

TOWN OF MIDDLETOWN, RHODE ISLAND

BASIC FINANCIAL STATEMENT

Year Ended June 30, 2016



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Town Administrator

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Town of Middletown, Rhode Island

June 30, 2016

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Town of Middletown, Rhode Island

June 30, 2016

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

Independent Auditors' Report

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 as of and for the year ended June 30, 2016, 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.

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

Town of Middletown, Rhode Island

Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of Funding Progress, Schedule of Employer Contributions, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Employer Contributions, Investment Returns, and Employer's Net Pension Liability as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Middletown, Rhode Island's financial statements. The supplementary tax collector's annual report and Annual Supplemental Transparency Report (MTP2) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Uniform Guidance, and is also not a required part of the financial statements.

The supplementary tax collector's annual report, Annual Supplemental Transparency Report, and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements 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, Annual Supplemental Transparency Report, and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017, on our consideration of the Town of Middletown, Rhode Island'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 of Middletown, Rhode Island's internal control over financial reporting and compliance.

Hague, Sahady & Co., CPA's

Fall River, Massachusetts
January 9, 2017

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

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, 2016 (FY2016).

Financial Highlights

The assets and deferred outflows of the Town government-wide exceeded its liabilities as of June 30, 2016 by \$31,342,722 (*net position*). Net position includes \$46,379,435 of net investment in capital assets; \$1,284,064 of restricted net position; and \$(16,320,777) of unrestricted net position. Total assets were \$109,924,736; total deferred outflows were \$4,523,093; total liabilities were \$77,480,219 and total deferred inflows were \$5,624,888 at June 30, 2016. Total net position decreased by \$1,307,355 in the current fiscal year.

As of June 30, 2016, the Town's governmental funds reported combined ending fund balances of \$16,821,692, a decrease of \$115,315 in comparison with the prior year. The unfavorable fiscal year results in 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, 2016, the unassigned fund balance for the General Fund was \$5,112,214, or 8.3% of total budgeted 2016 General Fund expenditures and other financing uses, totaling \$61,435,715. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations decreased by \$3,291,037 (7.9%) during the current fiscal year. The factors causing this decrease were principal payments of \$3,487,710, a reduction of \$49,350 of unearned grant revenue, a reduction of claims and judgements of \$25,961 and a reduction of \$20,000 in pollution remediation obligations offset by an increase in deferred bond issuance premiums payable of \$250,767 and an increase in accrued compensated absences of \$41,217.

For the fiscal year ending June 30, 2016, the Town adopted 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 fair value measurement has been applied to accounting for pension and OPEB investments.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

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, a Stormwater Fund, and a Refuse and Recycle Fund.

The government-wide financial statements can be found on pages 21-24 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.

Town of Middletown, Rhode Island

Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Overview of the Financial Statements (continued)

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 and School Department 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 106-109 of this report.

The basic governmental fund financial statements can be found on pages 25-28 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 Stormwater and Refuse and Recycle Fund are non-major funds. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 29-32 of this report.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Overview of the Financial Statements (continued)

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 33-34 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 35-105 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 106-124 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 \$31,342,722 June 30, 2016.

Net investment in capital assets comprises \$46,379,435 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, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Government-wide Financial Analysis (continued)

Town of Middletown's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$24,793,764	\$ 26,091,150	\$ 6,069,188	\$4,724,662	\$30,862,952	\$ 30,815,812
Capital assets	58,339,368	57,860,143	20,722,416	21,319,913	79,061,784	79,180,056
Total assets	83,133,132	83,951,293	26,791,604	26,044,575	109,924,736	109,995,868
Deferred outflows	4,478,033	5,392,327	45,060	34,521	4,523,093	5,462,168
Long-term liabilities	28,292,787	30,653,438	9,836,514	10,766,900	38,129,301	41,420,338
Other liabilities	38,401,346	35,296,798	949,572	879,606	39,350,918	36,176,404
Total liabilities	66,694,133	65,950,236	10,786,086	11,646,506	77,480,219	77,596,742
Deferred inflows	5,592,857	5,132,828	32,031	43,069	5,624,888	5,175,897
Net position:						
Net investment in capital assets	33,395,533	31,180,928	12,983,902	12,840,216	46,379,435	44,021,144
Restricted	1,284,064	904,758			1,284,064	904,758
Unrestricted	(19,355,422)	(13,825,130)	3,034,645	1,549,305	(16,320,777)	(12,275,825)
Total Net Position	\$15,324,175	\$ 18,260,556	\$16,018,547	\$ 14,389,521	\$31,342,722	\$ 32,650,077

A portion of the Town's net position, totaling \$1,284,064 (4.1%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position*, totaling \$(16,320,777), includes the results of GASB 68.

At June 30, 2016, 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 a whole reports a positive net position.

Governmental activities. Governmental activities decreased the Town's net position by \$2,936,381 from the previous year, principally due to pension expense of \$6,249,000 due to GASB 68, excess of expenditures over revenues in the school restricted funds of \$53,000 offset by revenue received to pay long-term debt service costs of \$2,627,000, capital outlays exceeded depreciation expense in the amount of \$479,000 and net capitalization of deferred outflows on advanced refunding of \$265,000.

Business-type activities. Business-type activities increased the Town's net position by \$1,629,026, primarily due to Sewer fund revenue received to pay long-term debt service costs of \$910,000, Transfer from other funds of \$195,865, Parks and Recreation fund revenue in excess of expenditures of \$255,000, Refuse revenue in excess of expenditures of \$147,000 and Stormwater fund revenue in excess of expenditures of \$140,000.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Government-wide Financial Analysis (continued)

Town of Middletown's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 4,532,259	\$ 4,858,908	\$ 8,159,313	\$ 7,531,329	\$ 12,691,572	\$ 12,390,237
Operating grants and contributions	14,737,372	14,670,656			14,737,372	14,670,656
Capital grants and contributions	143,166	305,419			143,166	305,419
General revenues:						
Property taxes	45,610,871	44,759,248			45,610,871	44,759,248
Grants and contributions not restricted to specific programs	2,129,638	1,883,446			2,129,638	1,883,446
Other	942,013	384,753	3,682	3,509	945,695	388,262
Total revenues	68,095,319	66,862,430	8,162,995	7,534,838	76,258,314	74,397,268
Expenses:						
General government	3,873,038	3,026,939			3,873,038	3,026,939
Public safety	17,047,557	15,767,344			17,047,557	15,767,344
Public works/sanitation	3,405,926	3,537,310			3,405,926	3,537,310
Planning/inspection	576,898	561,988			576,898	561,988
Library	919,239	878,679			919,239	878,679
Education	43,625,032	38,529,212			43,625,032	38,529,212
Community services	422,050	591,912			422,050	591,912
Interest on long-term debt	966,095	996,478			966,095	996,478
Refuse and recycle			868,221	886,749	868,221	886,749
Parks and recreation			1,736,833	1,533,068	1,736,833	1,533,068
Sewer			4,124,780	3,699,806	4,124,780	3,699,806
Total expenses	70,835,835	63,889,862	6,729,834	6,119,623	77,565,669	70,009,485
Increase (decrease) in net position before transfers	(2,740,516)	2,972,568	1,433,161	1,415,215	(1,307,355)	4,387,783
Transfers	(195,865)	(35,000)	195,865	35,000	-	-
Increase (decrease) in net position	(2,936,381)	2,937,568	1,629,026	1,450,215	(1,307,355)	4,387,783
Net position – beginning	18,260,556	15,322,988	14,389,521	12,939,306	32,650,077	28,262,294
Net position – ending	\$ 15,324,175	\$ 18,260,556	\$ 16,018,547	\$ 14,389,521	\$ 31,342,722	\$ 32,650,077

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.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued). As of June 30, 2016, the Town's governmental funds reported combined ending fund balances of \$16,821,692. Of this amount, \$5,112,214 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 \$130,370; 2) long-term loans receivable in the amount of \$100,000; 3) grants in the amount of \$620,515; 4) prepaid expenses and other purposes in the amount of \$131,088; 5) various commitments for West Main Road development, special education, open space, storm-water management and capital improvements totaling \$5,737,297 and 6) other specific purposes in the amount of \$4,990,208. See page 25. There is no Governmental fund balance budgeted to be used in FY 2017.

The General Fund is the chief operating fund of the Town. At June 30, 2016, unassigned fund balance of the General Fund was \$5,112,214, while total fund balance was \$9,748,424. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8.7% of total General Fund expenditures and other financing uses of \$59,662,903, while total fund balance represents 16.3% of that same amount.

During FY2016, the fund balance of the Town's General Fund increased by \$253,990, principally due to hotel and meals tax revenue received over the budgeted amount of \$239,000.

The School Department, a special revenue fund of the Town, had a total fund balance of \$4,060,248, which includes an assigned fund balance of \$1,980,385 at June 30, 2016. The assigned fund balance represents 5.0% of total School Department expenditures of \$39,235,122. The School Department's fund balance increased by \$814,455 during the fiscal year ended June 30, 2016. The excess of revenues over expenditures is primarily due to the timing of grant reimbursements in the amount of \$183,000, time of Medicaid claims audit reimbursements in the amount of \$146,700; reimbursement of prior year impact aid in the amount of \$351,900; and revenues exceeded expenditures in the hot lunch program in the amount of \$65,000. A total of \$474,638 of the School Department assigned fund balance as of June 30, 2016, is budgeted to use in FY2017.

The Capital Projects fund was reclassified in FY 2016 as a non-major fund and is combined with Other Governmental Funds for reporting purposes in FY2016.

The Other Governmental Funds had a total fund balance of \$3,013,020, which represents a \$1,183,760 decrease in fund balance during the fiscal year ended June 30, 2016. 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 \$405,905 and in the Capital Projects fund of \$906,021 offset by the excess of revenues over expenditures in the Capital Improvement Impact fund of \$116,512.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Financial Analysis of the Government's Funds (continued)

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

Net position of the Sewer Fund at June 30, 2016 amounted to \$11,365,955, of which \$2,076,753 is unrestricted. Parks and Recreation Fund net position amounted to \$4,212,086, of which \$517,386 is unrestricted. Refuse and Recycling Fund net position amounted to \$300,506, all of which is unrestricted. Stormwater Fund net position amounted to \$140,000, of which \$140,000, all of which is unrestricted. The total growth in net position for each of the four funds was \$1,086,805, \$255,349, \$146,872 and \$140,000, respectively. Other factors concerning the finances of these four 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 FY2016 revenues totaled an increase of approximately \$837,500, primarily due to an increase in Intergovernmental Grant revenue approved and received from DOI/NFWF for the Hurricane Sandy Coastal Resiliency projects, Community Development Block Grants, Active Threat Training grant, Drug Free Community grant, OSHEAN grant and RI Emergency Management grant; an increase in licenses, permits and fee from police and fire details and restricted revenue received for archival projects and an increase in other revenues from donations and bequests . See page 106.

Further, there was an overall decrease in budgeted expenditures of approximately \$101,800. The major items contributing to the net decrease in expenditures are as follows:

- \$589,000 increase in Grant expenditures primarily due to DOI/NFWF grant expenditures approved in the final grant award and expended during the year for the Hurricane Sandy Coastal Resiliency projects, and the CDBG grant funded Senior Center generator project. These projects were deferred from FY2015 and occurred in FY2016.
- \$488,000 decrease in the purchase of three emergency response vehicles that are deferred to next fiscal year. The funding for this purchase is from committed fund balance.
- \$292,000 decrease in Capital expenditures mainly due to the deferral of Town Hall exterior maintenance, carpet and window replacement, renovation of the Information Technology office, Safety improvements on Forest Ave and Chases Lane, and Information Technology initiative to convert paper files to Laser Fiche
- \$92,000 increase in Public Safety private detail pay charged to private companies.
- \$61,000 net decrease in General Government expenditures due to an increase in legal and labor negotiation services offset by a decrease in consulting services for West Main Road development that are in progress and will continue into next fiscal year.
- \$58,000 increase for the archival project performed by the clerk's office.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

General Fund Budgetary Highlights (continued)

Actual expenditures were below budgeted expenditures by approximately \$262,000 primarily as a net result of additional capital expenditures and severance charges offset by fewer grant expenditures.

School Department Special Revenue Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY16 Revenues totaled an increase of approximately \$681,000 which includes:

- Increase of \$440,000 for appropriation in Capital Improvement. The majority of the increase is Impact Aid Prior Year Payments in the amount of 360,691 which is assigned to the School Department Digital Transformation.
- Increase of \$240,000 for appropriation in Restricted Fund. The majority of the increase is Title I Allocation in the amount of \$81,340 and State of RI Wireless Tech Initiative/Bond in the amount of \$83,581.

Actual expenditures were less than budgeted expenditures by approximately \$1,181,600 due to:

- Reduction in salaries and benefits of approximately \$306,000
- Reduction in purchased services and supplies and materials of approximately \$544,000
- Reduction of Capital Expenditures of approximately \$330,000

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$79,061,784 (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 of the Town's investment in capital assets for the current fiscal year decreased by \$118,272 or .1%, of which \$479,225 increased for governmental activities and \$597,497 decreased for business-type activities.

Major capital asset events during FY2016 included the following:

On-going:

- Residential street upgrades and improvements encompassing sewer lines, drainage, culverts and road re-pavement
- Town-wide catch basin and storm drain improvement and reconstruction

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Capital Asset and Debt Administration (continued)

Capital assets (continued),

- District-wide improvements to the school buildings, roof replacement, land improvements, audio visual equipment, wireless network and technology replacements
- Fire department building addition and public works building renovation including furnishings and equipment
- Town road improvements/extensions
- Town hall window replacement and renovations

Purchase of:

- Various public safety vehicles per fleet management schedules, including four police sports utility vehicles, one Fire sports utility vehicle, one DPW John Deere Loader and a DPW skid loader with snow panther
- Various public safety equipment including tasers and radio equipment
- Copy machines for Town hall and DPW
- Library book collection and furniture
- Senior Center Generator

Upgrades to:

- Various servers and network infrastructure equipment Town-wide, including a data storage system and wireless network components

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 7,492,536	\$ 7,492,536	\$ 3,167,391	\$ 3,167,391	\$ 10,659,927	\$ 10,659,927
Buildings and improvements	14,807,291	15,411,448	227,077	241,596	15,034,368	15,653,044
Land improvements	3,496,456	3,747,459	704,969	740,779	4,201,425	4,488,238
Furniture and equipment	2,897,048	3,090,657	718,811	753,652	3,615,859	3,844,309
Infrastructure	15,094,297	15,822,037	15,793,833	16,222,847	30,888,130	32,044,884
Construction in progress	11,843,446	9,378,157	45,383	124,536	11,888,829	9,502,693
Library books	50,480	49,481			50,480	49,481
Motor vehicles	2,657,814	2,868,368	64,952	69,112	2,722,766	2,937,480
Total	\$ 58,339,368	\$ 57,860,143	\$ 20,722,416	\$ 21,319,913	\$ 79,061,784	\$ 79,180,056

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Capital Asset and Debt Administration (continued)

Capital assets (continued),

The Town’s active construction projects as of June 30, 2016, include fire station addition and alterations, culvert replacement, road reconstruction, drainage and sanitary upgrades in designated areas of the Town, Buck Road extension and roof repairs at school buildings. Remaining commitments at June 30, 2016 total approximately \$2,470,779. 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 replacements are funded through the Capital Improvement Program special revenue fund and the National Wildlife Foundation Sachuest Bay Coastal Resiliency Grant; The commitments for the road reconstruction is funded through the Capital Improvement Program 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; the commitments for Buck Road extension are funded from the Capital Improvement Program Special Revenue Fund; and the commitments for the roof repairs 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 53-54 and 103-104, respectively, of this report.

Long-term debt

At June 30, 2016, the Town had total bonded debt outstanding of \$22,864,114, entirely backed by the full faith and credit of the Town. In addition, the Town has \$8,138,514 of outstanding loans payable to the Rhode Island Clean Water Finance Agency and capital leases in the amount of \$695,990. 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	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$22,864,114	\$24,776,114			\$22,864,114	\$24,776,114
Loans payable	400,000	450,000	\$7,738,514	\$8,648,900	8,138,514	9,098,900
Capital leases	695,990	1,311,314			695,990	1,311,314
Total	\$23,960,104	\$26,537,428	\$7,738,514	\$8,648,900	\$31,698,618	\$35,186,328

Town of Middletown, Rhode Island

Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Long-term debt (continued)

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, 2015 was \$2,951,118,914, limiting the amount of non-excepted general obligation bonds outstanding to \$88,533,567. At June 30, 2016, bonds outstanding totaled \$22,864,114, of which \$4,735,000 were issued subject to the 3% debt limit and \$18,129,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$22,864,114 represent .77% of assessed property value.

Additional information on the Town's long-term debt can be found in Note 7 on pages 56-62 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.

Town of Middletown, Rhode Island

Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Economic Factors (continued)

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.

As of November 2016, Middletown had a labor force of approximately 8,025 and an unemployment rate of approximately 4.03% (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 contain twelve formal schools, including the Naval War College and the Naval Justice School, and host a variety of other training and planning activities and groups. The 1995 BRAC also established the Naval Undersea Warfare Center (NUWC) as the Navy's main facility for development, testing and evaluation, engineering and fleet support center for submarines, autonomous underwater systems, undersea offensive and defensive weapon systems, and countermeasures associated with undersea warfare.

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

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Economic Factors (continued)

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. In the past year, several renovations and expansions of existing commercial buildings, (retail and lodging businesses) have been completed. A new hotel resort and conference facility, which will include 198 rooms is close to completion. As the economy improves, it is anticipated that new office development will also continue. The corporate headquarters of Bank Newport relocated to renovated office/industrial space in the Aquidneck Corporate Park and its office space on West Main Road was renovated and now house the insurance business of the bank.

Residential permitting activity is continuing strong. A 12-lot high-end residential subdivision is under construction and three proposed condominium developments are currently under review by Town boards. Several smaller subdivisions have also been approved recently. Over the past year, building permit activity has continued to rebound.

The U.S. Navy 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

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Economic Factors (continued)

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 in August 2011 was approved.

Each of the communities is now working independently with the Navy to facilitate transfer of the properties using various conveyance mechanisms. In Middletown's case, 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 Road., 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, and goals and action steps to reach that vision over the next ten years. The Plan was approved by the state, and implementation of its recommendations continues. Improvements to the sewer and storm water systems are ongoing in several locations. Construction of the fire station expansion and new DPW offices is substantially completed, and improvements to the Town's recreation fields and facilities are ongoing.

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

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2016

Litigation (continued)

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.

Town of Middletown, Rhode Island
Management Discussion & Analysis (MD&A)
For the Year Ended June 30, 2016

Subsequent Events

Construction commitments:

Subsequent to year-end, the Town executed six contracts totaling \$2,038,520. The first contract, awarded to C.B. Utility Co., Inc. in the amount of \$985,625, relates to sewer spot repairs in the Upper Easton's Point section of Town and will be paid from the Sewer Fund. The second contract, awarded to JAM Construction Company in the amount of \$386,600, is for Town wide asphalt patching and will be paid from the Capital Improvement Program Special Revenue Fund. The third commitment was a change order to an existing contract for Sewer and drainage improvements on Forest Avenue in the amount of \$234,781. This contract was awarded to C.B. Utility Co., Inc. on July 15, 2013 and will be paid from the Capital Improvement Program Special Revenue Fund. The fourth contract, awarded to Advanced Building Concepts in the amount of \$225,282, is related to Town Hall window replacement and exterior renovations and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The fifth contract, awarded to Tri County Contractors Supply in the amount of \$119,732, relates to the purchase of a John Deere 5100E tractor with boom mower and snow panther and will be paid from the Parks and Recreation Fund. The sixth contract, awarded to Crossman Engineering in the amount of \$86,500, is for a Municipal Stormwater utility district plan and will be paid from the Stormwater Utility Fund.

Pension and OPEB Trust funds:

The fair value of the Town's pension investment account as of October 31, 2016, is \$53,673,428, which represents a 7.0% increase in value since June 30, 2016. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2016, is \$5,589,057, which represents a 6.6% increase in value since June 30, 2016. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during fiscal year 2015 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.

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, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 13,991,132	\$ 5,359,963	\$ 19,351,095
Investments	2,363,511	-	2,363,511
Accounts receivable, less allowance for doubtful accounts of \$439,994			
Property taxes	940,582	-	940,582
Federal and state government	1,635,390	-	1,635,390
Assessments and user fees	-	335,133	335,133
Loans	100,000	-	100,000
Other	1,254,610	210	1,254,820
Federal government	-	10,982	10,982
Inventory	-	3,134	3,134
Prepaid expenses	72,480	-	72,480
Internal balances	46,504	(36,304)	10,200
Pensions	4,087,464	-	4,087,464
OPEB	302,091	-	302,091
Noncurrent assessments and user fees	-	396,070	396,070
Capital assets not being depreciated	19,335,982	3,212,775	22,548,757
Capital assets being depreciated, net	39,003,386	17,509,641	56,513,027
Total assets	83,133,132	26,791,604	109,924,736
DEFERRED OUTFLOWS:			
Pensions	3,990,639	45,060	4,035,699
Advance refundings	487,394	-	487,394
Total deferred outflows	4,478,033	45,060	4,523,093

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Statement of Net Position

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
LIABILITIES:			
Accounts payable and accrued expenses	2,416,953	763,580	3,180,533
Unearned revenue	255,703	-	255,703
Pensions	35,728,690	185,992	35,914,682
Long-term obligations:			
Due within one year	2,613,804	911,787	3,525,591
Due in more than one year	25,678,983	8,924,727	34,603,710
Total liabilities	66,694,133	10,786,086	77,480,219
Commitments and contingencies (Notes 11 & 12)	-	-	-
DEFERRED INFLOWS:			
Pensions	5,592,857	32,031	5,624,888
NET POSITION:			
Net investment in capital assets	33,395,533	12,983,902	46,379,435
Restricted for:			
Prepaid items	72,480	-	72,480
Long-term loans receivable	100,000	-	100,000
Perpetual care	130,370	-	130,370
Principal of endowments	58,608	-	58,608
Grants	620,515	-	620,515
Other purposes, nonexpendable	302,091	-	302,091
Unrestricted	(19,355,422)	3,034,645	(16,320,777)
Total net position	\$ 15,324,175	\$ 16,018,547	\$ 31,342,722

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Statement of Activities

For the Year Ended June 30, 2016

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	\$ 3,873,038	\$ 718,360	\$ 601,606	\$ -	\$ (2,553,072)	\$ -	\$ (2,553,072)
Public safety	17,047,557	1,940,510	174,044	-	(14,933,003)	-	(14,933,003)
Public works and sanitation	3,405,926	171,393	5,540	326,196	(2,902,797)	-	(2,902,797)
Planning and inspection	576,898	750,104	-	-	173,206	-	173,206
Library	919,239	157,298	25,117	-	(736,824)	-	(736,824)
Education	43,625,032	788,361	13,732,590	(183,030)	(29,287,111)	-	(29,287,111)
Community services	422,050	6,233	198,475	-	(217,342)	-	(217,342)
Interest on long-term debt	966,095	-	-	-	(966,095)	-	(966,095)
Total governmental activities	<u>70,835,835</u>	<u>4,532,259</u>	<u>14,737,372</u>	<u>143,166</u>	<u>(51,429,271)</u>		<u>(51,423,038)</u>
Business-Type activities:							
Sewer	4,124,780	5,156,836	-	-	-	1,032,056	1,032,056
Parks and recreation	1,736,833	1,987,718	-	-	-	250,885	250,885
Refuse and recycle	868,221	1,014,759	-	-	-	146,538	146,538
Total business-type activities	<u>6,729,834</u>	<u>8,159,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,429,479</u>	<u>1,429,479</u>
Total	<u>\$77,565,669</u>	<u>\$12,691,572</u>	<u>\$14,737,372</u>	<u>\$ 143,166</u>	<u>(51,429,271)</u>	<u>1,429,479</u>	<u>(49,993,559)</u>

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Statement of Activities

For the Year Ended June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General revenues:			
Property taxes	\$ 45,610,871	\$ -	\$45,610,871
Grants and contributions not restricted to specific programs	2,129,638	-	2,129,638
Investment earnings	13,883	3,682	17,565
Miscellaneous	928,130	-	928,130
Transfers	(195,865)	195,865	-
Total general revenues and transfers	<u>48,486,657</u>	<u>199,547</u>	<u>48,686,204</u>
Change in net position	<u>(2,936,381)</u>	<u>1,629,026</u>	<u>(1,307,355)</u>
Net position, beginning of year:	18,260,556	14,389,521	32,650,077
Net position, end of year	<u>\$ 15,324,175</u>	<u>\$16,018,547</u>	<u>\$ 31,342,722</u>

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Governmental Funds

Balance Sheet

June 30, 2016

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,790,026	\$ 3,143,584	\$ 2,057,522	\$ 13,991,132
Investments	2,022,829	-	340,682	2,363,511
Accounts receivable, less allowance for doubtful accounts of \$439,994				
Property taxes	940,582	-	-	940,582
Federal and state government	902,928	732,462	-	1,635,390
Loans			100,000	100,000
Other	357,608	896,806	196	1,254,610
Prepaid expenses	72,480	-	-	72,480
Due from other funds	97,657	28,782	825,371	951,810
Total assets	\$ 13,184,110	\$ 4,801,634	\$ 3,323,771	\$ 21,309,515
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 744,975	\$ 512,998	\$ 291,971	\$ 1,549,944
Accrued payroll	314,883	116,510	-	431,393
Accrued compensated absences	48,993	-	-	48,993
Due to other funds	982,202	-	10,089	992,291
Unearned revenue	-	32,986	8,691	41,677
Total liabilities	2,091,053	662,494	310,751	3,064,298
Deferred inflows of resources (Note 1)	1,344,633	78,892		1,423,525
Fund balances:				
Nonspendable:				
Prepaid items	72,480	-	-	72,480
Long-term loans receivable	-	-	100,000	100,000
Perpetual care	-	-	130,370	130,370
Principal of endowments	-	-	58,608	58,608
Restricted for:				
Stormwater management	-	-	95,557	95,557
Construction projects	-	-	70,683	70,683
Open Space	-	-	2,300	2,300
Grants	-	593,802	26,713	620,515
Committed to:				
West Main Road development	2,894,554	-	-	2,894,554
Special education	-	754,376	-	754,376
Capital improvements	1,188,142	731,685	-	1,919,827
Assigned	481,034	1,980,385	2,528,789	4,990,208
Unassigned	5,112,214	-	-	5,112,214
Total fund balances	9,748,424	4,060,248	3,013,020	16,821,692
Total liabilities, deferred inflows and fund balances	\$ 13,184,110	\$ 4,801,634	\$ 3,323,771	\$ 21,309,515

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2016

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 45,516,776	\$ -	\$ -	\$ 45,516,776
Intergovernmental	3,124,621	12,286,616	1,177,767	16,589,004
Licenses, permits and fees	2,156,874	676,211	176,251	3,009,336
Interest and investment income	10,958	-	2,925	13,883
State contribution to teachers' pension plan	-	1,445,974	-	1,445,974
Other revenues	920,253	100,150	206,619	1,227,022
Total revenues	51,729,482	14,508,951	1,563,562	67,801,995
Expenditures:				
Current:				
General government	2,711,163	-	-	2,711,163
Public safety	8,575,577	-	-	8,575,577
Public works	1,733,469	-	24,031	1,757,500
Planning and inspection	503,301	-	-	503,301
Library	806,321	-	-	806,321
Education	-	39,235,122	-	39,235,122
Community services	229,128	-	44,855	273,983
Other expenditures	6,352,169	-	-	6,352,169
Grants	634,482	-	-	634,482
Capital outlay	2,249,300	-	1,035,287	3,284,587
Debt service:				
Principal	2,627,324	-	-	2,627,324
Interest	976,797	-	-	976,797
Total expenditures	27,399,031	39,235,122	1,104,173	67,738,326
Excess (deficiency) of revenues over expenditures	24,330,451	(24,726,171)	459,389	63,669
Other financing sources (uses):				
Refunding bond proceeds	6,653,185	-	-	6,653,185
Payment to refunding bond escrow agent	(6,636,304)	-	-	(6,636,304)
Transfers from other funds	1,534,226	25,540,626	169,920	27,244,772
Transfers to other funds	(25,627,568)	-	(1,813,069)	(27,440,637)
Total other financing sources (uses)	(24,076,461)	25,540,626	(1,643,149)	(178,984)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	253,990	814,455	(1,183,760)	(115,315)
Fund balances, beginning of year	9,494,434	3,245,793	4,196,780	16,937,007
Fund balances, end of year	\$ 9,748,424	\$ 4,060,248	\$ 3,013,020	\$ 16,821,692

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Reconciliation of the Governmental Funds Balance Sheet Total

Fund Balances to the Statement of Net Position

June 30, 2016

Total fund balances for governmental funds		\$ 16,821,692
Assets used in governmental activities which are not financial resources and therefore are not reported in the funds:		
Capital assets, net	\$ 58,339,368	
OPEB asset	302,091	
Pension asset	<u>4,087,464</u>	62,728,923
Deferred outflows:		
Pensions	3,990,639	
Advanced refundings	<u>487,394</u>	4,478,033
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.		1,209,499
Liabilities not due and payable in the current period which therefore are not reported in the funds:		
Pension liability	(35,728,690)	
Bonds payable	(23,862,229)	
Loans payable	(400,000)	
Capital leases	(695,990)	
Claims and judgments	(29,220)	
Unearned revenue	(641,550)	
Compensated absences payable	(2,663,798)	
Accrued interest	<u>(299,638)</u>	<u>(64,321,115)</u>
Deferred inflows:		
Pensions		(5,592,857)
Net position of governmental activities		<u>\$ 15,324,175</u>

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures

And Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2016

Net change in fund balances for governmental funds		\$ (115,315)
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over the life of the related debt and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 3,843,677	
Depreciation expense	<u>(3,364,452)</u>	479,225
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		1,748,400
Change in OPEB obligation is recorded in the statement of activities, but not in the governmental funds		142,313
Change in pension asset is recorded in the statement of activities, but not in the governmental funds		(1,597,389)
Change in pension liability is recorded in the statement of activities, but not in the governmental funds		(4,609,037)
but not in the governmental funds		(1,639,817)
<p>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.</p>		
Principal repayment on long-term debt	2,627,324	
Payment to refunding bond escrow agent	6,605,812	
Refunding bond proceeds	(6,622,693)	
Amortization of:		
Deferred outflows on advance refunding	265,494	
Bond premiums	<u>71,926</u>	2,947,863
Some expenditures not requiring the use of current financial resources in governmental funds are recorded in the statement of activities:		
Claims and judgments	25,961	
Unearned revenue	49,350	
Accrued compensated absences	<u>(41,217)</u>	34,094
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>29,094</u>
Change in net position of governmental activities		<u><u>\$ (2,936,381)</u></u>

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Enterprise Funds

Statement of Net Position

June 30, 2016

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Stormwater Fund	Total
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 4,268,970	\$ 759,219	\$ 331,774	\$ -	\$ 5,359,963
Accounts receivable, assessments and user fees	294,981	-	40,152	-	335,133
Other	-	210	-	-	210
Federal Government	-	10,982	-	-	10,982
Inventory	-	-	3,134	-	3,134
Due from other funds	27,861	-	-	140,000	167,861
Total current assets	4,591,812	770,411	375,060	140,000	5,877,283
Noncurrent assets:					
Assessments and user fees receivable, less current portion	396,070	-	-	-	396,070
Deferred charges, net	-	-	-	-	-
Capital assets not being depreciated	575,183	2,637,592	-	-	3,212,775
Capital assets being depreciated, net	16,452,533	1,057,108	-	-	17,509,641
Total assets	22,015,598	4,465,111	375,060	140,000	26,995,769
DEFERRED OUTFLOWS:					
Pension	45,060	-	-	-	45,060
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued expenses	467,721	67,730	66,306	-	601,757
Due to other funds	116,597	87,536	32	-	204,165
Accrued payroll	15,215	83,915	2,442	-	101,572
Accrued compensated absences	40,633	13,844	5,774	-	60,251
Current portion of loans payable	911,787	-	-	-	911,787
Total current liabilities	1,551,953	253,025	74,554	-	1,879,532
Pension	185,992	-	-	-	185,992
Noncurrent liabilities, loans payable, net of current portion	8,924,727	-	-	-	8,924,727
Total liabilities	10,662,672	253,025	74,554	-	10,990,251
DEFERRED INFLOWS:					
Pension	32,031	-	-	-	32,031
NET POSITION:					
Net investment in capital assets	9,289,202	3,694,700	-	-	12,983,902
Unrestricted	2,076,753	517,386	300,506	140,000	3,034,645
Total net position	\$ 11,365,955	\$ 4,212,086	\$ 300,506	\$ 140,000	\$ 16,018,547

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Enterprise Funds

Statement Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Stormwater Fund	Total
Operating revenues:					
Assessments and user fees	\$ 5,134,862	\$ -	\$ 1,006,857	\$ -	\$ 6,141,719
Beach admittance and rental fees	-	1,718,293	-	-	1,718,293
Campground admittance and rental fees	-	198,176	-	-	198,176
Grant Revenue	-	21,703	-	-	21,703
Other revenues	21,974	49,546	7,902	-	79,422
Total operating revenues	5,156,836	1,987,718	1,014,759	-	\$ 8,159,313
Operating expenses:					
Salaries and benefits	697,993	-	37,768	-	735,761
Materials and supplies	27,449	-	69,706	-	97,155
Professional services	213,602	-	152,178	-	365,780
Repairs and maintenance	511,594	-	-	-	511,594
Utilities	236,717	-	-	-	236,717
Legal settlements	-	-	-	-	-
Sewage disposal	891,615	-	-	-	891,615
Refuse disposal	-	-	608,569	-	608,569
Beaches	-	729,098	-	-	729,098
Lifeguards	-	246,783	-	-	246,783
Harbormaster	-	32,042	-	-	32,042
Security	-	52,031	-	-	52,031
Campground	-	33,375	-	-	33,375
Parks and recreation	-	324,375	-	-	324,375
Civic appropriations	-	81,750	-	-	81,750
Miscellaneous	6,097	119,047	-	-	125,144
Depreciation	650,925	118,332	-	-	\$ 769,257
Total operating expenses	3,235,992	1,736,833	868,221	-	5,841,046
Operating income (loss)	1,920,844	250,885	146,538	-	2,318,267
Nonoperating revenues (expenses):					
Interest revenue	2,774	574	334	-	3,682
Grant revenue	-	-	-	-	-
Environmental remediation	(737,831)	-	-	-	(737,831)
Interest expense	(150,957)	-	-	-	(150,957)
Total nonoperating revenues (expenses)	(886,014)	574	334	-	(885,106)
Income (loss) before transfers	1,034,830	251,459	146,872	-	1,433,161
Transfers from other funds	51,975	3,890	-	140,000	195,865
Change in net position	1,086,805	255,349	146,872	140,000	1,629,026
Net position, beginning of year:	10,279,150	3,956,737	153,634	-	14,389,521
Net position, end of year	\$ 11,365,955	\$ 4,212,086	\$ 300,506	\$ 140,000	\$ 16,018,547

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Enterprise Funds

Statement of Cash Flows

For the Year Ended June 30, 2016

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycle Fund	Stormwater Fund	Total
Cash flows from operating activities:					
Cash received from customers	\$ 5,192,431	\$1,905,420	\$1,013,191	\$ -	\$ 8,111,042
Cash received from other sources	21,974	71,249	7,902	-	101,125
Cash paid to employees	(647,942)	(958,361)	(867,157)	-	(2,473,460)
Cash paid to suppliers	(1,950,076)	(550,624)	11,797	-	(2,488,903)
Cash paid to civic groups	-	(81,750)	-	-	(81,750)
Net cash provided by (used in) operating activities	2,616,387	385,934	165,733	-	3,168,054
Cash flows from noncapital financing activities:					
Interfund balances	77,500	(187,666)	(3,219)	-	(113,385)
Environmental remediation	(757,831)	-	-	-	(757,831)
Net cash provided by (used in) noncapital financing activities	(680,331)	(187,666)	(3,219)	-	(871,216)
Cash flows from capital and related financing activities:					
Transfers from other funds	51,975	-	-	-	51,975
Capital contributions	55,760	-	-	-	55,760
Acquisition and construction of fixed assets	(25,772)	(102,732)	-	-	(128,504)
Principal paid on bonds and notes	(910,386)	-	-	-	(910,386)
Interest paid on bonds and notes	(156,223)	-	-	-	(156,223)
Net cash used in capital and related financing activities	(984,646)	(102,732)	-	-	(1,087,378)
Cash provided by investing activities, interest received	2,774	574	334	-	3,682
Net increase (decrease) in cash and cash equivalents	954,184	96,110	162,848	-	1,213,142
Cash and cash equivalents, beginning of year	3,314,786	663,109	168,926	-	4,146,821
Cash and cash equivalents, end of year	\$ 4,268,970	\$ 759,219	\$ 331,774	\$ -	\$ 5,359,963

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Enterprise Funds

Statement of Cash Flows

For the Year Ended June 30, 2016

	Sewer Fund	Parks and Recreation Fund	Recycle and Refuse Fund	Stormwater Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 1,920,844	\$ 250,885	\$ 146,538	\$ -	\$ 2,318,267
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	650,925	118,332	-	-	769,257
Changes in assets and liabilities:					
Increase in:					
Accounts receivable	-	(11,049)	-	-	(11,049)
Deferred outflows, pension	(10,539)	-	-	-	(10,539)
Accrued payroll	2,688	29,828	810	-	33,326
Accrued compensated absences	9,082	-	254	-	9,336
Net pension liability	59,858	-	-	-	59,858
Decrease in:					
Accounts receivable	57,569	-	6,334	-	63,903
Accounts payable and accrued expenses	(63,002)	(901)	(5,480)	-	(69,383)
Inventory	-	-	17,277	-	17,277
Accrued compensated absences	-	(1,161)	-	-	(1,161)
Deferred inflows, pension	(11,038)	-	-	-	(11,038)
Net cash provided by (used in) operating activities	\$ 2,616,387	\$ 385,934	\$ 165,733	\$ -	\$ 3,168,054

Supplemental disclosures, noncash capital and related financing activities:

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Fiduciary Funds

Statement of Net Position

June 30, 2016

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund	Agency Funds
ASSETS:				
Cash and cash equivalents	\$ -	\$ -	\$ 10,572	\$ 225,567
Investments:				
Mutual funds	37,598,993	4,523,827	-	139,996
Group annuity	14,633,606	-	-	-
Money market funds	352,479	949,628	-	-
Due from other funds	65,602	-	\$ -	21,383
Total assets	52,650,680	5,473,455	10,572	\$ 386,946
LIABILITIES:				
Accounts payable	\$ 49,134	\$ 6,509	\$ -	\$ -
Due to other funds	-	-	-	164,176
Deposits held in custody for others	-	-	-	222,770
Total liabilities	49,134	6,509	-	\$ 386,946
NET POSITION:				
Restricted for pension benefits	\$ 52,601,546	\$ 5,466,946	\$ 10,572	
Held in trust for other purposes				

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Fiduciary Funds

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2016

	Pension Trust Fund	Other Post- Employment Benefits Trust Fund	Clarke Scholarship Private Purpose Trust Fund
Additions to net position:			
Contributions:			
Employer	\$ 3,698,521	\$ 2,227,312	\$ -
Plan members	74,893	21,698	-
	<u>3,773,414</u>	<u>2,249,010</u>	<u>-</u>
Investment income, net:			
Interest income	1,143,217	70,577	15
Net depreciation in fair value of investments	(1,443,362)	(101,424)	-
	<u>(300,145)</u>	<u>(30,847)</u>	<u>15</u>
Total additions	<u>3,473,269</u>	<u>2,218,163</u>	<u>15</u>
Deductions from net position:			
Benefits	4,861,136	1,786,201	-
Investment expenses	312,726	78,408	-
Total deductions	<u>5,173,862</u>	<u>1,864,609</u>	<u>-</u>
Change in net position	(1,700,593)	353,554	15
Net position, beginning of year	<u>54,302,139</u>	<u>5,113,392</u>	<u>10,557</u>
Net position, end of year	<u>\$ 52,601,546</u>	<u>\$ 5,466,946</u>	<u>\$ 10,572</u>

The accompanying notes are an integral part of this statement

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

1. Summary of significant accounting policies:

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

Financial reporting entity:

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

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

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

Basis of presentation:

Government-wide financial statements:

The statement of net position and statement of activities display information about the Town as a whole and distinguish between governmental and business-type activities. They include all funds of the Town except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues and other 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 Financial Statements

For the Year Ended June 30, 2016

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 Financial Statements

For the Year Ended June 30, 2016

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 non-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 four 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 Financial Statements

For the Year Ended June 30, 2016

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 Financial Statements

For the Year Ended June 30, 2016

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, the Refuse and Recycling Fund, and the Stormwater Fund are charges to customers for program fees and services. Operating expenses for the proprietary funds include the cost of programs 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 Financial Statements

For the Year Ended June 30, 2016

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, 2016, the Town's deferred inflows, as reported on the accompanying Balance Sheet – Governmental Funds, consist of the following:

Property taxes paid in advance of applicable fiscal year	\$ 58,947
Property tax receivable for payments not received within 60 days after year-end	557,001
Grants not received within 60 days after year-end	405,897
Records preservation revenue received in advance of corresponding expenditure	105,242
Other receivables not received within 60 days after year-end	127,389
Donations received that have not met the eligibility requirements	167,234
Rental income received in advance	1,815
Total deferred inflows	<u>\$ 1,423,525</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 may 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 Financial Statements

For the Year Ended June 30, 2016

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 ending 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 non-current assets, a \$6,529,188 increase in deferred outflows of resources, and a \$37,411,232 net increase in non-current 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.

For the fiscal year ending June 30, 2016, the Town adopted 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 fair value measurement has been applied to accounting for pension and OPEB investments.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

1. Summary of significant accounting policies (continued):

Recent accounting pronouncements (continued):

Effective for plan years beginning after June 15, 2016, the Town will be required to adopt the provisions of Statement No. 74 of the Governmental Accounting Standards Board, *Financial Reporting for Postemployment Benefit plans other than Pension Plans* (GASB 74). GASB 74 establishes new accounting and financial reporting standards for Other Postemployment Benefit plans. The calculations presented herein are not appropriate for reporting under GASB 74.

Effective for the fiscal year ending June 30, 2018, 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 the Town's 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 Financial Statements

For the Year Ended June 30, 2016

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.

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

1. Summary of significant accounting policies (continued):

Capital assets (continued):

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

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

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

Bond issuance costs:

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 Financial Statements

For the Year Ended June 30, 2016

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 Financial Statements

For the Year Ended June 30, 2016

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:

Non-spendable – 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 Financial Statements

For the Year Ended June 30, 2016

1. Summary of significant accounting policies (continued):

Pensions

Employees' Retirement System plan (ERS)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System plan (ERS) and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Municipal Employees' Retirement System (MERS) of Rhode Island

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees' Retirement System (MERS) of Rhode Island and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Teachers' Survivors Benefit plan (TSB)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Survivors Benefit plan (TSB) and the additions to/deductions from TSB fiduciary net position have been determined on the same basis as they are reported by TSB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

2. Fund balances:

At June 30, 2016, 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, 2016, which is a continued result of the implementation of GASB 68.

3. Deposits and investments:

Cash and cash equivalents (deposits):

At June 30, 2016, the carrying amount of the Town's deposits, including \$475,791 of cash equivalents, was \$19,927,916 and the bank balance was \$21,547,896. Of the bank balance, \$211,417 was uninsured and uncollateralized; \$21,336,479 was insured and collateralized.

At June 30, 2016, deposits are categorized as follows:

	Insured/ collateralized in Town's name	Total bank balance	Carrying amount
Deposits:			
Demand deposits	\$21,072,105	\$21,072,105	\$19,452,125
Money market	<u>264,374</u>	<u>475,791</u>	<u>475,791</u>
	<u>\$21,336,479</u>	<u>\$21,547,896</u>	<u>\$19,927,916</u>

Investments:

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

	Carrying amount	Maturities	Rating
Certificates of deposit (governmental funds)	\$2,022,829	8/18/16 to 12/15/16	Not rated
Certificates of deposit (fiduciary funds)	18,536	10/17/16 to 5/26/17	Not rated
Mutual funds (fiduciary funds)	<u>121,460</u>	Not applicable	Not rated
	<u>\$2,162,825</u>		

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

3. Deposits and investments (continued):

Investments (continued):

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2016 is \$53,673,428, which represents a .7% increase in value since June 30, 2016. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2016 is \$5,589,057, which represents a .3% increase in value since June 30, 2016. The Town adopted an updated Investment Policy Statement (IPS) for the Town Pension Plan during fiscal year 2014 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 Financial Statements

For the Year Ended June 30, 2016

3. Deposits and investments (continued):

Investments (continued):

As of June 30, 2016, the following pension investments represent 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795GAC	\$14,633,606
Robeco All Cap Value Institutional	6,865,278
T. Rowe Price Blue Chip Growth	6,674,195
William Blair Sm MidCap CL I#1474	3,235,160
Tweedy Brown Global Fund #001	2,722,884

As of June 30, 2016, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

Robeco All Cap Value Institutional	\$1,075,150
Schwab US Broad Market ETF	887,041
Dodge & Cox Int'l Stock FD #1048	308,225
Blackrock Inflation Protected Bond I	274,136
Lazard International Strategic Equity Institutional	268,369

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 Financial Statements

For the Year Ended June 30, 2016

4. Interfund transactions:

Interfund receivables and payables at June 30, 2016 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Non-major funds	\$ 10,089
	Refuse and Recycling Fund	32
	Parks and Recreation Fund	87,536
		97,657
School Department	Agency Funds	10,200
	Governmental funds, General Fund	18,582
		28,782
Non-major governmental funds	Governmental funds, General Fund	708,774
	Enterprise funds, Sewer Fund	116,597
		825,371
Sewer Fund	Governmental funds, General Fund	27,861
Stormwater Fund	Governmental funds, General Fund	140,000
Fiduciary funds:		
Pension Trust Fund	Governmental funds, General Fund	65,602
Agency Funds	Governmental funds, General Fund	21,383

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2016 were as follows:

Transfer to Fund	Transfer from Fund	Amount
Governmental funds:		
General Fund	Governmental funds:	
	Non-major funds	\$ 1,512,632
	Capital Projects Fund	21,594
School Department	Governmental funds, General Fund	25,464,533
	Non-major funds	76,093
Non-major Governmental Funds	Governmental funds, General Fund	19,146
	Non-major funds	150,774
Enterprise funds:		
Parks & Recreation Fund	Governmental funds, General Fund	3,890
Sewer Fund	Capital Improvement Impact Fund	51,975
Stormwater Fund	Governmental funds, General Fund	140,000
		\$ 27,440,637

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

5. Capital assets

Capital asset activity for the year ended June 30, 2016 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	2,239,393	845,557	-	3,084,950
Other	7,138,764	1,619,732	-	8,758,496
Total capital assets not being depreciated	16,870,693	2,465,289	-	19,335,982
Capital assets being depreciated:				
Infrastructure	33,035,244	-	-	33,035,244
Land improvements	5,605,485	7,910	-	5,613,395
Buildings and improvements	29,747,461	238,292	-	29,985,753
Furniture and equipment	7,819,496	760,002	-	8,579,498
Library books	1,577,981	19,991	-	1,597,972
Motor vehicles	6,434,514	352,193	61,283	6,725,424
Total capital assets being depreciated	84,220,181	1,378,388	61,283	85,537,286
Less accumulated depreciation for:				
Infrastructure	(17,213,207)	(727,740)	-	(17,940,947)
Land improvements	(1,858,026)	(258,913)	-	(2,116,939)
Buildings and improvements	(14,336,013)	(842,449)	-	(15,178,462)
Furniture and equipment	(4,728,839)	(953,611)	-	(5,682,450)
Library books	(1,528,500)	(18,992)	-	(1,547,492)
Motor vehicles	(3,566,146)	(562,747)	(61,283)	(4,067,610)
Total accumulated depreciation	(43,230,731)	(3,364,452)	(61,283)	(46,533,900)
Total capital assets being depreciated, net	40,989,450	(1,986,064)	-	39,003,386
Governmental activities capital assets, net	\$ 57,860,143	\$ 479,225	\$ -	\$ 58,339,368

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

5. Capital assets (continued):

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,167,391	\$ -	\$ -	\$ 3,167,391
Construction in progress	124,537	15,234	94,388	45,383
Total capital assets not being depreciated	3,291,928	15,234	94,388	3,212,774
Capital assets being depreciated:				
Land improvements	1,480,286	36,095	-	1,516,381
Buildings and improvements	412,837	-	-	412,837
Equipment	3,337,421	138,749	-	3,476,170
Sewer lines and pumps	20,120,175	67,885	-	20,188,060
Vehicles	190,116	8,181	-	198,297
Total capital assets being depreciated	25,540,835	250,910	-	25,791,745
Less accumulated depreciation for:				
Land improvements	(739,507)	(71,905)	-	(811,412)
Buildings and improvements	(171,241)	(14,519)	-	(185,760)
Equipment	(2,583,769)	(173,590)	-	(2,757,359)
Sewer lines and pumps	(3,897,325)	(496,902)	-	(4,394,227)
Vehicles	(121,004)	(12,341)	-	(133,345)
Total accumulated depreciation	(7,512,846)	(769,257)	-	(8,282,103)
Total capital assets being depreciated, net	18,027,989	(518,347)	-	17,509,642
Business-type activities capital assets, net	\$ 21,319,917	\$ (503,113)	\$ 94,388	\$ 20,722,416

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 222,591
Public safety	709,526
Public works and sanitation	1,032,957
Planning and inspection	4,998
Library	92,621
Education	1,279,523
Community services	22,236
	\$ 3,364,452

Business-type activities:

Sewer fund	\$ 650,925
Parks and recreation fund	118,332
Refuse and recycle fund	-
	\$ 769,257

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

6. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued Interest	Total
Governmental activities:					
General Fund	\$ 662,427	\$ 46,307	\$ 36,241	\$ -	\$ 744,975
School Department	512,043	-	955	-	512,998
Nonmajor funds	281,504	10,467	-	-	291,971
Reconciliation of balances in fund financial statements to government- wide financial statements.	-	86,985	480,386	\$ 299,638	867,009
	\$ 1,455,974	\$ 143,759	\$ 517,582	\$ 299,638	\$ 2,416,953
Business-type activities:					
Sewer	\$ 214,588	\$ 203,442	\$ 56,098	\$ 49,441	\$ 523,569
Parks and Recreation	67,730	-	97,759	-	165,489
Refuse and Recycle	66,306	-	8,216	-	74,522
	\$ 348,624	\$ 203,442	\$ 162,073	\$ 49,441	\$ 763,580

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

7. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2016 were as follows:

	Balance, July 1, 2015	Additions	Retirements	Balance, June 30, 2016	Due within one year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$24,776,114	\$ 6,300,000	\$ 8,212,000	\$22,864,114	\$ 2,027,000
Deferred premiums	747,348	322,693	71,926	998,115	77,705
Total bonds payable	25,523,462	6,622,693	8,283,926	23,862,229	2,104,705
Loan payable	450,000	-	50,000	400,000	50,000
Capital leases	1,311,314	-	615,324	695,990	334,795
Claims and judgments (Note 11)	55,181	-	25,961	29,220	25,961
Unearned revenue, grants	690,900	-	49,350	641,550	49,350
Accrued compensated absences	2,622,581	41,217	-	2,663,798	48,993
	<u>\$30,653,438</u>	<u>\$ 6,663,910</u>	<u>\$ 9,024,561</u>	<u>\$28,292,787</u>	<u>\$ 2,613,804</u>
Business -type activities:					
Loans payable	\$ 8,648,900	\$ -	\$ 910,386	\$ 7,738,514	\$ 911,787
Pension payable	-	-	-	-	-
	8,648,900	-	910,386	7,738,514	\$ 911,787
Environmental remediation obligation (Note 11)	2,118,000	-	20,000	2,098,000	-
	<u>\$ 10,766,900</u>	<u>\$ -</u>	<u>\$ 930,386</u>	<u>\$ 9,836,514</u>	<u>\$ 911,787</u>

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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, 2016 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2015	New issues	Retired	Balance, June 30, 2016
General obligation bonds:								
Road, drainage, open space	\$ 6,500,000	4/1/07	3.5-5.0%	6/15/27	\$ 3,900,000	\$ -	\$ 3,575,000	\$ 325,000
Police station	6,000,000	4/1/08	3.0-4.05%	4/1/22	3,900,000	-	3,300,000	600,000
Town refunding bond	4,885,000	5/20/10	2.0-5.0%	7/15/22	3,310,000	-	485,000	2,825,000
Road, drainage, sidewalks and judgment	5,000,000	2/1/11	3.0-4.25%	2/1/31	4,000,000	-	250,000	3,750,000
Town General Bond 13	210,000	11/1/12	2.15%	11/5/17	101,114	-	42,000	59,114
Town General Bond 14	10,120,000	2/12/14	.47% -4.00%	2/1/34	9,565,000	-	560,000	9,005,000
Town Refunding Bond 2016	6,300,000	6/23/16	2.00%-4.00%	4/1/28	-	\$ 6,300,000	-	6,300,000
Total general obligation bonds	39,015,000				24,776,114	6,300,000	8,212,000	22,864,114
Loan payable:								
Rhode Island Clean Water Protection Finance Agency, Open Space	1,000,000	11/13/03	1.17%	9/1/23	450,000	-	50,000	400,000
Total	\$ 40,015,000				\$ 25,226,114	\$ 6,300,000	\$ 8,262,000	\$ 23,264,114

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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, 2015 was \$2,951,118,914 limiting the amount of non-excepted general obligation bonds outstanding to \$88,533,567. At June 30, 2016, bonds outstanding totaled \$22,864,114, of which \$4,735,000 were issued subject to the 3% debt limit and \$18,129,114 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$22,864,114 represent .77% of assessed property value.

On June 23, 2016, the Town issued \$6,300,000 in general obligation bonds with an average interest rate of 2.5% to advance refund \$6,250,000 of outstanding various purpose general obligation bonds. The net proceeds of \$6,622,693 (after payment of \$30,492 in underwriting fees), plus an additional \$353,185 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 \$301,285. This difference is being charged to operations through the year 2028 using the effective interest method and is reflected in the statement of net position as a deferred outflow. At June 30, 2016, the balance of the defeased debt totaled \$6,300,000.

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.

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 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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

7. Long-term obligations (continued):

General obligation bonds and loan payable (continued):

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, 2016, the balance of the defeased debt totaled \$2,825,000.

As of June 30, 2016, previously authorized, but unissued, general obligation bonds amount to \$4,045,000.

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 Financial Statements

For the Year Ended June 30, 2016

7. Long-term obligations (continued):

Loans payable for business-type activities:

Loans payable for business-type activities are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2015	New issues	Maturities	Balance, June 30, 2016
Enterprise Fund, Sewer:								
Rhode Island Clean Water Protection Finance Agency	\$ 1,000,000	11/1/01	1.89%	9/1/21	\$ 362,616		\$ 47,386	\$ 315,230
Rhode Island Clean Water Protection Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	1,250,000		125,000	1,125,000
Rhode Island Clean Water Protection Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	3,600,000		300,000	3,300,000
Rhode Island Clean Water Protection Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	1,784,000		138,000	1,646,000
Rhode Island Clean Water Protection Finance Agency	1,503,282	12/13/07	1.91%	9/1/27	453,284		150,000	303,284
Rhode Island Clean Water Protection Finance Agency	<u>1,500,000</u>	6/28/12	.22%-1.89%	9/1/22	<u>1,199,000</u>		<u>150,000</u>	<u>1,049,000</u>
	<u>\$ 15,253,282</u>				8,648,900	-	910,386	7,738,514
Less current portion					<u>(910,386)</u>			<u>(911,787)</u>
					<u>\$ 7,738,514</u>			<u>\$ 6,826,727</u>

At June 30, 2016, 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 Financial Statements

For the Year Ended June 30, 2016

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, 2016 of \$48,877 is reported within the governmental activities, interest on long-term debt on the statement of activities.

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

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

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

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, June 30, 2015	New issues	Maturities	Balance, June 30, 2016
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 704,386		\$ 189,227	\$ 515,159
Fire pumper and ladder	1,349,700	6/15/12	2.78%	10/1/15	270,164		270,164	-
Town and School vehicles	455,465	10/12/12	2.37%	11/5/17	183,536		90,682	92,854
School Bleachers and DPW vehicle	245,000	11/15/13	3.01%	8/1/17	127,411		56,902	70,509
DPW Vehicle (additional lease)	45,425	5/1/14	3.04%	8/1/17	25,817		8,349	17,468
	<u>\$ 4,371,590</u>				<u>\$ 1,311,314</u>	<u>\$ -</u>	<u>\$ 615,324</u>	<u>\$ 695,990</u>

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

7. Long-term obligations (continued):

At June 30, 2016, scheduled annual debt service requirements for the bonds payable, loans payable and capital leases (excluding interest adjustments for the undrawn balance) are as follows:

Year ending June 30,	Principal	Interest	Total
Governmental activities:			
<i>Bonds and loans payable:</i>			
2017	\$ 2,077,000	\$ 728,256	\$ 2,805,256
2018	2,022,500	696,127	2,718,627
2019	1,995,000	629,535	2,624,535
2020	1,975,000	567,860	2,542,860
2021	1,960,000	504,295	2,464,295
2022-2025	6,550,000	1,544,923	8,094,923
2026-2030	5,245,000	825,650	6,070,650
2031-2035	1,440,000	144,000	1,584,000
	<u>\$ 23,264,500</u>	<u>\$ 5,640,646</u>	<u>\$ 28,905,146</u>
 <i>Capital lease obligations:</i>			
2017	\$ 334,795	\$ 27,745	\$ 362,540
2018	253,117	14,345	267,462
2019	108,078	2,647	110,725
	<u>\$ 695,990</u>	<u>\$ 44,737</u>	<u>\$ 740,727</u>
 Business-type activities:			
<i>Loans payable:</i>			
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	96,223	862,466
2021	767,817	79,147	846,964
2022-2025	3,045,440	181,339	3,226,779
2026-2030	566,000	11,067	577,067
	<u>\$ 7,738,514</u>	<u>\$ 739,920</u>	<u>\$ 8,478,434</u>

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans:

All eligible employees of the Town are covered by one of four pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island, a hybrid plan with a defined contribution component not including police officers and fire fighters in this plan (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, 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' Plan

Defined Benefit Pension Plan:

Plan description:

Certain employees of the Teacher's Plan participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees' Retirement System (ERS) plan –and the Teachers' Survivors Benefit plan (TSB) (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 Financial Statements

For the Year Ended June 30, 2016

8. Pension 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 5 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 four-year intervals commencing with the plan year ending June 30, 2016.

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 Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan

Defined Benefit Pension Plan (continued):

TSB:

The 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 sixty (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 eighteen (18) years or twenty-three (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 and 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:

Highest Annual Salary	Basic Monthly Spouse's Benefit
\$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:

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan

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 2016, Middletown teachers were required to contribute 3.75% of their annual covered salary, except for teachers with twenty or more years of service as of June 30, 2012 must contribute 11% of their covered salary. The 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 9.41% and 13.73% of annual covered payroll for the fiscal year ended June 30, 2016 for the state and the Town, respectively.

The Town contributed a total of \$2,049,439, \$2,381,128, and \$2,146,841, for the fiscal years ended June 30, 2016, 2015, and 2014, respectively, equal to 100% of the required contributions for each year, including Teacher's Survivor Plan contributions.

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 \$18,979, \$22,191, and \$22,288 to the TSB Plan for the fiscal years ended June 30, 2016, 2015, and 2014, 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, 2016, the Town reported a liability of \$28,281,240 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 Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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 Teacher's Plan were as follows:

Town's proportionate share of the net pension liability	\$28,281,240
State's proportionate share of the net pension liability associated with the Town	<u>19,320,855</u>
Total net pension liability	<u>\$47,602,095</u>

The net pension liability was measured as of June 30, 2015, 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, 2014 rolled forward to June 30, 2015. 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, 2015 the Town's proportion was 1.027%.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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

ERS (continued):

For the year ended June 30, 2016 the Town ERS Plan recognized gross pension expense of \$5,701,096 and revenue of \$2,346,078 for support provided by the State. At June 30, 2016 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>Deferred outflows of resources</i>		
Contributions subsequent to the measurement date	\$	2,049,439
Net difference between projected and actual earnings on pension plan investments		1,593,510
Changes in proportion and differences between employer contributions and proportionate share of contributions		0
<i>Deferred inflows of resources</i>		
Difference between expected and actual experience		(184,150)
Changes in assumptions		(760,296)
Changes in proportion and differences between employer contributions and proportionate share of contributions		(1,488,864)
Net difference between projected and actual earnings on pension plan investments		(1,614,845)
Total	\$	(405,206)

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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

ERS (continued):

\$2,049,439 reported as deferred outflows of resources related to pensions resulting from the Town ERS contributions in fiscal year 2016 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (523,907)
2018	(523,907)
2019	(523,907)
2020	14,374
2021	(384,003)
Thereafter	(513,295)

TSB

At June 30, 2015 the Town reported an asset of \$3,433,424 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, 2015, 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, 2014 rolled forward to June 30, 2015. The Town's proportion of the net pension asset was based on its share of contributions to the TSB for fiscal year 2015 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2015 the Town's proportion was 3.67%.

For the year ended June 30, 2016 the Town's TSB Plan recognized pension expense of (\$220,888) – an increase in the net pension asset. At June 30, 2016 the Town's TSB Plan reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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

TSB (continued):

<i>Deferred outflows of resources</i>		
Contributions subsequent to the measurement date	\$	18,979
Difference between expected and actual experience		793,805
Net difference between projected and actual earnings on pension plan investments		436,270
Changes in proportion and differences between employer contributions and proportionate share of contributions		0
<i>Deferred inflows of resources</i>		
Changes in proportion and differences between employer contributions and proportionate share of contributions		(18,408)
Net difference between projected and actual earnings on pension plan investments		(448,784)
Total	\$	781,862

The deferred outflows of resources related to pensions resulting from the Town's TSB contributions in the amount of \$18,979 in fiscal year 2016 subsequent to the measurement date will be recognized as an addition to the net pension asset for the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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

TSB (continued):

Year ended June 30:	
2017	\$ 53,903
2018	53,903
2019	53,903
2020	203,498
2021	94,430
Thereafter	303,246

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% - 13.50%
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.

The actuarial assumptions used in the June 30, 2014 valuation rolled forward to June 30, 2015 and the calculation of the total pension liability at June 30, 2015 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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

Actuarial Assumptions:

ERS and TSB (continued):

investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table

<u>Type of Investment</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity:	38.0%	-
U.S. Equity	-	6.93%
International Developed	-	7.32%
International Emerging Markets	-	9.52%
Equity Hedge Funds	8.0%	3.98%
Private Equity	7.0%	9.99%
Core Fixed Income	15.0%	2.18%
Absolute Return Hedge Funds	7.0%	3.98%
Infrastructure	3.0%	5.70%
Real Estate	8.0%	4.85%
Other Real Return Assets:	11.0%	-
Master Limited Partnerships	-	4.51%
Credit	-	4.51%
Inflation Linked Bonds	-	1.24%
Cash, Overlay, Money Market	3.0%	7.80%
	100.0%	

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.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Benefit Pension Plan:

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.

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

ERS and TSB:

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%)
Net pension liability	<u>\$35,464,448</u>	<u>\$28,281,240</u>	<u>\$22,400,768</u>
Net pension asset (TSB)	<u>\$2,666,317</u>	<u>\$3,433,424</u>	<u>\$4,061,196</u>

Pension plan fiduciary net position

ERS and TSB:

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Teachers' Plan (continued):

Defined Contribution Pension Plan

Plan Description:

Employees participating in the defined benefit plan with less than 20 years of service as of June 30, 2012, 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 7% of their annual covered salary and employers contribute between 3% and 3.5% of annual covered salary depending on the employee's total years of service as of June 30, 2012. 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.

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 \$344,181 for the fiscal year ended June 30, 2016. The Town's required and actual contributions to the defined contribution portion of the ERS Plan for fiscal year 2016 was \$284,773, the State contribution on behalf of the Teachers was \$50,323, and the federal contribution was \$9,085.

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>.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

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 accessing the ERSRI website at www.ersri.org

Benefit Provisions:

General employees, certain school personnel, police officers and firefighters employed by electing municipalities participate in MERS. Eligible employees become members at their date of employment. Anyone employed by a municipality at the time the municipality joins MERS may elect not to be covered. Elected officials may opt to be covered by MERS. Employees covered under another plan maintained by the municipality may not become members of MERS. Police officers and/or firefighters may be designated as such by the municipality, in which case the special contribution and benefit provisions described below will apply to them, or they may be designated as general employees with no special benefits. Members designated as police officers and/or firefighters are treated as belonging to a unit separate from the general employees, with separate contribution rates applicable.

Salary: Salary includes the member's base earnings plus any payments under a regular longevity or incentive plan. Salary excludes overtime, unused sick and vacation leave, severance pay, and other extraordinary compensation. Certain amounts that are excluded from taxable wages, such as amounts sheltered under a Section 125 plan or amounts picked up by the employer under IRC Section 414(h), are not excluded from salary.

Service: Employees receive credit for service while a member. In addition, a member may purchase credit for certain periods by making an additional contribution to purchase the

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Benefit Provisions:

additional service. Special rules and limits govern the purchase of additional service and the contribution required.

Final Average Compensation (FAC): Prior to July 1, 2012 and for general employee members eligible to retire as of June 30, 2012, the average was based on the member's highest three consecutive annual salaries. Effective July 1, 2012, the average was based on the member's highest five consecutive annual salaries. Once a member retires or is terminated, the applicable FAC will be the greater of the member's highest three year FAC as of July 1, 2012 or the five year FAC as of the retirement/termination date. Monthly benefits are based on one-twelfth of this amount.

Subsequent to June 30, 2015, 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. These amended benefit provisions, which have been included in the determination of the total pension liability at the June 30, 2015 measurement date and are reflected in the summary of benefit provisions described below.

General employees

Members with less than five years of contributory service as of June 30, 2012 and members hired on or after that date are eligible for retirement on or after their Social Security normal retirement age (SSNRA).

Members who had at least five years of contributory service as of June 30, 2012 will be eligible for retirement at an individually determined age. This age is the result of interpolating between the member's prior Retirement Date, described below, and the retirement age applicable to members hired after June 30, 2012 in (a) above. The interpolation is based on service as of June 30, 2012 divided by projected service at the member's prior Retirement Date. The minimum retirement age is 59.

Members with 10 or more years of contributory service on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute until that date. If this option is elected, the retirement benefit will be calculated using the benefits accrued as of June 30, 2012, i.e., the member will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Benefit Provisions (continued):

Effective July 1, 2015, members will be eligible to retire with full benefits at the earlier of their current Rhode Island Retirement Security Act (RIRSA) date described above or upon the attainment of age 65 with 30 years of service, age 64 with 31 years of service, age 63 with 32 years of service, or age 62 with 33 years of service.

A member who is within five years of reaching their retirement eligibility date and has 20 or more years of service, may elect to retire at any time with an actuarially reduced benefit.

Prior to July 1, 2012, members were eligible for retirement on or after age 58 if they had credit for 10 or more years of service, or at any age if they had credit for at least 30 years of service. Members eligible to retire before July 1, 2012 were not impacted by the changes to retirement eligibility above.

The annual benefit is equal to 2.00% of the member's monthly FAC for each year of service prior to July 1, 2012 and 1.00% of the member's monthly FAC for each year of service from July 1, 2012 through June 30, 2015. For all service after June 30, 2015, the annual benefit is equal to 1.0% per year unless the member had 20 or more years of service as of June 30, 2012 in which case the benefit accrual is 2.0% per year for service after June 30, 2015. The benefit cannot exceed 75% of the member's FAC. Benefits are paid monthly.

Police and Fire employees

Members are eligible to retire when they are at least 50 years old and have a minimum of 25 years of contributing service or if they have 27 years of contributing service at any age. Members with less than 25 years of contributing service are eligible for retirement on or after their Social Security normal retirement age.

Members who, as of June 30, 2012, had at least 10 years of contributing service, had attained age 45, and had a prior Retirement Date before age 52 may retire at age 52.

Active members on June 30, 2012 may choose to retire at their prior Retirement Date if they continue to work and contribute until that date. If option is elected, the retirement benefit will be calculated using the benefits accrued as of June 30, 2012, i.e., the member will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Benefit Provisions (continued):

A member who is within five years of reaching their retirement eligibility date, as described in this section, and has 20 or more years of service, may elect to retire at any time with an actuarially reduced benefit.

Prior to July 1, 2012, members designated as police officers or firefighters were eligible for retirement at or after age 55 with credit for at least 10 years of service or at any age with credit for 25 or more years of service. Members were also eligible to retire and receive a reduced benefit if they are at least age 50 and have at least 20 years of service. If the municipality elected to adopt the 20-year retirement provisions for police officers and/or firefighters, then such a member was eligible to retire at any age with 20 or more years of service. Members eligible to retire before July 1, 2012 were not impacted by the changes to retirement eligibility above.

A monthly benefit is paid equal to 2.00% of the member's monthly FAC for each year of service, up to 37.5 years (75% of FAC maximum).

If the optional 20-year retirement provisions were adopted by the municipality prior to July 1, 2012: benefits are based on 2.50% of the member's FAC for each year of service prior to July 1, 2012 and 2.00% of the member's FAC for each year of service after July 1, 2012. The benefit cannot exceed 75% of the member's FAC.

Active members (including future hires), members who retire after July 1, 2015 and after attaining age 57 with 30 years of service will have a benefit equal to the greater of their current benefit described in (a) and (b) above and one calculated based on a 2.25% multiplier for all years of service.

Other Benefit Provisions:

Death and disability benefits are also provided to members. A member is eligible for a disability retirement provided he/she has credit for at least five years of service or if the disability is work-related. Members are not eligible for an ordinary disability benefit if they are eligible for unreduced retirement.

Joint and survivor benefit options are available to retirees. For some employees, a Social Security Option is also available where an annuity is paid at one amount prior to age 62, and at a reduced amount after age 62, designed to provide a level total income when combined with the member's age 62 Social Security benefit. Benefits cease upon the member's death.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Other Benefit Provisions (continued):

Post-retirement benefit increases are paid to members who retire after June 30, 2012. Members will be eligible to receive cost of living increases at the later of the member's third anniversary of retirement and the month following their SSNRA (age 55 for members designated as police officers and/or firefighters). When a municipality elects coverage, it may elect either COLA C (covering only current and future active members and excluding members already retired) or COLA B (covering current retired members as well as current and future active members).

- a. The COLA will be suspended for any unit whose funding level is less than 80%; however, an interim COLA may be granted in four-year intervals while the COLA is suspended. The first interim COLA may begin January 1, 2018.
- b. Effective July 1, 2015, the COLA is determined based on 50% of the plan's five-year average investment rate of return less 5.5% limited to a range of 0.0% to 4.0%, plus 50% of the lesser of 3.0% or last year's CPI-U increase for a total maximum increase of 3.50%. Previously, it was the plan's five-year average investment rate of return less 5.5% limited to a range of 0.0% to 4.0%
- c. The COLA will be limited to the first \$25,000 of the member's annual pension benefit. For retirees and beneficiaries who retired on or before July 1, 2015, years in which a COLA is payable based on every fourth year provision described in (i) above will be limited to the first \$30,000. These limits will be indexed annually to increase in the same manner as COLAs, with the known values of \$25,000 for 2013, \$25,000 for 2014, \$25,168 for 2015, \$25,855 for 2016, and \$26,098 for 2017.

Employees covered by benefit terms:

At the June 30, 2015 valuation date, the following employees were covered by the benefit terms:

	MERS General	MERS Police/Fire
Retirees and Beneficiaries	43	0
Inactive, Non-retired Members	31	9
Active Members	132	56
Total	206	65

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Contributions:

The amount of employee and employer contributions have been established under Rhode Island General Law Chapter 45-21. General employees with less than 20 years of service as of June 30, 2012 are required to contribute 1% of their salaries. General employees with more than 20 years of service as of June 30, 2012 are required to contribute 8.25%. Public safety employees are required to contribute 9% 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.

For employees covered under the general unit, the Town contributed \$529,528 in the year ended June 30, 2016 which was 10.01% of annual covered payroll of \$5,291,906. For employees covered under the police/fire unit, the Town contributed \$281,286 in the year ended June 30, 2016 which was 7.62% of annual covered payroll of \$3,693,250.

Net Pension Liability (Asset):

The total pension liability was determined by actuarial valuations performed as of June 30, 2014 and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Net Pension Liability (Asset) (continued):

Summary of Actuarial Assumptions Used in the Valuations to determine the Net Pension Liability at the June 30, 2015 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	A 2% COLA is assumed after January 1, 2014.

The actuarial assumptions used in the June 30, 2014 valuation rolled forward to June 30, 2015 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 a collective summary of capital market expectations from 23 sources. The June 30, 2015 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Net Pension Liability (Asset) (continued):

<u>Type of Investment</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Global Equity:	38.0%	-
U.S. Equity	-	6.93%
International Developed	-	7.32%
International Emerging Markets	-	9.52%
Equity Hedge Funds	8.0%	3.98%
Private Equity	7.0%	9.99%
Core Fixed Income	15.0%	2.18%
Absolute Return Hedge Funds	7.0%	3.98%
Infrastructure	3.0%	5.70%
Real Estate	8.0%	4.85%
Other Real Return Assets:	11.0%	-
Master Limited Partnerships	-	4.51%
Credit	-	4.51%
Inflation Linked Bonds	-	1.24%
Cash, Overlay, Money Market	3.0%	7.80%
	<u>100.0%</u>	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

Discount Rate:

The discount rate used to measure the total pension liability of the plans 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 Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

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, 2014	\$ 19,739,405	\$ 17,171,743	\$ 2,567,662
Changes for the Year			
Service cost	452,635		452,635
Interest on the total pension liability	1,461,200		1,461,200
Changes in benefits	324,034		324,034
Difference between expected and actual experience	20,395		20,395
Changes in assumptions			
Employer contributions		615,951	615,951
Employee contributions		108,157	108,157
Net investment income		401,825	401,825
Benefit payments, including employee refunds	(966,110)	(966,110)	
Administrative expense		(16,119)	(16,119)
Other changes		(169,167)	(169,167)
Net changes	1,292,154	(25,463)	1,266,691
Balances as of June 30, 2015	\$ 21,031,559	\$ 17,146,280	\$ 3,885,279

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, 2014	\$ 3,486,082	\$ 4,622,437	\$ (1,136,355)
Changes for the Year			
Service cost	565,349		565,349
Interest on the total pension liability	281,564		281,564
Changes in benefits	349,008		349,008
Difference between expected and actual experience	(76,610)		(76,610)
Changes in assumptions			
Employer contributions		222,974	222,974
Employee contributions		278,022	278,022
Net investment income		122,572	122,572
Benefit payments, including employee refunds	(29,128)	(29,128)	
Administrative expense		(4,908)	(4,908)
Other changes		18,336	18,336
Net changes	1,090,183	607,868	482,315
Balances as of June 30, 2015	\$ 4,576,265	\$ 5,230,305	\$ (654,040)

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

Net Pension Liability (Asset):

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 one percentage-point lower (6.50%) or one 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	\$6,088,727	\$3,885,279	\$2,081,948
Net pension asset - MERS Police/Fire	\$(191,704)	\$(654,040)	\$(1,032,268)

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, 2016 the employer recognized pension expense of \$977,017 for the MERS General unit and \$508,573 for the MERS Police/Fire unit. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

MERS-General Unit

	Deferred Outflows of Resources	Deferred inflows of Resources
Difference in experience	\$ 17,406	\$ -
Differences in assumptions	-	53,829
Excess(deficit) Investment Returns	696,026	697,723
Total	\$713,432	\$751,552

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

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

Amounts for the MERS General Unit reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Net Deferred Outflows (Inflows) of Resources
2017	\$ (66,125)
2018	(66,125)
2019	(66,126)
2020	166,451
2021	(7,557)
Thereafter	<u>1,362</u>
Total	\$ (38,120)

MERS-Police/Fire Unit

	Deferred Outflows of Resources	Deferred inflows of Resources
Difference in experience	\$ -	\$ 71,360
Differences in assumptions	-	91,393
Excess(deficit) Investment Returns	193,847	195,236
Total	\$ 193,847	\$ 357,989

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Benefit Pension Plan:

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

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2016	\$ (31,017)
2017	(31,017)
2018	(31,016)
2019	34,061
2020	(14,400)
Thereafter	<u>(90,753)</u>
Total	\$ (164,142)

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Municipal Plan (continued)

Defined Contribution Pension Plan

Plan Description:

Employees participating in the defined benefit plan with less than 20 years of service as of June 30, 2012, 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 between 1% and 1.5% of annual covered salary depending on the employee's total years of service as of June 30, 2012. 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.

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 \$49,190 for the fiscal year ended June 30, 2016.

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>.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

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.

As of June 30, 2014, 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 throughout fiscal year 2016.

Plan Membership

As of June 30, 2016, pension plan membership consisted of the following:

<u>Membership Status</u>	<u>Count</u>
Inactive plan members or beneficiaries currently receiving benefits	139
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>11</u>
	<u><u>154</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 Financial Statements

For the Year Ended June 30, 2016

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 the first day of the month following the member's completion of 30 years of service, but not later than age 65 with five years of service. Public Works members may retire the first day of the month following the completion of 30 years of service, but not later than age 60 with ten years of service. Town Hall members may retire the first day of the month coincident with or following the member's attainment of age 65 with five years of service.

The normal retirement benefit is determined as follows:

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

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

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

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

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

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 Financial Statements

For the Year Ended June 30, 2016

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 Financial Statements

For the Year Ended June 30, 2016

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, 2016, the Town contributed \$3,684,562 to the Plan.

Investments:

Rate of return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.71%. 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 were made by the Town as of June 30, 2016, and received and deposited by the plan administrator as of July 5, 2016 and were included in the plan assets. In addition, an employer receivable contribution on behalf of the Library was made on October 24, 2016 and was also included in the plan assets.

Net pension liability

The components of the net pension liability at June 30, 2016 were as follows:

Total pension liability	\$ 57,906,764
Plan fiduciary net position	<u>(54,158,601)</u>
Town's net pension liability	<u>\$ 3,748,163</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>93.53%</u>

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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, 2016, the Town recognized pension expense of \$1,680,211. At June 30, 2016, the Town reported deferred outflows of resources of \$2,013,897 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 0.32 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 pensions will be recognized in pension expense as follows:

Year Ending June 30		Net Deferred Outflows (Inflows) of Resources
2017	\$	626,144
2018		626,144
2019		626,144
2020		626,141
Total	\$	2,504,573

Actuarial Assumptions:

The June 30, 2016 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, 2016.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Town Plan (continued)

Actuarial Assumptions (continued):

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 valuation 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 2016:

<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%
Total	<u>100.00%</u>

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

2.71%. This rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Town Plan (continued)

Actuarial Assumptions (continued):

Retirement Age

Police and Fire Department Rates according to the following table:

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

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

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.

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 2.71% would have been used in the development of the blended GASB discount rate after that point. The 2.71% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Town Plan (continued)

Net Pension Liability (Asset):

Changes in the Net Pension Liability (Asset)			
	Increase (Decrease)		
Town Plan	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of June 30, 2015	58,219,398	54,480,781	3,738,617
Changes for the Year			
Service cost	193,763	-	193,763
Interest on the total pension liability	4,201,990	-	4,201,990
Changes in benefits	-	-	-
Difference between expected and actual experience	152,749	-	152,749
Changes in assumptions	-	-	-
Employer contributions	-	3,684,562	(3,684,562)
Employee contributions	-	78,302	(78,302)
Net investment income	-	909,971	(909,971)
Benefit payments, including employee refunds	(4,861,136)	(4,861,136)	-
Administrative expense	-	(133,879)	133,879
Other changes	-	-	-
Net changes	(312,634)	(322,180)	9,546
Balances as of June 30, 2016	57,906,764	54,158,601	3,748,163

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 one percentage-point lower (6.50%) or one 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	<u>\$9,404,228</u>	<u>\$3,748,163</u>	<u>(\$1,045,515)</u>

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

8. Pension plans (continued):

Town Plan (continued)

Town 401(a) Defined Contribution Plan

Plan description:

The Town implemented a Defined Contribution 401(a) Plan in fiscal year 2014, as authorized by RIGL45-21-8. This 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 a 6% match. Annual covered payroll during the fiscal year was \$237,881, and the plan members and the Town each contributed \$14,272 during the fiscal year ended June 30, 2016.

During fiscal year 2016 it was determined a civilian dispatcher was enrolled late into the 401(a) plan and catch up contributions were made for the period November 2013 through June, 2014, resulting in the increased percentage of covered payroll. The amount of \$1,456 was contributed by both the employee and Town.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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, 2016 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 \$1,786,201 for the year ended June 30, 2016.

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>
Total	<u><u>570</u></u>

Annual OPEB cost and net OPEB obligation:

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Town. The Town has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a closed period not to exceed 30 years. The following table shows the components of the Town's annual OPEB cost, the amount actually contributed to the plan for the year ended June 30, 2016, and the Town's net OPEB obligation as of June 30, 2016.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

9. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

Annual Required Contribution	\$	2,086,170
Interest on net OPEB obligation		(11,983)
Adjustment to annual required contribution		<u>10,812</u>
Annual OPEB cost		2,084,999
Contributions made during the year		<u>2,227,312</u>
Decrease in net OPEB obligation		(142,313)
Net OPEB obligation at beginning of year		<u>(159,778)</u>
Net OPEB obligation at end of year	\$	<u><u>(302,091)</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2014, 2015 and 2016 are as follows:

Year ended June 30,	OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2014	\$ 2,057,935	116.01%	\$ 76,756
2015	\$ 2,138,341	111.06%	\$ (159,778)
2016	\$ 2,084,999	106.83%	\$ (302,091)

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%

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

9. Other postemployment benefits (continued):

Funded status and funding progress (continued):

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

Actuarial methods and assumptions:

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

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

Measurement date:	June 30, 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.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

9. Other postemployment benefits (continued):

Actuarial methods and assumptions (continued):

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.
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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, 2016.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

11. Litigation and contingencies (continued):

Litigation (continued):

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.

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 \$937,660 for the year ended June 30, 2016.

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 Financial Statements

For the Year Ended June 30, 2016

12. Commitments and subsequent events:

Construction commitments:

The Town has active construction projects as of June 30, 2016, 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, 2016, 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: Drummeys Rosane Anderson, Inc, Farrar Associates and Iron Construction Co	8,481,723	158,777
Maidford River Culvert: J.H. Lynch & Sons, Inc	301,900	10,845
Interceptor Inspection: National Water Main Cleaning Co.	180,958	49,267
Sewer and Roadway improvements on Fenner Ave: East Coast Construction and James J. Geremia and Associates, Inc.	66,926	702,863
Easton's Point Sewer Cured in Place Pipe: National Water Main Cleaning Company	808,956	198,465
Easton's Point Sewer Spot Repair: East Coast Construction	3,644,294	10,796
Upper Easton's Point CCTV: National Water Main Cleaning Co.	76,409	32,729
J H Dwyer Slip Lining Sewer and Stormdrain: National Water Main Cleaning Company	0	357,126
J.H. Dwyer Drive Road Reconstruction and Utility Repair: East Coast Construction	474,893	82,594
Buck Road Extension: JAM Construction & Materials	133,666	22,722
Joseph H Gaudet Middle School Roof improvements: A & M Sheet Metal & Roofing	228,839	161
Forest Ave Sewer and Road Drainage Improvements: C.B. Utility Company and James J. Geremia and Associates, Inc.	2,207,936	831,397
	<u>\$ 16,708,308</u>	<u>\$ 2,470,779</u>

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

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 \$2,038,520. The first contract, awarded to C.B. Utility Co., Inc. in the amount of \$985,625, relates to sewer spot repairs in the Upper Easton's Point section of Town and will be paid from the Sewer Fund. The second contract, awarded to JAM Construction Company in the amount of \$386,600, is for Town wide asphalt patching and will be paid from the Capital Improvement Program Special Revenue Fund. The third commitment was a change order to an existing contract for Sewer and drainage improvements on Forest Avenue in the amount of \$234,781. This contract was awarded to C.B. Utility Co., Inc. on July 15, 2013 and will be paid from the Capital Improvement Program Special Revenue Fund. The fourth contract, awarded to Advanced Building Concepts in the amount of \$225,282, is related to Town Hall window replacement and exterior renovations and will be paid from the Town's Capital Improvement Program Special Revenue Fund. The fifth contract, awarded to Tri County Contractors Supply in the amount of \$119,732, relates to the purchase of a John Deere 5100E tractor with boom mower and snow panther and will be paid from the Parks and Recreation Fund. The sixth contract, awarded to Crossman Engineering in the amount of \$86,500, is for a Municipal Stormwater utility district plan and will be paid from the Stormwater Utility Fund.

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 2016. 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 2016 was \$2,549,184. The towns have no equity interest in the net assets of NCRSEP, which are estimated to be \$59,199 at June 30, 2016.

Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2016

13. Joint venture (continued):

At June 30, 2016, 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
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 45,847,658	\$ 45,847,658	\$ 45,516,776	\$ (330,882)
Intergovernmental	2,465,068	3,102,898	3,124,621	21,723
Licenses, permits and fees	1,692,090	1,842,381	2,156,874	314,493
Interest and investment	25,383	25,383	10,958	(14,425)
Other revenues	331,046	380,506	358,538	(21,968)
Total revenues	<u>50,361,245</u>	<u>51,198,826</u>	<u>51,167,767</u>	<u>(31,059)</u>
Expenditures:				
Current:				
General government	2,649,333	2,801,243	2,711,163	90,080
Public safety	8,590,441	8,708,843	8,575,577	133,266
Public works and sanitation	1,783,747	1,777,533	1,733,469	44,064
Planning and inspection	740,473	585,942	503,301	82,641
Library	787,024	805,986	806,321	(335)
Community services	378,470	356,664	229,128	127,536
Other expenditures	6,233,645	6,139,601	6,267,984	(128,383)
Grants	340,231	993,061	634,482	358,579
Capital outlay	2,474,184	1,706,858	2,249,300	(542,442)
Debt service	3,701,827	3,701,827	3,604,120	97,707
Total expenditures	<u>27,679,375</u>	<u>27,577,558</u>	<u>27,314,845</u>	<u>262,713</u>
Excess of revenues over expenditures, budgetary basis	<u>22,681,870</u>	<u>23,621,268</u>	<u>23,852,922</u>	<u>231,654</u>
Other financing sources (uses):				
Transfers from other funds	3,901,983	3,575,813	3,626,948	51,135
Transfers to other funds	(27,221,853)	(27,221,853)	(27,368,119)	(146,266)
Reappropriated fund balance	150,000	24,772	-	(24,772)
Proceeds from financing	-	-	-	-
Payment to refunding bond escrow agent	-	(6,636,304)	(6,636,304)	-
Refunding bond proceeds	-	6,636,304	6,653,185	16,881
Proceeds from capital leases	488,000.00	-	-	-
Total other financing sources (uses)	<u>(22,681,870)</u>	<u>(23,621,268)</u>	<u>(23,724,290)</u>	<u>(103,022)</u>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	128,632	<u>\$ 128,632</u>
Adjustments of budgetary basis to U.S. GAAP basis			<u>125,358</u>	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			253,990	
Fund balance, beginning of year			<u>9,494,434</u>	
Fund balance, end of year			<u>\$ 9,748,424</u>	

Town of Middletown, Rhode Island

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 11,711,825	\$ 12,410,706	\$ 12,286,615	\$ (124,091)
Fees for service	729,162	740,641	676,211	(64,430)
Other revenues	209,916	222,500	100,150	(122,350)
Total revenues	<u>12,650,903</u>	<u>13,373,847</u>	<u>13,062,976</u>	<u>(310,871)</u>
Expenditures:				
Current:				
Salaries	21,010,201	20,848,030	20,626,644	221,386
Employee benefits	7,746,848	7,423,354	7,337,979	85,375
Purchased services	7,545,116	8,221,497	7,840,112	381,385
Supplies and materials	1,200,237	1,475,538	1,310,773	164,765
Other	66,915	80,923	83,509	(2,586)
Capital expenditures	719,125	920,703	590,130	330,573
Total expenditures	<u>38,288,442</u>	<u>38,970,045</u>	<u>37,789,147</u>	<u>1,180,898</u>
Excess of expenditures over revenues, budgetary basis	<u>(25,637,539)</u>	<u>(25,596,198)</u>	<u>(24,726,171)</u>	<u>870,027</u>
Other financing sources:				
Transfer from other funds	25,514,797	25,596,198	25,540,626	(55,572)
Reappropriated fund balance	122,742	-	-	-
Proceeds from capital leases	-	-	-	-
Total other financing sources	<u>25,637,539</u>	<u>25,596,198</u>	<u>25,540,626</u>	<u>(55,572)</u>
Deficiency of revenues and other financing sources over expenditures, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	814,455	<u>\$ 814,455</u>
Adjustment of budgetary basis to U.S. GAAP basis, reappropriated fund balance			<u>-</u>	
Deficiency of revenues and other financing sources over expenditures, U.S. GAAP basis			814,455	
Fund balance, beginning of year			<u>3,245,793</u>	
Fund balance, end of year			<u>\$ 4,060,248</u>	

Town of Middletown, Rhode Island

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

BUDGETARY COMPARISON

For the Year Ended June 30, 2016

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	\$ 187,692
Accrued payroll	(80,547)
Compensated absences	<u>18,213</u>
Total adjustments	<u>\$ 125,358</u>

Town of Middletown, Rhode Island

REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM - TEACHER'S PENSION PLAN

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

For the Year Ended June 30, 2016

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 - TEACHER'S PENSION PLAN
SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2016

	2015	2014
Employer's proportion of the net pension liability	1.02728705%	1.09025855%
Employer's proportionate share of the net pension liability	\$ 28,281,240	26,536,897
State's proportionate share of the net pension liability associated with the school district	\$ 19,320,855	18,197,573
Total	\$ 47,602,095	44,734,470
Employer's covered employee payroll	\$ 14,926,723	17,967,267
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	1.894671787%	1.4769579%
Plan fiduciary net position as a percentage of the total pension liability	57.55%	61.40%

Notes:

1.) *The amounts presented for each fiscal year were determined as of June 30th 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.*

Town of Middletown, Rhode Island
 REQUIRED SUPPLEMENTARY INFORMATION
 EMPLOYEES' RETIREMENT SYSTEM - TEACHER'S PENSION PLAN
 SCHEDULE OF TOWN'S CONTRIBUTIONS
For the Year Ended June 30, 2016

	2016	2015
Actuarially determined contribution	\$ 2,049,439	2,381,128
Contributions in relation to the actuarially determined contribution	2,049,439	2,381,128
Contribution deficiency (excess)	\$ 0	0
Covered-employee payroll	\$ 14,926,723	17,967,267
Contributions as a percentage of covered- employee payroll	13.73%	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-TEACHER'S PENSION PLAN-TEACHER SURVIVOR BENEFIT

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

For the Year Ended June 30, 2016

	2015	2014
Employer's proportion of the net pension asset	3.67779124%	3.65867986%
Employer's proportionate share of the net pension asset	\$ 3,433,424	4,548,498
Employer's covered employee payroll	\$ 14,926,723	17,967,267
Employer's proportionate share of the net pension asset as a percentage of its covered employee payroll	23.0018605%	19.9269482%
Plan fiduciary net position as a percentage of the total pension asset	146.6%	173.3%

Notes:

1.) The amounts presented for each fiscal year were determined as of June 30th 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.

Town of Middletown, Rhode Island

REQUIRED SUPPLEMENTARY INFORMATION

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

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

For the Year Ended June 30, 2016

	2016	2015
Statutorily determined contribution	18,979	22,191
Contributions in relation to the actuarially determined contribution	18,979	22,191
Contribution deficiency (excess)	0	0
Covered-employee payroll	14,926,723	17,967,267
Contributions as a percentage of covered- employee payroll	.1271%	.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

For the Year Ended June 30, 2016

Total Pension Liability	2015	2014
Service Cost	\$ 452,635	485,224
Interest	1,461,200	1,399,456
Changes of benefit terms	324,034	
Difference between expected and actual experience		
Changes of assumptions	20,395	(74,921)
Benefit payments	(966,110)	(974,316)
	<hr/>	<hr/>
Net change in total pension liability	1,292,154	835,443
Total pension liability-beginning	19,739,405	18,903,962
	<hr/>	<hr/>
Total pension liability-ending(a)	21,031,559	19,739,405
	<hr/>	<hr/>
Plan fiduciary net position		
Contributions-employer	615,951	664,994
Contributions-employee	108,157	113,801
Net investment income	401,825	2,287,085
Benefit payments	(966,110)	(974,316)
Administrative expense	(16,119)	(14,322)
Other	(169,167)	124
	<hr/>	<hr/>
Net change in plan fiduciary net position	(25,463)	2,077,366
Plan fiduciary net position-beginning	17,171,743	15,094,377
	<hr/>	<hr/>
Plan fiduciary net position-ending (b)	17,146,280	17,171,743
	<hr/>	<hr/>
NPL (Asset)-ending (a)-(b)	\$ 3,885,279	2,567,662
	<hr/>	<hr/>
Plan fiduciary net position as a % of total pension liability	81.53%	86.99%
	<hr/>	<hr/>
Covered employee payroll	\$ 5,407,822	5,495,171
NPL as a % of covered employee payroll	71.85%	46.73%

Town of Middletown, Rhode Island
 REQUIRED SUPPLEMENTARY INFORMATION
 EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-GENERAL UNIT
 SCHEDULE OF TOWN'S CONTRIBUTIONS
 For the Year Ended June 30, 2016

	2016	2015
Actuarially determined contribution	\$ 529,528	615,952
Contributions in relation to the actuarially determined contribution	529,528	615,952
Contribution deficiency (excess)	\$ 0	0
Covered-employee payroll	\$ 5,291,906	5,495,171
Contributions as a percentage of covered- employee payroll	10.01%	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, Closed
Remaining Amortization Period	20 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	3.5% to 7.5% for general employees
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for 2014 valuation.
Mortality	Male Employees: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. 95% Female Employees: 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

For the Year Ended June 30, 2016

Total Pension Liability	2015	2014
Service Cost	\$ 565,349	492,417
Interest	281,564	235,509
Changes of benefit terms	349,908	
Difference between expected and actual experience	(76,610)	
Changes of assumptions		(109,693)
Benefit payments	(29,128)	(52,136)
	<hr/>	<hr/>
Net change in total pension liability	1,090,183	566,097
Total pension liability-beginning	3,486,082	2,919,985
	<hr/>	<hr/>
Total pension liability-ending(a)	4,576,265	3,486,082
	<hr/>	<hr/>
Plan fiduciary net position		
Contributions-employer	222,974	100,942
Contributions-employee	278,022	227,700
Net investment income	122,572	615,657
Benefit payments	(29,128)	(52,136)
Administrative expense	(4,908)	(3,855)
Other	18,336	557
	<hr/>	<hr/>
Net change in plan fiduciary net position	607,868	888,865
Plan fiduciary net position-beginning	4,622,437	3,733,572
	<hr/>	<hr/>
Plan fiduciary net position-ending (b)	5,230,305	4,622,437
	<hr/>	<hr/>
Net Pension Liability (Asset)-ending (a)-(b)	\$ (654,040)	(1,136,355)
	<hr/>	<hr/>
Plan fiduciary net position as a % of total pension liability	114.29%	132.60%
Covered employee payroll	\$ 3,440,955	3,035,863
NPL as a % of covered employee payroll	-19.01%	-37.43%

Town of Middletown, Rhode Island
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES' RETIREMENT SYSTEM-MERS MUNICIPAL PLAN-POLICE/FIRE UNIT
SCHEDULE OF TOWN'S CONTRIBUTIONS
For the Year Ended June 30, 2016

	2016	2015
Actuarially determined contribution	\$ 368,998	222,974
Contributions in relation to the actuarially determined contribution	368,998	222,974
Contribution deficiency (excess)	\$ 0	0
Covered-employee payroll	\$ 3,440,955	3,035,863
Contributions as a percentage of covered- employee payroll	10.72%	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, Closed
Remaining Amortization Period	20 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	4% to 14% for Police and Fire employees
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for 2014 valuation.
Mortality	Male Employees: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. Female Employees: 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

For the Year Ended June 30, 2016

Total Pension Liability	2016	2015	2014
Service Cost	\$ 193,763	297,782	304,872
Interest	4,201,990	4,170,261	4,152,814
Changes of benefit terms			
Difference between expected and actual experience	152,749	615,865	
Changes of assumptions		199,475	
Benefit payments	(4,861,136)	(4,655,198)	(4,395,204)
Net change in total pension liability	(312,634)	628,185	62,482
Total pension liability-beginning	58,219,398	57,591,213	57,528,731
Total pension liability-ending(a)	57,906,764	58,219,398	57,591,213
Plan fiduciary net position			
Contributions-employer	3,684,562	3,594,123	3,678,880
Contributions-employee	78,302	92,124	119,499
Net investment income	909,971	1,558,969	7,108,227
Benefit payments	(4,861,136)	(4,655,198)	(4,395,204)
Administrative expense	(133,879)	(162,898)	(68,915)
Other			
Net change in plan fiduciary net position	(322,180)	427,120	6,442,487
Plan fiduciary net position-beginning	54,480,781	54,053,661	47,611,174
Plan fiduciary net position-ending (b)	54,158,601	54,480,781	54,053,661
NPL-ending (a)-(b)	\$ 3,748,163	3,738,617	3,537,552
Plan fiduciary net position as a % of total pension liability	93.53%	93.58%	93.86%
Covered employee payroll	\$ 954,884	1,164,923	1,265,639
NPL (Asset) as a % of covered employee payroll	392.53%	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

For the Year Ended June 30, 2016

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

Benefit Changes

None

Changes in Assumptions

There were no changes in assumptions since the prior year.

Town of Middletown, Rhode Island
 REQUIRED SUPPLEMENTARY INFORMATION
 TOWN PENSION PLAN
 SCHEDULE OF TOWN CONTRIBUTIONS

For the Year Ended June 30, 2016

	Actuarially Determined Contribution	Contributions related to the actuarially determined contribution	Contribution deficiency (excess)
2016	\$2,339,907	\$3,684,562	(\$1,344,655)
2015	\$2,904,159	\$3,594,123	(\$689,964)
2014	\$3,535,930	\$3,678,880	(\$142,950)
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, 2016 will be made during the fiscal year ending June 30, 2017.

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
For the Year Ended June 30, 2016

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
For the Year Ended June 30, 2016

	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	1.71%	2.93%	15.96%

Town of Middletown, Rhode Island
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

For the Year Ended June 30, 2016

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%
June 30, 2015	17,146,280	21,031,559	3,885,279	81.5%	5,407,822	71.8%
<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%)
June 30, 2015	5,230,305	4,576,265	(654,040)	114.3%	3,440,955	(19.0%)
<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%
July 1, 2015	54,480,781	58,219,398	3,738,617	93.6%	1,164,923	320.9%
July 1, 2016	54,158,601	57,906,764	3,748,163	93.5%	954,884	392.5%
<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
 SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended June 30, 2016

Town Pension Plan:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2016	\$2,339,907	157.89%
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:

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2016	\$ 2,137,625	104.20%
2015	2,086,170	113.84%
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

SUPPLEMENTARY INFORMATION

Tax Collector's Annual Report

For the Year Ended June 30, 2016

Real estate and personal property taxes receivable:

Year	Balance, July 1, 2015	Current year assessment	Adjustments/ abatements	Amount to be collected	Collections	Balance, June 30, 2016
2015	\$ -	\$ 45,428,027	\$ (90,978)	\$ 45,337,049	\$ 44,424,159	\$ 912,890
2014	1,455,868		(18,622)	1,437,246	1,323,831	113,415
2013	113,087		(2,241)	110,846	49,308	61,538
2012	65,958		(1,049)	64,909	8,796	56,113
2011	55,950		(577)	55,373	1,907	53,466
2010	47,635		(308)	47,327	814	46,513
2009	23,392		(30)	23,362	548	22,814
2008	31,253		(17)	31,236	352	30,884
2007	30,343		(79)	30,264	137	30,127
2006	25,876		(185)	25,691	120	25,571
2005	25,926		(21,451)	4,475	25	4,450
Prior	22,795		-	22,795	-	22,795
	<u>\$ 1,898,083</u>	<u>\$ 45,428,027</u>	<u>\$ (135,537)</u>	<u>\$ 47,190,573</u>	<u>\$ 45,809,997</u>	<u>\$ 1,380,576</u>
				Less allowance for doubtful accounts		<u>(439,994)</u>
						<u>\$ 940,582</u>

Town of Middletown, Rhode Island

SUPPLEMENTARY INFORMATION

Tax Collector's Annual Report

For the Year Ended June 30, 2016

Schedule of net assessed property value by category:

<u>Description of property</u>	<u>Valuations</u>	<u>Levy</u>
Real property	\$ 2,680,818,262	\$ 42,241,675
Motor vehicles	155,852,466	1,801,405
Tangible personal	<u>92,087,627</u>	<u>1,384,947</u>
Total	2,928,758,355	45,428,027
Exemptions	<u>108,042,375</u>	<u>-</u>
Current year assessment	<u>\$ 2,820,715,980</u>	<u>\$ 45,428,027</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 44,424,159
Revenue collected within 60 days subsequent to year ended June 30, 2016	<u>385,733</u>
	44,809,892
Prior year revenue received in current year	<u>(1,006,248)</u>
	.
Current year real estate and personal property tax revenue	<u>\$ 43,803,644</u>

Town of Middletown, Rhode Island

SUPPLEMENTARY INFORMATION

Notes to the Annual Supplemental Transparency Report (MTP2)

For the Year Ended June 30, 2016

Notes to Supplementary Information – *Annual Supplemental Transparency Report (MTP2)*

NOTE 1. Basis of Presentation

The *Annual Supplemental Transparency Report (MTP2)* is a new supplemental schedule required by the State of Rhode Island, as a result of newly enacted legislation, Article 8 of the Appropriations Act (2016 House Bill 7454 sub A as amended). This supplementary schedule included within the audit report is part of a broader project to create a municipal transparency portal (MTP) on the Division of Municipal Finance website to host municipal financial information in a centralized location.

The format of the *Annual Supplemental Transparency Report (MTP2)* was prescribed by the State Department of Revenue (Division of Municipal Finance), Office of the Auditor General, and the Department of Education.

NOTE 2. Reportable Government Services

Data consistency and comparability are among the key objectives of the State's Municipal Transparency portal. Consistent with that goal, the State has defined "reportable government services", RGS, to include those operational revenues, expenditures, and transfers related to activities which are essential to the achievement of municipal operations. The determination of RGS may be different from the activities included within the legally adopted budget of the municipality. In practice, some communities report certain RGS in separate funds (e.g., special revenue funds, enterprise funds) rather than the municipality's general fund. The *Annual Supplemental Transparency Report (MTP2)* includes a reconciliation to the fund level statements.

NOTE 3. Allocations

The State reporting requires expenditures to be reported by departments, as defined by the State. Some of the departmental groupings are not consistent with the departments reflected in the City's (or Town's) budget and accounting system. To report these costs, the City (or Town) made reasonable allocations of costs to the State's departmental groupings based on a reasonable basis.

NOTE 4. Employee Groups

Group A - This item includes compensation (salaries, longevity, stipends, clothing, shift differential, out-of-rank, holiday pay, and bonuses) and benefits (medical and dental insurance, pension contributions, OPEB (pay-go and ADC contributions) for the primary work force of the department (Police Department: Police Officers, Fire Department: Fire Fighters, Education Department: Certified Employees, and Other Departments: All Employees).

Group B - This item would only include compensation (salaries, longevity, stipend, clothing, shift differential, out-of-rank, holiday pay, and bonuses) and benefits (medical and dental insurance, pension contributions, OPEB (pay-go and ADC contributions) for administrative and civilian dispatch employees in Police and Fire Departments and Non-Certified employees for Education Department.

NOTE 5. Education Revenue and Expenditures

The revenues and expenditures presented on the MTP2 under the Education Department is consistent with existing Uniform Chart of Accounts (UCOA) guidelines. Each MTP account code has been mapped to the corresponding UCOA code or group of UCOA codes to facilitate the preparation of the MTP reporting.

Additional guidance and definitions regarding the State's Municipal Transparency Portal can be found on the State Division of Municipal Finance website: <http://www.municipalfinance.ri.gov/>. (Documents pertaining to the Transparency Portal will be posted in January 2017)

Town of Middletown
Annual Supplemental Transparency Report (MTP2)
Fiscal Year Ended June 30, 2016

<u>REVENUE</u>	<u>Municipal</u>	<u>Education Department</u>
Current Year Property Tax Collection	\$ 44,710,641	\$ -
Prior Year Property Tax Collection	385,968	-
Interest & Penalty	201,854	-
PILOT & Tax Treaty (excluded from certified levy)	103,939	-
Other Local Property Taxes	114,374	-
Licenses and Permits	867,594	-
Fines and Forfeitures	850,009	-
Investment Income	11,866	-
Departmental	2,947,731	-
Rescue Run Revenue	561,715	-
Police & Fire Detail	439,271	-
Other Local Non-Property Tax Revenues	51,860	-
Tuition	-	-
Impact Aid	-	1,355,134
Medicaid	-	472,140
Federal Stabilization Funds	-	-
Federal Food Service Reimbursement	-	345,635
CDBG	35,351	-
COPS Grants	67,170	-
SAFER Grants	-	-
Other Federal Aid Funds	1,758,135	1,093,216
MV Excise Tax Reimbursement	63,005	-
State PILOT Program	-	-
Distressed Community Relief Fund	-	-
Library Resource Aid	135,162	-
Library Construction Aid	54,568	-
Public Service Corporation Tax	207,028	-
Meals & Beverage Tax	725,596	-
Hotel Tax	829,180	-
LEA Aid	-	8,723,282
Housing Aid Capital Projects	130,120	-
Housing Aid Bonded Debt	147,280	-
State Food Service Revenue	-	10,786
Incentive Aid	78,930	-
Property Revaluation Reimbursement	-	-
Other State Revenue	92,566	24,500
Other Revenue	244,920	1,038,284
Local Appropriation for Education	-	25,219,797
Regional Appropriation for Education	-	-
Other Education Appropriation	-	320,829
Rounding	-	-
Total Revenue	\$ 55,815,833	\$ 38,603,603
Transfer from Capital Projects Funds	\$ -	\$ -
Transfer from Other Funds	146,183	-
Debt Proceeds	6,300,000	-
Other Financing Sources	353,185	-
Rounding	-	-
Total Other Financing Sources	\$ 6,799,368	\$ -

Town of Middletown
Annual Supplemental Transparency Report (MTP2)
Fiscal Year Ended June 30, 2016

EXPENDITURES	General		Social	Information	Planning	Libraries	Public	Parks and	Police
	Government	Finance	Services	Technology			Works	Rec	Department
Compensation- Group A	\$ 680,993	\$ 371,875	\$ 196,074	\$ 148,119	\$ 287,486	\$ 374,391	\$ 754,736	\$ 765,966	\$ 2,758,722
Compensation - Group B	-	-	-	-	-	-	-	-	203,355
Compensation - Volunteer	-	-	-	-	-	-	-	-	-
Overtime - Group A	6,374	1,428	13,199	5,161	1,061	5,001	92,596	65,134	407,359
Overtime - Group B	-	-	-	-	-	-	-	-	2,739
Police & Fire Detail	-	-	-	-	-	-	-	-	281,976
Active Medical Insurance - Group A	78,928	46,383	26,401	23,731	54,563	45,271	140,049	17,945	303,823
Active Medical Insurance - Group B	-	-	-	-	-	-	-	-	55,293
Active Dental insurance - Group A	5,669	2,906	1,585	1,485	3,639	3,064	9,467	1,209	16,883
Active Dental Insurance - Group B	-	-	-	-	-	-	-	-	3,425
Payroll Taxes	44,519	27,383	15,636	11,196	22,029	28,549	60,772	61,195	278,454
Life Insurance	6,492	3,737	1,742	1,500	3,481	549	1,485	1,343	3,975
Defined Contribution - Group A	5,656	2,758	1,452	1,453	2,849	-	6,028	1,439	-
Defined Contribution - Group B	-	-	-	-	-	-	-	-	35
Other Benefits - Group A	75	7,463	-	-	574	7,040	5,066	57,471	124,898
Other Benefits - Group B	-	-	-	-	-	-	-	-	1,800
Local Pension - Group A	143,253	-	-	-	-	84,928	81,378	-	52,253
Local Pension - Group B	-	-	-	-	-	-	-	-	-
State Pension - Group A	63,437	33,265	19,289	15,725	24,325	-	55,447	14,862	152,863
State Pension - Group B	-	-	-	-	-	-	-	-	16,057
Other Pension	2,770	3,369	-	-	2,389	8,414	2,547	463	-
Purchased Services	606,658	72,857	67,237	239,119	123,419	31,704	273,345	67,320	139,500
Materials/Supplies	18,248	2,895	14,760	34,986	643	98,517	191,999	95,116	60,030
Software Licenses	5,000	-	-	-	-	-	-	-	-
Capital Outlays	12,865	-	38,764	68,087	-	32,442	1,572,595	129,054	271,431
Insurance	223,553	-	-	-	-	-	-	-	-
Maintenance	101,389	-	18,605	18,400	-	55,494	252,803	274,183	188,805
Vehicle Operations	-	-	-	-	2,880	-	54,493	10,953	64,560
Utilities	94,757	655	12,412	61,870	1,309	69,309	33,878	43,722	97,734
Contingency	-	-	-	-	-	-	-	-	-
Street Lighting	-	-	-	-	-	-	221,689	-	-
Revaluation	-	-	-	-	-	-	-	-	-
Snow Removal - Raw Material & External Contracts	-	-	-	-	-	-	58,279	-	-
Trash Removal & Recycling	-	-	-	-	-	-	765,077	-	-
Claims & Settlements	4,000	-	-	-	-	-	-	-	-
Community Support	168,781	-	-	-	-	-	-	-	-
Other Operation Expenditures	19,775	2,838	140	249	830	471	1,111	140,180	14,285
Local Appropriation for Education	-	-	-	-	-	-	-	-	-
Regional Appropriation for Education	-	-	-	-	-	-	-	-	-
Other Education Appropriation	-	-	-	-	-	-	-	-	-
Municipal Debt - Principal	-	-	-	-	-	-	-	-	-
Municipal Debt - Interest	-	-	-	-	-	-	-	-	-
School Debt - Principal	-	-	-	-	-	-	-	-	-
School Debt - Interest	-	-	-	-	-	-	-	-	-
Retiree Medical Insurance - Total	-	-	-	-	-	-	-	-	-
Retiree Dental Insurance - Total	-	-	-	-	-	-	-	-	-
OPEB Contribution - Total	-	-	-	-	-	-	-	-	-
Non-Qualified OPEB Trust Contribution	-	-	-	-	-	-	-	-	-
Rounding	-	-	-	-	-	-	-	-	-
Total Expenditures	\$ 2,293,192	\$ 579,812	\$ 427,296	\$ 631,081	\$ 531,477	\$ 845,144	\$ 4,634,840	\$ 1,747,555	\$ 5,500,255

Town of Middletown
Annual Supplemental Transparency Report (MTP2)
Fiscal Year Ended June 30, 2016

EXPENDITURES	Fire		Public Safety		Education		Debt	OPEB	Total		Education Department
	Department	Dispatch	Other	Appropriation	Municipal	Department					
Compensation- Group A	\$ 1,724,809	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,063,171	\$ 17,386,604	
Compensation - Group B	176,826	-	-	-	-	-	-	-	380,181	3,057,582	
Compensation - Volunteer	-	-	-	-	-	-	-	-	-	-	
Overtime - Group A	415,711	-	-	-	-	-	-	-	1,013,024	-	
Overtime - Group B	21,432	-	-	-	-	-	-	-	24,171	182,458	
Police & Fire Detail	114,418	-	-	-	-	-	-	-	396,394	-	
Active Medical Insurance - Group A	342,974	-	-	-	-	-	-	-	1,080,068	2,165,554	
Active Medical Insurance - Group B	11,815	-	-	-	-	-	-	-	67,108	602,707	
Active Dental insurance - Group A	18,598	-	-	-	-	-	-	-	64,505	149,239	
Active Dental Insurance - Group B	1,791	-	-	-	-	-	-	-	5,216	38,815	
Payroll Taxes	177,560	-	-	-	-	-	-	-	727,293	522,551	
Life Insurance	8,013	-	-	-	-	-	-	-	32,317	40,672	
Defined Contribution - Group A	500	-	-	-	-	-	-	-	22,135	324,684	
Defined Contribution - Group B	467	-	-	-	-	-	-	-	502	22,031	
Other Benefits - Group A	63,697	-	-	-	-	-	-	-	266,284	232,575	
Other Benefits - Group B	1,583	-	-	-	-	-	-	-	3,383	425	
Local Pension - Group A	3,336,653	-	-	-	-	-	-	-	3,698,465	5,027	
Local Pension - Group B	-	-	-	-	-	-	-	-	-	10,161	
State Pension - Group A	81,576	-	-	-	-	-	-	-	460,789	2,326,400	
State Pension - Group B	9,698	-	-	-	-	-	-	-	25,755	269,682	
Other Pension	16,180	-	-	-	-	-	-	-	36,132	-	
Purchased Services	49,927	-	-	-	-	-	-	-	1,671,086	6,921,850	
Materials/Supplies	85,833	-	-	-	-	-	-	-	603,027	1,079,975	
Software Licenses	-	-	-	-	-	-	-	-	5,000	29,377	
Capital Outlays	253,117	-	-	-	-	-	-	-	2,378,355	589,973	
Insurance	-	-	-	-	-	-	-	-	223,553	184,150	
Maintenance	25,102	-	-	-	-	-	-	-	934,781	542,208	
Vehicle Operations	108,766	-	-	-	-	-	-	-	241,652	15,254	
Utilities	441,135	-	-	-	-	-	-	-	856,781	340,881	
Contingency	-	-	-	-	-	-	-	-	-	-	
Street Lighting	-	-	-	-	-	-	-	-	221,689	-	
Revaluation	-	-	-	-	-	-	-	-	-	-	
Snow Removal - Raw Material & External Contracts	-	-	-	-	-	-	-	-	58,279	-	
Trash Removal & Recycling	-	-	-	-	-	-	-	-	765,077	-	
Claims & Settlements	-	-	-	-	-	-	-	-	4,000	229	
Community Support	-	-	-	-	-	-	-	-	168,781	374	
Other Operation Expenditures	3,592	-	-	-	-	-	-	-	183,471	120,253	
Local Appropriation for Education	-	-	-	25,219,797	-	-	-	-	25,219,797	-	
Regional Appropriation for Education	-	-	-	-	-	-	-	-	-	-	
Other Education Appropriation	-	-	-	244,735	-	-	-	-	244,735	-	
Municipal Debt - Principal	-	-	-	-	-	2,170,045	-	-	2,170,045	-	
Municipal Debt - Interest	-	-	-	-	-	881,729	-	-	881,729	-	
School Debt - Principal	-	-	-	-	-	457,279	-	-	457,279	-	
School Debt - Interest	-	-	-	-	-	95,068	-	-	95,068	-	
Retiree Medical Insurance - Total	-	-	-	-	-	-	37,743	-	37,743	432,648	
Retiree Dental Insurance - Total	-	-	-	-	-	-	2,244	-	2,244	6,488	
OPEB Contribution - Total	-	-	-	-	-	-	1,638,329	-	1,638,329	188,320	
Non-Qualified OPEB Trust Contribution	-	-	-	-	-	-	-	-	-	-	
Rounding	-	-	-	-	-	-	-	-	-	-	
Total Expenditures	\$ 7,491,773	\$ -	\$ -	\$ 25,464,532	\$ 3,604,121	\$ 1,678,316	\$ 55,429,394	\$ 37,789,147			

Transfer to Capital Project Funds	\$ 150,774	\$ -
Transfer to Other Funds	159,146	-
Payment to Bond Escrow Agent	6,250,000	-
Other Financing Uses	386,304	-
Total Other Financing Uses	\$ 6,946,224	\$ -
Net Change in Fund Balance	239,583	814,456
Fund Balance - beginning of year	14,538,467	3,245,793
Fund Balance - end of year	\$ 14,778,050	\$ 4,060,248

Town of Middletown
Combining Schedule of Reportable Government Services with Reconciliation to MTP2
Municipal
Fiscal Year Ended June 30, 2016

Per Audited Fund Financial Statements Fund Description	Total Revenue	Total Other Financing Sources	Total Expenditures	Total Other Financing Uses	Net Change in Fund Balance	Fund Balance/ (Deficit) - Beginning	Fund Balance/ (Deficit) - Ending
General Fund	\$ 51,729,482	\$ 8,187,411	\$ 27,399,031	\$ 32,263,872	\$ 253,990	\$ 9,494,434	\$ 9,748,424
Community Development Block Grant	44,855	-	44,855	-	-	100,000	100,000
Public Private Venture	1,132,912	-	-	1,538,817	(405,905)	833,662	427,757
Parks and Recreation	1,988,292	3,890	1,747,555	-	244,627	3,956,737	4,201,364
Refuse and Recycling	1,015,093	-	868,222	-	146,871	153,634	300,505
Totals per audited financial statements	\$ 55,910,634	\$ 8,191,301	\$ 30,059,663	\$ 33,802,689	\$ 239,583	\$ 14,538,467	\$ 14,778,050
<u>Reconciliation from financial statements to MTP2</u>							
Reclassify transfer of municipal appropriation to Education Department as expenditure on MTP2.	\$ -	\$ -	\$ 25,219,797	\$ (25,219,797)	\$ -	\$ -	\$ -
Reclassify transfer of municipal appropriating from a Special Revenue Fund (GASB 54) to Education Department as expenditure on MTP2.	-	-	244,735	(244,735)	-	-	-
Retired Employee medical co-pays reported as revenue on financial statements, but expenditure credits on MTP2.	(92,848)	-	(92,848)	-	-	-	-
Retired Employee life insurance co-pays reported as revenue on financial statements, but expenditure credits on MTP2.	(1,953)	-	(1,953)	-	-	-	-
Eliminate transfers between Funds reported on MTP2:							
- from Public Private Venture to General Fund.		(1,388,043)		(1,388,043)			
- from General Fund to Parks & Recreation Fund.		(3,890)		(3,890)			
Rounding	-	-	-	-	-	-	-
Totals Per MTP2	\$ 55,815,833	\$ 6,799,368	\$ 55,429,394	\$ 6,946,224	\$ 239,583	\$ 14,538,467	\$ 14,778,050

Town of Middletown
Combining Schedule of Reportable Government Services with Reconciliation to MTP2
Education Department
Fiscal Year Ended June 30, 2016

Per Audited Fund Financial Statements Fund Description	Total Revenue	Total Other Financing Sources	Total Expenditures	Total Other Financing Uses	Net Change in Fund Balance	Fund Balance/ (Deficit) - Beginning	Fund Balance/ (Deficit) - Ending
School Unrestricted Fund(General/Enterprise)	\$ 11,646,585	\$ 25,219,797	\$ 36,598,487	\$ -	267,895	\$ 2,466,117	2,734,012
School Restricted Funds (Grants/Private Donations)	1,215,923	-	1,269,232	-	(53,309)	236,038	182,729
Capital Improvement Fund (Town/School)	857,775	320,829	643,678	-	534,926	458,681	993,607
School Lunch Program	788,668	-	723,725	-	64,943	84,957	149,900
Totals per audited financial statements	\$ 14,508,951	\$ 25,540,626	\$ 39,235,122	\$ -	\$ 814,455	\$ 3,245,793	\$ 4,060,248

Reconciliation from financial statements to MTP2

Municipal appropriation for Education reported as a transfer on financial statements but an expenditure on MTP2.	\$ 25,219,797	\$ (25,219,797)	\$ -	\$ -	\$ -	\$ -	-
Municipal Other Educational appropriation for Education reported as a transfer on financial statements but an expenditure on MTP2.	244,735	(244,735)	-	-	-	-	-
Municipal Other Educational appropriation for Education reported as a transfer on financial statements but an expenditure on MTP2.	76,094	(76,094)	-	-	-	-	-
State contributions on behalf of teacher pensions are reported as revenue and expenditures on financial statements only.	(1,445,974)	-	(1,445,974)	-	-	-	-
Rounding	(0)	-	(1)	-	-	-	-
Totals Per MTP2	\$ 38,603,603	\$ -	\$ 37,789,147	\$ -	\$ 814,455	\$ 3,245,793	\$ 4,060,248