*

*Net position:*

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

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

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

Unrestricted – a residual category for the balance of net position

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

*Fund equity (continued):*

*Governmental fund financial statements:*

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

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

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

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

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

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

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

Unassigned – amounts available for any purpose

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

2. Fund balances:

At June 30, 2014, the Town is able to report positive balances in all three categories of net position both for the government as a whole, as well as for its separate governmental and business-type activities.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Deposits and investments:

*Cash and cash equivalents (deposits):*

At June 30, 2014, the carrying amount of the Town’s deposits, including \$488,536 of cash equivalents, was \$25,471,399 and the bank balance was \$25,150,929. Of the bank balance, \$224,163 was uninsured and uncollateralized; \$24,926,766 was insured and collateralized.

At June 30, 2014, deposits are categorized as follows:

	Insured/ collateralized in Town’s name	Total bank balance	Carrying amount
Deposits:			
Demand deposits	\$ 24,662,393	\$ 24,662,393	\$ 24,982,863
Money market	264,373	488,536	488,536
	<u>\$ 24,926,766</u>	<u>\$ 25,150,929</u>	<u>\$ 25,471,399</u>

*Investments:*

Investments other than Pension and OPEB Trust Funds consist of the following:

	Carrying amount	Maturities	Rating
Certificates of deposit (governmental funds)	\$ 2,218,272	1/14/14 to 12/19/14	Not rated
Certificates of deposit (fiduciary funds)	18,486	10/18/14 to 5/27/15	Not rated
Mutual funds (fiduciary funds)	122,662	Not applicable	Not rated
	<u>\$ 2,359,420</u>		

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Deposits and investments (continued):

*Investments (continued):*

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2014 is \$53,511,630, which represents a .2% increase in value since June 30, 2014. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2014 is \$4,570,839, which represents a .2% decrease in value since June 30, 2014. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during the fiscal year in order to update and expand permissible asset classes, while maintaining the goals of increasing asset value, controlling volatility, and maintaining sufficient liquidity to meet anticipated cash needs. The Town continues to review various options with its actuarial consultant and investment advisors regarding contributions, funded status, and actuarial assumptions of both plans.

*Interest rate risk:*

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

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

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

*Credit risk:*

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

*Concentration of credit risk:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Deposits and investments (continued):

*Investments (continued):*

As of June 30, 2014, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795GAC	\$ 14,146,362
T. Rowe Price Blue Chip Growth	6,108,831
Robeco All Cap Value Instl	6,001,701
Dodge & Cox Intl Stock FD #1048	3,914,212
Blackrock GLB Alloc FD I	3,530,762
T. Rowe Price Equity Income FD #71	2,855,587
Tweedy Brown Global Value FD #001	2,743,183

As of June 30, 2014, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

Robeco All Cap Value Instl	\$ 587,280
Federated Adjusted Rate SEC Instl	514,203
PIMCO All Asset Instl FD #34	498,779
Schwab US Broad Market ETF	352,985
Dodge & Cox Int'l Stock FD #1048	337,927
Blackrock Inflation Protected Bond I	263,061

*Custodial credit risk:*

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



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

4. Interfund transactions:

Interfund receivables and payables at June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Nonmajor funds	\$ 1,296
	School Department	1,279
	Sewer Fund	43,493
	Refuse and Recycle Fund	270,863
	Parks and Recreation Fund	<u>10,243</u>
		<u>327,174</u>
School Department	Agency Funds	<u>5,200</u>
Capital Projects Fund	General Fund	467,831
Nonmajor governmental funds	Governmental funds, General Fund	1,306,291
	Enterprise funds, Sewer Fund	<u>1,764,616</u>
		<u>3,070,907</u>
Fiduciary funds:		
Pension Trust Fund	Governmental funds, General Fund	<u>334,129</u>
Other Postemployment Benefits Trust Fund	Governmental funds, General Fund	<u>19,724</u>
Clarke Scholarship Private Purpose Trust Fund	Governmental funds, General Fund	<u>15,557</u>
Agency Funds	Governmental funds, General Fund	<u>18,383</u>

TOWN OF MIDDLETOWN, RHODE ISLAND  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2014

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2014 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General Fund	Governmental funds: Nonmajor funds Capital Projects Fund	\$ 929,073 76,416
School Department	Governmental funds, General Fund	24,547,590
Nonmajor governmental funds	Governmental funds, General Fund	11,244
Enterprise funds: Sewer Fund	Governmental funds, Nonmajor Funds	203,879
Refuse and Recycle	Governmental funds, General Fund	15,991
		\$ 25,784,193

## TOWN OF MIDDLETOWN, RHODE ISLAND

## NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

## 5. Capital assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,492,536	\$ -	\$ -	\$ 7,492,536
Construction in progress:				
Infrastructure	1,472,819	956,390	336,113	2,093,096
Other	343,093	1,773,942	74,562	2,042,473
Total capital assets not being depreciated	<u>9,308,448</u>	<u>2,730,332</u>	<u>410,675</u>	<u>11,628,105</u>
Capital assets being depreciated:				
Infrastructure	31,480,403	413,341	-	31,893,744
Land improvements	5,273,970	331,515	-	5,605,485
Buildings and improvements	28,924,854	60,251	-	28,985,105
Furniture and equipment	5,747,938	263,525	34,800	5,976,663
Library books	1,537,995	19,986	-	1,557,981
Motor vehicles	6,414,340	474,486	450,018	6,438,808
Total capital assets being depreciated	<u>79,379,500</u>	<u>1,563,104</u>	<u>484,818</u>	<u>80,457,786</u>
Less accumulated depreciation for:				
Infrastructure	(15,771,952)	(714,731)	-	(16,486,683)
Land improvements	(1,348,747)	(250,475)	-	(1,599,222)
Buildings and improvements	(12,702,749)	(811,561)	-	(13,514,310)
Furniture and equipment	(3,545,673)	(527,267)	(34,800)	(4,038,140)
Library books	(1,484,413)	(23,061)	-	(1,507,474)
Motor vehicles	(3,143,049)	(546,639)	(450,018)	(3,239,670)
Total accumulated depreciation	<u>(37,996,583)</u>	<u>(2,873,734)</u>	<u>(484,818)</u>	<u>(40,385,499)</u>
Total capital assets being depreciated, net	<u>41,382,917</u>	<u>(1,310,630)</u>	<u>-</u>	<u>40,072,287</u>
Governmental activities capital assets, net	<u>\$ 50,691,365</u>	<u>\$ 1,419,702</u>	<u>\$ 410,675</u>	<u>\$ 51,700,392</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

5. Capital assets (continued):

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,779,046	\$ 343,959	\$ -	\$ 3,123,005
Construction in progress	1,843,649	48,917	108,567	1,783,999
Total capital assets not being depreciated	<u>4,622,695</u>	<u>392,876</u>	<u>108,567</u>	<u>4,907,004</u>
Capital assets being depreciated:				
Land improvements	1,367,347	29,466	-	1,396,813
Buildings and improvements	362,916	49,921	-	412,837
Equipment	3,521,356	24,353	232,017	3,313,692
Sewer lines and pumps	18,350,709	48,950	-	18,399,659
Vehicles	190,116	-	-	190,116
Total capital assets being depreciated	<u>23,792,444</u>	<u>152,690</u>	<u>232,017</u>	<u>23,713,117</u>
Less accumulated depreciation for:				
Land improvements	(603,468)	(66,608)	-	(670,076)
Buildings and improvements	(141,869)	(14,530)	-	(156,399)
Equipment	(2,279,406)	(274,613)	(185,064)	(2,368,955)
Sewer lines and pumps	(2,957,104)	(461,204)	-	(3,418,308)
Vehicles	(93,642)	(14,077)	-	(107,719)
Total accumulated depreciation	<u>(6,075,489)</u>	<u>(831,032)</u>	<u>(185,064)</u>	<u>(6,721,457)</u>
Total capital assets being depreciated, net	<u>17,716,955</u>	<u>(678,342)</u>	<u>46,953</u>	<u>16,991,660</u>
Business-type activities capital assets, net	<u>\$ 22,339,650</u>	<u>\$ (285,466)</u>	<u>\$ 155,520</u>	<u>\$ 21,898,664</u>

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 209,648
Public safety	728,132
Public works and sanitation	998,210
Planning and inspection	18,476
Library	83,738
Education	814,262
Community services	21,268
	<u>\$ 2,873,734</u>

Business-type activities:

Sewer fund	\$ 640,717
Parks and recreation fund	121,058
Refuse and recycle fund	69,257
	<u>\$ 831,032</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

6. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued Interest	Total
Governmental activities:					
General Fund	\$ 448,305	\$ 43,462	\$ 37,855		\$ 529,622
School Department	785,730		152		785,882
Capital Projects Fund	1,267,560				1,267,560
Nonmajor funds	21,288	7			21,295
Reconciliation of balances in fund financial statements to government- wide financial statements.		387,793	371,730	\$ 336,450	1,095,973
	<u>\$ 2,522,883</u>	<u>\$ 431,262</u>	<u>\$ 409,737</u>	<u>\$ 336,450</u>	<u>\$ 3,700,332</u>
Business-type activities:					
Sewer	\$ 627,234	\$ 194,800	\$ 43,114	\$ 61,053	\$ 926,201
Parks and Recreation	47,135	76	68,312		115,523
Refuse and Recycle	91,584				91,584
	<u>\$ 765,953</u>	<u>\$ 194,876</u>	<u>\$ 111,426</u>	<u>\$ 61,053</u>	<u>\$ 1,133,308</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013	Additions	Retirements	Balance, June 30, 2014	Due within one year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 18,235,114	\$ 10,120,000	\$ 1,617,000	\$ 26,738,114	\$ 1,962,000
Deferred premiums	423,988	445,773	51,992	817,769	70,421
Total bonds payable	18,659,102	10,565,773	1,668,992	27,555,883	2,032,421
Loan payable	550,000	-	50,000	500,000	50,000
Capital leases	2,205,373	290,425	587,184	1,908,614	597,300
Claims and judgments (Note 11)	494,760	966,934	1,154,826	306,868	251,687
Unearned revenue, grants	789,600	-	49,350	740,250	49,350
Accrued compensated absences	2,498,970	72,835	-	2,571,805	90,449
	<u>\$ 25,197,805</u>	<u>\$ 11,895,967</u>	<u>\$ 3,510,352</u>	<u>\$ 33,583,420</u>	<u>\$ 3,071,207</u>
Business -type activities:					
Loans payable	\$ 10,675,734	\$ -	\$ 1,012,757	\$ 9,662,977	\$ 1,014,077
Environmental remediation obligation (Note 11)	6,039,000	-	3,413,000	2,626,000	-
	<u>\$ 16,714,734</u>	<u>\$ -</u>	<u>\$ 4,425,757</u>	<u>\$ 12,288,977</u>	<u>\$ 1,014,077</u>

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. 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, 2014 are as follows:

<u>Purpose</u>	<u>Amount of original issue</u>	<u>Date of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>Balance, June 30, 2013</u>	<u>New issues</u>	<u>Retired</u>	<u>Balance, June 30, 2014</u>
General obligation bonds:								
School refunding	\$ 2,395,000	10/29/02	3.0-4.0%	11/15/13	\$ 200,000		\$ 200,000	\$ -
Road, drainage, open space	6,500,000	4/1/07	3.5-5.0%	6/15/27	4,550,000		325,000	4,225,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	4,500,000		300,000	4,200,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	4,300,000		500,000	3,800,000
Road, drainage, sidewalks and judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	4,500,000		250,000	4,250,000
Town General Bond 13	210,000	11/1/12	2.15%	11/5/17	185,114		42,000	143,114
Town General Bond 14	<u>10,120,000</u>	2/12/14	.47% -4.00%	2/1/34	<u>-</u>	<u>\$ 10,120,000</u>	<u>-</u>	<u>10,120,000</u>
Total general obligation bonds	35,110,000				18,235,114	10,120,000	1,617,000	26,738,114
Loan payable:								
Rhode Island Clean Water Protection Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>550,000</u>		<u>50,000</u>	<u>500,000</u>
Total	<u>\$ 36,110,000</u>				<u>\$ 18,785,114</u>	<u>\$ 10,120,000</u>	<u>\$ 1,667,000</u>	<u>\$ 27,238,114</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Long-term obligations (continued):

*General obligation bonds and loan payable (continued):*

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

Rhode Island General Law caps the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds approved pursuant to special acts or financed from non-tax revenues; additional special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2013 was \$2,697,818,001, limiting the amount of non-excepted general obligation bonds outstanding to \$80,934,540. At June 30, 2014, bonds outstanding totaled \$26,738,114, of which \$5,275,000 were issued subject to the 3% debt limit and \$21,463,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$26,738,114 represent .99% of assessed property value.

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

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

On February 12, 2014, the Town issued \$10,120,000 in general obligation bonds with interest ranging from .47% to 4.00%; the proceeds were used to repay a \$3,000,000 bond anticipation note and for a fire department building addition and alterations.

As of June 30, 2014, previously authorized, but unissued, general obligation bonds amount to \$4,045,000.

On May 20, 2010, the Town issued \$4,885,000 in general obligation bonds with an average interest rate of 4.0% to advance refund \$4,800,000 of outstanding various purpose general obligation bonds. The net proceeds of \$5,219,217 (after payment of \$28,235 in underwriting fees), plus an additional \$362,452 of bond premium monies used to purchase U.S. Government securities, were deposited with an escrow agent to provide for all future debt service payments on the various purpose general obligation bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$371,689. This difference is being charged to operations through the year 2022 using the effective interest method and is reflected in the statement of net position as a deferred outflow. At June 30, 2014, the balance of the defeased debt totaled \$3,800,000.

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



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Long-term obligations (continued):

*Loans payable for business-type activities:*

Loans payable for business-type activities are as follows:

<u>Purpose</u>	<u>Authorized and issued</u>	<u>Date of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>Balance, June 30, 2013</u>	<u>New issues</u>	<u>Maturities</u>	<u>Balance, June 30, 2014</u>
Enterprise Fund, Sewer:								
Rhode Island Clean Water Protection Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 210,105	\$ -	\$ 105,053	\$ 105,052
Rhode Island Clean Water Protection Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	453,345		44,704	408,641
Rhode Island Clean Water Protection Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,500,000		125,000	1,375,000
Rhode Island Clean Water Protection Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	4,200,000		300,000	3,900,000
Rhode Island Clean Water Protection Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,060,000		138,000	1,922,000
Rhode Island Clean Water Protection Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	753,284		150,000	603,284
Rhode Island Clean Water Protection Finance Agency	1,500,000	6/28/12	.22%-1.89%	9/1/22	1,499,000		150,000	1,349,000
	<u>\$ 17,249,282</u>				10,675,734	-	1,012,757	9,662,977
Less current portion					<u>(1,012,757)</u>			<u>(1,014,077)</u>
					<u>\$ 9,662,977</u>			<u>\$ 8,648,900</u>

At June 30, 2014, the Sewer Fund had no amounts due from the State for undrawn proceeds available for sewer construction projects.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Long-term obligations (continued):

*Capital lease obligations:*

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated). Interest expense for the year ended June 30, 2014 of \$78,629 is reported within the governmental activities, interest on long-term debt on the statement of activities.

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

On November 15, 2013, the Town entered into a lease purchase agreement in the amount of \$245,000 with an interest rate of 3.01%. The lease funded the purchase of school bleachers and Town vehicle in the amounts of \$63,901 and \$181,099, respectively.

On May 1, 2014, the Town entered into a lease purchase agreement in the amount of \$45,425 with an interest rate of 3.04%. This lease also funded the same Town vehicle that was funded in the lease dated November 15, 2013.

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2013	New issues	Maturities	Balance, June 30, 2014
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,056,450		\$ 171,773	\$ 884,677
Fire pumper and ladder	1,349,700	6/15/12	2.78%	10/1/15	788,537		255,594	532,943
Town and School vehicles	455,465	10/12/12	2.37%	11/5/17	360,386		88,290	272,096
School Bleachers and DPW vehicle	245,000	11/15/13	3.01%	8/1/17	-	\$ 245,000	60,787	184,213
DPW Vehicle (additional lease)	45,425	5/1/14	3.04%	8/1/17	-	45,425	10,740	34,685
	<u>\$ 4,371,590</u>				<u>\$ 2,205,373</u>	<u>\$ 290,425</u>	<u>\$ 587,184</u>	<u>\$ 1,908,614</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Long-term obligations (continued):

At June 30, 2014, scheduled annual debt service requirements for the bonds payable, loans payable and capital leases (excluding interest adjustments for the undrawn balance) are as follows:

Year ending June 30,	Principal	Interest	Total
Governmental activities:			
<i>Bonds and loans payable:</i>			
2015	\$ 2,012,000	\$ 971,887	\$ 2,983,887
2016	2,012,000	928,019	2,940,019
2017	2,007,000	862,128	2,869,128
2018	1,977,114	798,827	2,775,941
2019	1,955,000	726,635	2,681,635
2020-2024	8,795,000	2,572,003	11,367,003
2025-2034	8,480,000	1,387,775	9,867,775
	<u>\$ 27,238,114</u>	<u>\$ 8,247,274</u>	<u>\$ 35,485,388</u>
<i>Capital lease obligations:</i>			
2015	\$ 597,300	\$ 66,908	\$ 664,208
2016	615,329	48,877	664,206
2017	334,795	27,745	362,540
2018	253,117	14,345	267,462
2019	108,073	2,647	110,720
	<u>\$ 1,908,614</u>	<u>\$ 160,522</u>	<u>\$ 2,069,136</u>
Business-type activities:			
<i>Loans payable:</i>			
2015	\$ 1,014,077	\$ 173,639	\$ 1,187,716
2016	910,386	156,224	1,066,610
2017	911,787	140,203	1,051,990
2018	916,513	123,697	1,040,210
2019	764,714	108,244	872,958
2020-2024	3,578,500	298,051	3,876,551
2025-2029	1,567,000	73,526	1,640,526
	<u>\$ 9,662,977</u>	<u>\$ 1,073,584</u>	<u>\$ 10,736,561</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans:

All eligible employees of the Town are covered by one of four pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island, a hybrid plan with a defined contribution component for certain employees (Municipal Plan), the Town of Middletown Retirement Plan (Town Plan) or the Town of Middletown 401(a) Defined Contribution 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 and all Public Works employees hired between July 1, 1999 and June 30, 2012, all Police Department police officers sworn in on or after January 1, 2000, all Fire Department firefighters hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Defined Contribution 401(a) Plan covers all Town Hall NEARI and Public Works Teamsters employees, full-time Civilian Dispatchers and any Town employees not affiliated with any recognized collective bargaining union, hired on or after July 1, 2012. The Town Plan, which is a closed plan, covers all other eligible employees. Total covered payroll under all defined benefit plans during 2014 was \$27,909,564. Total covered payroll under the defined contribution portion of the Municipal Plan was \$21,100,513, and total covered payroll under the Town defined contribution 401(a) Plan was \$3,471. Total Town payroll was \$30,265,647 for the same period.

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

Legal challenges to legislatively enacted pension reforms are continuing to proceed through the courts as of the date of this report.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Teachers' Plan

*Plan description:*

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. Financial statements for the Teachers' Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886 or at [www.ersri.org](http://www.ersri.org). Total covered payroll under the Teachers' Plan during 2014 was \$17,710,779, including \$506,822 of federally reimbursed payroll.

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

Schedule A Benefits:

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

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 38 years of service. Such benefits are available to members who are at least age 65 with 10 years of service, or at least age 59 with 29 years of service. Actuarially reduced retirement is available at age 55 with 20 years of service; the benefit is reduced actuarially for each month that the age of the member is less than 65 years.

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

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

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

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

As of July 1, 2012, under RIRSA, Schedule B member retirement eligibility does not change if eligible to retire by September 30, 2009. The compensation used to calculate the pension benefit remains based on three-year average salary. If eligible to retire after September 30, 2009 and prior to July 1, 2012, members may still retire based on Schedule B retirement eligibility; compensation used to calculate pension will be based on five-year average salary.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Teachers' Plan (continued):

*Plan description (continued):*

Schedule B Benefits (continued):

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

Schedule A/B Benefits:

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Teachers' Plan (continued):

*Funding policy:*

Rhode Island General Law currently sets the defined benefit contribution rates of participating employees at 3.75% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years initially, but in conjunction with the implementation of RIRSA the amortization period was reset to 25 years as of June 30, 2010; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age actuarial 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 \$22,288 to this fund during fiscal year 2014.

As prescribed by Rhode Island General Law, the State pays the entire portion of the defined benefit annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2014, the Town's actuarial required contributions were 12.26% of participant salary (20.68% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 8.42% or \$1,448,573. The Town's required and actual contributions to the defined benefit portion of the Teachers' Plan for fiscal years 2014, 2013 and 2012 were \$2,214,012, \$2,090,418, and \$2,511,297, respectively.

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with the Act and GASB Statement No. 27 standards. Effective July 1, 2012, State Employees (excluding Correctional Officers) and Teachers will contribute 3.75% of their salary per year to the defined benefit plan, and 5.0% to the defined contribution plan, with an additional 2.0% contribution for those employees that do not participate in Social Security. The Town's required and actual contributions to the defined contribution portion of the Teachers' Plan for fiscal year 2014 was \$392,663, the State contribution on behalf of the Teachers was \$60,406, and the federal contribution was \$15,204.



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

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, 50 Service Avenue, Warwick, RI 02886 or at [www.ersri.org](http://www.ersri.org). For fiscal year 2014, total covered payroll under the defined benefit portion of the Municipal Plan totaled \$8,527,713, including the police/fire unit. Total covered payroll under the defined contribution portion of the Municipal Plan, which does not include the police/fire unit, was \$5,491,245.

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

For the general employee units:

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Plan description (continued)*

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

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

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

**Schedule 5** members include those with a 25-year retirement plan eligible to retire on or before June 30, 2012, who are age 55 with 10 years of contributing service, or 25 years of service at any age, or 20 years of service and age 50 with actuarial reduction of ½% for each month less than age 55 (must retire by 6/30/2012). Benefits under RIRSA are calculated the same as they are for Schedule 6 members.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Plan description (continued)*

For the general employee units – municipal public safety (continued):

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

**Schedule 7** members are enrolled in plans with Special Provisions.

**Schedule 8** members include those with a 25-year retirement plan active as of July 1, 2012 but not eligible to retire on or before June 30, 2012. Benefits under RIRSA are calculated the same as they are for Schedule 9 members.

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

**Schedule 10** members are enrolled in plans with Special Provisions.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Plan description (continued)*

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

As of June 30, 2014, 187 active employees (53 police and firefighters) were members of the Municipal Plan.

*Funding policy:*

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

Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of June 30, 2010 over a closed period of 25 years. (22 years remaining as of June 30, 2013). Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

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

*Annual pension cost:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Annual pension cost (continued):*

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual pension cost	\$ 1,088,315	\$ 1,068,522	\$ 1,561,094
Actual contributions:			
Employee	\$ 352,705	\$ 340,319	\$ 620,361
Employer	\$ 735,610	\$ 728,203	\$ 940,733
Percent of annual pension cost contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Defined contribution plan:*

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

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

The following table summarizes the actual contributions for the defined contribution portion of the Municipal Plan for fiscal year 2014.

	<u>Amount</u>	<u>% of Covered Payroll</u>
Annual covered payroll	\$ 5,491,245	
Actual contributions:		
Employee	\$ 274,594	5.0%
Employer	\$ 54,918	1.0%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Funded status and funding progress:*

As of June 30, 2013, the date of the most recent actuarial valuation available, the defined benefit portion of the Municipal Plan was 81.5% and 130.6% funded for general employee unit, and police and fire unit, respectively. The actuarial accrued liability for benefits was \$18,903,962 and \$2,919,985 for the general employee unit, and police and fire unit, respectively, and the actuarial value of assets was \$15,411,684 and \$3,812,058, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$3,492,278 and (\$892,073) for the general employee unit, and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the defined benefit portion of the Municipal Plan) was \$5,481,800 and \$2,896,437 for general employee unit, and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 63.7% and (30.8%), respectively.

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

*Actuarial methods and significant assumptions:*

The required contribution for fiscal year 2014 was determined as part of the actuarial valuation performed as of June 30, 2011. The most recent actuarial valuation of the plans within the system was performed as of June 30, 2013. The actuarial methods and assumptions used in those valuations are summarized as follows:

Actuarial cost method	Entry Age Normal – the individual Entry Age Actuarial Cost methodology is used
Amortization method	Level percent of payroll - closed
Equivalent single remaining amortization period	25 years as of June 30, 2011 22 years as of June 30, 2013
Asset valuation method	5 year smooth market

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Municipal Plan (continued)

*Actuarial methods and significant assumptions (continued):*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan

*Summary of Significant Accounting Policies:*

Investments are reported at fair value.

At the end of the fiscal year, the Town Council adopted an update to the Investment Policy Statement (IPS) for the Town Plan. The IPS update expanded permissible asset classes, while maintaining the goals of increasing asset value, controlling volatility, and maintaining sufficient liquidity to meet anticipated cash needs. The revised IPS implementation began during the last quarter of the fiscal year and continued into the first quarter of fiscal year 2015.

*Plan description:*

*Plan Administration*

The Town Plan is a single-employer defined benefit pension plan, administered by the Town of Middletown, 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 2014, covered payroll under the Town Plan totaled \$1,671,072.

*Plan Membership*

As of July 1, 2013, the date of the latest actuarial valuation, pension plan membership consisted of the following:

Membership Status	Count
Inactive plan members or beneficiaries currently receiving benefits	139
Inactive plan members entitled to but not yet receiving benefits	6
Active plan members	21
	166

Liabilities measured at the census date were projected to June 30, 2014, assuming no gains or losses.



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Benefits provided:*

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. Elected officials and certified employees of the School Department are not eligible to participate in the Town Plan, which is closed to new entrants.

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:

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

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

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Benefits provided (continued):*

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

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

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

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

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

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

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

*Contributions:*

Employee and Employer contribution requirements are established and may be amended by Town Council ordinance or union contract.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Contributions (continued):*

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

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

The Town establishes employer contributions based on an actuarially determined contribution recommended by an independent actuary. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2014, the Town contributed \$3,670,263 to the Plan.

*Investments:*

*Rate of return*

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.96%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Receivables*

Employer and Employee contributions for the month of June in the current fiscal year are made in July of the following fiscal year and are included in plan assets.

*Net pension liability*

The components of the net pension liability at June 30, 2014 were as follows:

Total pension liability	\$ 57,591,213
Plan fiduciary net position	<u>(54,045,044)</u>
Town's net pension liability	<u>\$ 3,546,169</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.84%</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Actuarial assumptions*

The June 30, 2014 total pension liability was determined by rolling forward the June 30, 2013 valuation results, using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Actuarial Assumptions</u>	
Inflation	3.00%
Salary increases	5.00%
Investment rate of return	7.50%, net of pension plan investment expenses. This is based on an average inflation rate of 3.00% and a real rate of return of 4.50%

Census data was collected as of July 1, 2013. Liabilities measured as of the census date were projected to June 30, 2014 assuming no demographic gains or losses.

Mortality rates were based on the RP-2000 Combined Generational Mortality Table

The long-term expected rate of return on pension plan investments was determined using a building-block method on which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return and by adding expected inflation. Best estimates of rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2014 are summarized in the following table (note that the rates shown below include the inflation component):

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>
Domestic Equity	10.85%
International Equity	9.19%
Fixed Income	4.96%
Cash	0.90%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Discount rate*

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed the Town contributions will continue to follow the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Had there been a point where assets were projected to be depleted, a municipal bond rate of 3.66% would have been used in the development of the blended GASB discount rate after that point. The 3.66% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net pension liability	<u>\$ 9,253,858</u>	<u>\$ 3,537,552</u>	<u>\$ (1,294,433)</u>

The Schedule of Changes in Town's Net Pension Liability and Related Ratios, the Schedule of Town Contributions, and the Schedule of Investment Returns are presented as RSI following the notes to the basic financial statements.

*Actuarial Assumptions and Methods:*

*Actuarial Funding Assumptions*

*Funding valuation interest rate*

7.50% per annum

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Actuarial Assumptions and Methods (continued):*

*Actuarial Funding Assumptions (continued)*

*Interest rate for accounting*

7.50% per year, compounded annually. Projected benefit payments that are expected to be paid from available plan assets are discounted at the valuation interest rate of 7.50%. After the point where plan assets are not available to pay benefits, projected benefit payments are discounted at the municipal bond rate. The valuation rate for accounting purposes is the effective rate resulting from this process.

*Municipal bond rate*

3.66%. This rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

*Compensation increase rate*

5.00% per annum

*Retirement age*

Police and Fire Department rates according to the following table:

<u>Years of Service</u>	<u>Percent Retiring</u>
Less than 20	0%
20	25%
21-24	50%
25 or more	100%
100% upon the attainment of age 58 regardless of service	

All Others – 100% at the age at which unreduced benefits are first available

*Healthy Mortality*

RP-2000 Combined Generational Mortality Table

*Disabled Mortality*

United Auto Workers 1955 Table

*Turnover*

Sarason Table T-1 Table

*Marriage Assumption*

90% of males, 75% of females are married, with males four years older than their female spouse

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Actuarial Assumptions and Methods (continued):*

*Actuarial Funding Assumptions (continued)*

*Expenses*

Prior year's expenses, rounded to the nearest thousand dollars

*Participant Data*

Liabilities measured at the census date of June 30, 2013 were projected to June 30, 2014, assuming no demographic gains or losses.

The Experience Study report dated March 2012, covering the period July 2006 – June 2011, outlines the most recent comprehensive review of the actuarial assumptions noted above.

*Funding Methods*

*Actuarial cost method*

Entry age normal; the actuarial present value of projected benefits of each individual is allocated on a level basis over the covered salary of the individual between date of hire and assumed date they cease active employment. The portion of this actuarial present value not provided for at the valuation date by the actuarial present value of future entry age normal cost is called the accrued liability.

*Assets*

*Funding*

General Account assets are determined at book value. Separate Account assets are determined at market value. The Actuarial Value of assets is determined using a method that spreads over a period of five years the difference between the actual investment income and the expected income (based on the valuation interest rate applied to the prior year's market value of assets). Resulting value constrained to be within corridor from 80% to 120% of market value.

*Accounting*

Market value of assets

*Amortization Period*

The unfunded accrued liability is amortized over a closed six-year period beginning with the July 1, 2012 valuation.

*Changes Since the Prior Valuation*

None

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Annual pension cost and net pension asset:*

The actuarially determined employer contribution requirement of \$3,535,930 was determined as described above and was based on an actuarial valuation as of July 1, 2013. The contribution consists of normal cost plus estimated expenses and one year of interest at 7.50%. Total contributions to the Town Plan in fiscal 2014 amounted to \$3,789,762, of which \$3,670,263 and \$119,499 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 219.6% and 7.2%, respectively, of covered payroll for the year.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal cost	\$ 224,688	\$ 208,712	\$ 256,225
Amortization of UAAL	3,012,161	2,922,437	2,686,115
Interest and plan expenses	309,694	325,135	298,076
Adjustment to annual required contribution	<u>139,989</u>	<u>146,956</u>	<u>229,197</u>
Annual pension cost	3,686,532	3,603,240	3,469,613
Contributions made	<u>(3,670,263)</u>	<u>(3,310,606)</u>	<u>(2,953,201)</u>
Decrease in net pension asset	16,269	292,634	516,412
Net pension asset, beginning of year	<u>(767,804)</u>	<u>(1,060,438)</u>	<u>(1,576,850)</u>
Net pension asset, end of year	<u><u>\$ (751,535)</u></u>	<u><u>\$ (767,804)</u></u>	<u><u>\$(1,060,438)</u></u>
Percentage of annual pension cost contributed	<u>99.56%</u>	<u>91.88%</u>	<u>85.12%</u>



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Pension plans (continued):

Town Plan (continued)

*Funded status and funding progress:*

As of July 1, 2013, the Town Plan was 77.2% funded. The actuarial accrued liability for benefits was \$57,528,731 and the actuarial value of assets was \$44,427,860, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,100,871. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$1,671,072 and the ratio of the UAAL to the covered payroll was 784%.

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 401(a) Defined Contribution Plan

*Plan description:*

The Town implemented a Defined Contribution 401(a) Plan during the fiscal year, as authorized by RIGL 45-21-8. The Plan covers all Town Hall NEARI and Public Works Teamsters employees, full-time Civilian Dispatchers and any Town employees not affiliated with any recognized collective bargaining union, hired on or after July 1, 2012. The Town Defined Contribution 401(a) Plan was established under IRS section 401(a) and is administered by TIAA-CREF and the Town. Employees may choose among various investment options available to plan participants.

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the Plan by both the employee and employer are established and may be amended by the Town Council.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

*Plan funding policy:*

Active members in the Plan contribute 6% of their compensation, and the Town is required to contribute 6%. Covered payroll during the fiscal year was \$3,471, and the plan members and the Town both contributed \$208 during the fiscal year ended June 30, 2014.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

9. Other postemployment benefits:

*Plan description:*

Through its single-employer defined benefit plan (OPEB Plan), the Town provides postretirement health care benefits to all Town employees who meet years of service and age requirements and, in some cases to their surviving spouses, who are eligible under the terms of collective bargaining agreements or personal contracts. The Plan does not issue a stand-alone financial report. The Town established the Other Postemployment Benefits Trust (the Trust) on June 20, 2011. The Trust's assets and liabilities at June 30, 2014 and its activity for the year then ended are included in the statements of fiduciary net position and changes in fiduciary net position.

The most recent actuarial valuation for the OPEB Plan was performed as of June 30, 2013, and was updated July 1, 2014 to incorporate reduced liabilities as a result of changes to retiree health benefits for police, fire, and public works retirees negotiated during fiscal year 2014.

*Benefits and employee contributions:*

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$1,994,833 for the year ended June 30, 2014.

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, 2013, the membership census is as follows:

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

*Annual OPEB cost and net OPEB obligation:*

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town. The Town has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a closed period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the amount actually contributed to the plan for the year ended June 30, 2014, and the Town's net OPEB obligation as of June 30, 2014.

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2014

9. Other postemployment benefits (continued):

*Annual OPEB cost and net OPEB obligation (continued):*

Annual Required Contribution	\$ 2,053,406
Interest on net OPEB obligation	30,473
Adjustment to annual required contribution	<u>(25,944)</u>
Annual OPEB cost	2,057,935
Contributions made during the year	<u>2,387,492</u>
Decrease in net OPEB obligation	(329,557)
Net OPEB obligation at beginning of year	<u>406,313</u>
Net OPEB obligation at end of year	<u><u>\$ 76,756</u></u>

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, 2012, 2013 and 2014 are as follows:

Year ended June 30,	OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2012	\$ 2,031,884	109.10%	\$ 444,496
2013	\$ 2,126,075	101.80%	\$ 406,313
2014	\$ 2,057,935	116.01%	\$ 76,756

*Funded status and funding progress:*

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

Funded ratio	13.5%
Actuarial accrued liability for benefits	\$ 29,657,772
Actuarial value of assets	\$ 4,018,150
Unfunded actuarial accrued liability (UAAL)	\$ 25,639,622
Covered payroll	\$ 30,047,295
UAAL to covered payroll	85.33%

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2014

9. Other postemployment benefits (continued):

*Funded status and funding progress (continued):*

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 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, 2013
Funding method:	Projected Unit Credit
Investment rate of return:	7.5%
Discount rate:	7.5%, reflecting an established OPEB trust
Participation:	90% of eligible school retirees, 100% of eligible police retirees, 100% of eligible fire pre-Medicare eligible employees declining each year after retirement, 90% of post-Medicare eligible fire retirees, and 80% of eligible Town employees are assumed to elect medical coverage.
Health Care Cost Trend Rates:	Medical pre-Medicare rate of 8.0% per year, decreasing to a rate of 4.5% per year after eight years; and post-Medicare rate of 6.25% per year, decreasing to a rate of 4.5% after eight years.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

9. Other postemployment benefits (continued):

*Actuarial methods and assumptions (continued):*

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

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 members sign a participation agreement which outlines the rights and responsibilities of both the Trust and the member. 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, 2014.

The Town also participates in the Trust Employee Benefits Pool ("The Pool") which provides programs for health and dental insurance coverage to Rhode Island cities, towns and other governmental units. Upon joining the Pool, members execute a member participation agreement. This document outlines the rights and responsibilities of both the members and the Trust. Members of the Pool participate in the Pool's health insurance plan administered through the Trust and Blue Cross Blue Shield of Rhode Island (BCBSRI) and dental insurance plan administered through the Trust and Delta Dental of Rhode Island. The Trust 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, 2014

11. Litigation and contingencies:

*Litigation:*

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleged that the Town's sanitary sewer and storm-water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizen's groups sought 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 included specific requirements and milestones for the Town to evaluate potential alternatives and implement optimal alternatives to address the Town's storm-water and wastewater discharges. The Town engaged an engineering firm to evaluate potential alternatives to address the sanitary sewer overflows and storm-water discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommended implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed or are in the process of being constructed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011. This estimate has since been revised, with the balance of this cost remaining at June 30, 2014 estimated at \$2.6 million, which has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

11. Litigation and contingencies (continued):

*Litigation (continued):*

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

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

The total cost of the Project is projected to be \$6.5 million, and the project is expected to be completed by November 30, 2014. The Town is not aware of any pending or threatened claims or litigation concerning the construction of the Project.

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

*Other contingencies:*

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$2,570,000 for the year ended June 30, 2014.

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

12. Commitments and subsequent events:

*Construction commitments:*

The Town has active construction projects as of June 30, 2014, including culvert replacement, Fire department building additions and alterations, Esplanade drainage improvements, Continental Village and Forest Ave sewer and drainage improvements, Aquidneck Ave sewer improvements, and drainage and sanitary upgrades in designated areas of the Town. At June 30, 2014, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Green End Ave Culvert Replacement: Green Acres Landscape & Construction	\$ 101,808	\$ 13,037
Fire Department Building Additions and Alterations: Lawrence Associates, Farrar Associates and Iron Construction Co	2,411,764	5,018,284
Esplanade Drainage: C.B. Utility Company and Woodard & Curran	6,246,207	306,835
Aquidneck Ave Sewer Improvements: C.B. Utility Company and James J. Geremia and Associates, Inc.	592,205	401,544
Commodore Perry Cured in Place Pipe: National Water Main Cleaning Co.	578,290	111,318
Continental Village Sewer, Road drainage improvement: C.B. Utility Company and James J. Geremia and Associates, Inc.	2,720,106	503,875
Surveying & Engineering-Vernon and Fenner Avenue: James J. Geremia and Associates, Inc.	31,151	10,801
Easton's Point Sewer Cured in Place Pipe: National Water Main Cleaning Company	378,621	271,674
Easton's Point Sewer Spot Repair: East Coast Construction	2,096,865	1,178,656
Upper Easton's Point CCTV: National Water Main Cleaning Co.	44,046	65,092
Forest Ave Sewer and Road drainage Improvements: James J. Geremia and Associates, Inc.	<u>1,177,454</u>	<u>1,306,613</u>
	<u>\$ 16,378,517</u>	<u>\$ 9,187,729</u>



TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

12. Commitments and subsequent events (continued):

*Construction commitments (continued):*

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

*Subsequent events:*

*Construction commitments:*

Subsequent to year-end, the Town executed one building demolition contract, one construction contract amendment, and four construction contracts totaling \$1,468,230. The first contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$29,485, relates to the demolition of a building located on a recently purchased property and will be paid from the Sewer Fund. The second item is a contract amendment for the sewer and drainage improvements on Forest Avenue awarded to C.B. Utility Co., Inc. This contract amendment, in the amount of \$475,608, is for the removal and disposal of existing roadway pavement and the installation of 2 1/2" modified binder and will be paid from the Capital Improvement Program Special Revenue Fund. The third contract was awarded to JAM Construction Co., Inc., in the amount of \$52,784, for a walking path at the Senior Center. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the Parks and Recreation Fund. The fourth contract, awarded to Quality Improvement in the amount of \$388,300, is related to a roof replacement at the high school and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The fifth contract, awarded to Arden Engineering in the amount of \$411,000, relates to the replacement of HVAC for the school district and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The sixth contract, awarded to Tri-Mark in the amount of \$111,053, is for kitchen upgrades for the school district and will be paid from the Town's Capital Improvement Program Special Revenue Fund.

*Other:*

On October 14, 2014, Rhode Island Department of Environmental Management (DEM) notified the town that the Consent Agreements executed between the Town and DEM in 2004, 2005, and 2008 related to storm-water runoff and sanitary sewer overflows had each been resolved and all requirements had been met. DEM recognized the extensive work the Town has undertaken to upgrade its sewerage and storm-water systems, resulting in greatly reduced frequency and volume of sanitary sewer overflows. The Town is continuing its efforts to reduce and eliminate these overflows.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

13. Joint venture:

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. 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 2014 was \$2,053,064. The towns have no equity interest in the net assets of NCRSEP, which are estimated to be (\$112,521) at June 30, 2014.

At June 30, 2014, a total of \$754,376 in Medicaid reimbursements due to MSD has been recorded as a liability of NCRSEP. This amount represents Medicaid reimbursements received by NCRSEP in excess of the budgeted receipts for Middletown. Separately audited financial statements of NCRSEP are available at Newport County Regional Special Education Program, Oliphant Lane, Middletown, RI 02842.

During October 2014, the Town of Portsmouth announced its withdrawal from the NCRSEP as of June 30, 2015, which will reduce the membership in the program from four to three districts, including MSD. Analyses to determine the financial, operational and educational impact of Portsmouth's withdrawal from the program on the remaining members, along with a transition plan, are being prepared by the NCRSEP Board of Directors and are not yet available.

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 44,070,446	\$ 43,634,789	\$ 43,625,520	\$ (9,269)
Intergovernmental	2,611,450	2,558,295	2,611,382	53,087
Licenses, permits and fees	1,347,037	1,810,053	1,891,397	81,344
Interest and investment	15,307	15,307	9,314	(5,993)
Other revenues	301,645	412,145	380,977	(31,168)
Total revenues	<u>48,345,885</u>	<u>48,430,589</u>	<u>48,518,590</u>	<u>88,001</u>
Expenditures:				
Current:				
General government	2,411,996	2,436,145	2,361,114	75,031
Public safety	8,530,609	8,625,727	8,480,976	144,751
Public works and sanitation	1,668,961	1,673,634	1,619,080	54,554
Planning and inspection	554,947	644,210	602,160	42,050
Library	762,989	762,989	762,989	-
Community services	300,115	316,764	309,515	7,249
Other expenditures	6,322,380	6,241,819	6,226,891	14,928
Grants	236,496	372,062	322,719	49,343
Capital outlay	2,077,789	1,279,040	1,313,918	(34,878)
Debt service	3,271,244	3,052,610	3,052,654	(44)
Total expenditures	<u>26,137,526</u>	<u>25,405,000</u>	<u>25,052,016</u>	<u>352,984</u>
Excess of revenues over expenditures, budgetary basis	<u>22,208,359</u>	<u>23,025,589</u>	<u>23,466,574</u>	<u>440,985</u>
Other financing sources (uses):				
Transfers from other funds	3,210,829	2,349,526	2,393,892	44,366
Transfers to other funds	(25,638,648)	(25,601,639)	(25,609,374)	(7,735)
Reappropriated fund balance	44,460	-	-	-
Proceeds from financing	-	-	-	-
Proceeds from capital leases	175,000	226,524	226,524	-
Total other financing sources (uses)	<u>(22,208,359)</u>	<u>(23,025,589)</u>	<u>(22,988,958)</u>	<u>36,631</u>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	477,616	<u>\$ 477,616</u>
Adjustments of budgetary basis to U.S. GAAP basis			<u>(37,721)</u>	
Excess of revenues and other financing sources over expenditures and other financing uses, U.S. GAAP basis			439,895	
Fund balance, beginning of year			<u>9,397,117</u>	
Fund balance, end of year			<u>\$ 9,837,012</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 11,924,124	\$ 12,085,341	\$ 11,851,928	\$ (233,413)
Fees for service	678,659	605,325	609,200	3,875
Other revenues	125,246	268,049	267,840	(209)
<b>Total revenues</b>	<u>12,728,029</u>	<u>12,958,715</u>	<u>12,728,968</u>	<u>(229,747)</u>
Expenditures:				
Current:				
Salaries	21,186,703	20,747,182	20,645,174	102,008
Employee benefits	7,933,385	7,768,282	7,750,461	17,821
Purchased services	6,782,676	7,127,048	6,692,725	434,323
Supplies and materials	1,196,943	1,216,557	1,132,982	83,575
Other	26,724	66,668	69,867	(3,199)
Capital expenditures	989,683	974,459	1,136,796	(162,337)
<b>Total expenditures</b>	<u>38,116,114</u>	<u>37,900,196</u>	<u>37,428,005</u>	<u>472,191</u>
Excess of expenditures over revenues, budgetary basis	<u>(25,388,085)</u>	<u>(24,941,481)</u>	<u>(24,699,037)</u>	<u>242,444</u>
Other financing sources:				
Transfer from other funds	24,502,002	24,547,590	24,547,590	-
Reappropriated fund balance	886,083	329,990	-	(329,990)
Proceeds from capital leases	-	63,901	63,901	-
<b>Total other financing sources</b>	<u>25,388,085</u>	<u>24,941,481</u>	<u>24,611,491</u>	<u>(329,990)</u>
Deficiency of revenues and other financing sources over expenditures, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	(87,546)	<u>\$ (87,546)</u>
Adjustment of budgetary basis to U.S. GAAP basis, reappropriated fund balance			-	
Deficiency of revenues and other financing sources over expenditures, U.S. GAAP basis			(87,546)	
Fund balance, beginning of year			<u>3,410,441</u>	
Fund balance, end of year			<u>\$ 3,322,895</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2014

Budget preparation and budgetary basis of accounting:

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

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

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

	<u>General Fund</u>
Adjustments of budgetary basis to GASB 54	\$ 176,134
Accrued payroll	(221,846)
Compensated absences	<u>7,991</u>
Total adjustments	<u>\$ (37,721)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2014

**Budget compliance:**

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

TOWN OF MIDDLETOWN, RHODE ISLAND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 TOWN PENSION PLAN

SCHEDULE OF CHANGES IN TOWN'S NET PENSION LIABILITY AND RELATED RATIOS

YEAR ENDED JUNE 30, 2014

<u>Total pension liability</u>	
Service cost	\$ 304,872
Interest	4,152,814
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(4,395,204)
	<hr/>
Net change in total pension liability	62,482
Total pension liability – beginning	<hr/> 57,528,731
Total pension liability – ending (a)	<hr/> <u>\$ 57,591,213</u>
 <u>Plan fiduciary net position</u>	
Contributions – employer	\$ 3,670,263
Contributions – employee	119,499
Net investment income	7,108,227
Benefit payments, including refunds of employee contributions	(4,395,204)
Administrative expense	(68,915)
Other	-
	<hr/>
Net change in plan fiduciary net position	6,433,870
Plan fiduciary net position – beginning	<hr/> 47,611,174
Plan fiduciary net position – ending (b)	<hr/> <u>\$ 54,045,044</u>
Town's net pension liability – ending (a) – (b)	<hr/> <u>\$ 3,546,169</u>
Plan fiduciary net position as a percentage of the total pension liability	93.84%
Covered employee payroll	\$ 1,265,639
Net pension liability as a percentage of covered employee payroll	280.19%

*Notes to Schedule:*

*Benefit Changes*

None

*Changes in Assumptions*

There were no changes in assumptions.

TOWN OF MIDDLETOWN, RHODE ISLAND  
 REQUIRED SUPPLEMENTARY INFORMATION

TOWN PENSION PLAN

SCHEDULE OF TOWN CONTRIBUTIONS

YEAR ENDED JUNE 30, 2014

	Actuarially Determined Contribution	Contributions related to the actuarially determined contribution	Contribution deficiency (excess)
2014	\$3,535,930	\$3,670,263	(\$134,333)
2013	\$3,456,284	\$3,378,624	\$77,660
2012	\$3,240,416	\$2,873,858	\$366,558
2011	\$2,761,665	\$3,795,486	(\$1,033,821)
2010	\$2,780,271	\$2,826,050	(\$45,779)
2009	\$2,715,725	\$2,575,587	\$140,138
2008	\$2,475,038	\$2,480,745	(\$5,707)
2007	\$2,434,517	\$2,743,486	(\$308,969)
2006	\$2,693,913	\$2,565,355	\$128,558
2005	\$2,427,677	\$2,378,484	\$49,193

*Notes to Schedule:*

*Valuation date*

Actuarially determined contribution rates are calculated as of July 1 in the fiscal year in which contributions are reported. That is, the contribution calculated as of July 1, 2014 will be made during the fiscal year ending June 30, 2015.

*Methods and assumptions used to determine contribution rate*

*Actuarial cost method*

Entry Age Normal, Level Percent of Payroll

*Amortization method*

Level dollar

*Amortization period*

Closed six-year period beginning with the July 1, 2012 valuation

*Asset valuation method*

Actuarial Value of Assets based on 5-year phase-in of investment gains and losses

*Inflation*

3.00%



TOWN OF MIDDLETOWN, RHODE ISLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
TOWN PENSION PLAN  
SCHEDULE OF TOWN CONTRIBUTIONS (CONTINUED)  
YEAR ENDED JUNE 30, 2014

*Notes to Schedule (continued):*

*Methods and assumptions used to determine contribution rate (continued)*

*Salary increases*

5.00%

*Investment rate of return*

7.50%, net of pension plan investment expenses. This is based on an average inflation rate of 3.00% and a real rate of return of 5.50%

*Retirement age*

Assumptions related to age, service, and department are used for participants not yet receiving payments

*Mortality*

RP-2000 Combined Generational Mortality Table

TOWN OF MIDDLETOWN, RHODE ISLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
TOWN PENSION PLAN  
SCHEDULE OF INVESTMENT RETURNS  
YEAR ENDED JUNE 30, 2014

Annual money-weighted rate of return, net of investment expenses	<u>15.96%</u>
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TOWN OF MIDDLETOWN, RHODE ISLAND  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2014

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered payroll	UAAL as a % of covered payroll
<b><i>Municipal Pension Plan:</i></b>						
<i>General Employees 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	7,602,444	63.4%	5,015,060	151.6%
June 30, 2011	13,804,188	17,866,264	4,062,076	77.3%	5,464,167	74.3%
June 30, 2012	14,674,442	18,169,600	3,495,158	80.8%	5,584,068	62.6%
June 30, 2013	15,411,684	18,903,962	3,492,278	81.5%	5,481,800	63.7%
<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%
June 30, 2011	2,410,473	1,544,891	(865,582)	156.0%	2,185,236	(39.6%)
June 30, 2012	3,129,072	2,275,546	(853,526)	137.5%	2,657,659	(32.1%)
June 30, 2013	3,812,058	2,919,985	(892,073)	130.6%	2,896,437	(30.8%)
<b><i>Town Pension Plan:</i></b>						
July 1, 2008	\$ 43,215,258	\$ 51,273,315	\$ 8,058,057	84.3%	\$ 3,397,722	237.2%
July 1, 2009	40,503,976	53,436,040	12,932,064	75.8%	2,917,842	443.2%
July 1, 2010	42,526,359	54,547,798	12,021,439	78.0%	2,645,008	454.5%
July 1, 2011	43,503,856	57,057,680	13,553,824	76.2%	1,890,372	717.0%
July 1, 2012	42,999,380	57,745,658	14,746,278	74.5%	1,837,941	802.3%
July 1, 2013	44,427,860	57,528,731	13,100,871	77.2%	1,671,072	784.0%
<b><i>Other Postemployment Benefits Plan:</i></b>						
July 1, 2006	\$ 688,276	\$ 23,390,739	\$ 22,702,463	2.9%	\$ 27,184,895	83.5%
July 1, 2007	1,583,115	23,136,012	21,552,897	6.8%	28,710,668	75.1%
June 30, 2009	2,500,343	32,387,961	29,887,618	7.7%	28,675,833	104.2%
June 30, 2011	3,338,311	29,463,119	26,124,808	11.3%	30,052,962	86.9%
June 30, 2013 *	4,018,150	29,657,772	25,639,622	13.5%	30,047,295	85.3%

\* Updated July 2014

TOWN OF MIDDLETOWN, RHODE ISLAND  
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 YEAR ENDED JUNE 30, 2014

Town Pension Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 3,675,919	99.56%
2013	3,603,240	91.88%
2012	3,469,613	85.12%
2011	2,831,406	131.10%
2010	2,839,777	99.52%
2009	2,871,564	89.69%

Town OPEB Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 2,053,406	116.27%
2013	2,120,378	102.07%
2012	2,034,497	108.96%
2011	2,120,292	99.34%
2010	2,026,910	79.81%
2009	1,535,690	83.72%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

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, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	The unfunded accrued liability is amortized over a closed six-year period beginning with the July 1, 2012 actuarial valuation.
Asset valuation method	Market value with 5-year phase-in of investment gains and losses
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5.0% per annum
Cost-of-living adjustments	N/A
Mortality Table	Healthy Mortality – RP-2000 Combined Generational Mortality Table Disabled Mortality – Healthy mortality set forward 10 years

The period over which the unfunded liability is amortized was changed from a closed five-year period to a closed six-year period as of July 1, 2012.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2014

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2013</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2014</u>
2013		\$ 43,400,329	\$ 465,122	\$ 42,935,207	\$ 41,816,395	\$ 1,118,812
2012	\$ 1,093,037		3,958	1,089,079	1,000,904	88,175
2011	78,560		4,127	74,433	15,544	58,889
2010	55,015		2,240	52,775	3,548	49,227
2009	26,146		1,165	24,981	577	24,404
2008	32,685		185	32,500	496	32,003
2007	31,942		216	31,726	684	31,042
2006	26,767		19	26,748	419	26,329
2005	26,746		265	26,481	514	25,967
2004	22,670		225	22,445	-	22,445
2003	20,164		15,809	4,355	-	4,354
2002	6,788		2,797	3,991	-	3,990
Prior	13,355		3,823	9,532	-	9,532
	<u>\$ 1,433,875</u>	<u>\$ 43,400,329</u>	<u>\$ 499,951</u>	<u>\$ 44,334,253</u>	<u>\$ 42,839,081</u>	<u>\$ 1,495,169</u>
				Less allowance for doubtful accounts		<u>(383,029)</u>
						<u>\$ 1,112,140</u>

TOWN OF MIDDLETOWN, RHODE ISLAND  
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)  
YEAR ENDED JUNE 30, 2014

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,453,480,489	\$ 40,293,917
Motor vehicles	147,311,818	1,686,684
Tangible personal	<u>90,975,340</u>	<u>1,419,727</u>
Total	2,691,767,647	43,400,328
Exemptions	<u>108,183,384</u>	
Current year assessment	<u>\$ 2,583,584,263</u>	<u>\$ 43,400,328</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 42,839,081
Revenue collected within 60 days subsequent to year ended June 30, 2014	<u>577,101</u>
	43,416,182
Prior year revenue received in current year	<u>(517,774)</u>
Current year real estate and personal property tax revenue	<u>\$ 42,898,408</u>