

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2015

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TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2015

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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, 2015, 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, 2015, 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, 2015, the Town adopted new accounting guidance affecting the accounting for pensions. Due to the adoption of this guidance, the Town restated its 2015 opening net position, resulting in a decrease in net position of \$27,239,664 at July 1, 2014. Our opinion is not modified with respect to this matter.

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 97-113 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):

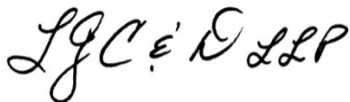
Other Information

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 21, 2015 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 21, 2015

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, 2015 (FY2015).

Financial Highlights

The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources as of June 30, 2015 by \$32,650,077 (*net position*). Net position includes \$44,021,144 of net investment in capital assets; \$904,758 of restricted net position; and \$(12,275,825) of unrestricted net position. Total assets were \$109,995,868; total deferred outflows were \$5,426,848; total liabilities were \$77,596,742 and total deferred inflows were \$5,175,897 at June 30, 2015. Total net position increased by \$4,387,783 in the current fiscal year.

As of June 30, 2015, the Town's governmental funds reported combined ending fund balances of \$16,937,007, a decrease of \$5,777,194 in comparison with the prior year. The unfavorable fiscal year results in the General Fund, Capital Projects Fund, School Department and Other Governmental Funds resulted in the net decrease in fund balance. See page 9 for additional discussion regarding changes in the fund balance of the General Fund and School Department Special Revenue Fund.

As of June 30, 2015, the unassigned fund balance for the General Fund was \$5,345,140, or 10.0% of total budgeted 2015 General Fund expenditures and other financing uses, totaling \$53,284,396. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations decreased by \$4,452,059 (9.7%) during the current fiscal year. The key factors causing this decrease were principal payments of \$3,623,377, a reduction of claims and judgements of \$251,687 and a reduction of \$508,000 in pollution remediation obligations.

For the fiscal year ended June 30, 2015, the Town adopted the provisions of Statement No. 68 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 requires the net pension liability to be measured and reported as the total pension liability less the amount of the pension plan's fiduciary net position. In addition, GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expenses. Due to the adoption of GASB 68, the Town has restated its 2015 opening net position, resulting in a decrease in net position of \$27,239,664 at July 1, 2014. The decrease in beginning net position resulted from a \$3,642,380 net increase in noncurrent assets, a \$6,529,188 increase in deferred outflows of resources, and a \$37,411,232 net increase in noncurrent liabilities. The portion of this restatement applicable to the Sewer Fund, totaling \$135,935, has also been reflected in the accompanying statement of revenues, expenses and changes in net position-enterprise funds. The adoption of GASB 68 decreased the net position for the fiscal year ended June 30, 2015 by \$5,148,412 due to pension expense.

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 97-98 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 31-96 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* which presents schedules relating to 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 97-113 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 and deferred inflows by \$32,650,077 at June 30, 2015.

Net investment in capital assets comprises \$44,021,144 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	
	2015	2014 Restated	2015	2014 Restated	2015	2014 Restated
Current and other assets	\$ 26,091,150	\$ 31,814,322	\$ 4,724,662	\$ 4,598,862	\$ 30,815,812	\$ 36,413,184
Capital assets	57,860,143	51,700,392	21,319,913	21,898,664	79,180,056	73,599,056
Total assets	83,951,293	83,514,714	26,044,575	26,497,526	109,995,868	110,012,240
Deferred outflows	5,392,327	6,743,709	34,521	43,170	5,426,848	6,786,879
Long-term liabilities	30,653,438	33,583,420	10,766,900	12,288,977	41,420,338	45,872,397
Other liabilities	35,296,798	41,352,015	879,606	1,312,413	36,176,404	42,664,428
Total liabilities	65,950,236	74,935,435	11,646,506	13,601,390	77,596,742	88,536,825
Deferred inflows	5,132,828		43,069		5,175,897	
Net position:						
Net investment in capital assets	31,180,928	27,608,693	12,840,216	12,235,687	44,021,144	39,844,380
Restricted	904,758	1,412,617			904,758	1,412,617
Unrestricted	(13,825,130)	(13,698,322)	1,549,305	703,619	(12,275,825)	(12,994,703)
Total Net Position	\$ 18,260,556	\$ 15,322,988	\$ 14,389,521	\$ 12,939,306	\$ 32,650,077	\$ 28,262,294

A portion of the Town's net position, totaling \$904,758 (2.8%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position*, totaling (\$12,275,825), includes the results of the implementation of GASB 68.

At June 30, 2015, the Town reports positive net position balances in the net investment in capital assets, restricted net position and in the unrestricted net position for business-type activities but reports a negative balance in the unrestricted net position for the governmental activities. The government as whole reports a positive total net position.

Governmental activities. Governmental activities increased the Town's net position by \$2,937,568 from the previous year, principally due to revenue received to pay long-term debt service costs of \$2,900,000.

Government-wide Financial Analysis (continued)

Business-type activities. Business-type activities increased the Town's net position by \$1,450,215, primarily due to revenue received to pay long-term debt service costs of \$1,500,000 and Refuse revenue in excess of expenditures of approximately \$100,000.

Town of Middletown's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014 Restated	2015	2014 Restated	2015	2014 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 4,858,908	\$ 4,679,469	\$ 7,531,329	\$ 7,603,131	\$ 12,390,237	\$ 12,282,600
Operating grants and contributions	14,670,656	14,146,688			14,670,656	14,146,688
Capital grants and contributions	305,419	12,882			305,419	12,882
General revenues:						
Property taxes	44,759,248	43,604,849			44,759,248	43,604,849
Grants and contributions not restricted to specific programs	1,883,446	1,762,073			1,883,446	1,762,073
Other	384,753	664,813	3,509	4,196	388,262	669,009
Total revenues	66,862,430	64,870,774	7,534,838	7,607,327	74,397,268	72,478,101
Expenses:						
General government	3,026,939	3,462,608			3,026,939	3,462,608
Public safety	15,767,344	13,411,466			15,767,344	13,411,466
Public works/sanitation	3,537,310	5,127,290			3,537,310	5,127,290
Planning/inspection	561,988	720,206			561,988	720,206
Library	878,679	861,469			878,679	861,469
Education	38,529,212	39,136,282			38,529,212	39,136,282
Community services	591,912	471,044			591,912	471,044
Interest on long-term debt	996,478	958,325			996,478	958,325
Refuse and recycle			886,749	1,196,183	886,749	1,196,183
Parks and recreation			1,533,068	1,567,952	1,533,068	1,567,952
Sewer			3,699,806	2,847,853	3,699,806	2,847,853
Total expenses	63,889,862	64,148,690	6,119,623	5,611,988	70,009,485	69,760,678
Increase in net position before transfers	2,972,568	722,084	1,415,215	1,995,339	4,387,783	2,717,423
Transfers	(35,000)	(219,870)	35,000	219,870	-	-
Increase in net position	2,937,568	502,214	1,450,215	2,215,209	4,387,783	2,717,423
Net position – beginning - restated	15,322,988	14,820,774	12,939,306	10,724,097	28,262,294	25,544,871
Net position – ending	\$ 18,260,556	\$ 15,322,988	\$ 14,389,521	\$ 12,939,306	\$ 32,650,077	\$ 28,262,294

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, 2015, the Town's governmental funds reported combined ending fund balances of \$16,937,007. Of this amount, \$5,345,140 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 \$129,530; 2) long-term loans receivable in the amount of \$100,000; 3) grants in the amount of \$346,273; 4) prepaid expenses and other purposes in the amount of \$169,177; 5) various restrictions and commitments for West Main Road development, special education, open space, storm-water management and capital improvements totaling \$5,715,849 and 6) other specific purposes in the amount of \$5,131,038. A total of \$150,000 of the assigned fund balance is budgeted to be used in FY2016. See page 21.

The General Fund is the chief operating fund of the Town. At June 30, 2015, unassigned fund balance of the General Fund was \$5,345,140, while total fund balance was \$9,494,434. 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 10.1% of total General Fund expenditures and other financing uses of \$52,665,784, while total fund balance represents 18.0% of that same amount.

During FY2015, the fund balance of the Town's General Fund decreased by \$342,578, principally due to the cost of ongoing capital projects of \$438,000 offset by increased public safety revenue of \$85,000.

The School Department, a special revenue fund of the Town, had a total fund balance of \$3,245,793, which includes an assigned fund balance of \$2,170,421 at June 30, 2015. The assigned fund balance represents 5.4% of total School Department expenditures of \$40,263,114. The School Department's fund balance decreased by \$77,102 during the fiscal year ended June 30, 2015. The excess of expenditures over revenues is primarily due to the timing of grant reimbursements in the amount of \$88,000. A total of \$122,742 of the School Department assigned fund balance as of June 30, 2015 is budgeted to be used in FY2016.

The Capital Projects fund had a total fund balance of \$1,074,561, which represents a \$5,280,796 decrease during the fiscal year ended June 30, 2015. The decrease in fund balance is due to the spending of loan proceeds for ongoing construction projects.

The Other Governmental Funds had a total fund balance of \$3,122,219, which represents a \$76,718 decrease in fund balance during the fiscal year ended June 30, 2015. The decrease in fund balance is primarily due to the excess of expenditures over revenue in the Public Private Venture special revenue fund in the amount of \$122,867 offset by the excess of revenues over expenditures in the Capital Improvement Impact fund of \$25,367 and in the John F. Kennedy Fund of \$26,426.

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, 2015 amounted to \$10,279,150, of which \$1,153,305 is unrestricted. Parks and Recreation Fund net position amounted to \$3,956,737, of which \$242,366 is unrestricted. Refuse and Recycle Fund net position amounted to \$153,634, all of which is unrestricted. The total growth in net position for each of the three funds was \$1,340,322, \$5,570 and \$104,323, 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 FY2015 revenues totaled a reduction of approximately \$2,939,000, primarily due to a decrease in Intergovernmental Grant revenue approved and received from DOI/NFWF for the Hurricane Sandy Coastal Resiliency projects, offset by increases in Hotel Tax, Shared Services, and Real Estate Transfer Tax revenue. See page 97.

Further, there was an overall decrease in budgeted expenditures of approximately \$2,800,000. The major items contributing to the net decrease in expenditures are as follows:

- \$3,100,000 decrease in grant expenditures primarily due to a reduction in DOI/NFWF grant expenditures approved in the final grant award, and expended during the year for the Hurricane Sandy Coastal Resiliency projects, and a deferral of the CDBG grant-funded Senior Center generator project to next fiscal year.
- \$309,000 increase in public safety expenditures primarily due to increases in training costs, private detail pay, custodial services, portable radio and radio receiver purchases, and fire vehicle repairs.
- \$165,000 net decrease in capital expenditures mainly due to reduced grant match expenditures for the DOI/NFWF Hurricane Sandy Coastal Resiliency projects on-going during the fiscal year with the majority of the expenditures continuing into next fiscal year, and the deferral of Town Hall carpet replacement until next fiscal year, combined with increases for vehicle purchases, infrastructure improvements, ongoing fire station/dpw facility project costs, and public safety technology infrastructure improvements.
- \$162,000 increase in General Government expenditures due to increases for technology upgrades, Town Hall LED light installation and HVAC repairs, JFK Building utility and maintenance costs and re-allocated net contingency budget to reflect current departmental compensation and benefit expenses.
- \$23,000 increase in Library expenditures primarily due to costs for HVAC cleaning and landscaping funded through a bequest, and costs for library books, furniture and other supplies funded through Library special revenue funds.
- \$23,000 increase in Community Services expenditures primarily due to costs for additional civic support.
- \$19,000 increase in Public Works and Sanitation expenditures primarily due to re-allocated net contingency budget to reflect current departmental compensation and benefit expenses.

General Fund Budgetary Highlights (continued)

- \$15,000 increase in Planning and Inspection expenditures primarily due to costs for the implementation of the Comprehensive Community Plan.
- \$40,000 decrease in Debt Service expenditures as a result of a reduction in lease payments budgeted for school kitchen equipment that will be purchased next fiscal year.

Actual expenditures exceeded budgeted expenditures by approximately \$215,000 primarily as a result of snow removal costs related to winter storm Juno and extreme winter weather conditions that occurred during the 2015 winter season. The Town is anticipating approximately \$100,000 in FEMA reimbursement for approved costs related to winter storm Juno.

School Department Special Revenue Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY2015 Revenues totaled an increase of approximately \$500,000 which includes:

- Increase of \$333,350 primarily due to increases in restricted fund budgets-including Consolidated Resource Grant/Carryover Funds and the addition of Private Donations/Van Beuren Foundation, and
- Reduction of \$132,281 for Capital Improvement - Kitchen Equipment deferred to FY 2016, an increase in impact aid prior year revenues of \$270,000 and a net reduction of 150,372 which includes an increase in Impact Aid Prior Year Payments causing a decrease in the use of Impact Aid Prior Year Fund Balance, together with a reduction in restricted School Lunch Program and the Student Equity Fund

Actual expenditures were less than budgeted expenditures by approximately \$500,000 due to the approved budget for restricted grant/private donations:

- Restricted Grants cross fiscal years
- Restricted Grants (Consolidated Resource Grants-Approved by RIDE) include year to year carry over funds

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, 2015 amounts to \$79,180,056 (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 \$5,581,000 or 7.6%, of which \$6,159,751 increased for governmental activities and \$578,751 decreased for business-type activities.

Capital Asset and Debt Administration (continued)

Capital assets (continued).

Major capital asset events during FY2015 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, roof replacement, custodial floor care equipment, grounds and kitchen equipment, card access system, wireless network and technology replacements
- Fire department building addition and public works building renovation including furnishings and equipment
- Town road improvements/extensions

Purchase of:

- Various public safety vehicles per fleet management schedules, including three police sports utility vehicles and one unmarked cruiser; two DPW pickup trucks, and one school van
- Library book collection
- A copier/scanners for the fire department
- Walking path at the senior center
- Demolition of Coddington Highway building

Upgrades to:

- Various servers and network infrastructure equipment Town-wide, including a data storage system and NICE recording system

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 7,492,536	\$ 7,492,536	\$ 3,167,391	\$ 3,123,005	\$ 10,659,927	\$ 10,615,541
Buildings and improvements	15,411,448	15,470,795	241,596	256,438	15,653,044	15,727,233
Land improvements	3,747,459	4,006,263	740,779	726,737	4,488,238	4,733,000
Furniture and equipment	3,090,657	1,938,523	753,652	944,737	3,844,309	2,883,260
Infrastructure	15,822,037	15,407,061	16,222,847	14,981,351	32,044,884	30,388,412
Construction in progress	9,378,157	4,135,569	124,536	1,783,999	9,502,693	5,919,568
Library books	49,481	50,507			49,481	50,507
Motor vehicles	2,868,368	3,199,138	69,112	82,397	2,937,480	3,281,535
Total	\$ 57,860,143	\$ 51,700,392	\$ 21,319,913	\$ 21,898,664	\$ 79,180,056	\$ 73,599,056

Capital Asset and Debt Administration (continued)

Capital assets (continued).

The Town's active construction projects as of June 30, 2015 include fire station addition and alterations, culvert replacement, drainage and sanitary upgrades in designated areas of the Town and Buck Road extension. Remaining commitments at June 30, 2015 total approximately \$2,765,000. 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. The culvert replacement is funded through the PPV special revenue fund. The commitments for drainage systems are funded from the Capital Improvement Program Special Revenue Fund; the commitments for sanitary sewer upgrades are funded through Sewer Fund operations; and the commitments for Buck Road extension are funded from the Capital Improvement Program Special Revenue Fund.

Additional information on the Town's capital assets can be found in Notes 5 and 12 on pages 48-49 and 94-95, respectively, of this report.

Long-term debt

At June 30, 2015, the Town had total bonded debt outstanding of \$24,776,114, entirely backed by the full faith and credit of the Town. In addition, the Town has \$9,098,900 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$1,311,314. 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	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$24,776,114	\$26,738,114			\$24,776,114	\$26,738,114
Loans payable	450,000	500,000	\$ 8,648,900	\$ 9,662,977	9,098,900	10,162,977
Capital leases	1,311,314	1,908,614			1,311,314	1,908,614
Total	\$26,537,428	\$29,146,728	\$ 8,648,900	\$ 9,662,977	\$35,186,328	\$38,809,705

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, 2014 was \$2,928,758,355, limiting the amount of non-excepted general obligation bonds outstanding to \$87,862,750. At June 30, 2015, bonds outstanding totaled \$24,776,114, of which \$5,080,000 were issued subject to the 3% debt limit and \$19,696,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$24,775,114 represent .85% of assessed property value.

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.

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 and 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. 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 ports of Providence and Davisville provide the Town with excellent shipping facilities.

Economic Factors (continued)

As of September 2015, Middletown had an employed labor force of approximately 8,002 and an unemployment rate of approximately 4.0% (not seasonally adjusted). The U.S. Navy remains the most significant public sector employer on Aquidneck Island and still contributes significant employment opportunities in the area. The 1995 and 2005 Base Realignment and Closure Commission's (BRAC) recommendations firmly established Naval Station Newport as the nation's leading naval educational center, with a net gain of 500 positions as a result of the 2005 BRAC. The Naval Education and Training Center (NETC) currently contains twelve formal schools, including the Naval War College and the Naval Justice School, and hosts a variety of other training and planning activities and groups. The 1995 BRAC also established the Naval Undersea Warfare Center (NUWC) as the Navy's main facility for development, testing and evaluation, engineering and fleet support center for submarines, autonomous underwater systems, undersea offensive and defensive weapon systems, and countermeasures associated with undersea warfare.

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

The services industries group, including businesses related to the local tourism industry, has been the fastest growing private employment sector in the private sector. Several new hotels and restaurants have been approved for development in recent years, and Middletown 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, there are currently no vacant large retail spaces in Middletown. A proposed large-scale retail center is currently under review. Also, in recent months there have been several proposals to renovate or expand existing commercial buildings, including retail and lodging businesses. A new hotel resort and conference facility, which will include 198 rooms, is currently under construction. As the economy improves, it is anticipated that new office development will also continue. The corporate headquarters of Bank Newport has recently been relocated to renovated office/industrial space in the Aquidneck Corporate Park and its back-office operations have been consolidated at this location.

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 & 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. The Town is 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 is also seeking the transfer through a no-cost public benefit conveyance of 15 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. In March 2015, the Town Council adopted the new Middletown Comprehensive Community Plan, which provides the vision, goals and action steps to reach that vision over the next ten years. The Plan was recently approved by the State, and implementation of its recommendations is underway. Improvements to the sewer and storm-water systems are ongoing in several locations. Construction of a fire station expansion and new DPW offices is nearing completion, and improvements to the Town's recreation fields and facilities are currently under consideration.

The Town is 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/completed or are in the process of being constructed/completed. 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, 2015 estimated at \$2.1 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 was \$6.2 million, and the contract was completed as of July 28, 2015. 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 six contracts totaling \$1,598,698. The first contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$537,205, relates to road reconstruction and utility repairs on J H Dwyer Drive and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The second contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$235,450, is for sanitary Sewer spot repairs at Easton's Point and will be paid from the Capital Improvement Program Special Revenue Fund. The third contract was awarded to Fuss & O'Neill, in the amount of \$69,278, for Maidford River watershed assessment and best management practices design. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the National Fish and Wildlife Foundation Sachuest Bay Coastal Resiliency Grant. The fourth contract, awarded to J.H. Lynch & Son, Inc. in the amount of \$297,540, is related to the replacement of the Maidford River culvert at Paradise Avenue and will be paid from the Town's Capital Improvement Program Special Revenue Fund and the National Fish and Wildlife Foundation Sachuest Bay Coastal Resiliency Grant. The fifth contract, awarded to National Water Main Cleaning Company in the amount of \$230,225, relates to the interceptor inspection and will be paid from the Sewer Fund. The sixth contract, awarded to A & M Roofing in the amount of \$229,000, is for roof replacement at Gaudet Middle School and 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, 2015 is \$53,060,194, which represents a 2.2% decrease in value since June 30, 2015. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2015 is \$5,012,256, which represents a 1.6% decrease in value since June 30, 2015. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during the prior fiscal year in order to 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 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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 13,444,281	\$ 4,146,821	\$ 17,591,102
Investments	2,245,408		2,245,408
Accounts receivable, less allowance for doubtful doubtful accounts of \$430,622:			
Property taxes	1,467,461		1,467,461
Federal and state government Assessments and user fees	1,558,703		1,558,703
Loans	100,000	399,036	399,036
Other	1,024,680	143	1,024,823
Inventory		20,411	20,411
Prepaid expenses	103,069		103,069
Internal balances	302,917	(293,579)	9,338
Pensions	5,684,853		5,684,853
OPEB	159,778		159,778
Noncurrent assessments and user fees		451,830	451,830
Capital assets not being depreciated	16,870,693	3,291,928	20,162,621
Capital assets being depreciated, net	40,989,450	18,027,985	59,017,435
Total assets	83,951,293	26,044,575	109,995,868
DEFERRED OUTFLOWS OF RESOURCES:			
Pensions	5,170,427	34,521	5,204,948
Advance refundings	221,900		221,900
Total deferred outflows of resources	5,392,327	34,521	5,426,848
LIABILITIES:			
Accounts payable and accrued expenses	2,303,287	753,472	3,056,759
Unearned revenue	276,469		276,469
Pensions	32,717,042	126,134	32,843,176
Long-term obligations:			
Due within one year	3,089,236	910,386	3,999,622
Due in more than one year	27,564,202	9,856,514	37,420,716
Total liabilities	65,950,236	11,646,506	77,596,742
Commitments and contingencies (Notes 10, 11 and 12)			
DEFERRED INFLOWS OF RESOURCES,			
Pensions	5,132,828	43,069	5,175,897
NET POSITION:			
Net investment in capital assets	31,180,928	12,840,216	44,021,144
Restricted for:			
Prepaid items	103,069		103,069
Long-term loans receivable	100,000		100,000
Perpetual care	129,530		129,530
Principal of endowments	58,608		58,608
Other receivables	7,500		7,500
Grants	346,273		346,273
Other purposes, nonexpendable	159,778		159,778
Unrestricted	(13,825,130)	1,549,305	(12,275,825)
Total net position	\$ 18,260,556	\$ 14,389,521	\$ 32,650,077

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 3,026,939	\$ 915,337	\$ 556,559	\$ 268,957	\$ (1,286,086)		\$ (1,286,086)
Public safety	15,767,344	2,284,147	162,201	(7,619)	(13,328,615)		(13,328,615)
Public works and sanitation	3,537,310	91,403	7,100	(217,841)	(3,656,648)		(3,656,648)
Planning and inspection	561,988	615,586	6,000		59,598		59,598
Library	878,679	19,981	151,266		(707,432)		(707,432)
Education	38,529,212	932,454	13,542,555	261,922	(23,792,281)		(23,792,281)
Community services	591,912		244,975		(346,937)		(346,937)
Interest on long-term debt	996,478				(996,478)		(996,478)
Total governmental activities	63,889,862	4,858,908	14,670,656	305,419	(44,054,879)		(44,054,879)
Business-type activities:							
Sewer	3,699,806	5,037,070			\$ 1,337,264		1,337,264
Parks and recreation	1,533,068	1,503,361			(29,707)		(29,707)
Refuse and recycle	886,749	990,898			104,149		104,149
Total business-type activities	6,119,623	7,531,329			1,411,706		1,411,706
Total	\$ 70,009,485	\$ 12,390,237	\$ 14,670,656	\$ 305,419	(44,054,879)	1,411,706	(42,643,173)
General revenues:							
Property taxes					44,759,248		44,759,248
Grants and contributions not restricted to specific programs					1,883,446		1,883,446
Investment earnings					9,604	3,509	13,113
Miscellaneous					375,149		375,149
Transfers					(35,000)	35,000	-
Total general revenues and transfers					46,992,447	38,509	47,030,956
Change in net position					2,937,568	1,450,215	4,387,783
Net position, beginning of year:							
As previously reported					42,426,717	13,075,241	55,501,958
Prior period adjustment (Note 1)					(27,103,729)	(135,935)	(27,239,664)
As restated					15,322,988	12,939,306	28,262,294
Net position, end of year					\$ 18,260,556	\$ 14,389,521	\$ 32,650,077

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2015

ASSETS	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 7,496,955	\$ 2,347,446	\$ 1,563,221	\$ 2,036,659	\$ 13,444,281
Investments	2,245,408				2,245,408
Accounts receivable, less allowance for doubtful accounts of \$430,622:					
Property taxes	1,467,461				1,467,461
Federal and state government	825,406	733,297			1,558,703
Loans				100,000	100,000
Other	233,266	783,914		7,500	1,024,680
Prepaid expenses	103,069				103,069
Due from other funds	295,536	87,405	115,280	1,017,861	1,516,082
Total assets	\$ 12,667,101	\$ 3,952,062	\$ 1,678,501	\$ 3,162,020	\$ 21,459,684
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 633,343	\$ 263,935	\$ 603,940	\$ 29,303	\$ 1,530,521
Accrued payroll	226,339	66,300			292,639
Accrued compensated absences	67,722				67,722
Due to other funds	1,214,812	79,387		2,639	1,296,838
Unearned revenue	11,382	34,725		7,859	53,966
Total liabilities	2,153,598	444,347	603,940	39,801	3,241,686
Deferred inflows of resources (Note 1)	1,019,069	261,922			1,280,991
Fund balances:					
Nonspendable:					
Prepaid items	103,069				103,069
Long-term loans receivable				100,000	100,000
Perpetual care				129,530	129,530
Principal of endowments				58,608	58,608
Other receivable				7,500	7,500
Restricted for:					
Stormwater management			95,547		95,547
Construction projects			976,714		976,714
Open Space			2,300		2,300
Grants		320,996		25,277	346,273
Committed to:					
West Main Road development	2,903,154				2,903,154
Special education		754,376			754,376
Capital improvements	983,758				983,758
Assigned	159,313	2,170,421		2,801,304	5,131,038
Unassigned	5,345,140				5,345,140
Total fund balances	9,494,434	3,245,793	1,074,561	3,122,219	16,937,007
Total liabilities, deferred inflows of resources and fund balances	\$ 12,667,101	\$ 3,952,062	\$ 1,678,501	\$ 3,162,020	\$ 21,459,684

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, 2015

Total fund balances for governmental funds		\$ 16,937,007
Assets used in governmental activities which are not financial resources and therefore are not reported in the funds:		
Capital assets, net	\$ 57,860,143	
OPEB asset	159,778	
Pension asset	<u>5,684,853</u>	63,704,774
Deferred outflows:		
Pensions	5,170,427	
Advance refundings	<u>221,900</u>	5,392,327
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.		1,058,488
Liabilities not due and payable in the current period which therefore are not reported in the funds:		
Pension liability	(32,717,042)	
Bonds payable	(25,523,462)	
Loans payable	(450,000)	
Capital leases	(1,311,314)	
Claims and judgments	(55,181)	
Unearned revenue	(690,900)	
Compensated absences payable	(2,622,581)	
Accrued interest	<u>(328,732)</u>	(63,699,212)
Deferred Inflows:		
Pensions		<u>(5,132,828)</u>
Net position of governmental activities		<u>\$ 18,260,556</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, 2015

	General Fund	School Department	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 44,833,562				\$ 44,833,562
Intergovernmental	3,139,527	\$ 11,931,087		\$ 1,210,442	16,281,056
Licenses, permits and fees	1,908,585	631,176			2,539,761
Interest and investment income	9,113		\$ 365	126	9,604
State contribution to teachers' pension plan		1,611,468			1,611,468
Other revenues	998,435	301,278		227,302	1,527,015
Total revenues	50,889,222	14,475,009	365	1,437,870	66,802,466
Expenditures:					
Current:					
General government	2,758,270				2,758,270
Public safety	8,877,307				8,877,307
Public works	1,889,765		128,906	23,291	2,041,962
Planning and inspection	562,555				562,555
Library	785,872				785,872
Education		40,263,114			40,263,114
Community services	348,845			77,200	426,045
Other expenditures	6,058,810				6,058,810
Grants	577,562				577,562
Capital outlay	1,224,002		5,321,035		6,545,037
Debt service:					
Principal	2,609,300				2,609,300
Interest	1,038,826				1,038,826
Total expenditures	26,731,114	40,263,114	5,449,941	100,491	72,544,660
Excess (deficiency) of revenues over expenditures	24,158,108	(25,788,105)	(5,449,576)	1,337,379	(5,742,194)
Other financing sources (uses):					
Transfers from other funds	1,433,984	25,711,003	203,104	17,283	27,365,374
Transfers to other funds	(25,934,670)		(34,324)	(1,431,380)	(27,400,374)
Total other financing sources (uses)	(24,500,686)	25,711,003	168,780	(1,414,097)	(35,000)
Excess of expenditures and other financing uses over revenues and other financing sources	(342,578)	(77,102)	(5,280,796)	(76,718)	(5,777,194)
Fund balances, beginning of year	9,837,012	3,322,895	6,355,357	3,198,937	22,714,201
Fund balances, end of year	\$ 9,494,434	\$ 3,245,793	\$ 1,074,561	\$ 3,122,219	\$ 16,937,007

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, 2015

Net change in fund balances for governmental funds		\$ (5,777,194)
Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over the life of the related asset and reported as depreciation expense.		
Capital outlays, including amounts charged to current expenditures	\$ 9,263,412	
Depreciation expense	<u>(3,103,661)</u>	6,159,751
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds		59,964
Change in OPEB obligation is recorded in the statement of activities, but not in the not in the governmental funds		235,534
Change in pension asset is recorded in the statement of activities, but not in the governmental funds		1,290,938
Change in pension liability is recorded in the statement of activities, but not in the governmental funds		4,515,085
Change in pension deferred inflows/outflows is recorded in the statement of activities, but not in the governmental funds		(6,448,419)
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	2,609,300	
Amortization of:		
Deferred outflows on advance refunding	(35,791)	
Bond premiums	<u>70,421</u>	2,643,930
Some expenditures not requiring the use of current financial resources in governmental funds are recorded in the statement of activities:		
Claims and judgments	251,687	
Unearned revenue	49,350	
Accrued compensated absences	<u>(50,776)</u>	250,261
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>7,718</u>
Change in net position of governmental activities		<u>\$ 2,937,568</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET POSITION – ENTERPRISE FUNDS

JUNE 30, 2015

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycle Fund</u>	<u>Total</u>
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 3,314,786	\$ 663,109	\$ 168,926	\$ 4,146,821
Accounts receivable:				
Assessments and user fees	352,550		46,486	399,036
Other		143		143
Inventory			20,411	20,411
	<u>3,667,336</u>	<u>663,252</u>	<u>235,823</u>	<u>4,566,411</u>
Total current assets				
Noncurrent assets:				
Assessments and user fees receivable, less current portion	451,830			451,830
Capital assets not being depreciated	669,572	2,622,356		3,291,928
Capital assets being depreciated, net	16,935,970	1,092,015		18,027,985
	<u>21,724,708</u>	<u>4,377,623</u>	<u>235,823</u>	<u>26,338,154</u>
Total assets				
DEFERRED OUTFLOWS:				
Pension	34,521			34,521
	<u>34,521</u>			<u>34,521</u>
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	488,662	72,702	71,786	633,150
Due to other funds	11,236	279,092	3,251	293,579
Accrued payroll	12,527	54,087	1,632	68,246
Accrued compensated absences	31,551	15,005	5,520	52,076
Current portion of loans payable	910,386			910,386
	<u>1,454,362</u>	<u>420,886</u>	<u>82,189</u>	<u>1,957,437</u>
Total current liabilities				
Pension	126,134			126,134
Noncurrent liabilities, loans payable, net of current portion	9,856,514			9,856,514
	<u>11,437,010</u>	<u>420,886</u>	<u>82,189</u>	<u>11,940,085</u>
Total liabilities				
DEFERRED INFLOWS:				
Pension	43,069			43,069
	<u>43,069</u>			<u>43,069</u>
NET POSITION:				
Net investment in capital assets	9,125,845	3,714,371		12,840,216
Unrestricted	1,153,305	242,366	153,634	1,549,305
	<u>10,279,150</u>	<u>3,956,737</u>	<u>153,634</u>	<u>14,389,521</u>
Total net position				

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, 2015

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Operating revenues:				
Assessments and user fees	\$ 5,017,850		\$ 974,612	\$ 5,992,462
Beach admittance and rental fees		\$1,245,565		1,245,565
Campground admittance and rental fees		213,257		213,257
Other revenues	19,220	44,539	16,286	80,045
	<u>5,037,070</u>	<u>1,503,361</u>	<u>990,898</u>	<u>7,531,329</u>
Total operating revenues				
Operating expenses:				
Salaries and benefits	729,113		35,091	764,204
Materials and supplies	21,983		67,565	89,548
Professional services	206,371		148,415	354,786
Repairs and maintenance	514,448		32	514,480
Utilities	236,179			236,179
Sewage disposal	858,313			858,313
Refuse disposal			602,398	602,398
Beaches		747,717		747,717
Lifeguards		254,427		254,427
Harbormaster		37,663		37,663
Security		26,115		26,115
Campground		45,216		45,216
Parks and recreation		145,204		145,204
Civic appropriations		58,750		58,750
Miscellaneous	8,373	98,728		107,101
Depreciation	638,893	119,248	33,248	791,389
	<u>3,213,673</u>	<u>1,533,068</u>	<u>886,749</u>	<u>5,633,490</u>
Total operating expenses				
Operating income (loss)	<u>1,823,397</u>	<u>(29,707)</u>	<u>104,149</u>	<u>1,897,839</u>
Nonoperating revenues (expenses):				
Interest revenue	3,058	277	174	3,509
Environmental remediation	(324,397)			(324,397)
Interest expense	(161,736)			(161,736)
	<u>(483,075)</u>	<u>277</u>	<u>174</u>	<u>(482,624)</u>
Total nonoperating revenues (expenses)				
Income (loss) before transfers	1,340,322	(29,430)	104,323	1,415,215
Transfers from other funds	-	35,000	-	35,000
	<u>1,340,322</u>	<u>5,570</u>	<u>104,323</u>	<u>1,450,215</u>
Change in net position				
Net position, beginning of year:				
As originally reported	9,074,763	3,951,167	49,311	13,075,241
Restatement (Note 1)	(135,935)			(135,935)
	<u>8,938,828</u>	<u>3,951,167</u>	<u>49,311</u>	<u>12,939,306</u>
As restated				
Net position, end of year	<u>\$ 10,279,150</u>	<u>\$ 3,956,737</u>	<u>\$ 153,634</u>	<u>\$ 14,389,521</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND
STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2015

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 4,986,017	\$ 1,459,029	\$ 1,005,406	\$ 7,450,452
Cash received from other sources	19,220	44,539	16,286	80,045
Cash paid to employees	(729,397)	(909,850)	(32,542)	(1,671,789)
Cash paid to suppliers	(2,383,447)	(423,020)	(838,056)	(3,644,523)
Cash paid to civic groups	(58,750)	(58,750)	(58,750)	(58,750)
Net cash provided by operating activities	<u>1,892,393</u>	<u>111,948</u>	<u>151,094</u>	<u>2,155,435</u>
Cash flows from noncapital financing activities:				
Interfund balances	(1,796,873)	43,229	(6,992)	(1,760,636)
Environmental remediation	(691,522)	(691,522)	(691,522)	(691,522)
Net cash provided by (used in) noncapital financing activities	<u>(2,488,395)</u>	<u>43,229</u>	<u>(6,992)</u>	<u>(2,452,158)</u>
Cash flows from capital and related financing activities:				
Capital contributions	50,496	50,496	50,496	50,496
Acquisition and construction of fixed assets	(120,344)	(79,402)	(199,746)	(199,746)
Principal paid on bonds and notes	(1,014,077)	(1,014,077)	(1,014,077)	(1,014,077)
Interest paid on bonds and notes	(168,082)	(168,082)	(168,082)	(168,082)
Net cash used in capital and related financing activities	<u>(1,252,007)</u>	<u>(79,402)</u>	<u>(1,331,409)</u>	<u>(1,331,409)</u>
Cash provided by investing activities, interest received	<u>3,058</u>	<u>277</u>	<u>174</u>	<u>3,509</u>
Net increase (decrease) in cash and cash equivalents	(1,844,951)	76,052	144,276	(1,624,623)
Cash and cash equivalents, beginning of year	<u>5,159,737</u>	<u>587,057</u>	<u>24,650</u>	<u>5,771,444</u>
Cash and cash equivalents, end of year	<u>\$ 3,314,786</u>	<u>\$ 663,109</u>	<u>\$ 168,926</u>	<u>\$ 4,146,821</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	<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 operating activities:				
Operating income (loss)	\$ 1,823,397	\$ (29,707)	\$ 104,149	\$ 1,897,839
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	638,893	119,248	33,248	791,389
Changes in assets, deferred outflows, liabilities, and deferred inflows:				
Increase in:				
Accounts receivable	(31,833)			(31,833)
Accounts payable and accrued expenses		21,409		21,409
Accrued payroll	36		1,193	1,229
Accrued compensated absences	933	1,897	1,356	4,186
Inventory			(4,451)	(4,451)
Deferred inflows, pension	43,069			43,069
Decrease in:				
Accounts receivable		207	30,794	31,001
Accounts payable and accrued expenses	(537,780)		(15,195)	(552,975)
Accrued payroll		(1,106)		(1,106)
Net pension liability	(52,971)			(52,971)
Deferred outflows, pension	8,649			8,649
Net cash provided by operating activities	<u>\$ 1,892,393</u>	<u>\$ 111,948</u>	<u>\$ 151,094</u>	<u>\$ 2,155,435</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET POSITION –
FIDUCIARY FUNDS

JUNE 30, 2015

	<u>Pension Trust Fund</u>	<u>Other Post- Employment Benefits Trust Fund</u>	<u>Clarke Scholarship Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS:				
Cash and cash equivalents			\$ 10,557	\$ 248,616
Investments:				
Mutual funds	\$ 39,259,333	\$ 3,043,391		140,933
Group annuity	14,340,109			
Money market funds	664,126	2,049,092		
Due from other funds	<u>41,380</u>	<u>20,910</u>		<u>21,383</u>
Total assets	<u>54,304,948</u>	<u>5,113,393</u>	<u>10,557</u>	<u>\$ 410,932</u>
LIABILITIES:				
Accounts payable	\$ 2,809			\$ 1,166
Due to other funds				8,587
Deposits held in custody for others				<u>401,179</u>
Total liabilities				<u>\$ 410,932</u>
NET POSITION:				
Restricted for pension benefits	<u>\$ 54,302,139</u>			
Held in trust for other purposes		<u>\$ 5,113,393</u>	<u>\$ 10,557</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, 2015

	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	\$ 3,690,859	\$ 2,374,874	\$ -
Plan members	95,533	20,910	
	<u>3,786,392</u>	<u>2,395,784</u>	<u>-</u>
Investment income, net:			
Interest income	1,225,735	63,433	-
Net appreciation (depreciation) in fair value of investments	513,665	(44,516)	
	<u>1,739,400</u>	<u>18,917</u>	<u>-</u>
Total additions	<u>5,525,792</u>	<u>2,414,701</u>	<u>-</u>
Deductions from net position:			
Benefits	4,655,198	1,868,832	
Investment expenses	299,357	28,511	
Scholarships			5,000
Total deductions	<u>4,954,555</u>	<u>1,897,343</u>	<u>5,000</u>
Change in net position	571,237	517,358	(5,000)
Net position, beginning of year	<u>53,730,902</u>	<u>4,596,035</u>	<u>15,557</u>
Net position, end of year	<u>\$ 54,302,139</u>	<u>\$ 5,113,393</u>	<u>\$ 10,557</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODEISLAND
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, storm-water, 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 non-exchange 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, 2015

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 non-major 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, 2015

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 non-major 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, 2015

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, 2015

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 Recycling 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, 2015

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, 2015, the Town's deferred inflows of resources, as reported on the accompanying Balance Sheet – Governmental Funds, consist of the following:

Property taxes paid in advance of applicable fiscal year	\$ 43,536
Property tax receivable for payments not received within 60 days after year-end	462,906
Grants not received within 60 days after year-end	372,103
Records preservation revenue received in advance of corresponding expenditure	145,760
Other receivables not received within 60 days after year-end	76,459
Donations received that have not met the eligibility requirements	<u>180,227</u>
Total deferred inflows of resources	<u><u>\$ 1,280,991</u></u>

Property taxes:

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

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:

For the fiscal year ended June 30, 2015, the Town adopted the provisions of Statement No. 68 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 requires the net pension liability to be measured and reported as the total pension liability less the amount of the pension plan's fiduciary net position. In addition, GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expenses. Due to the adoption of GASB 68, the Town has restated its 2015 opening net position, resulting in a decrease in net position of \$27,239,664 at July 1, 2014. The decrease in beginning net position resulted from a \$3,642,380 net increase in noncurrent assets, a \$6,529,188 increase in deferred outflows of resources, and a \$37,411,232 net increase in noncurrent liabilities. The portion of this restatement applicable to the Sewer Fund, totaling \$135,935, has also been reflected in the accompanying statement of revenues, expenses and changes in net position-enterprise funds. The adoption of GASB 68 decreased the net position for the fiscal year ended June 30, 2015 by \$5,148,412 due to pension expense.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Recent accounting pronouncements (continued):

Effective for the fiscal year ending June 30, 2016, the Town will be required to adopt the provisions of Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurement, and provides guidance for determining a fair value measurement for financial reporting purposes. In addition, GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The effect of adopting GASB 72 on the Town's financial statements has not yet been determined.

Effective for the fiscal year ending June 30, 2017, the Town will be required to adopt the provisions of Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses and expenditures related to other postemployment benefits (OPEB) administered through trusts or equivalent arrangements. For defined benefit OPEBs, GASB 75 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, GASB 75 will require more extensive footnote disclosures in employer financial statements. The Town is currently evaluating the effects of GASB 75 on its financial statements.

Effective for the fiscal year ending June 30, 2017, the Town will be required to adopt the provisions of Statement No. 77 of the Governmental Accounting Standards Board, *Tax Abatement Disclosures* (GASB 77). GASB 77 establishes required financial reporting disclosures for governments that enter into tax abatement agreements. The effect of adopting GASB 77 on the Town's financial statements has not yet been determined.

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

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.

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Capital assets (continued):

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.

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:

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, 2015

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, 2015

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2. Fund balances:

At June 30, 2015, the Town is able to report positive net position in all categories for its business-type activities. As a whole, as well as for its governmental activities, the Town reports a negative unrestricted fund balance at June 30, 2015, which is a direct result of implementing GASB 68.

3. Deposits and investments:

Cash and cash equivalents (deposits):

At June 30, 2015, the carrying amount of the Town's deposits, including \$477,633 of cash equivalents, was \$17,850,275 and the bank balance was \$18,706,274. Of the bank balance, \$213,259 was uninsured and uncollateralized; \$18,493,015 was insured and collateralized.

At June 30, 2015, deposits are categorized as follows:

	Insured/ collateralized in Town's name	Total bank balance	Carrying amount
Deposits:			
Demand deposits	\$ 18,228,641	\$ 18,228,641	\$ 17,372,642
Money market	264,374	477,633	477,633
	<u>\$ 18,493,015</u>	<u>\$ 18,706,274</u>	<u>\$ 17,850,275</u>

Investments:

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

	Carrying amount	Maturities	Rating
Certificates of deposit(governmental funds)	\$ 2,245,408	8/7/15to 12/14/15	Not rated
Certificates of deposit (fiduciary funds)	18,509	10/17/15 to 5/26/16	Not rated
Mutual funds (fiduciary funds)	122,424	Not applicable	Not rated
	<u>\$ 2,386,341</u>		

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

3. Deposits and investments (continued):

Investments (continued):

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2015 is \$53,060,194, which represents a 2.2% decrease in value since June 30, 2015. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2015 is \$5,012,256, which represents a 1.6% decrease in value since June 30, 2015. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during the prior fiscal year in order to 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, 2015

3. Deposits and investments (continued):

Investments (continued):

As of June 30, 2015, the following pension investments represent 5% or more of the Town Plan's net position:

John Hancock Life Insurance Company, Group Annuity Contract 795GAC	\$ 14,340,109
T. Rowe Price Blue Chip Growth	7,350,193
Robeco All Cap Value Instl	6,509,464
Ivy Asset Strategy Institutional	2,725,192

As of June 30, 2015, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

Robeco All Cap Value Instl	\$ 833,436
Schwab US Broad Market ETF	603,162
Federated Adjusted Rate SEC Instl	492,901
Dodge & Cox Int'l Stock FD #1048	379,885
Lazard International Strat EqInstl	268,369
Blackrock Inflation Protected Bond I	267,078

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, 2015

4. Interfund transactions:

Interfund receivables and payables at June 30, 2015 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Nonmajor funds	\$ 2,639
	Agency Funds	387
	School Department	931
	Sewer Fund	9,236
	Refuse and Recycling Fund	3,251
	Parks and Recreation Fund	279,092
		295,536
School Department	Agency Funds	8,200
	School lunch program	78,455
	School restricted funds	750
		87,405
Capital Projects Fund	General Fund	115,280
Nonmajor governmental funds	Governmental funds, General Fund	1,015,861
	Enterprise funds, Sewer Fund	2,000
		1,017,861
Fiduciary funds:		
Pension Trust Fund	Governmental funds, General Fund	41,380
Other Postemployment Benefits Trust Fund	Governmental funds, General Fund	20,910
Agency Funds	Governmental funds, General Fund	21,383

TOWN OF MIDDLETOWN, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2015 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds: General Fund	Governmental funds: Nonmajor funds Capital Projects Fund	\$ 1,399,660 34,324
School Department	Governmental funds, General Fund	25,711,003
Capital Projects Fund	Governmental funds, General Fund Nonmajor funds	171,384 31,720
Nonmajor Governmental Funds	Governmental funds, General Fund	17,283
Enterprise funds: Parks and Recreation Fund	Governmental funds, General Fund	<u>35,000</u>
		<u><u>\$ 27,400,374</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

5. Capital assets:

Capital asset activity for the year ended June 30, 2015 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	2,093,096	1,162,122	1,015,825	2,239,393
Other	2,042,473	5,096,291	-	7,138,764
Total capital assets not being depreciated	<u>11,628,105</u>	<u>6,258,413</u>	<u>1,015,825</u>	<u>16,870,693</u>
Capital assets being depreciated:				
Infrastructure	31,893,744	1,141,500	-	33,035,244
Land improvements	5,605,485	-	-	5,605,485
Buildings and improvements	28,985,105	762,356	-	29,747,461
Furniture and equipment	5,976,663	1,842,833	-	7,819,496
Library books	1,557,981	20,000	-	1,577,981
Motor vehicles	6,438,808	254,135	258,429	6,434,514
Total capital assets being depreciated	<u>80,457,786</u>	<u>4,020,824</u>	<u>258,429</u>	<u>84,220,181</u>
Less accumulated depreciation for:				
Infrastructure	(16,486,683)	(726,524)	-	(17,213,207)
Land improvements	(1,599,222)	(258,804)	-	(1,858,026)
Buildings and improvements	(13,514,310)	(821,703)	-	(14,336,013)
Furniture and equipment	(4,038,140)	(690,699)	-	(4,728,839)
Library books	(1,507,474)	(21,026)	-	(1,528,500)
Motor vehicles	(3,239,670)	(584,905)	(258,429)	(3,566,146)
Total accumulated depreciation	<u>(40,385,499)</u>	<u>(3,103,661)</u>	<u>(258,429)</u>	<u>(43,230,731)</u>
Total capital assets being depreciated, net	<u>40,072,287</u>	<u>917,163</u>	<u>-</u>	<u>40,989,450</u>
Governmental activities capital assets, net	<u>\$ 51,700,392</u>	<u>\$ 7,175,576</u>	<u>\$ 1,015,825</u>	<u>\$ 57,860,143</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

5. Capital assets (continued):

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,123,005	\$ 44,386	\$ -	\$ 3,167,391
Construction in progress	1,783,999	44,995	1,704,458	124,536
Total capital assets not being depreciated	<u>4,907,004</u>	<u>89,381</u>	<u>1,704,458</u>	<u>3,291,927</u>
Capital assets being depreciated:				
Land improvements	1,396,813	83,473	-	1,480,286
Buildings and improvements	412,837	-	-	412,837
Equipment	3,313,692	23,729	-	3,337,421
Sewer lines and pumps	18,399,659	1,720,513	-	20,120,172
Vehicles	190,116	-	-	190,116
Total capital assets being depreciated	<u>23,713,117</u>	<u>1,827,715</u>	<u>-</u>	<u>25,540,832</u>
Less accumulated depreciation for:				
Land improvements	(670,076)	(69,431)	-	(739,507)
Buildings and improvements	(156,399)	(14,842)	-	(171,241)
Equipment	(2,368,955)	(214,814)	-	(2,583,769)
Sewer lines and pumps	(3,418,308)	(479,017)	-	(3,897,325)
Vehicles	(107,719)	(13,285)	-	(121,004)
Total accumulated depreciation	<u>(6,721,457)</u>	<u>(791,389)</u>	<u>-</u>	<u>(7,512,846)</u>
Total capital assets being depreciated, net	<u>16,991,660</u>	<u>1,036,326</u>	<u>-</u>	<u>18,027,986</u>
Business-type activities capital assets, net	<u>\$ 21,898,664</u>	<u>\$ 1,125,707</u>	<u>\$ 1,704,458</u>	<u>\$ 21,319,913</u>

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 224,032
Public safety	732,825
Public works and sanitation	1,025,519
Planning and inspection	11,031
Library	87,730
Education	1,001,258
Community services	21,266
	<u>\$ 3,103,661</u>

Business-type activities:

Sewer fund	\$ 638,893
Parks and recreation fund	119,248
Refuse and recycle fund	33,248
	<u>\$ 791,389</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

6. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued Interest	Total
Governmental activities:					
General Fund	\$ 499,143	\$ 47,923	\$ 86,277		\$ 633,343
School Department	262,980		955		263,935
Capital Projects Fund	603,940				603,940
Nonmajor funds	22,098	7,205			29,303
Reconciliation of balances in fund financial statements to government- wide financial statements		83,673	360,361	\$ 328,732	772,766
	<u>\$ 1,388,161</u>	<u>\$ 138,801</u>	<u>\$ 447,593</u>	<u>\$ 328,732</u>	<u>\$ 2,303,287</u>
Business-type activities:					
Sewer	\$ 221,045	\$ 212,829	\$ 44,159	\$ 54,707	\$ 532,740
Parks and Recreation	72,702		69,092		141,794
Refuse and Recycle	71,786		7,152		78,938
	<u>\$ 365,533</u>	<u>\$ 212,829</u>	<u>\$ 120,403</u>	<u>\$ 54,707</u>	<u>\$ 753,472</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

7. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2015 were as follows:

	Balance, July 1, 2014	Additions	Retirements	Balance, June 30, 2015	Due within one year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 26,738,114	\$ -	\$ 1,962,000	\$ 24,776,114	\$ 1,962,000
Deferred premiums	817,769	-	70,421	747,348	70,421
Total bonds payable	27,555,883	-	2,032,421	25,523,462	2,032,421
Loan payable	500,000	-	50,000	450,000	50,000
Capital leases	1,908,614	-	597,300	1,311,314	615,329
Claims and judgments (Note 11)	306,868	-	251,687	55,181	251,687
Unearned revenue, grants	740,250	-	49,350	690,900	49,350
Accrued compensated absences	2,571,805	50,776	-	2,622,581	90,449
	<u>\$ 33,583,420</u>	<u>\$ 50,776</u>	<u>\$ 2,980,758</u>	<u>\$ 30,653,438</u>	<u>\$ 3,089,236</u>
Business-type activities:					
Loans payable	\$ 9,662,977	\$ -	\$ 1,014,077	\$ 8,648,900	\$ 910,386
Environmental remediation obligation (Note 11)	2,626,000	-	508,000	2,118,000	-
	<u>\$ 12,288,977</u>	<u>\$ -</u>	<u>\$ 1,522,077</u>	<u>\$ 10,766,900</u>	<u>\$ 910,386</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, 2015

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, 2015 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, 2014</u>	<u>New issues</u>	<u>Retired</u>	<u>Balance, June 30, 2015</u>
General obligation bonds:								
Road, drainage, open space	\$ 6,500,000	4/1/07	3.5-5.0%	6/15/27	\$ 4,225,000	\$ -	\$ 325,000	\$ 3,900,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	4,200,000		300,000	3,900,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	3,800,000		490,000	3,310,000
Road, drainage, sidewalks and judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	4,250,000		250,000	4,000,000
Town General Bond 13	210,000	11/1/12	2.15%	11/5/17	143,114		42,000	101,114
Town General Bond 14	<u>10,120,000</u>	2/12/14	.47% -4.00%	2/1/34	<u>10,120,000</u>		<u>555,000</u>	<u>9,565,000</u>
Total general obligation bonds	32,715,000				26,738,114	-	1,962,000	24,776,114
Loan payable:								
Rhode Island Clean Water Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>500,000</u>		<u>50,000</u>	<u>450,000</u>
Total	<u>\$ 33,715,000</u>				<u>\$ 27,238,114</u>	<u>\$ -</u>	<u>\$ 2,012,000</u>	<u>\$ 25,226,114</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2014 was \$2,928,758,355, limiting the amount of non-excepted general obligation bonds outstanding to \$87,862,750. At June 30, 2015, bonds outstanding totaled \$24,776,114, of which \$5,080,000 were issued subject to the 3% debt limit and \$19,696,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$24,776,114 represent .85% 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, 2015, 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, 2015, the balance of the defeased debt totaled \$3,310,000.

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, 2015

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, 2014</u>	<u>New issues</u>	<u>Maturities</u>	<u>Balance, June 30, 2015</u>
Enterprise Fund, Sewer:								
Rhode Island Clean Water Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 105,052	\$ -	\$ 105,052	\$ -
Rhode Island Clean Water Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	408,641		46,025	362,616
Rhode Island Clean Water Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,375,000		125,000	1,250,000
Rhode Island Clean Water Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	3,900,000		300,000	3,600,000
Rhode Island Clean Water Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	1,922,000		138,000	1,784,000
Rhode Island Clean Water Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	603,284		150,000	453,284
Rhode Island Clean Water Finance Agency	<u>1,500,000</u>	6/28/12	.22%-1.89%	9/1/22	<u>1,349,000</u>		<u>150,000</u>	<u>1,199,000</u>
	<u>\$ 17,249,282</u>				9,662,977	-	1,014,077	8,648,900
Less current portion					<u>(1,014,077)</u>			<u>(910,386)</u>
					<u>\$ 8,648,900</u>			<u>\$ 7,738,514</u>

At June 30, 2015, 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, 2015

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, 2015 of \$66,908 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.

<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, 2014</u>	<u>New issues</u>	<u>Maturities</u>	<u>Balance, June 30, 2015</u>
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 884,677	\$ -	\$ 180,291	\$ 704,386
Fire pumper and ladder	1,349,700	6/15/12	2.78%	10/1/15	532,943		262,779	270,164
Town and School vehicles	455,465	10/12/12	2.37%	11/5/17	272,096		88,560	183,536
School Bleachers and DPW vehicle	245,000	11/15/13	3.01%	8/1/17	184,213		56,802	127,411
DPW Vehicle (additional lease)	45,425	5/1/14	3.04%	8/1/17	34,685		8,868	25,817
	<u>\$ 4,371,590</u>				<u>\$ 1,908,614</u>	<u>\$ -</u>	<u>\$ 597,300</u>	<u>\$ 1,311,314</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

7. Long-term obligations (continued):

At June 30, 2015, scheduled annual debt service requirements for the bonds payable, loans payable and capital leases (excluding interest adjustments for the undrawn balance) are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Governmental activities:			
<i>Bonds and loans payable:</i>			
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	1,945,000	654,610	2,599,610
2021-2025	8,280,000	2,253,093	10,533,093
2026-2035	7,050,000	1,052,075	8,102,075
	<u>\$ 25,226,114</u>	<u>\$ 7,275,387</u>	<u>\$ 32,501,501</u>
<i>Capital lease obligations:</i>			
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>\$ 1,311,314</u>	<u>\$ 93,614</u>	<u>\$ 1,404,928</u>
Business-type activities:			
<i>Loans payable:</i>			
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	766,243	93,889	860,132
2021-2025	3,375,257	252,888	3,628,145
2026-2030	1,004,000	24,800	1,028,800
	<u>\$ 8,648,900</u>	<u>\$ 899,945</u>	<u>\$ 9,548,845</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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 (ERSRI) (Teachers' Plans), the Municipal Employees' Retirement System of the State of Rhode Island, a hybrid plan with a defined contribution component not including police officers and firefighters (Municipal Plan), the Town of Middletown Retirement Plan (Town Plan) or the Town of Middletown 401(a) Defined Contribution Plan (401(a) 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, a full-time Fire Civilian Dispatcher hired prior to June 30, 2012, Police Department police officers sworn in on or after January 1, 2000, 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.

Teachers' Plans

Defined Benefit Pension Plan:

Plan description:

Certain employees of the Town participate in cost-sharing multiple-employer defined benefit pension plans - the Employees' Retirement System plan (ERS) –and the Teachers' Survivors Benefit (TSB) plan (collectively the Teachers' Plans) administered by the Employees' Retirement System of the State of Rhode Island (the System). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The ERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries, and the TSB plan provides a survivor benefit to public school teachers in lieu of Social Security since not all school districts participate in Social Security.

The System issues a publicly available financial report that includes financial statements and required supplemental information for the plans. The report may be obtained at <http://www.ersri.org>.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Benefit provisions:

ERS:

The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after five years of service.

The plan provides for survivor's benefits for service-connected death and certain lump-sum death benefits. Joint and survivor benefit provision options are available to members. Cost-of-living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost-of-living adjustments are provided at five-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability benefits with no minimum service requirement

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Benefit provisions (continued):

TSB:

The TSB plan provides a survivor benefit to public school teachers in lieu of Social Security since not all school districts participate in the plan. Specific eligibility criteria and the amount of the benefit is subject to the provisions of Chapter 16-16 of the Rhode Island General Laws which are subject to amendment by the General Assembly. Spouse, parents, family and children's benefits are payable following the death of a member. A spouse shall be entitled to benefits upon attaining the age of 60 years. Children's benefits are payable to the child, including a stepchild or adopted child of a deceased member if the child is unmarried and under the age of 18 years or 23 years and a full-time student, and was dependent upon the member at the time of the member's death. Family benefits are provided if at the time of the member's death the surviving spouse has in his or her care a child of the deceased member entitled to child benefits. Parents benefits are payable to the parent or parents of a deceased member if the member did not leave a widow, widower, or child who could ever qualify for monthly benefits on the member's wages and the parent has reached the age of 60 years, has not remarried, and received support from the member.

In January, a yearly cost-of-living adjustment for spouse's benefits is paid based on the annual social security adjustment. Survivors are eligible for benefits if the member has made contributions for at least six months prior to death or retirement. The TSB plan provides benefits based on the highest salary at the time of retirement of the teacher. Benefits are payable in accordance with the following table:

<u>Highest Annual Salary</u>	<u>Basic Monthly Spouse's Benefit</u>
\$17,000 or less	\$ 750
\$17,001 to \$25,000	\$ 875
\$25,001 to \$33,000	\$ 1,000
\$33,001 to \$40,000	\$ 1,125
\$40,001 and over	\$ 1,250

Benefits payable to children/families are equal to the spousal benefit multiplied by the % below:

<u>Parent and 1 Child</u>	<u>Parent and 2 or more Children</u>	<u>One Child Alone</u>	<u>Two Children Alone</u>	<u>Three or more Children Alone</u>	<u>Dependent Parent</u>
150%	175%	75%	150%	175%	100%

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued):

Defined Benefit Pension Plan (continued):

Contributions:

ERS:

The funding policy, as set forth in the General Laws, Section 16-16-22, provides for actuarially determined periodic contributions to the plan. For fiscal 2015 Middletown teachers were required to contribute 3.75% of their annual covered salary. The State of Rhode Island (State) and the employer are required to contribute at an actuarially determined rate, 40% of which is to be paid by the State and the remaining 60% is to be paid by the employer. The rates were 9.19% and 13.41% of annual covered payroll for the fiscal year ended June 30, 2015 for the State and the Town, respectively.

The Town contributed \$2,381,128, \$2,146,841, and \$2,090,418 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to 100% of the required contributions for each year.

TSB:

The contribution requirements of active employees and the participating school districts were established under Chapter 16-16 of the Rhode Island General Laws, which may be amended by the General Assembly. The cost of the benefits provided by the plan are two percent (2%) of the member's annual salary up to but not exceeding an annual salary of \$9,600; one-half (1/2) of the cost is contributed by the member by deductions from his or her salary, and the other half (1/2) is contributed and paid by the respective school district by which the member is employed. These contributions are in addition to the contributions required for regular pension benefits.

The Town contributed \$22,191, \$22,288 and \$22,513 to the TSB Plan for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to 100% of the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources:

ERS:

At June 30, 2015, the Town reported a liability of \$26,536,897 for its proportionate share of the net pension liability that reflected a reduction for contributions made by the State.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (continued):

ERS (continued):

The amount recognized by the Town as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the Town were as follows:

Town's proportionate share of the net pension liability	\$ 26,536,897
State's proportionate share of the net pension liability associated with the Town	<u>18,197,573</u>
Total net pension liability	<u>\$ 44,734,470</u>

The net pension liability was measured as of June 30, 2014, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2014, the Town's proportion was 1.09%.

Subsequent to June 30, 2014 (the measurement date), litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (continued):

ERS (continued):

- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost-of-living increases will occur at four-year rather five-year intervals.
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

These amendments are not considered to have a material effect on the net pension liability had they been retroactively applied to the calculation of the total pension liability at June 30, 2013 rolled forward to June 30, 2014. An actuarial analysis of the pension settlement provisions enacted by the General Assembly and approved by the Court indicated that the funded ratio at June 30, 2014 for teachers (determined on a funding basis) decreased from 59.6% to 58.2%.

For the year ended June 30, 2015, the Town recognized gross pension expense of \$3,109,765 and revenue of \$1,552,648 for support provided by the State. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to the ERS from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Contributions subsequent to the measurement date	\$ 2,381,128	
Net difference between projected and actual investment earnings		\$ 2,285,111
Changes in assumptions		939,987
	\$ 2,381,128	\$ 3,225,098

Deferred outflows of resources totaling \$2,381,128 related to the ERS resulting from the Town's contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2016.

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (continued):

ERS (continued):

Deferred inflows of resources related to this plan will be recognized in pension expense as follows:

Year ending June 30,	Amount
2016	\$ 704,364
2017	704,364
2018	704,364
2019	704,364
2020	133,086
Thereafter	274,556
	\$ 3,225,098

TSB:

At June 30, 2015, the Town reported an asset of \$4,548,498 for its proportionate share of the net pension asset related to its participation in TSB. The net pension asset was measured as of June 30, 2014, the measurement date, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014. The Town's proportion of the net pension asset was based on its share of contributions to the TSB for fiscal year 2014 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2014, the Town's proportion was 3.66%.

For the year ended June 30, 2015, the Town recognized pension expense of (\$350,613) – an increase in the net pension asset from the prior year. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to the TSB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Contributions subsequent to the measurement date	\$ 22,191	
Net difference between projected and actual investment earnings		\$ 595,269
	\$ 22,191	\$ 595,269

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (continued):

TSB (continued):

Deferred outflows of resources, totaling \$22,191, related to the TSB resulting from the Town's contributions in fiscal year 2015 subsequent to the measurement date will be recognized as an addition to the net pension asset for the year ended June 30, 2016. Deferred inflows of resources related to the TSB will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ (148,817)
2017	(148,817)
2018	(148,817)
2019	(148,818)
	<u>\$ 595,269</u>

Actuarial Assumptions:

ERS and TSB:

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 6.50% (ERS) 3.50% to 13.50% (TSB Plan)
Investment rate of return	7.50%

Mortality – male and female teachers: 97% and 92%, respectively, of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.

Cost-of-living adjustment (TSB Plan) – eligible survivors receive a yearly cost-of-living adjustment based on the annual social security adjustment – for valuation purposes, a 2.75% cost-of-living adjustment is assumed.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Actuarial Assumptions (continued):

ERS and TSB (continued):

The actuarial assumptions used in the June 30, 2013 valuation rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms.

The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission's investment consultant, which are generally consistent with averages used by the actuary, are summarized in the following table:

<u>Asset Class</u>	<u>Target allocation</u>	<u>Medium-term expected real rate of return</u>
Global Equity	38%	6.05%
Private Equity	7%	9.05%
Equity Hedge funds	8%	4.75%
Absolute return hedge	7%	2.95%
Real Return	14%	3.85%
Real Estate	8%	4.45%
Core Fixed	15%	0.25%
Cash	3%	-0.50%
	<u>100%</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Actuarial Assumptions (continued):

ERS and TSB (continued):

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

Discount Rate:

ERS and TSB:

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. 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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Benefit Pension Plan (continued):

Sensitivity of the Town's proportionate share of the net pension liability (asset) to changes in the discount rate

The following presents the Town's proportionate share of the net pension liability (asset), calculated using the discount rate of 7.50%, as well as what the Town's proportionate share of the net pension liability (asset) 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%)
	<hr/>	<hr/>	<hr/>
Net pension liability (ERS)	\$ 33,234,184	\$ 26,536,897	\$ 19,702,188
Net pension asset (TSB)	\$ (3,897,997)	\$ (4,548,498)	\$ (5,198,904)

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued ERSRI financial report.

Defined Contribution Pension Plan - ERS

Plan description:

Employees participating in the ERS defined benefit plan, as described above, also participate in a defined contribution plan 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. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions and any investment earnings thereon are vested after three years of contributory service. Benefit terms and contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Teachers' Plans (continued)

Defined Contribution Pension Plan - ERS (continued)

Plan description (continued):

As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying employees will increase slightly beginning in fiscal 2016.

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

The Town's required and actual contributions to the defined contribution portion of the ERS Plan for fiscal year 2015 was \$382,300, the State contribution on behalf of the Teachers was \$58,820, and the federal contribution was \$15,333. The Town recognized pension expense of \$456,453 for the fiscal year ended June 30, 2015.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the System. The report may be obtained at <http://www.ersri.org>.

Municipal Plan

Summary of Significant Accounting Policies:

Defined Benefit Pension Plan:

Plan description:

The Municipal Employees' Retirement System (MERS) – an agent multiple-employer defined benefit pension plan - provides certain retirement, disability and death benefits to plan members and beneficiaries. MERS was established under Rhode Island General Law and placed under the management of the Employee's Retirement System of Rhode Island (ERSRI) Board to provide retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate. Benefit provisions are subject to amendment by the General Assembly.

MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the ERSRI website at www.ersri.org.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Summary of Significant Accounting Policies (continued):

Defined Benefit Pension Plan (continued):

Benefit Provisions:

For general employees prior to June 30, 2012 the plan provided retirement benefits equal to 2% of a member's final average salary multiplied by the number of years of total service up to a maximum of 75%. Such benefits are available to members at least age 58 with 10 years of service or after 30 years of service at any age. Benefits accrued at June 30, 2012 are protected under the Rhode Island Retirement Security Act until it is exceeded by the member's full years of service credit, including service after June 30, 2012, multiplied by the average of five consecutive years of compensation. Effective July 1, 2012 the retirement age mirrors the Social Security Normal Retirement Age, not to exceed age 67. Members receive a benefit accrual of 1.0% per year based on the five-year average compensation. Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that provides for the payment of a larger benefit before the attainment of age 62 and a reduced amount thereafter. The reduced amount is equal to the benefit before age 62, including cost-of-living increases, minus the member's estimated social security benefit payable at age 62.

Prior to June 30, 2012, police and fire personnel may retire at age 55 if they have 10 years of service or after 25 years of service at any age. An option may be elected to provide a 20 year service pension with a benefit equal to 2.5% for each year of service up to a maximum of 75% for police and fire personnel. Benefits are based on the average of the highest 3 consecutive years' earnings, exclusive of overtime.

Effective July 1, 2012, the retirement age is 55 years old with 25 years of total service or for members with five years of service but less than 25 years of service the new retirement age mirrors the Social Security Normal Retirement Age not to exceed 67. Police officers or firefighters that are at least 45 years old, have 10 or more years of contributing service and are eligible to retire prior to age 52 under the law in effect on June 30, 2012, may retire at age 52.

As of June 30, 2012, members will continue to have a frozen benefit accrual of 2.0% per year for a standard 25 year with any age and out plan; 2.5% for a standard 20 year with any age and out plan. Effective July 1, 2012, the optional 20 and 25 year with retirement at any age plans have been eliminated. The benefit accrual for all plans will be 2.0% per year based on the five-year average compensation, exclusive of overtime. Police and fire employees may retire with a reduced pension benefit if they have 20 years of service and are within five years of their retirement eligibility. The actuarially reduced benefit is calculated based on how close the member is to the eligibility date per RIRSA. The plan also provides survivor's benefits; and certain lump-sum death benefits. Plan members are vested after five years of service.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Benefit Provisions (continued):

An optional cost-of-living provision may be elected for police and fire personnel, and general employees. The Cost of Living Adjustment (COLA) has been suspended for any unit whose funding level is less than 80%. The COLA provision can be reviewed in a five-year interval. When the funding level of a plan exceeds 80% funded eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. For police and fire units, COLA will be delayed until the later of age 55 or three years after retirement. For general employee units, COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first \$25,000 of benefits indexed annually.

The plan also provides nonservice-connected disability benefits after five years of service; service-connected disability pensions with no minimum service requirement.

Employees covered by benefit terms: At the June 30, 2013 valuation date (the latest available), the following employees were covered by the benefit terms:

	<u>General</u>	<u>Police/Fire</u>
Retirees and beneficiaries	41	0
Inactive, non-retired members	23	7
Active members	136	51
	<u>200</u>	<u>58</u>

Contributions:

The amounts of employee and employer contributions have been established under Rhode Island General Law Chapter 45-21. General employees are required to contribute 2% of their salaries. Public safety employees are required to contribute 8% of their salaries. The Town contributes at a rate of covered employee payroll as determined by an independent actuary on an annual basis. The General Assembly can amend the amount of these contribution requirements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Contributions (continued):

For employees covered under the general unit the Town contributed \$615,952 in the year ended June 30, 2015, which was 11.4% of annual covered payroll of \$5,407,816. For employees covered under the police/fire unit, the Town contributed \$222,974 in the year ended June 30, 2015, which was 6.6% of annual covered payroll of \$3,399,526.

Net Pension Liability (Asset):

The total pension liability (asset) was determined by actuarial valuations performed as of June 30, 2013 and rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Subsequent to June 30, 2014 (the measurement date), litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost-of-living increases will occur at four-year rather five-year intervals.
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

The Town police group in the police/fire unit of the Municipal Plan is one of the groups that continues to legally challenge the legislatively enacted pension reforms. Until these challenges are resolved, the terms of the Settlement Agreement will apply.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Net Pension Liability (Asset) (continued):

Summary of Actuarial Assumptions Used in the Valuations to determine the Net Pension Liability at the June 30, 2014 measurement date (June 30, 2013 valuation rolled forward to June 30, 2014)	
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	21 years at June 30, 2014
Actuarial Assumptions	
Investment Rate of Return	7.50%
Projected Salary Increases	General Employees - 3.50% to 7.50% ; Police & Fire Employees - 4.00% to 14.00%
Inflation	2.75%
Mortality	<ul style="list-style-type: none"> • Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. • Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.
Cost of Living Adjustments	COLA is 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 latter of Social Security eligibility age or 3 years after retirement except for MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement. A 2% COLA is assumed after January 1, 2014.

The actuarial assumptions used in the June 30, 2013 valuation rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Net Pension Liability (Asset) (continued):

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms. The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission's investment consultant, which are generally consistent with the averages utilized by the actuary, are summarized in the following table:

<u>Asset Class</u>	<u>Target allocation</u>	<u>Medium-term expected real rate of return</u>
Global Equity	38%	6.05%
Private Equity	7%	9.05%
Equity Hedge funds	8%	4.75%
Absolute return hedge	7%	2.95%
Real Return	14%	3.85%
Real Estate	8%	4.45%
Core Fixed	15%	0.25%
Cash	3%	-0.50%
	<u>100%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Discount Rate:

The discount rate used to measure the total pension liability of the plan was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. 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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability (Asset):

Changes in the Net Pension Liability (Asset)			
MERS General Unit	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of June 30, 2013	\$ 18,903,962	\$ 15,094,377	\$ 3,809,585
Changes for the year:			
Service cost	485,224	-	485,224
Interest on the total pension liability	1,399,456	-	1,399,456
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	(74,921)	-	(74,921)
Employer contributions	-	664,994	(664,994)
Employee contributions	-	113,801	(113,801)
Net investment income	-	2,287,085	(2,287,085)
Benefit payments, including employee refunds	(974,316)	(974,316)	-
Administrative expense	-	(14,322)	14,322
Other changes	-	124	(124)
Net changes	835,443	2,077,366	(1,241,923)
Balances as of June 30, 2014	\$ 19,739,405	\$ 17,171,743	\$ 2,567,662

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Net Pension Liability (Asset):

Changes in the Net Pension Liability (Asset)			
MERS Police/Fire unit	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of June 30, 2013	\$ 2,919,985	\$ 3,733,572	\$ (813,587)
Changes for the year:			
Service cost	492,417	-	492,417
Interest on the total pension liability	235,509	-	235,509
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	(109,693)	-	(109,693)
Employer contributions	-	100,942	(100,942)
Employee contributions	-	227,700	(227,700)
Net investment income	-	615,657	(615,657)
Benefit payments, including employee refunds	(52,136)	(52,136)	-
Administrative expense	-	(3,855)	3,855
Other changes	-	557	(557)
Net changes	566,097	888,865	(322,768)
Balances as of June 30, 2014	\$ 3,486,082	\$ 4,622,437	\$ (1,136,355)

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the Town's net pension liability (asset), calculated using the discount rate of 7.50%, as well as what the Town's net pension liability (asset) 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%)
Net pension liability-MERS General	\$ 4,642,688	\$ 2,567,662	\$ 492,635
Net pension asset-MERS Police/Fire	\$ (782,339)	\$ (1,136,355)	\$ (1,490,372)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued ERSRI financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended June 30, 2015, the employer recognized pension expense of \$417,743 for the MERS General Unit and \$139,032 for the MERS Police/Fire Unit. The Town reported deferred outflows and inflows of resources related to the MERS General Unit from the following sources:

<u>MERS-General Unit</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Contributions subsequent to measurement date	\$ 615,952	
Differences in assumptions		\$ 64,375
Excess (deficit) investment returns		930,297
	<u>\$ 615,952</u>	<u>\$ 994,672</u>

Deferred outflows of resources totaling \$615,952 related to the MERS General Unit resulting from the Town's contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the pension liability for the year ending June 30, 2016. Amounts reported as deferred inflows of resources related to the MERS General Unit will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2016	\$ (243,120)
2017	(243,120)
2018	(243,120)
2019	(243,121)
2020	(10,546)
Thereafter	<u>(11,645)</u>
	<u>\$ (994,672)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan (continued):

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued):

The Town reported deferred outflows and inflows of resources related to the MERS Police/Fire Unit from the following sources:

<u>MERS-Police/Fire Unit</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Contributions subsequent to measurement date	\$ 222,974	
Differences in assumptions		\$ 100,543
Excess (deficit) investment returns		260,315
	<u>\$ 222,974</u>	<u>\$ 360,858</u>

Deferred outflows of resources totaling \$222,974 related to the MERS Police/Fire Unit resulting from the Town's contributions in fiscal year 2015 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2016. Amounts reported as deferred inflows of resources related to the MERS Police/Fire Unit will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	
2016	\$ (74,229)
2017	(74,229)
2018	(74,229)
2019	(74,229)
2020	(9,150)
Thereafter	<u>(54,793)</u>
	<u>\$ (360,858)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Municipal Plan (continued)

Defined Contribution Pension Plan:

The municipal employees in the general unit participate in the defined contribution plan of the ERSRI 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. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Benefit terms and 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.

As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying employees will increase slightly beginning in fiscal 2016.

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

The Town recognized pension expense of \$54,078 for the fiscal year ended June 30, 2015.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the System. The report may be obtained at <http://www.ersiri.org>.

Town Plan

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Plan description (continued):

Plan Administration (continued)

At the end of the prior 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 continued into the first quarter of fiscal year 2015.

Plan Membership

As of July 1, 2014, the date of the latest actuarial valuation, pension plan membership consisted of the following:

<u>Membership Status</u>	<u>Count</u>
Inactive plan members or beneficiaries currently receiving benefits	140
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>13</u>
	<u><u>157</u></u>

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Benefits provided (continued):

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 on 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 on 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 on 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.

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Benefits provided (continued):

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, 2015

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, 2015, the Town contributed \$3,690,859 to the Plan.

Investments:

Rate of return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.93%. 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 generally 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, 2015 were as follows:

Total pension liability	\$ 58,219,398
Plan fiduciary net position	<u>(54,480,781)</u>
Town's net pension liability	<u>\$ 3,738,617</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.58%</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended June 30, 2015, the Town recognized pension expense of \$1,832,485. At June 30, 2015, the Town reported deferred outflows of resources of \$1,962,703 for differences between projected and actual earnings.

The difference between projected and actual investment earnings is recognized over five years, in accordance with the provisions of GASB 68. The differences between expected and actual experience, and the effect of changes in assumptions are recognized over the average expected remaining service of all participants, which is 0.41 years. This means that the difference between expected and actual experience, and the effect of changes in assumptions are effectively recognized immediately.

Deferred outflows of resources related to the Town Plan will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Deferred outflows of resources</u>
2016	\$ 490,676
2017	490,676
2018	490,676
2019	<u>490,675</u>
	<u>\$ 1,962,703</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Actuarial Assumptions

The June 30, 2015 total pension liability was determined by 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, 2015.

Mortality rates were based on 115% of RP-2000 Combined Mortality for Males with White Collar adjustments, projected generationally with Scale AA from 2000 and 95% of RP-2000 Combined Mortality for Females with White Collar adjustments, projected generationally with Scale AA from 2000.

The interest rate was determined through a forecast of the expected return of the plan's assets over the next 30 years. Forecast values were generated using the GEMS Economic Scenario Generator. Based on this model, the rate of return assumption was set to be 7.50% per year.

The interest rate analysis was based on the following planned asset allocation for the Plan as of January 2015:

<u>Asset Class</u>	<u>Allocation</u>
Global Equity	31.50%
Emerging Market Equity	7.00%
Investment Grade Bonds/Cash	1.40%
High Yield/Convertible Bonds	10.50%
Emerging Market Bonds	2.10%
Dynamic Asset Allocation/Alternatives	17.50%
Hancock IPG	30.00%
	<u>100.00%</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

Actuarial Assumptions (continued)

The 50th percentile of the 30-year projection of inflation from GEMS is 2.85%, which forms the basis of the underlying inflation assumption of 3.0% per year.

Municipal bond rate

3.73%. This rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Retirement age

Police and Fire Department rates according to the following table:

Years of Service	Percent Retiring
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

Disability Incidence

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

Expenses

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

The Experience Study report dated June 2015, covering the period July 2009 – June 2014, outlines the most recent comprehensive review of the actuarial assumptions noted above.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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 3.73% would have been used in the development of the blended GASB discount rate after that point. The 3.73% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Changes in the Net Pension Liability (Asset)			
Town Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of June 30, 2014	\$ 57,591,213	\$ 54,053,661	\$ 3,537,552
Changes for the year:			
Service cost	297,782	-	297,782
Interest on the total pension liability	4,170,261	-	4,170,261
Changes in benefits	-	-	-
Difference between expected and actual experience	615,865	-	615,865
Changes in assumptions	199,475	-	199,475
Employer contributions	-	3,594,123	(3,594,123)
Employee contributions	-	92,124	(92,124)
Net investment income	-	1,558,969	(1,558,969)
Benefit payments, including employee refunds	(4,655,198)	(4,655,198)	-
Administrative expense	-	(162,898)	162,898
Other changes	-	-	-
Net changes	628,185	427,120	201,065
Balances as of June 30, 2015	\$ 58,219,398	\$ 54,480,781	\$ 3,738,617

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

8. Pension plans (continued):

Town Plan (continued)

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 1percentage-point lower (6.50%) or 1percentage-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 (asset)	\$ 9,522,730	\$ 3,738,617	\$ (1,154,369)

Town 401(a) Defined Contribution Plan

Plan description:

The Town implemented a Defined Contribution 401(a) Plan during the prior fiscal year, as authorized by RIGL45-21-8. 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%. Annual covered payroll during the fiscal year was \$100,244, and the plan members and the Town each contributed \$6,009 during the fiscal year ended June 30, 2015.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2015 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, 2015.

Benefits and employee contributions:

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$1,868,832 for the year ended June 30, 2015.

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, 2015, the membership census is as follows:

Active employees	313
Retirees and beneficiaries	<u>257</u>
	<u>570</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, 2015, and the Town's net OPEB asset as of June 30, 2015.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

Annual required contribution	\$ 2,137,625
Interest on net OPEB obligation	5,757
Adjustment to annual required contribution	<u>(5,041)</u>
Annual OPEB cost	2,138,341
Contributions made during the year	<u>2,374,875</u>
Decrease in net OPEB obligation	(236,534)
Net OPEB obligation at beginning of year	<u>76,756</u>
Net OPEB asset at end of year	<u><u>\$ (159,778)</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 (asset) as of June 30, 2013, 2014 and 2015 are as follows:

Year ended June 30,	OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation (asset)
2013	\$ 2,126,075	101.80%	\$ 406,313
2014	\$ 2,057,935	116.01%	\$ 76,756
2015	\$ 2,138,341	111.06%	\$ (159,778)

Funded status and funding progress:

As of June 30, 2015, the funded status and funding progress were as follows:

Funded ratio	17.6%
Actuarial accrued liability for benefits	\$ 28,674,176
Actuarial value of assets	\$ 5,035,873
Unfunded actuarial accrued liability (UAAL)	\$ 23,638,303
Covered payroll	\$ 25,239,094
UAAL to covered payroll	93.7%

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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Other postemployment benefits (continued):

Actuarial methods and assumptions:

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

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

Measurement date:	June 30, 2015
Actuarial cost method:	Projected Unit Credit
Investment rate of return:	7.5%
Funding Method:	Pre-funding the UAAL by contributing the ARC annually over the 22 year amortization period
Asset valuation method:	Market value
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 7.5% per year, decreasing to a rate of 5.0% per year after ten years; and post-Medicare rate of 6.0% per year, decreasing to a rate of 5.0% after ten years.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Other postemployment benefits (continued):

Changes since prior valuation:

The health care trend assumption has been changed to reflect lower rate increases for plans coordinating with Medicare, and increased the ultimate trend level to reflect higher long-term inflation expectations.

The aging assumption has been revised based on data from the study “Health Care Costs – From Birth to Death” prepared by Dale H. Yamamoto and sponsored by the Society of Actuaries.

The retirement, termination, disability, and mortality rates have been revised to be consistent with those presented in the 2014 ERSRI Actuarial Experience Study.

Federal health care reform provisions under the Affordable Care Act, along with the State of Rhode Island pension reform and recent Settlement Agreement, 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, 2015.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

10. Risk management (continued):

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.

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/completed or are in the process of being constructed/completed. 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, 2015 estimated at \$2.1 million, which has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Litigation and contingencies:

Litigation (continued):

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 was \$6.2 million, and the contract was completed as of July 28, 2015. 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 \$3,467,000 for the year ended June 30, 2015.

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, 2015

12. Commitments and subsequent events:

Construction commitments:

The Town has active construction projects as of June 30, 2015, including culvert replacement, fire department building additions and alterations, Aquidneck Ave sewer improvements, and drainage and sanitary cured in place pipe and upgrades in designated areas of the Town. At June 30, 2015, 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: DrummeyRosane Anderson, Inc, Farrar Associates and Iron Construction Co.	7,331,058	728,175
Aquidneck Ave Sewer Improvements: C.B. Utility Company and James J. Geremia and Associates, Inc.	657,084	123,061
Commodore Perry Cured in Place Pipe: National Water Main Cleaning Co.	578,290	111,318
Surveying & Engineering-Vernon and Fenner Avenue: James J. Geremia and Associates, Inc.	49,598	839
Easton's Point Sewer Cured in Place Pipe: National Water Main Cleaning Company	492,201	158,094
Easton's Point Sewer Spot Repair: East Coast Construction	3,367,320	33,202
Upper Easton's Point CCTV: National Water Main Cleaning Co.	54,159	54,979
J H Dwyer Slip Lining Sewer and Stormdrain: National Water Main Cleaning Company	-	357,126
Buck Road Extension: JAM Construction & Materials	51,158	84,314
Forest Ave Sewer and Road drainage Improvements: C.B. Utility Company and James J. Geremia and Associates, Inc.	1,937,979	1,101,353
	<u>\$ 14,620,655</u>	<u>\$ 2,765,498</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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:

Subsequent to year-end, the Town executed six contracts totaling \$1,598,698. The first contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$537,205, relates to road reconstruction and utility repairs on J H Dwyer Drive and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The second contract, awarded to East Coast Landscaping & Construction Co. in the amount of \$235,450, is for sanitary Sewer spot repairs at Easton's Point and will be paid from the Capital Improvement Program Special Revenue Fund. The third contract was awarded to Fuss & O'Neill, in the amount of \$69,278, for Maidford River watershed assessment and best management practices design. This contract will be paid from the Capital Improvement Program Special Revenue Fund and the National Fish and Wildlife Foundation Sachuest Bay Coastal Resiliency Grant. The fourth contract, awarded to J.H. Lynch & Son, Inc. in the amount of \$297,540, is related to the replacement of the Maidford River culvert at Paradise Avenue and will be paid from the Town's Capital Improvement Program Special Revenue Fund and the National Fish and Wildlife Foundation Sachuest Bay Coastal Resiliency Grant. The fifth contract, awarded to National Water Main Cleaning Company in the amount of \$230,225, relates to the interceptor inspection and will be paid from the Sewer Fund. The sixth contract, awarded to A & M Roofing in the amount of \$229,000, is for roof replacement at Gaudet Middle School and will be paid from the Town's Capital Improvement Program Special Revenue Fund.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

13. Joint venture:

The Middletown School Department (MSD), in conjunction with other member school departments, continued to participate in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP) during fiscal year 2015. NCRSEP was formed to provide services to qualified special needs students in the member 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 2015 was \$1,925,665. The towns have no equity interest in the net assets of NCRSEP, which are estimated to be (\$147,819) at June 30, 2015.

At June 30, 2015, 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. This change has reduced the member school departments in the program from four to three districts, including MSD, as of July 2015. As of July 2015, the NCRSEP has made the transition to providing services to the three remaining member school departments, with a reduced operating budget to provide these services.

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 44,993,953	\$ 44,899,981	\$ 44,833,562	\$ (66,419)
Intergovernmental	5,867,482	2,698,711	3,139,527	440,816
Licenses, permits and fees	1,716,040	1,945,254	1,908,585	(36,669)
Interest and investment	15,613	15,613	9,113	(6,500)
Other revenues	248,588	343,115	445,291	102,176
Total revenues	52,841,676	49,902,674	50,336,078	433,404
Expenditures:				
Current:				
General government	2,614,866	2,777,391	2,758,270	19,121
Public safety	8,613,103	8,922,590	8,877,307	45,283
Public works and sanitation	1,670,457	1,689,213	1,889,765	(200,552)
Planning and inspection	561,819	577,053	562,555	14,498
Library	774,972	786,750	785,872	878
Community services	333,468	356,596	348,845	7,751
Other expenditures	6,043,637	6,031,577	6,056,723	(25,146)
Grants	3,492,739	365,920	577,562	(211,642)
Capital outlay	1,523,134	1,357,986	1,224,002	133,984
Debt service	3,688,423	3,648,423	3,648,126	297
Total expenditures	29,316,618	26,513,499	26,729,027	(215,528)
Excess of revenues over expenditures, budgetary basis	23,525,058	23,389,175	23,607,051	217,876
Other financing sources (uses):				
Transfers from other funds	3,423,233	3,381,722	3,221,535	(160,187)
Transfers to other funds	(26,948,291)	(26,770,897)	(26,822,658)	(51,761)
Total other financing sources (uses)	(23,525,058)	(23,389,175)	(23,601,123)	(211,948)
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	\$ -	\$ -	5,928	\$ 5,928
Adjustments of budgetary basis to U.S. GAAP basis			(348,506)	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(342,578)	
Fund balance, beginning of year			9,837,012	
Fund balance, end of year			<u>\$ 9,494,434</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 12,011,402	\$ 12,423,361	\$ 11,931,087	\$ (492,274)
Fees for service	690,732	628,488	627,243	(1,245)
Other revenues	95,264	302,018	305,214	3,196
Total revenues	<u>12,797,398</u>	<u>13,353,867</u>	<u>12,863,544</u>	<u>(490,323)</u>
Expenditures:				
Current:				
Salaries	20,791,958	20,440,536	20,127,639	312,897
Employee benefits	7,927,934	7,569,181	7,459,819	109,362
Purchased services	7,225,863	6,737,338	6,525,684	211,654
Supplies and materials	1,169,546	1,543,922	1,681,551	(137,629)
Other	65,167	88,822	88,831	(9)
Capital expenditures	1,921,354	2,772,720	2,768,125	4,595
Total expenditures	<u>39,101,822</u>	<u>39,152,519</u>	<u>38,651,649</u>	<u>500,870</u>
Excess of expenditures over revenues, budgetary basis	<u>(26,304,424)</u>	<u>(25,798,652)</u>	<u>(25,788,105)</u>	<u>10,547</u>
Other financing sources:				
Transfer from other funds	25,843,274	25,710,993	25,711,003	10
Reappropriated fund balance	461,150	87,659	-	(87,659)
Total other financing sources	<u>26,304,424</u>	<u>25,798,652</u>	<u>25,711,003</u>	<u>(87,649)</u>
Excess of expenditures over revenues and other financing sources, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>(77,102)</u>	<u>\$ (77,102)</u>
Adjustment of budgetary basis to U.S. GAAP basis, reappropriated fund balance			<u>-</u>	
Excess of expenditures over revenues and other financing sources, U.S. GAAP basis			(77,102)	
Fund balance, beginning of year			<u>3,322,895</u>	
Fund balance, end of year			<u>\$ 3,245,793</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2015

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	\$ (368,414)
Accrued payroll	(2,819)
Compensated absences	<u>22,727</u>
Total adjustments	<u>\$ (348,506)</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2015

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

EMPLOYEES' RETIREMENT SYSTEM – TEACHERS' PENSION PLAN

SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>2015</u>
Employer's proportion of the net pension liability	1.09025855%
Employer's proportionate share of the net pension liability	\$ 26,536,897
State's proportionate share of the net pension liability associated with the Town	<u>18,197,573</u>
Total Town net pension liability	<u>\$ 44,734,470</u>
Employer's covered employee payroll	\$ 17,967,267
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	147.69579%
Plan fiduciary net position as a percentage of the total pension liability	61.40%

Notes:

- 1.) *The amounts presented for each fiscal year were determined as of 6/30 measurement date prior to the fiscal year-end*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

SCHEDULE OF TOWN'S CONTRIBUTIONS

	<u>2015</u>
Actuarially determined contribution	\$ 2,381,128
Contributions in relation to the actuarially determined contribution	<u>2,381,128</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 17,967,267
Contributions as a percentage of covered employee payroll	13.25%

Notes:

- 1.) *Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM-TEACHERS' PENSION PLAN-TEACHER SURVIVOR BENEFIT

SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>2015</u>
Employer's proportion of the net pension asset	3.65867986%
Employer's proportionate share of the net pension asset	\$ 4,548,498
Employer's covered employee payroll	\$ 17,967,267
Employer's proportionate share of the net pension asset as a percentage of its covered employee payroll	25.3115%
Plan fiduciary net position as a percentage of the total pension asset	173.3%

Notes:

- 1.) *The amounts presented for each fiscal year were determined as of 6/30 measurement date prior to the fiscal year-end.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

SCHEDULE OF TOWN'S CONTRIBUTIONS – TEACHERS' SURVIVORS BENEFITS

	<u>2015</u>
Statutorily determined contribution	\$ 22,191
Contributions in relation to the actuarially determined contribution	<u>22,191</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 17,967,267
Contributions as a percentage of covered employee payroll	.1235%

Notes:

- 1.) *Employers participating in the State Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-GENERAL UNIT

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

Total Pension Liability	2014
Service cost	\$ 485,224
Interest	1,399,456
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	(74,921)
Benefit payments	(974,316)
Net change in total pension liability	835,443
Total pension liability-beginning	18,903,962
Total pension liability-ending(a)	19,739,405
Plan fiduciary net position	
Contributions-employer	664,994
Contributions-employee	113,801
Net investment income	2,287,085
Benefit payments	(974,316)
Administrative expense	(14,322)
Other	124
Net change in plan fiduciary net position	2,077,366
Plan fiduciary net position-beginning	15,094,377
Plan fiduciary net position-ending (b)	17,171,743
Net Pension Liability (Asset)-ending (a)-(b)	\$ 2,567,662
Plan fiduciary net position as a % of total pension liability	86.99%
Covered employee payroll	\$ 5,495,171
NPL as a % of covered employee payroll	46.73%

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-GENERAL UNIT
 SCHEDULE OF TOWN'S CONTRIBUTIONS

	2015
Actuarially determined contribution	\$ 615,952
Contributions in relation to the actuarially determined contribution	615,952
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 5,495,171
Contributions as a percentage of covered employee payroll	11.21%

Notes:

- 1.) *Employers participating in the Municipal Employee's Retirement System are required by RI General Laws, Section 45-21-42, to contribute an actuarially determined contribution rate each year.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

Notes to Schedule	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	21 years
Inflation	2.75%
Salary Increases	General Employees - 3.50% to 7.50%
	Police & Fire Employees - 4.00% to 14.00%
Investment rate of return	7.50%
Retirement age	Varies depending on Years of Service and Age
Mortality	Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.
	Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-POLICE/FIRE UNIT

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

Total Pension Liability	2014
Service cost	\$ 492,417
Interest	235,509
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	(109,693)
Benefit payments	(52,136)
Net change in total pension liability	566,097
Total pension liability-beginning	2,919,985
Total pension liability-ending(a)	3,486,082
Plan fiduciary net position	
Contributions-employer	100,942
Contributions-employee	227,700
Net investment income	615,657
Benefit payments	(52,136)
Administrative expense	(3,855)
Other	557
Net change in plan fiduciary net position	888,865
Plan fiduciary net position-beginning	3,733,572
Plan fiduciary net position-ending (b)	4,622,437
Net Pension Liability (Asset)-ending (a)-(b)	\$ (1,136,355)
Plan fiduciary net position as a % of total pension liability	132.60%
Covered employee payroll	\$ 3,035,863
NPL as a % of covered employee payroll	-37.43%

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-POLICE/FIRE UNIT

SCHEDULE OF TOWN'S CONTRIBUTIONS

	2015
Actuarially determined contribution	\$ 222,974
Contributions in relation to the actuarially determined contribution	222,974
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 3,035,863
Contributions as a percentage of covered employee payroll	7.34%

Notes:

- 1.) *Employers participating in the Municipal Employee's Retirement System are required by RI General Laws, Section 45-21-42, to contribute an actuarially determined contribution rate each year.*
- 2.) *Schedule is intended to show information for 10 years - additional years will be displayed as they become available.*

Notes to Schedule	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	21 years
Inflation	2.75%
Salary Increases	General Employees - 3.50% to 7.50%
	Police & Fire Employees - 4.00% to 14.00%
Investment rate of return	7.50%
Retirement age	Varies depending on Years of Service and Age
Mortality	Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.
	Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.

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

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

Total Pension Liability	<u>2015</u>	<u>2014</u>
Service cost	\$ 297,782	\$ 304,872
Interest	4,170,261	4,152,814
Changes of benefit terms	-	-
Difference between expected and actual experience	615,865	-
Changes of assumptions	199,475	-
Benefit payments	<u>(4,655,198)</u>	<u>(4,395,204)</u>
Net change in total pension liability	628,185	62,482
Total pension liability-beginning	<u>57,591,213</u>	<u>57,528,731</u>
Total pension liability-ending(a)	<u>58,219,398</u>	<u>57,591,213</u>
Plan fiduciary net position		
Contributions-employer	3,594,123	3,678,880
Contributions-employee	92,124	119,499
Net investment income	1,558,969	7,108,227
Benefit payments	(4,655,198)	(4,395,204)
Administrative expense	(162,898)	(68,915)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	427,120	6,442,487
Plan fiduciary net position-beginning	<u>54,053,661</u>	<u>47,611,174</u>
Plan fiduciary net position-ending (b)	<u>54,480,781</u>	<u>54,053,661</u>
Net pension liability (NPL)-ending (a)-(b)	<u>\$ 3,738,617</u>	<u>\$ 3,537,552</u>
Plan fiduciary net position as a % of total pension liability	93.58%	93.86%
Covered employee payroll	\$ 1,164,923	\$ 1,265,639
NPL (Asset) as a % of covered employee payroll	320.93%	279.51%

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

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

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Benefit Changes

None

Changes in Assumptions

There were no changes in assumptions except for a change to the mortality assumptions from RP-2000 Combined Mortality projected generationally using Scale AA to 115% of RP-2000 Combined

Mortality for Males with White Collar adjustments, projected generationally with Scale AA from 2000 and 95% of RP-2000 Combined Mortality for Females with White Collar adjustments, projected generationally with Scale AA from 2000.

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION

TOWN PENSION PLAN

SCHEDULE OF TOWN CONTRIBUTIONS

YEAR ENDED JUNE 30, 2015

	Actuarially Determined Contribution	Contributions related to the actuarially determined contribution	Contribution deficiency (excess)
2015	\$2,904,159	\$3,690,859	(\$786,700)
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

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, 2015 will be made during the fiscal year ending June 30, 2016.

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, 2015

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 4.50%

Retirement age

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

Mortality

115% of RP-2000 Combined Mortality for Males with White Collar adjustments, projected generationally with Scale AA from 2000 and 95% of RP-2000 Combined Mortality for Females with White Collar adjustments, projected generationally with Scale AA from 2000.

TOWN OF MIDDLETOWN, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
TOWN PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	2.93%	15.96%

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

YEAR ENDED JUNE 30, 2015

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered payroll	UAAL as a % of covered payroll
<i>Municipal Pension Plan:</i>						
<i>General Employees Unit:</i>						
June 30, 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%
June 30, 2014	16,522,664	19,723,766	3,201,102	83.8%	5,465,825	58.6%
<i>Police and fire unit:</i>						
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%)
June 30, 2014	4,447,712	3,367,553	(1,080,159)	132.1%	3,251,065	(33.2%)
<i>Town Pension Plan:</i>						
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%
July 1, 2014	48,979,273	57,937,304	8,958,031	84.5%	1,111,587	805.9%
<i>Other Postemployment Benefits Plan:</i>						
July 1, 2006	\$ 688,276	\$ 23,390,739	\$ 22,702,463	2.9%	\$ 27,184,895	83.5%
July 1, 2007	1,583,115	23,136,012	21,552,897	6.8%	28,710,668	75.1%
June 30, 2009	2,500,343	32,387,961	29,887,618	7.7%	28,675,833	104.2%
June 30, 2011	3,338,311	29,463,119	26,124,808	11.3%	30,052,962	86.9%
June 30, 2013 *	4,018,150	29,657,772	25,639,622	13.5%	30,047,295	85.3%
June 30, 2015	5,035,873	28,674,176	23,638,303	17.6%	25,239,094	93.7%

* Updated July 2014

TOWN OF MIDDLETOWN, RHODE ISLAND
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2015

Town Pension Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$ 3,090,677	128.74%
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%

Town OPEB Plan:

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$ 2,137,625	111.10%
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%

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2015

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2014</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2015</u>
2014		\$ 44,502,103	\$ (24,508)	\$ 44,526,611	\$ 43,070,743	\$ 1,455,868
2013	\$ 1,118,812		6,247	1,112,565	999,478	113,087
2012	88,175		2,291	85,884	19,926	65,958
2011	58,889		1,030	57,859	1,909	55,950
2010	49,227		356	48,871	1,236	47,635
2009	24,404		415	23,989	597	23,392
2008	32,003		603	31,400	147	31,253
2007	31,042		78	30,964	621	30,343
2006	26,329		11	26,318	442	25,876
2005	25,967			25,967	41	25,926
2004	22,445		17,303	5,142	223	4,919
Prior	17,876			17,876		17,876
	<u>\$ 1,495,169</u>	<u>\$ 44,502,103</u>	<u>\$ 3,826</u>	<u>\$ 45,993,446</u>	<u>\$ 44,095,363</u>	1,898,083
				Less allowance for doubtful accounts		<u>(430,622)</u>
						<u>\$ 1,467,461</u>

TOWN OF MIDDLETOWN, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2015

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,459,834,354	\$ 41,362,958
Motor vehicles	146,865,165	1,684,876
Tangible personal	<u>91,118,482</u>	<u>1,454,269</u>
Total	2,697,818,001	44,502,103
Exemptions	<u>104,720,773</u>	
Current year assessment	<u>\$ 2,593,097,228</u>	<u>\$ 44,502,103</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 44,095,363
Revenue collected within 60 days subsequent to year ended June 30, 2015	<u>1,006,248</u>
	45,101,611
Prior year revenue received in current year	<u>(577,101)</u>
Current year real estate and personal property tax revenue	<u>\$ 44,524,510</u>