

# TOWN OF MIDDLETOWN, RHODE ISLAND

## BASIC FINANCIAL STATEMENT

*Year Ended June 30, 2018*



**Shawn J. Brown, CPA, CFE**  
*Town Administrator*

**Marc W. Tanguay, CPA**  
*Finance Director*

**Town of Middletown, Rhode Island**

June 30, 2018

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**Town of Middletown, Rhode Island**

June 30, 2018

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

## *Independent Auditors' Report*

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island as of and for the year ended June 30, 2018, 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.

## **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, 2018, 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.

## **Change in Accounting Principle**

As described in Note 9 to the financial statements, in 2018, the Town adopted new accounting guidance, GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, general fund budgetary comparison information, the pension related disclosure, and the other post-employment benefit disclosure on pages 4-19 and 104-124, 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 school unrestricted fund budgetary comparison information, Annual Supplemental Transparency Report (MTP2) and tax collector's annual report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary school unrestricted fund budgetary comparison information, Annual Supplemental Transparency Report (MTP2) and tax collector's annual report 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 school unrestricted fund budgetary comparison information, Annual Supplemental Transparency Report (MTP2)

and tax collector's annual report are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019, 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.

A handwritten signature in cursive script that reads "Hague, Sabady & Co. PC". The signature is written in dark ink and is positioned above a thin horizontal line.

Fall River, Massachusetts  
February 6, 2019

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

*For the Year Ended June 30, 2018*

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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, 2018 (FY2018).

**Financial Highlights**

The assets and deferred outflows of the Town government-wide exceeded its liabilities and deferred inflows as of June 30, 2018 by \$21,216,427 (*net position*). Net position includes \$53,247,346 of net investment in capital assets; \$861,857 of restricted net position; and \$(32,892,776) of unrestricted net position. Total assets were \$126,961,321; total deferred outflows were \$16,202,092; total liabilities were \$107,921,355 and total deferred inflows were \$14,025,631 at June 30, 2018. Total net position increased by \$3,217,884 in the current fiscal year.

As of June 30, 2018, the Town's governmental funds reported combined ending fund balances of \$27,019,568, a decrease of \$1,196,239 in comparison with the prior year. The favorable fiscal year results in the Capital projects fund were offset by the unfavorable results in the General Fund, School Department and Other Governmental Funds resulted in the net decrease in fund balance. See page 10 for additional discussion regarding changes in the fund balance of the General Fund, School Department Special Revenue Fund, Capital Projects Fund and Other Governmental Funds.

As of June 30, 2018, the unassigned fund balance for the General Fund was \$5,991,254, or 10.15% of total budgeted 2018 General Fund expenditures and other financing uses, totaling \$59,005,160. This portion is unassigned and available for spending at the Town's discretion.

The Town's long-term obligations increased by \$1,897,784 (4.3%) during the current fiscal year. The factors causing this increase were principal payments of \$3,640,482, a reduction of \$49,350 of unearned grant revenue, a reduction of claims and judgements of \$2,273, a reduction of \$488,000 in pollution remediation obligations, a reduction of \$108,841 of deferred bond issuance premiums, a decrease in accrued compensated absences of \$59,651 offset by an increase in the issuance of general obligation bond and capital lease proceeds of \$5,691,306 and the issuance of \$4,550,000 of sewer fund revenue bond less the balance of undrawn loan proceeds of \$3,994,925.

Effective for the fiscal year ending June 30, 2018, the Town adopted 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 requires more extensive footnote disclosures in the Town's financial statements. Due to the adoption of GASB 75, the Town has restated its 2017 financial statements, resulting in a \$25,728,018 decrease in net position at July 1, 2017, as reported in the accompanying statement of activities.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
*For the Year Ended June 30, 2018*

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**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 20-23 of this report.

In the statement of activities, the operations of the Town are presented in a format that reports the net of expenses and revenues of its individual functions – the objective being to report the relative burden of each of the Town's functions to the taxpayers. Revenues offsetting related functional expenses are separated into three categories: charges for services, operating grants and contributions, and capital grants and contributions.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

# Town of Middletown, Rhode Island

## Management Discussion & Analysis (MD&A)

For the Year Ended June 30, 2018

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### Overview of the Financial Statements (continued)

**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, capital projects 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 104-125 of this report.

The basic governmental fund financial statements can be found on pages 24-25 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 nonmajor funds. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 28-31 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32-33 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 34-103 of this report.

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

*For the Year Ended June 30, 2018*

**Overview of the Financial Statements (continued)**

**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 to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 104-124 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 \$21,216,427 June 30, 2018.

Net investment in capital assets comprises \$53,247,346 of total net position. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Town of Middletown's Net Position**

|                                  | Governmental Activities |                     | Business Type Activities |                      | Total                |                      |
|----------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
|                                  | 2018                    | 2017<br>Restated    | 2018                     | 2017                 | 2018                 | 2017<br>Restated     |
| Current and other assets         | \$ 35,859,678           | \$ 35,824,550       | \$ 7,666,225             | \$ 5,925,190         | \$ 43,525,903        | \$ 41,749,740        |
| Capital assets                   | <u>62,367,928</u>       | <u>58,027,274</u>   | <u>21,067,490</u>        | <u>20,660,570</u>    | <u>83,435,418</u>    | <u>78,687,844</u>    |
| Total assets                     | <u>98,227,606</u>       | <u>93,851,824</u>   | <u>28,733,715</u>        | <u>26,585,760</u>    | <u>126,961,321</u>   | <u>120,437,584</u>   |
| Deferred outflows                | 16,158,600              | 14,414,835          | 43,492                   | 44,420               | 16,202,092           | 14,459,255           |
| Long-term liabilities            | 39,066,803              | 36,319,581          | 7,376,289                | 8,225,727            | 46,443,092           | 44,545,308           |
| Other liabilities                | <u>59,547,580</u>       | <u>64,011,427</u>   | <u>1,930,683</u>         | <u>1,285,727</u>     | <u>61,478,263</u>    | <u>65,297,154</u>    |
| Total liabilities                | <u>98,614,383</u>       | <u>100,331,008</u>  | <u>9,306,972</u>         | <u>9,511,454</u>     | <u>107,921,355</u>   | <u>109,842,462</u>   |
| Deferred inflows                 | <u>13,973,924</u>       | <u>7,017,073</u>    | <u>51,707</u>            | <u>38,760</u>        | <u>14,025,631</u>    | <u>7,055,833</u>     |
| Net position:                    |                         |                     |                          |                      |                      |                      |
| Net investment in capital assets | 37,782,260              | 35,343,062          | 15,465,086               | 13,833,843           | 53,247,346           | 49,176,905           |
| Restricted                       | 861,857                 | 2,209,841           | -                        | -                    | 861,857              | 2,209,841            |
| Unrestricted                     | <u>(36,846,218)</u>     | <u>(36,634,326)</u> | <u>3,953,442</u>         | <u>3,246,123</u>     | <u>(32,892,776)</u>  | <u>(33,388,203)</u>  |
| <b>Total Net Position</b>        | <u>\$ 1,797,899</u>     | <u>\$ 918,577</u>   | <u>\$ 19,418,528</u>     | <u>\$ 17,079,966</u> | <u>\$ 21,216,427</u> | <u>\$ 17,998,543</u> |

A portion of the Town's net position, totaling \$861,857 (4.1%), represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position*, totaling \$(32,892,776), includes the results of GASB 68 and GASB 75.

At June 30, 2018, 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

## Town of Middletown, Rhode Island

### Management Discussion & Analysis (MD&A)

*For the Year Ended June 30, 2018*

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balance in the unrestricted net position for the governmental activities. The government as a whole reports a positive net position.

#### **Government-wide Financial Analysis (continued)**

**Governmental activities.** Governmental activities increased the Town's net position by \$879,322 from the previous year, principally due to capital assets purchased from current year resources of \$344,000, net reduction in pension and other postemployment expense of \$1,437,000 due to GASB 68 and GASB 75, revenue received to pay principal on long-term debt of \$2,724,000, certain accruals not requiring the use of current resources of \$111,000, capitalization of deferred outflows on advanced refunding and bond premiums of \$68,000, revenue received in excess of expenditures of \$905,000 offset by depreciation expense in the amount of \$3,888,000, Other Governmental Funds expenditures in excess of revenues of \$1,525,000.

**Business-type activities.** Business-type activities increased the Town's net position by \$2,338,562, primarily due to Sewer fund maintenance costs lower than the prior year, a 1.1% increase in assessments and user fees, and a swing in environmental remediation from a prior year expense of \$1.1 million to current year revenue of \$364,000. Parks and Recreation fund revenue increased approximately \$480,000 over the prior year and Refuse & Recycling fund revenue increased approximately \$92,000 due to a 2.7% increase in user fees.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
For the Year Ended June 30, 2018

**Government-wide Financial Analysis (continued)**

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

|  | Governmental Activities |                   | Business Type Activities |                      | Total                |                      |
|--|-------------------------|-------------------|--------------------------|----------------------|----------------------|----------------------|
|  | 2018                    | 2017<br>Restated  | 2018                     | 2017                 | 2018                 | 2017<br>Restated     |
| Revenues:  |                         |                   |                          |                      |                      |                      |
| Program revenues:  |                         |                   |                          |                      |                      |                      |
| Charges for services   | \$ 5,099,563            | \$ 5,400,121      | \$ 8,913,232             | \$ 9,085,296         | \$ 14,012,795        | \$ 14,485,417        |
| Operating grants and contributions                           | 13,966,333              | 14,488,191        | -                        | -                    | 13,966,333           | 14,488,191           |
| Capital grants and contributions                             | 191,421                 | 746,650           | -                        | -                    | 191,421              | 746,650              |
| General revenues:  |                         |                   |                          |                      |                      |                      |
| Property taxes   | 47,267,137              | 47,066,606        | -                        | -                    | 47,267,137           | 47,066,606           |
| Grants and contributions not restricted to specific programs | 2,508,930               | 2,087,041         | -                        | -                    | 2,508,930            | 2,087,041            |
| Other  | 454,534                 | 920,657           | 12,012                   | 5,637                | 466,546              | 926,294              |
| Total revenues   | <u>69,487,918</u>       | <u>70,709,266</u> | <u>8,925,244</u>         | <u>9,090,933</u>     | <u>78,413,162</u>    | <u>79,800,199</u>    |
| Expenses:  |                         |                   |                          |                      |                      |                      |
| General government   | 6,703,646               | 3,559,368         | -                        | -                    | 6,703,646            | 3,559,368            |
| Public safety  | 15,221,418              | 14,011,514        | -                        | -                    | 15,221,418           | 14,011,514           |
| Public works/sanitation                                      | 1,707,517               | 3,408,323         | -                        | -                    | 1,707,517            | 3,408,323            |
| Planning/inspection  | 639,891                 | 535,295           | -                        | -                    | 639,891              | 535,295              |
| Library  | 931,736                 | 856,884           | -                        | -                    | 931,736              | 856,884              |
| Education  | 41,658,036              | 41,372,639        | -                        | -                    | 41,658,036           | 41,372,639           |
| Community services   | 667,992                 | 973,766           | -                        | -                    | 667,992              | 973,766              |
| Interest on long-term debt                                   | 964,753                 | 740,948           | -                        | -                    | 964,753              | 740,948              |
| Refuse and recycle   | -                       | -                 | 972,209                  | 890,170              | 972,209              | 890,170              |
| Parks and recreation   | -                       | -                 | 1,787,145                | 1,789,305            | 1,787,145            | 1,789,305            |
| Sewer  | -                       | -                 | 3,939,155                | 5,436,204            | 3,939,155            | 5,436,204            |
| Stormwater   | -                       | -                 | 1,780                    | 94,824               | 1,780                | 94,824               |
| Total expenses   | <u>68,494,989</u>       | <u>65,458,737</u> | <u>6,700,289</u>         | <u>8,210,503</u>     | <u>75,195,278</u>    | <u>73,669,240</u>    |
| Increase (decrease) in net position before transfers         | 992,929                 | 5,250,529         | 2,224,955                | 880,430              | 3,217,884            | 6,130,959            |
| Transfers  | (113,607)               | (180,989)         | 113,607                  | 180,989              | -                    | -                    |
| Increase (decrease) in net position                          | 879,322                 | 5,069,540         | 2,338,562                | 1,061,419            | 3,217,884            | 6,130,959            |
| Net position – beginning as restated                         | 918,577                 | (4,150,963)       | 17,079,966               | 16,018,547           | 17,998,543           | 11,867,584           |
| Net position – ending  | <u>\$ 1,797,899</u>     | <u>\$ 918,577</u> | <u>\$ 19,418,528</u>     | <u>\$ 17,079,966</u> | <u>\$ 21,216,427</u> | <u>\$ 17,998,543</u> |

**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, 2018*

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

**Governmental funds (continued).** As of June 30, 2018, the Town's governmental funds reported combined ending fund balances of \$27,019,568. Of this amount, \$5,991,254 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 \$134,630; 2) long-term loans receivable in the amount of \$100,000; 3) grants in the amount of \$533,404; 4) prepaid expenses and other purposes in the amount of \$93,823; 5) various commitments for West Main Road development, special education, open space, storm-water management and capital improvements totaling \$16,333,924 and 6) other specific purposes in the amount of \$3,832,533. See page 21. A total of \$100,000 of the Governmental fund balance as of June 30, 2018 is budgeted to be used in FY 2018.

The General Fund is the chief operating fund of the Town. At June 30, 2018, unassigned fund balance of the General Fund was \$5,991,254, while total fund balance was \$10,466,981. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 10.6% of total General Fund expenditures and other financing uses of \$56,357,762, while total fund balance represents 18.6% of that same amount.

During FY2018, the fund balance of the Town's General Fund decreased by \$323,219, principally due the purchase of land funded from committed fund balance in the amount of \$1,300,000 offset by revenues received in excess of expenditures of \$905,000 which include open space, canvassing and elections, revaluation, rescue wagon, severance and capital improvement program funds.

The School Department, a special revenue fund of the Town, had a total fund balance of \$11,706,796 which includes an assigned fund balance of \$1,990,054 at June 30, 2018. The assigned fund balance represents 4.66% of total School Department expenditures of \$42,679,370. The School Department's fund balance decreased by \$2,559,518 during the fiscal year ended June 30, 2018. This decrease is primarily due to the planned use of fund balance from bond proceeds for the bond projects in the capital improvement program. A total of \$122,742 of the School Department assigned fund balance as of June 30, 2018 is budgeted to use in FY2019.

The Capital Projects fund had a fund balance of \$3,379,590, which represents a \$3,211,032 increase during the fiscal year ended June 30, 2018. The increase in fund balance is due primarily to \$5,300,000 bond proceeds that are not recognized as revenue offset by expenditures of \$2,088,968.

The Other Governmental Funds had a total fund balance of \$1,466,201, which represents a \$1,524,534 decrease in fund balance during the fiscal year ended June 30, 2018. 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 \$137,271 and the Capital Improvement Impact fund of \$1,459,569 offset by the excess of revenues over expenditures in the and in the JFK Building special revenue fund of \$58,016.

**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.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
*For the Year Ended June 30, 2018*

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

*Proprietary funds (continued).* Net position of the Sewer Fund at June 30, 2018 amounted to \$13,414,849, of which \$2,442,633 is unrestricted. Parks and Recreation Fund net position amounted to \$5,464,182, of which \$971,312 is unrestricted. Refuse and Recycling Fund net position amounted to \$539,497, all of which is unrestricted. Stormwater Fund net position amounted to \$0. The total growth (decrease) in net position for each of the four funds was \$1,808,910, \$482,163, \$92,665, and \$(45,176), 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 FY2018 revenues totaled an increase of approximately \$904,000, primarily due to an increase in Intergovernmental Grant revenue approved and received from federal and state grants; intergovernmental state revenue for hotel tax, licenses, building permits, fee from land evidence, police and fire details, bequests and an increase in insurance proceeds. See page 104.

Further, there was an overall increase in budgeted expenditures of approximately \$2,871,000. The major items contributing to the net increase in expenditures are as follows:

- \$1,300,000 increase for the purchase of Navy surplus land.
- \$568,000 increase for Fire ambulance, vehicle and equipment purchases.
- \$373,000 increase in Public Safety private detail pay incurred by private companies.
- \$286,000 increase in Federal, State and local Grant expenditures.
- \$130,000 increase for full property revaluation services performed by the tax assessor.
- \$84,000 increase for Information Technology software and license costs.
- \$47,000 increase for Police security gates.
- \$68,000 increase in insurance claim expenditures.
- \$45,500 increase for records archival project.
- \$37,500 increase for drainage improvements on King Fisher road.
- \$120,000 decrease in Capital expenditures to defer town hall carpet replacement.

Actual expenditures were below budgeted expenditures by approximately \$793,000 primarily as a net result of reduced debt service payments due do to the timing of bond closing at the end of the year instead of the beginning in the amount of \$415,000; \$146,000 of reduced public safety expenditures; \$108,000 of reduced general government expenditures and \$62,000 unspent capital expenditures.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
*For the Year Ended June 30, 2018*

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**School Department Special Revenue Fund Budgetary Highlights**

Differences between the original budget and the final amended budget for FY18 Revenues totaled a decrease of approximately \$40,500 which includes:

- Decreases in federal and state grants as well as increases in fees for service and other revenues

Final budgeted expenditures were less than original budgeted expenditures by \$366,617 due to:

- Increases in salaries of approximately \$194,536
- Reduction in benefits of approximately \$44,323
- Increases in purchased services, supplies and materials and other expenditures of approximately \$1,530,855 related to construction projects funded from bond proceeds
- Decrease in Capital Expenditures of approximately \$2,047,685

**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, 2018 amounts to \$83,435,418 (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 increased by \$4,747,574 or 6%, of which \$4,340,654 increased for governmental activities and \$406,920 increased for business-type activities.

Major capital asset events during FY2018 included the following:

On-going:

- Residential street upgrades and improvements encompassing sewer lines, drainage, systems, sidewalks and road re-pavement
- Town-wide catch basin and storm drain improvement and reconstruction
- District-wide improvements to the school buildings, window replacement, roof replacement, renovate building entrances, parking lot improvements, Boiler/HVAC replacement, network infrastructure updates, security system upgrades and technology replacements
- Beach, campground and baseball field building improvements

Purchase of:

- Various public safety vehicles per fleet management schedules, including three police sports utility vehicles, two fire vehicles, two rescue ambulances and one beach gator
- Police security gates and generator enclosure
- Sewer truck, pump station generator and equipment
- Various public safety equipment including ambulance power load system
- Budget builder software module
- Senior Center parking lot improvements
- Beach improvements including parking lot improvements and dune restoration and path reconstruction
- Beach and campground Solar lights, bath house water pressure booster, four shower stations and shade structure

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
For the Year Ended June 30, 2018

**Capital Asset and Debt Administration (continued)**

**Capital assets (continued)**

- Library reference collection
  - School auto scrubber, student and staff elite books and a school van
  - 3.25 acres of land known as “Navy lodge property” and an easement on the Spruce Acres property
  -
- Upgrades to:
- Various servers and network infrastructure equipment Town-wide, including a data storage system, camera systems and wireless network components

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

|                            | Governmental Activities |                     | Business Type Activities |                     | Total               |                     |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
|                            | 2018                    | 2017                | 2018                     | 2017                | 2018                | 2017                |
| Land                       | \$ 9,092,536            | \$ 7,492,536        | \$ 3,167,391             | \$ 3,167,391        | \$12,259,927        | \$10,659,927        |
| Buildings and improvements | 23,312,371              | 14,487,729          | 197,657                  | 212,556             | 23,510,028          | 14,700,285          |
| Land improvements          | 3,913,734               | 3,237,350           | 1,164,517                | 921,628             | 5,078,251           | 4,158,978           |
| Furniture and equipment    | 2,407,938               | 2,790,782           | 817,710                  | 855,014             | 3,225,648           | 3,645,796           |
| Infrastructure             | 16,422,232              | 14,637,566          | 14,798,230               | 15,296,255          | 31,220,462          | 29,933,821          |
| Construction in progress   | 4,664,749               | 12,932,599          | 861,987                  | 145,145             | 5,526,736           | 13,077,744          |
| Library books              | 49,994                  | 49,988              | -                        | -                   | 49,994              | 49,988              |
| Motor vehicles             | 2,504,374               | 2,398,724           | 59,998                   | 62,581              | 2,564,372           | 2,461,305           |
| <b>Total</b>               | <u>\$62,367,928</u>     | <u>\$58,027,274</u> | <u>\$21,067,490</u>      | <u>\$20,660,570</u> | <u>\$83,435,418</u> | <u>\$78,687,844</u> |

The Town’s active construction projects as of June 30, 2018 include road reconstruction, drainage and sanitary upgrades in designated areas of the Town, beach improvements to parking lot and dunes, entrance way, roof repairs and window repairs at school buildings. Remaining commitments at June 30, 2018 total approximately \$9,200,000. The road reconstruction and beach improvements to parking lots are funded through the Capital Improvement Program special revenue fund, road bond proceeds, and the National Wildlife Foundation Sachuest Bay Coastal Resiliency Grant; the commitments for sanitary sewer upgrades and interceptor inspections and improvements are funded through Sewer Fund operations and revenue bond proceeds; and the commitments for the roof repairs are funded from the school bond proceeds.

Additional information on the Town’s capital assets can be found in Notes 5 and 12 on pages 51-52 and 101-102, respectively, of this report.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
For the Year Ended June 30, 2018

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**Long-term debt**

At June 30, 2018, the Town had total bonded debt outstanding of \$33,550,000, entirely backed by the full faith and credit of the Town. In addition, the Town has \$6,765,289 outstanding loans payable to the Rhode Island Infrastructure Bank and capital leases in the amount of \$415,646. 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                |                      |
|--------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
|                          | 2018                    | 2017                 | 2018                     | 2017                | 2018                 | 2017                 |
| General obligation bonds | \$ 33,550,000           | \$ 30,587,114        | \$ -                     | \$ -                | \$ 33,550,000        | \$ 30,587,114        |
| Loans payable            | 300,000                 | 350,000              | 6,465,289                | 6,828,128           | 6,765,289            | 7,178,128            |
| Capital leases           | 415,646                 | 361,195              | -                        | -                   | 415,646              | 361,195              |
| <b>Total</b>             | <u>\$ 34,265,646</u>    | <u>\$ 31,298,309</u> | <u>\$ 6,465,289</u>      | <u>\$ 6,828,128</u> | <u>\$ 40,730,935</u> | <u>\$ 38,126,437</u> |

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, 2017 was \$3,322,106,863, limiting the amount of non-expected general obligation bonds outstanding to \$99,663,206. At June 30, 2018, bonds outstanding totaled \$33,550,000, of which \$4,045,000 were issued subject to the 3% debt limit and \$29,505,000 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$33,550,000 represent 1.01% of assessed property value.

Additional information on the Town's long-term debt can be found in Note 7 on pages 54-60 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.

## **Town of Middletown, Rhode Island**

### **Management Discussion & Analysis (MD&A)**

*For the Year Ended June 30, 2018*

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#### **Economic Factors (continued)**

The Town's present economy reflects diversity of activity, but with a significant sector devoted to industries associated with defense-related activities. The Town also benefits from the important local tourism economy based on visitors to Newport and Aquidneck Island. The Town includes a large percentage of Aquidneck Island's lodging businesses, including hotels, inns, and bed and breakfasts, as well as restaurants and other service and retail businesses.

The Town had a 2010 U.S. Census Bureau population of 16,150, and a 2016 estimated population of 16,042. Middletown 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 October 2018, Middletown had a labor force of approximately 7,962 and an unemployment rate of approximately 2.5% (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.

## **Town of Middletown, Rhode Island**

### **Management Discussion & Analysis (MD&A)**

*For the Year Ended June 30, 2018*

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#### **Economic Factors (continued)**

The services industries group, including businesses related to the local tourism industry, has been the fastest growing private employment 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 is 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, 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. Several recently vacated retail spaces have been renovated and have new tenants. Of note, there are currently few vacant large retail spaces in Middletown. Some of the still available retail spaces included those recently vacated by Benny's Home & Auto and the Sears Hometown Store. In the past two years, several additional renovations and expansions of existing commercial buildings, (retail and lodging businesses) have been completed. A new hotel resort and conference facility, which includes 198 rooms, a restaurant, and conference/event space was completed. A new mixed commercial/residential building on Wave Ave., renovation and expansion of an existing Cumberland Farms convenience store, and the SeaBreeze Inn, both on Aquidneck Ave. were recently completed. Several other commercial projects are in various stages of the approval process. As the economy improves, it is anticipated that new office development will also continue.

Residential permitting activity is strong. A 12-lot high-end residential subdivision is under construction, as are two condominium developments totaling 50+ units. Several smaller subdivisions have also been approved recently. Three subdivision applications of eight, eleven, and 24 lots each are currently under review. 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 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 and 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 has acquired 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

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

*For the Year Ended June 30, 2018*

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**Economic Factors (continued)**

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, through the federal lands to parks program, 15 acres of land along the Narragansett Bay shoreline for development of a public park. That parcel is expected to transfer in 2020.

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 town roads, and the sewer and storm water systems are ongoing in several locations. Construction of the fire station expansion and new DPW offices was recently completed, and improvements to the Town's recreation fields and facilities are ongoing.

Implementation of the 2007 Atlantic Beach District Master Plan continues with construction of intersection safety improvements by the Rhode Island Department of Transportation set to begin in Spring 2019. Design work on proposed streetscape improvements and possible undergrounding of utilities within the district is also proceeding. Funding for the streetscape project will be sought through the state transportation improvement program. The undergrounding of utilities would be completed in conjunction with the streetscapes project but will be funded by the recently adopted Atlantic Beach Tax Increment Financing (TIF) District.

The Town is working with regional partners on economic development initiatives, including efforts to provide affordable fiber optic broadband service to Aquidneck Island, and the recent 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. The Newport County Chamber of Commerce, in cooperation with local municipalities, businesses and non-profit organizations, have created and funded the regional economic development office, known as Connect Greater Newport. This effort recognizes the need to pool resources to best promote economic development for the entire region. Outreach to the local business community is underway to learn about and work to address their concerns.

**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

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
*For the Year Ended June 30, 2018*

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**Litigation (continued)**

sewer overflows and storm-water discharges, and issue the appropriate reports, which were completed in October 2011.

In regard to the sanitary sewer system, the projects evaluated were: (1) increase storage capacity; (2) reroute wastewater flow; and (3) implement measures to reduce inflow and infiltration into the Town's sewer system. The final report issued in October 2011 recommended implementing measures to reduce inflow and infiltration as the most feasible alternative. A long-term program is currently underway. Program recommendations are included in the Town's Capital Improvement Program, and priority mitigation measures have either been constructed/completed or are in the process of being constructed/completed. The cost of implementing the most feasible alternative was estimated at approximately \$8.4 million as of June 30, 2011. This estimate has since been revised, with the balance of this cost remaining at June 30, 2015 estimated at \$2.1 million, which has been recorded as a long-term liability in the government-wide and proprietary fund financial statements.

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

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

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

The total cost of the Project was \$6.2 million, and the contract was completed as of July 28, 2015. The Town is not aware of any pending or threatened claims or litigation concerning the construction of the Project.

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

**Subsequent Events**

*Construction commitments:*

Subsequent to year-end, the Town executed one contract. The contract, awarded to East Coast Landscaping & Construction, Inc. in the amount of \$394,000, relates to town wide asphalt patch program in various sections of Town and will be paid from the Capital Improvement Program Special Revenue Fund.

**Town of Middletown, Rhode Island**  
Management Discussion & Analysis (MD&A)  
*For the Year Ended June 30, 2018*

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**Subsequent Events (continued)**

*Pension and OPEB Trust funds:*

The fair value of the Town's pension investment account as of October 31, 2018 was \$57,507,366, which represents a 4.07% decrease in value since June 30, 2018. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2018 was \$9,975,113, which represents a 4.84% increase in value since June 30, 2018. 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.

**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, 2018

|   | Governmental<br>Activities | Business-Type<br>Activities | Total              |
|---|----------------------------|-----------------------------|--------------------|
| <b>ASSETS:</b>  |                            |                             |                    |
| Cash and cash equivalents   | \$ 19,353,117              | \$ 6,237,268                | \$ 25,590,385      |
| Investments   | 2,287,301                  | -                           | 2,287,301          |
| Accounts receivable, less allowance for doubtful<br>accounts of \$497,545 |                            |                             |                    |
| Property taxes  | 637,885                    | -                           | 637,885            |
| Federal and state government  | 2,413,503                  | -                           | 2,413,503          |
| Assessments and user fees   | -                          | 574,637                     | 574,637            |
| Loans   | 100,000                    | -                           | 100,000            |
| Other   | 6,623,852                  | -                           | 6,623,852          |
| Federal government  | -                          | 51,071                      | 51,071             |
| Prepaid expenses  | 35,215                     | -                           | 35,215             |
| Internal balances   | (500,960)                  | 500,960                     | -                  |
| Pensions  | 4,909,765                  | -                           | 4,909,765          |
| Noncurrent assessments and user fees                                      | -                          | 302,289                     | 302,289            |
| Capital assets not being depreciated                                      | 13,757,285                 | 4,029,378                   | 17,786,663         |
| Capital assets being depreciated, net                                     | 48,610,643                 | 17,038,112                  | 65,648,755         |
| <br>  |                            |                             |                    |
| Total assets  | <u>98,227,606</u>          | <u>28,733,715</u>           | <u>126,961,321</u> |
| <br>  |                            |                             |                    |
| <b>DEFERRED OUTFLOWS:</b>   |                            |                             |                    |
| Pensions  | 15,660,934                 | 43,492                      | 15,704,426         |
| Advance refundings  | 398,305                    | -                           | 398,305            |
| OPEB  | 99,361                     | -                           | 99,361             |
| <br>  |                            |                             |                    |
| Total deferred outflows   | <u>16,158,600</u>          | <u>43,492</u>               | <u>16,202,092</u>  |

*The accompanying notes are an integral part of this statement*

# Town of Middletown, Rhode Island

## Statement of Net Position

June 30, 2018

### LIABILITIES:

|                                       |                   |                  |                    |
|---------------------------------------|-------------------|------------------|--------------------|
| Accounts payable and accrued expenses | 3,272,734         | 1,728,500        | 5,001,234          |
| Unearned revenue                      | 419,074           | -                | 419,074            |
| Pensions                              | 37,358,873        | 202,183          | 37,561,056         |
| OPEB                                  | 18,496,899        | -                | 18,496,899         |
| Long-term obligations:                |                   |                  |                    |
| Due within one year                   | 2,787,459         | 1,219,714        | 4,007,173          |
| Due in more than one year             | 36,279,344        | 6,156,575        | 42,435,919         |
|                                       | <u>98,614,383</u> | <u>9,306,972</u> | <u>107,921,355</u> |

### DEFERRED INFLOWS:

|          |                   |               |                   |
|----------|-------------------|---------------|-------------------|
| Pensions | 8,944,896         | 51,707        | 8,996,603         |
| OPEB     | 5,029,028         | -             | 5,029,028         |
|          | <u>13,973,924</u> | <u>51,707</u> | <u>14,025,631</u> |

### NET POSITION:

|                                  |                     |                      |                      |
|----------------------------------|---------------------|----------------------|----------------------|
| Net investment in capital assets | 37,782,260          | 15,465,086           | 53,247,346           |
| Restricted for:                  |                     |                      |                      |
| Prepaid items                    | 35,215              | -                    | 35,215               |
| Long-term loans receivable       | 100,000             | -                    | 100,000              |
| Perpetual care                   | 134,630             | -                    | 134,630              |
| Principal of endowments          | 58,608              | -                    | 58,608               |
| Grants                           | 533,404             | -                    | 533,404              |
| Unrestricted                     | <u>(36,846,218)</u> | <u>3,953,442</u>     | <u>(32,892,776)</u>  |
|                                  | <u>\$ 1,797,899</u> | <u>\$ 19,418,528</u> | <u>\$ 21,216,427</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, 2018*

| Functions/Programs               | Expenses      | Program Revenues     |                                    |                                  | Net (Expenses) Revenues and Changes in Net Assets |                          |                |
|----------------------------------|---------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
|                                  |               | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities | Total          |
| <b>Governmental activities:</b>  |               |                      |                                    |                                  |   |                          |                |
| General government               | \$ 6,703,646  | \$ 782,222           | \$ 266,833                         | \$ -                             | \$ (5,654,591)                                    | \$ -                     | \$ (5,654,591) |
| Public safety                    | 15,221,418    | 2,913,293            | 236,464                            | -                                | (12,071,661)                                      | -                        | (12,071,661)   |
| Public works and sanitation      | 1,707,517     | 3,252                | 35,202                             | 191,421                          | (1,477,642)                                       | -                        | (1,477,642)    |
| Planning and inspection          | 639,891       | 695,214              | -                                  | -                                | 55,323  | -                        | 55,323         |
| Library                          | 931,736       | 14,533               | 160,222                            | -                                | (756,981)   | -                        | (756,981)      |
| Education                        | 41,658,036    | 691,049              | 13,060,875                         | -                                | (27,906,112)                                      | -                        | (27,906,112)   |
| Community services               | 667,992       | -                    | 206,737                            | -                                | (461,255)   | -                        | (461,255)      |
| Interest on long-term debt       | 964,753       | -                    | -                                  | -                                | (964,753)   | -                        | (964,753)      |
| Total governmental activities    | 68,494,989    | 5,099,563            | 13,966,333                         | 191,421                          | (49,237,672)                                      | -                        | (49,237,672)   |
| <b>Business-Type activities:</b> |               |                      |                                    |                                  |   |                          |                |
| Sewer                            | 3,939,155     | 5,738,771            | -                                  | -                                | -   | 1,799,616                | 1,799,616      |
| Parks and recreation             | 1,787,145     | 2,110,712            | -                                  | -                                | -   | 323,567                  | 323,567        |
| Refuse and recycle               | 972,209       | 1,063,749            | -                                  | -                                | -   | 91,540                   | 91,540         |
| Stormwater                       | 1,780         | -                    | -                                  | -                                | -   | (1,780)                  | (1,780)        |
| Total business-type activities   | 6,700,289     | 8,913,232            | -                                  | -                                | -   | 2,212,943                | 2,212,943      |
| Total                            | \$ 75,195,278 | \$ 14,012,795        | \$ 13,966,333                      | \$ 191,421                       | (49,237,672)                                      | 2,212,943                | (47,024,729)   |

*The accompanying notes are an integral part of this statement*

**Town of Middletown, Rhode Island**

Statement of Activities

*For the Year Ended June 30, 2018*

|  | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|--|----------------------------|-----------------------------|---------------|
| General revenues:  |                            |                             |               |
| Property taxes   | 47,267,137                 | -                           | 47,267,137    |
| Grants and contributions not restricted to specific programs | 2,508,930                  | -                           | 2,508,930     |
| Investment earnings  | 102,527                    | 12,012                      | 114,539       |
| Miscellaneous  | 352,007                    | -                           | 352,007       |
| Transfers  | (113,607)                  | 113,607                     | -             |
| Total general revenues and transfers                         | 50,116,994                 | 125,619                     | 50,242,613    |
| Change in net position                                       | 879,322                    | 2,338,562                   | 3,217,884     |
| Net position, beginning of year:                             |                            |                             |               |
| As previously reported                                       | 26,646,595                 | 17,079,966                  | 43,726,561    |
| Prior period adjustment (Note 9)                             | (25,728,018)               | -                           | (25,728,018)  |
| As restated  | 918,577                    | 17,079,966                  | 17,998,543    |
| Net position, end of year                                    | \$ 1,797,899               | \$ 19,418,528               | \$ 21,216,427 |

*The accompanying notes are an integral part of this statement*

# Town of Middletown, Rhode Island

## Governmental Funds

### Balance Sheet

*June 30, 2018*

|  | General Fund         | School Department    | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------|-----------------------|--------------------------|--------------------------|
| <b>ASSETS</b>  |                      |                      |                       |                          |                          |
| Cash and cash equivalents  | \$ 8,546,478         | \$ 10,025,739        | \$ 105,245            | \$ 675,655               | \$ 19,353,117            |
| Investments  | 2,287,301            | -                    | -                     | -                        | 2,287,301                |
| Accounts receivable, less allowance for doubtful accounts of \$497,545 |                      |                      |                       |                          |                          |
| Property taxes   | 637,885              | -                    | -                     | -                        | 637,885                  |
| Federal and state government   | 803,488              | 1,610,015            | -                     | -                        | 2,413,503                |
| Loans  | -                    | -                    | -                     | 100,000                  | 100,000                  |
| Other  | 401,647              | 1,272,205            | 4,950,000             | -                        | 6,623,852                |
| Prepaid expenses   | 35,215               | -                    | -                     | -                        | 35,215                   |
| Due from other funds   | 1,261,577            | 2,072,594            | -                     | 732,753                  | 4,066,924                |
| <b>Total assets</b>  | <b>\$ 13,973,591</b> | <b>\$ 14,980,553</b> | <b>\$ 5,055,245</b>   | <b>\$ 1,508,408</b>      | <b>\$ 35,517,797</b>     |
| <b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>                 |                      |                      |                       |                          |                          |
| <b>Liabilities:</b>  |                      |                      |                       |                          |                          |
| Accounts payable and accrued expenses                                  | \$ 920,330           | \$ 976,285           | \$ 424,587            | \$ 26,810                | \$ 2,348,012             |
| Accrued payroll  | 373,398              | 215,128              | -                     | -                        | 588,526                  |
| Accrued compensated absences   | 2,990                | -                    | -                     | -                        | 2,990                    |
| Due to other funds   | 1,236,684            | 2,072,594            | 1,251,068             | 7,538                    | 4,567,884                |
| Unearned revenue   | -                    | -                    | -                     | 7,859                    | 7,859                    |
| <b>Total liabilities</b>   | <b>2,533,402</b>     | <b>3,264,007</b>     | <b>1,675,655</b>      | <b>42,207</b>            | <b>7,515,271</b>         |
| Deferred inflows of resources (Note 1)                                 | 973,208              | 9,750                | -                     | -                        | 982,958                  |
| <b>Fund balances:</b>  |                      |                      |                       |                          |                          |
| <b>Nonspendable:</b>   |                      |                      |                       |                          |                          |
| Prepaid items  | 35,215               | -                    | -                     | -                        | 35,215                   |
| Long-term loans receivable   | -                    | -                    | -                     | 100,000                  | 100,000                  |
| Perpetual care   | -                    | -                    | -                     | 134,630                  | 134,630                  |
| Principal of endowments  | -                    | -                    | -                     | 58,608                   | 58,608                   |
| <b>Restricted for:</b>   |                      |                      |                       |                          |                          |
| Stormwater management  | -                    | -                    | 95,577                | -                        | 95,577                   |
| Construction projects  | -                    | 7,626,755            | 3,281,713             | -                        | 10,908,468               |
| Open Space   | -                    | -                    | 2,300                 | -                        | 2,300                    |
| Grants   | 17,858               | 500,925              | -                     | 14,621                   | 533,404                  |
| <b>Committed to:</b>   |                      |                      |                       |                          |                          |
| West Main Road development   | 1,577,207            | -                    | -                     | -                        | 1,577,207                |
| Special education  | -                    | 1,304,945            | -                     | -                        | 1,304,945                |
| Capital improvements   | 2,161,310            | 284,117              | -                     | -                        | 2,445,427                |
| Assigned   | 684,137              | 1,990,054            | -                     | 1,158,342                | 3,832,533                |
| Unassigned   | 5,991,254            | -                    | -                     | -                        | 5,991,254                |
| <b>Total fund balances</b>   | <b>10,466,981</b>    | <b>11,706,796</b>    | <b>3,379,590</b>      | <b>1,466,201</b>         | <b>27,019,568</b>        |
| <b>Total liabilities, deferred inflows and fund balances</b>           | <b>\$ 13,973,591</b> | <b>\$ 14,980,553</b> | <b>\$ 5,055,245</b>   | <b>\$ 1,508,408</b>      | <b>\$ 35,517,797</b>     |

*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, 2018*

|   | General Fund         | School<br>Department | Capital Projects<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|----------------------|--------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>  |                      |                      |                          |                                |                                |
| Taxes   | \$ 47,322,990        | \$ -                 | \$ -                     | \$ -                           | \$ 47,322,990                  |
| Intergovernmental   | 3,273,462            | 11,502,116           | -                        | 1,172,912                      | 15,948,490                     |
| Licenses, permits and fees  | 2,461,007            | 601,649              | -                        | 174,539                        | 3,237,195                      |
| Interest and investment income  | 19,514               | 80,348               | 10                       | 2,655                          | 102,527                        |
| State contribution to teachers' pension plan  | -                    | 1,558,759            | -                        | -                              | 1,558,759                      |
| Other revenues  | 1,051,254            | 79,650               | -                        | 210,350                        | 1,341,254                      |
| <b>Total revenues</b>   | <b>54,128,227</b>    | <b>13,822,522</b>    | <b>10</b>                | <b>1,560,456</b>               | <b>69,511,215</b>              |
| <b>Expenditures:</b>  |                      |                      |                          |                                |                                |
| <b>Current:</b>   |                      |                      |                          |                                |                                |
| General government  | 2,921,636            | -                    | -                        | 1,537,410                      | 4,459,046                      |
| Public safety   | 9,584,825            | -                    | -                        | -                              | 9,584,825                      |
| Public works  | 1,873,019            | -                    | 64,000                   | 44,681                         | 1,981,700                      |
| Planning and inspection   | 647,001              | -                    | -                        | -                              | 647,001                        |
| Library   | 825,897              | -                    | -                        | -                              | 825,897                        |
| Education   | -                    | 42,677,683           | -                        | -                              | 42,677,683                     |
| Community services  | 252,461              | -                    | -                        | 40,000                         | 292,461                        |
| Other expenditures  | 6,162,408            | -                    | -                        | -                              | 6,162,408                      |
| Grants  | 465,811              | -                    | -                        | -                              | 465,811                        |
| Capital outlay  | 3,414,561            | -                    | 2,024,978                | -                              | 5,439,539                      |
| <b>Debt service:</b>  |                      |                      |                          |                                |                                |
| Principal   | 2,723,970            | -                    | -                        | -                              | 2,723,970                      |
| Interest  | 1,024,812            | -                    | -                        | -                              | 1,024,812                      |
| <b>Total expenditures</b>   | <b>29,896,401</b>    | <b>42,677,683</b>    | <b>2,088,978</b>         | <b>1,622,091</b>               | <b>76,285,153</b>              |
| <b>Excess (deficiency) of revenues over expenditures</b>  | <b>24,231,826</b>    | <b>(28,855,161)</b>  | <b>(2,088,968)</b>       | <b>(61,635)</b>                | <b>(6,773,938)</b>             |
| <b>Other financing sources (uses):</b>  |                      |                      |                          |                                |                                |
| Bond proceeds   | -                    | -                    | 5,300,000                | -                              | 5,300,000                      |
| Capital lease proceeds  | 391,306              | -                    | -                        | -                              | 391,306                        |
| Transfers from other funds  | 1,515,010            | 26,297,330           | -                        | 8,715                          | 27,821,055                     |
| Transfers to other funds  | (26,461,361)         | (1,687)              | -                        | (1,471,614)                    | (27,934,662)                   |
| <b>Total other financing sources (uses)</b>   | <b>(24,555,045)</b>  | <b>26,295,643</b>    | <b>5,300,000</b>         | <b>(1,462,899)</b>             | <b>5,577,699</b>               |
| <b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b> | <b>(323,219)</b>     | <b>(2,559,518)</b>   | <b>3,211,032</b>         | <b>(1,524,534)</b>             | <b>(1,196,239)</b>             |
| <b>Fund balances, beginning of year</b>   | <b>10,790,200</b>    | <b>14,266,314</b>    | <b>168,558</b>           | <b>2,990,735</b>               | <b>28,215,807</b>              |
| <b>Fund balances, end of year</b>   | <b>\$ 10,466,981</b> | <b>\$ 11,706,796</b> | <b>\$ 3,379,590</b>      | <b>\$ 1,466,201</b>            | <b>\$ 27,019,568</b>           |

*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, 2018

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|  |               |                     |
|--|---------------|---------------------|
| Total fund balances for governmental funds   |               | \$ 27,019,568       |
| Assets used in governmental activities which are not financial resources and therefore are not reported in the funds:  |               |                     |
| Capital assets, net  | \$ 62,367,928 |                     |
| Pension asset  | 4,909,765     | 67,277,693          |
|  | <hr/>         |                     |
| Deferred outflows:   |               |                     |
| Pensions   | 15,660,934    |                     |
| OPEB   | 99,361        |                     |
| Advanced refundings  | 398,305       | 16,158,600          |
|  | <hr/>         |                     |
| 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. |               | 571,743             |
| Liabilities not due and payable in the current period which therefore are not reported in the funds:   |               |                     |
| OPEB liability   | (18,496,899)  |                     |
| Pension liability  | (37,358,873)  |                     |
| Bonds payable  | (34,731,822)  |                     |
| Loans payable  | (300,000)     |                     |
| Capital leases   | (415,646)     |                     |
| Claims and judgments   | (322,929)     |                     |
| Unearned revenue   | (542,850)     |                     |
| Compensated absences payable   | (2,753,556)   |                     |
| Accrued interest   | (333,206)     | (95,255,781)        |
|  | <hr/>         |                     |
| Deferred inflows:  |               |                     |
| Pensions   | (8,944,896)   |                     |
| OPEB   | (5,029,028)   | (13,973,924)        |
|  | <hr/>         |                     |
| Net position of governmental activities  |               | <u>\$ 1,797,899</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, 2018*

|  |                    |                   |
|--|--------------------|-------------------|
| Net change in fund balances for governmental funds   |                    | \$ (1,196,239)    |
| <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   | \$ 8,228,610       |                   |
| Depreciation expense   | <u>(3,887,956)</u> | 4,340,654         |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.  |                    | (906,545)         |
| Change in pension asset is recorded in the statement of activities, but not in the governmental funds  |                    | 883,248           |
| Change in pension liability is recorded in the statement of activities, but not in the governmental funds  |                    | (508,330)         |
| Change in pension deferred inflows/outflows is recorded in the statement of activities, but governmental funds   |                    | (242,169)         |
| Change in OPEB liability is recorded in the statement of activities, but not in the governmental funds   |                    | 6,234,373         |
| Change in OPEB deferred inflows/outflows is recorded in the statement of activities, but not governmental funds  |                    | (4,929,667)       |
| <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  | 2,723,970          |                   |
| Bond proceeds  | (5,300,000)        |                   |
| Issuance of capital lease  | (391,306)          |                   |
| Amortization of:   |                    |                   |
| Deferred outflows on advance refunding   | (41,250)           |                   |
| Bond premiums  | <u>108,841</u>     | (2,899,745)       |
| <p>Some expenditures not requiring the use of current financial resources in governmental funds are recorded in the statement of activities:</p>   |                    |                   |
| Claims and judgments   | 2,273              |                   |
| Unearned revenue   | 49,350             |                   |
| Accrued compensated absences   | <u>59,651</u>      | 111,274           |
| Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds   |                    | <u>(7,532)</u>    |
| Change in net position of governmental activities  |                    | <u>\$ 879,322</u> |

*The accompanying notes are an integral part of this statement*

**Town of Middletown, Rhode Island**

Enterprise Funds

Statement of Net Position

*June 30, 2018*

|  | <u>Sewer Fund</u>    | <u>Parks and<br/>Recreation<br/>Fund</u> | <u>Refuse and<br/>Recycle Fund</u> | <u>Stormwater<br/>Fund</u> | <u>Total</u>         |
|--|----------------------|--|------------------------------------|----------------------------|----------------------|
| <b>ASSETS:</b>   |                      |  |                                    |                            |                      |
| Current assets:  |                      |  |                                    |                            |                      |
| Cash and cash equivalents  | \$ 4,575,300         | \$ 1,116,645                             | \$ 545,323                         | \$ -                       | \$ 6,237,268         |
| Accounts receivable, assessments<br>and user fees                | 463,438              | 29,166                                   | 82,033                             | -                          | 574,637              |
| Federal Government   | -                    | 51,071                                   | -                                  | -                          | 51,071               |
| Due from other funds   | 649,950              | 12,832                                   | -                                  | -                          | 662,782              |
| <b>Total current assets</b>                                      | <b>5,688,688</b>     | <b>1,209,714</b>                         | <b>627,356</b>                     | <b>-</b>                   | <b>7,525,758</b>     |
| Noncurrent assets:   |                      |  |                                    |                            |                      |
| Assessments and user fees receivable,<br>less current portion    | 302,289              | -  | -                                  | -                          | 302,289              |
| Capital assets not being depreciated                             | 1,229,105            | 2,800,273                                | -                                  | -                          | 4,029,378            |
| Capital assets being depreciated, net                            | 15,345,515           | 1,692,597                                | -                                  | -                          | 17,038,112           |
| <b>Total assets</b>  | <b>22,565,597</b>    | <b>5,702,584</b>                         | <b>627,356</b>                     | <b>-</b>                   | <b>28,895,537</b>    |
| <b>DEFERRED OUTFLOWS:</b>  |                      |  |                                    |                            |                      |
| Pension  | 43,492               | -  | -                                  | -                          | 43,492               |
| <b>LIABILITIES:</b>  |                      |  |                                    |                            |                      |
| Current liabilities:   |                      |  |                                    |                            |                      |
| Accounts payable and accrued expenses                            | 1,344,376            | 117,212                                  | 67,960                             | -                          | 1,529,548            |
| Due to other funds   | 158,851              | -  | 2,971                              | -                          | 161,822              |
| Accrued payroll  | 18,890               | 91,533                                   | 1,247                              | -                          | 111,670              |
| Accrued compensated absences                                     | 41,944               | 29,657                                   | 15,681                             | -                          | 87,282               |
| Current portion of loans payable                                 | 1,219,714            | -  | -                                  | -                          | 1,219,714            |
| <b>Total current liabilities</b>                                 | <b>2,783,775</b>     | <b>238,402</b>                           | <b>87,859</b>                      | <b>-</b>                   | <b>3,110,036</b>     |
| Pension  | 202,183              | -  | -                                  | -                          | 202,183              |
| Noncurrent liabilities, loans payable,<br>net of current portion | 6,156,575            | -  | -                                  | -                          | 6,156,575            |
| <b>Total liabilities</b>   | <b>9,142,533</b>     | <b>238,402</b>                           | <b>87,859</b>                      | <b>-</b>                   | <b>9,468,794</b>     |
| <b>DEFERRED INFLOWS:</b>   |                      |  |                                    |                            |                      |
| Pension  | 51,707               | -  | -                                  | -                          | 51,707               |
| <b>NET POSITION:</b>   |                      |  |                                    |                            |                      |
| Net investment in capital assets                                 | 10,972,216           | 4,492,870                                | -                                  | -                          | 15,465,086           |
| Unrestricted   | 2,442,633            | 971,312                                  | 539,497                            | -                          | 3,953,442            |
| <b>Total net position</b>  | <b>\$ 13,414,849</b> | <b>\$ 5,464,182</b>                      | <b>\$ 539,497</b>                  | <b>\$ -</b>                | <b>\$ 19,418,528</b> |

*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, 2018*

|   | Sewer Fund       | Parks and<br>Recreation<br>Fund | Refuse and<br>Recycle Fund | Stormwater<br>Fund | Total            |
|---|------------------|---------------------------------|----------------------------|--------------------|------------------|
| Operating revenues:                           |                  |                                 |                            |                    |                  |
| Assessments and user fees                     | \$ 5,704,274     | \$ -                            | \$ 1,055,589               | \$ -               | \$ 6,759,863     |
| Beach admittance and rental fees              | -                | 1,804,311                       | -                          | -                  | 1,804,311        |
| Campground admittance and rental fees         | -                | 206,724                         | -                          | -                  | 206,724          |
| Grant Revenue                                 | -                | 60,063                          | -                          | -                  | 60,063           |
| Other revenues                                | 34,497           | 39,614                          | 8,160                      | -                  | 82,271           |
| <b>Total operating revenues</b>               | <b>5,738,771</b> | <b>2,110,712</b>                | <b>1,063,749</b>           | <b>-</b>           | <b>8,913,232</b> |
| Operating expenses:                           |                  |                                 |                            |                    |                  |
| Salaries and benefits                         | 666,775          | -                               | 61,206                     | -                  | 727,981          |
| Materials and supplies                        | 21,926           | -                               | 94,239                     | -                  | 116,165          |
| Professional services                         | 50,460           | -                               | 171,792                    | 1,780              | 224,032          |
| Repairs and maintenance                       | 728,489          | -                               | 88                         | -                  | 728,577          |
| Utilities                                     | 245,411          | -                               | -                          | -                  | 245,411          |
| Sewage disposal                               | 1,580,007        | -                               | -                          | -                  | 1,580,007        |
| Refuse disposal                               | -                | -                               | 644,884                    | -                  | 644,884          |
| Beaches                                       | -                | 819,640                         | -                          | -                  | 819,640          |
| Lifeguards                                    | -                | 258,166                         | -                          | -                  | 258,166          |
| Harbormaster                                  | -                | 48,566                          | -                          | -                  | 48,566           |
| Security                                      | -                | 58,018                          | -                          | -                  | 58,018           |
| Campground                                    | -                | 44,663                          | -                          | -                  | 44,663           |
| Parks and recreation                          | -                | 199,992                         | -                          | -                  | 199,992          |
| Civic appropriations                          | -                | 97,050                          | -                          | -                  | 97,050           |
| Miscellaneous                                 | 120,696          | 90,150                          | -                          | -                  | 210,846          |
| Depreciation                                  | 669,375          | 170,900                         | -                          | -                  | 840,275          |
| <b>Total operating expenses</b>               | <b>4,083,139</b> | <b>1,787,145</b>                | <b>972,209</b>             | <b>1,780</b>       | <b>6,844,273</b> |
| Operating income (loss)                       | 1,655,632        | 323,567                         | 91,540                     | (1,780)            | 2,068,959        |
| Nonoperating revenues (expenses):             |                  |                                 |                            |                    |                  |
| Interest revenue                              | 9,294            | 1,593                           | 1,125                      | -                  | 12,012           |
| Environmental remediation                     | 363,576          | -                               | -                          | -                  | 363,576          |
| Interest expense                              | (119,517)        | -                               | -                          | -                  | (119,517)        |
| Bond issuance costs                           | (100,075)        | -                               | -                          | -                  | (100,075)        |
| <b>Total nonoperating revenues (expenses)</b> | <b>153,278</b>   | <b>1,593</b>                    | <b>1,125</b>               | <b>-</b>           | <b>155,996</b>   |
| Income (loss) before transfers                | 1,808,910        | 325,160                         | 92,665                     | (1,780)            | 2,224,955        |
| Transfers to other funds                      | -                | -                               | -                          | (43,396)           | (43,396)         |
| Transfers from other funds                    | -                | 157,003                         | -                          | -                  | 157,003          |
| Change in net position                        | 1,808,910        | 482,163                         | 92,665                     | (45,176)           | 2,338,562        |
| Net position, beginning of year:              | 11,605,939       | 4,982,019                       | 446,832                    | 45,176             | 17,079,966       |
| Net position, end of year                     | \$ 13,414,849    | \$ 5,464,182                    | \$ 539,497                 | \$ -               | \$ 19,418,528    |

*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, 2018*

|  | Sewer Fund          | Parks and<br>Recreation<br>Fund | Refuse and<br>Recycle Fund | Stormwater<br>Fund | Total               |
|--|---------------------|---------------------------------|----------------------------|--------------------|---------------------|
| Cash flows from operating activities:                          |                     |                                 |                            |                    |                     |
| Cash received from customers                                   | \$ 5,621,593        | \$ 2,226,817                    | \$ 1,027,951               | \$ -               | \$ 8,876,361        |
| Cash received from other sources                               | 34,498              | 99,677                          | 8,160                      | -                  | 142,335             |
| Cash paid to employees   | (651,752)           | (969,014)                       | (52,424)                   | -                  | (1,673,190)         |
| Cash paid to suppliers   | (2,604,218)         | (580,896)                       | (914,427)                  | (13,594)           | (4,113,135)         |
| Cash paid to civic groups                                      | -                   | (97,050)                        | -                          | -                  | (97,050)            |
| Net cash provided by (used in) operating activities            | <u>2,400,121</u>    | <u>679,534</u>                  | <u>69,260</u>              | <u>(13,594)</u>    | <u>3,135,321</u>    |
| Cash flows from noncapital financing activities:               |                     |                                 |                            |                    |                     |
| Interfund balances   | (519,045)           | 94,203                          | 3,052                      | 13,594             | (408,196)           |
| Environmental remediation                                      | (71,412)            | -                               | -                          | -                  | (71,412)            |
| Debt service reserve and closing costs                         | 455,000             | -                               | -                          | -                  | 455,000             |
| Net cash provided by (used in) noncapital financing activities | <u>(135,457)</u>    | <u>94,203</u>                   | <u>3,052</u>               | <u>13,594</u>      | <u>(24,608)</u>     |
| Cash flows from capital and related financing activities:      |                     |                                 |                            |                    |                     |
| Transfers from other funds                                     | -                   | 106,469                         | -                          | -                  | 106,469             |
| Capital contributions  | 46,847              | -                               | -                          | -                  | 46,847              |
| Acquisition and construction of fixed assets                   | (226,315)           | (496,525)                       | -                          | -                  | (722,840)           |
| Issuance costs paid for bonds                                  | (916,513)           | -                               | -                          | -                  | (916,513)           |
| Interest paid on bonds and notes                               | (158,677)           | -                               | -                          | -                  | (158,677)           |
| Net cash used in capital and related financing activities      | <u>(1,254,658)</u>  | <u>(390,056)</u>                | <u>-</u>                   | <u>-</u>           | <u>(1,644,714)</u>  |
| Cash provided by investing activities, interest received       | <u>9,294</u>        | <u>1,593</u>                    | <u>1,125</u>               | <u>-</u>           | <u>12,012</u>       |
| Net increase (decrease) in cash and cash equivalents           | 1,019,300           | 385,274                         | 73,437                     | -                  | 1,478,011           |
| Cash and cash equivalents, beginning of year                   | <u>3,556,000</u>    | <u>731,371</u>                  | <u>471,886</u>             | <u>-</u>           | <u>4,759,257</u>    |
| Cash and cash equivalents, end of year                         | <u>\$ 4,575,300</u> | <u>\$ 1,116,645</u>             | <u>\$ 545,323</u>          | <u>\$ -</u>        | <u>\$ 6,237,268</u> |

*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, 2018*

|  | Sewer Fund          | Parks and<br>Recreation<br>Fund | Recycle and<br>Refuse Fund | Stormwater<br>Fund | Total               |
|--|---------------------|---------------------------------|----------------------------|--------------------|---------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:        |                     |                                 |                            |                    |                     |
| Operating income (loss)  | \$ 1,655,632        | \$ 323,567                      | \$ 91,540                  | \$ (1,780)         | \$ 2,068,959        |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                     |                                 |                            |                    |                     |
| Depreciation   | 669,375             | 170,900                         | -                          | -                  | 840,275             |
| Changes in assets and liabilities:   |                     |                                 |                            |                    |                     |
| Increase in:   |                     |                                 |                            |                    |                     |
| Accounts receivable  | (82,681)            | -                               | (27,638)                   | -                  | (110,319)           |
| Accounts payable and accrued expenses  | 142,772             | -                               | -                          | -                  | 142,772             |
| Accrued payroll  | 2,672               | 7,197                           | -                          | -                  | 9,869               |
| Accrued compensated absences   | -                   | 1,610                           | 9,689                      | -                  | 11,299              |
| Net pension liability  | 3,429               | -                               | -                          | -                  | 3,429               |
| Deferred inflows, pension  | 12,947              | -                               | -                          | -                  | 12,947              |
| Decrease in:   |                     |                                 |                            |                    |                     |
| Accounts receivable  | -                   | 215,782                         | -                          | -                  | 215,782             |
| Deferred outflows, pension   | 928                 | -                               | -                          | -                  | 928                 |
| Accounts payable and accrued expenses  | -                   | (39,522)                        | (3,424)                    | (11,814)           | (54,760)            |
| Accrued payroll  | -                   | -                               | (907)                      | -                  | (907)               |
| Accrued compensated absences   | (4,953)             | -                               | -                          | -                  | (4,953)             |
| Net cash provided by (used in) operating activities  | <u>\$ 2,400,121</u> | <u>\$ 679,534</u>               | <u>\$ 69,260</u>           | <u>\$ (13,594)</u> | <u>\$ 3,135,321</u> |

*The accompanying notes are an integral part of this statement*

**Town of Middletown, Rhode Island**

Fiduciary Funds

Statement of Net Position

*June 30, 2018*

|                                     | Pension Trust<br>Fund | Other Post-<br>Employment<br>Benefits Trust<br>Fund | Clarke<br>Scholarship<br>Private Purpose<br>Trust Fund | Agency Funds |
|-------------------------------------|-----------------------|---|--|--------------|
| <b>ASSETS:</b>                      |                       |   |  |              |
| Cash and cash equivalents           | \$ -                  | \$ -  | \$ 10,613  | \$ 68,800    |
| Investments:                        |                       |   |  |              |
| Mutual funds                        | 42,865,571            | 8,433,933   | -  | -            |
| Group annuity                       | 12,530,423            | -   | -  | -            |
| Money market funds                  | 982,495               | 438,389   | -  | 147,812      |
| U.S. Treasury Obligations           | 3,570,974             | 641,841   | -  | -            |
| Receivables                         | 319,065               | 243,072   | -  | 49,361       |
| Total assets                        | 60,268,528            | 9,757,235   | 10,613   | \$ 265,973   |
| <b>LIABILITIES:</b>                 |                       |   |  |              |
| Accounts payable                    | \$ 62,314             | \$ 15,411   | \$ -   | \$ 21,218    |
| Deposits held in custody for others | -                     | -   | -  | 244,755      |
| Total liabilities                   | 62,314                | 15,411  | -  | \$ 265,973   |
| <b>NET POSITION:</b>                |                       |   |  |              |
| Restricted for pension benefits     | \$ 60,206,214         |   |  |              |
| Restricted for OPEB benefits        |                       | \$ 9,741,824  |  |              |
| Held in trust for other purposes    |                       |   | \$ 10,613  |              |

*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, 2018*

|   | <u>Pension Trust<br/>Fund</u> | <u>Other Post-<br/>Employment<br/>Benefits Trust<br/>Fund</u> | <u>Clarke<br/>Scholarship<br/>Private Purpose<br/>Trust Fund</u> |
|---|-------------------------------|---|--|
| Additions to net position:                    |                               |   |  |
| Contributions:                                |                               |   |  |
| Employer                                      | \$ 2,403,830                  | \$ 3,550,098  | \$ -   |
| Plan members                                  | 59,952                        | 21,358  | -  |
|   | <u>2,463,782</u>              | <u>3,571,456</u>  | <u>-</u>   |
| Investment income, net:                       |                               |   |  |
| Interest income                               | 1,143,885                     | 144,042   | 21   |
| Net appreciation in fair value of investments | 3,724,837                     | 425,441   | -  |
|   | <u>4,868,722</u>              | <u>569,483</u>  | <u>21</u>  |
| Total additions                               | <u>7,332,504</u>              | <u>4,140,939</u>  | <u>21</u>  |
| Deductions from net position:                 |                               |   |  |
| Benefits                                      | 4,864,424                     | 1,661,234   | -  |
| Investment expenses                           | 161,654                       | 77,578  | -  |
|   | <u>5,026,078</u>              | <u>1,738,812</u>  | <u>-</u>   |
| Change in net position                        | 2,306,426                     | 2,402,127   | 21   |
| Net position, beginning of year               | <u>57,899,788</u>             | <u>7,339,697</u>  | <u>10,592</u>  |
| Net position, end of year                     | <u>\$ 60,206,214</u>          | <u>\$ 9,741,824</u>   | <u>\$ 10,613</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, 2018

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### 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, 2018

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## 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, 2018

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1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Fund financial statements (continued):*

*Governmental funds (continued):*

The Town uses the following governmental funds:

*General Fund:*

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

*Special revenue funds:*

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

*Capital projects funds:*

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

*Permanent funds:*

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

*Proprietary funds:*

Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Of the Town's 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, 2018

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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, 2018

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## 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, 2018

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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, 2018, 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                        | \$ | 239,060        |
| Property tax receivable for payments not received within 60 days after year-end |    | 298,002        |
| Grants not received within 60 days after year-end                               |    | 3,520          |
| Records preservation revenue received in advance of corresponding expenditure   |    | 78,404         |
| Deferred revenue from summer programs   |    | 9,750          |
| Private police detail deposits received in advance of corresponding expenditure |    | 61,966         |
| Other receivables not received within 60 days after year-end                    |    | 182,817        |
| Donations received that have not met the eligibility requirements               |    | 109,439        |
| Total deferred inflows  | \$ | <u>982,958</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, 2018

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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, 2018, the Town adopted 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 requires more extensive footnote disclosures in the Town's financial statements. Due to the adoption of GASB 75, the Town has restated its 2017 financial statements, resulting in a \$25,728,018 decrease in net position at July 1, 2017, as reported in the accompanying statement of activities.

*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, 2018

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## 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, 2018

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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, 2018

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### 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, 2018*

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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, 2018

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### 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, 2018*

2. Fund balances:

At June 30, 2018, 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, 2018, which is a continued result of the implementation of GASB 68 and GASB 75.

3. Deposits and investments:

*Cash and cash equivalents (deposits):*

At June 30, 2018, the carrying amount of the Town's deposits, including \$763,798 of cash equivalents, was \$25,669,798 and the bank balance was \$26,020,245. Of the bank balance, \$513,798 was uninsured and uncollateralized; \$25,506,447 was insured and collateralized.

At June 30, 2018, deposits are categorized as follows:

|                 | Insured/<br>collateralized<br>in Town's<br>name | Total bank<br>balance | Carrying<br>amount |
|-----------------|---|-----------------------|--------------------|
| Deposits:       |   |                       |                    |
| Demand deposits | \$ 25,256,447                                   | \$ 25,256,447         | \$ 24,906,000      |
| Money market    | 250,000   | 763,798               | 763,798            |
|                 | \$ 25,506,447                                   | \$ 26,020,245         | \$ 25,669,798      |

*Investments:*

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

|  | Carrying<br>amount | Maturities          | Rating    |
|--|--------------------|---------------------|-----------|
| Certificates of deposit (governmental funds) | \$2,287,301        | 7/12/18 to 10/1/18  | Not rated |
| Certificates of deposit (fiduciary funds)    | 18,645             | 10/15/18 to 5/26/19 | Not rated |
| Mutual funds (fiduciary funds)               | 129,167            | Not applicable      | Not rated |
|  | \$2,435,113        |                     |           |

## Town of Middletown, Rhode Island

### Notes to Financial Statements

For the Year Ended June 30, 2018

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#### 3. Deposits and investments (continued):

##### *Investments (continued):*

The fair value of the Town's pension investment account (Managed Funds) as of October 31, 2018 was \$57,507,366, which represents a -4.07% decrease in value since June 30, 2018. The fair value of the Town's OPEB investment account (Managed Funds) as of October 31, 2018 was \$9,975,113, which represents a 4.84% increase in value since June 30, 2018. 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, 2018

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### 3. Deposits and investments (continued):

#### *Investments (continued):*

As of June 30, 2018, the following pension investments represent 5% or more of the Town Plan's net assets:

|  |              |
|--|--------------|
| John Hancock Life Insurance Company, GAC 795 | \$12,530,423 |
| T. Rowe Price Blue Chip Growth               | 8,678,681    |
| Robeco All Cap Value Institutional           | 8,422,373    |
| Vanguard Total Bond Market ETF               | 3,683,760    |

As of June 30, 2018, the following OPEB investments represent 5% or more of the Town OPEB Plan's net assets:

|   |             |
|---|-------------|
| Robeco All Cap Value Institutional                  | \$1,907,777 |
| Schwab US Broad Market ETF                          | 1,855,441   |
| Blackrock Inflation Protected Bond I                | 671,048     |
| Baird Aggregate Bond Institutional                  | 622,333     |
| TCW Core Fixed Income I                             | 622,526     |
| iShares Core MSCI Total Int'l Stock ETF             | 610,319     |
| Lazard International Strategic Equity Institutional | 487,537     |

#### *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, 2018*

4. Interfund transactions:

Interfund receivables and payables at June 30, 2018 are as follows:

| Receivable Fund              | Payable Fund                     | Amount    |
|------------------------------|----------------------------------|-----------|
| Due to/from:                 |                                  |           |
| Governmental funds:          |                                  |           |
| General Fund                 | Governmental funds:              |           |
|                              | Non-major funds                  | \$ 7,538  |
|                              | Town Capital Projects Fund       | 1,251,068 |
|                              | Refuse and Recycling Fund        | 2,971     |
|                              |                                  | 1,261,577 |
| School Department            | Agency Funds                     | 2,072,594 |
| Non-major governmental funds | Governmental funds, General Fund | 573,902   |
|                              | Enterprise funds, Sewer Fund     | 158,851   |
|                              |                                  | 732,753   |
| Park and Recreation Fund     | Governmental funds, General Fund | 12,832    |
| Sewer Fund                   | Governmental funds, General Fund | 649,950   |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2018 were as follows:

| <u>Transfer to Fund</u>                      | <u>Transfer from Fund</u>              | <u>Amount</u>        |
|--|--|----------------------|
| Governmental funds:<br>General Fund          | Governmental funds:<br>Non-major funds | \$ 1,471,614         |
|  | Enterprise funds:<br>Stormwater Fund   | 43,396               |
| School Department                            | Governmental funds, General Fund       | 26,295,643           |
| Non-major Governmental Funds                 | Governmental funds, General Fund       | 8,715                |
| Enterprise funds:<br>Parks & Recreation Fund | Governmental funds, General Fund       | <u>157,003</u>       |
|  |  | <u>\$ 27,976,371</u> |

## Town of Middletown, Rhode Island

### Notes to Financial Statements

*For the Year Ended June 30, 2018*

#### 5. Capital assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

|   | Beginning<br>balances | Increases    | Decreases | Ending<br>balances |
|---|-----------------------|--------------|-----------|--------------------|
| Governmental activities:                    |                       |              |           |                    |
| Capital assets not being depreciated:       |                       |              |           |                    |
| Land  | \$ 7,492,536          | \$ 1,600,000 | \$ -      | \$ 9,092,536       |
| Construction in progress:                   |                       |              |           |                    |
| Infrastructure                              | 2,631,985             | 2,032,764    | -         | 4,664,749          |
| Other                                       | -                     | -            | -         | -                  |
| Total capital assets not being depreciated  | 10,124,521            | 3,632,764    | -         | 13,757,285         |
| Capital assets being depreciated:           |                       |              |           |                    |
| Infrastructure                              | 35,176,027            | 759,152      | -         | 35,935,179         |
| Land improvements                           | 5,613,395             | 976,711      | -         | 6,590,106          |
| Buildings and improvements                  | 38,884,062            | 1,755,829    | -         | 40,639,891         |
| Furniture and equipment                     | 9,802,413             | 427,602      | -         | 10,230,015         |
| Library books                               | 1,617,972             | 20,000       | -         | 1,637,972          |
| Motor vehicles                              | 7,000,501             | 742,905      | 544,691   | 7,198,715          |
| Total capital assets being depreciated      | 98,094,370            | 4,682,199    | 544,691   | 102,231,878        |
| Less accumulated depreciation for:          |                       |              |           |                    |
| Infrastructure                              | (18,701,357)          | (811,590)    | -         | (19,512,947)       |
| Land improvements                           | (2,376,045)           | (300,327)    | -         | (2,676,372)        |
| Buildings and improvements                  | (16,162,642)          | (1,164,878)  | -         | (17,327,520)       |
| Furniture and equipment                     | (6,781,812)           | (1,040,265)  | -         | (7,822,077)        |
| Library books                               | (1,567,984)           | (19,994)     | -         | (1,587,978)        |
| Motor vehicles                              | (4,601,777)           | (550,902)    | (458,338) | (4,694,341)        |
| Total accumulated depreciation              | (50,191,617)          | (3,887,956)  | (458,338) | (53,621,235)       |
| Total capital assets being depreciated, net | 47,902,753            | 794,243      | 86,353    | 48,610,643         |
| Governmental activities capital assets, net | \$ 58,027,274         | \$ 4,427,007 | \$ 86,353 | \$ 62,367,928      |

## Town of Middletown, Rhode Island

### Notes to Financial Statements

For the Year Ended June 30, 2018

#### 5. Capital assets (continued):

|   | Beginning<br>Balances | Increases          | Decreases       | Ending<br>Balances  |
|---|-----------------------|--------------------|-----------------|---------------------|
| Business-type activities:                           |                       |                    |                 |                     |
| Capital assets not being depreciated:               |                       |                    |                 |                     |
| Land  | \$ 3,167,391          | \$ -               | \$ -            | \$ 3,167,391        |
| Construction in progress                            | 145,145               | 717,782            | 940             | 861,987             |
| <b>Total capital assets not being depreciated</b>   | <b>3,312,536</b>      | <b>717,782</b>     | <b>940</b>      | <b>4,029,378</b>    |
| Capital assets being depreciated:                   |                       |                    |                 |                     |
| Land improvements                                   | 1,810,485             | 332,420            | -               | 2,142,905           |
| Buildings and improvements                          | 412,837               | -                  | -               | 412,837             |
| Equipment   | 3,761,434             | 187,854            | (7,874)         | 3,957,162           |
| Sewer lines and pumps                               | 20,188,060            | -                  | -               | 20,188,060          |
| Vehicles  | 207,452               | 10,079             | 42,009          | 175,522             |
| <b>Total capital assets being depreciated</b>       | <b>26,380,268</b>     | <b>530,353</b>     | <b>34,135</b>   | <b>26,876,486</b>   |
| Less accumulated depreciation for:                  |                       |                    |                 |                     |
| Land improvements                                   | (888,857)             | (89,531)           | -               | (978,388)           |
| Buildings and improvements                          | (200,281)             | (14,899)           | -               | (215,180)           |
| Equipment   | (2,906,420)           | (225,158)          | 7,874           | (3,139,452)         |
| Sewer lines and pumps                               | (4,891,805)           | (498,025)          | -               | (5,389,830)         |
| Vehicles  | (144,871)             | (12,662)           | (42,009)        | (115,524)           |
| <b>Total accumulated depreciation</b>               | <b>(9,032,234)</b>    | <b>(840,275)</b>   | <b>(34,135)</b> | <b>(9,838,374)</b>  |
| <b>Total capital assets being depreciated, net</b>  | <b>17,348,034</b>     | <b>(309,922)</b>   | <b>-</b>        | <b>17,038,112</b>   |
| <b>Business-type activities capital assets, net</b> | <b>\$20,660,570</b>   | <b>\$ 407,860</b>  | <b>\$ 940</b>   | <b>\$21,067,490</b> |
| Depreciation was charged to functions as follows:   |                       |                    |                 |                     |
| Governmental activities:                            |                       |                    |                 |                     |
| General government                                  |                       | \$ 410,458         |                 |                     |
| Public safety                                       |                       | 855,207            |                 |                     |
| Public works and sanitation                         |                       | 1,093,194          |                 |                     |
| Planning and inspection                             |                       | 2,499              |                 |                     |
| Library   |                       | 95,010             |                 |                     |
| Education   |                       | 1,408,385          |                 |                     |
| Community services                                  |                       | 23,203             |                 |                     |
|   |                       | <b>\$3,887,956</b> |                 |                     |
| Business-type activities:                           |                       |                    |                 |                     |
| Sewer fund  |                       | \$ 669,375         |                 |                     |
| Parks and recreation fund                           |                       | 170,900            |                 |                     |
| Refuse and recycle fund                             |                       | -                  |                 |                     |
|   |                       | <b>\$ 840,275</b>  |                 |                     |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

6. Accounts payable and accrued expenses:

|   | <u>Vendors</u>     | <u>Other<br/>Governments</u> | <u>Employees</u>  | <u>Accrued<br/>Interest</u> | <u>Total</u>       |
|---|--------------------|------------------------------|-------------------|-----------------------------|--------------------|
| Governmental activities:  |                    |                              |                   |                             |                    |
| General Fund  | \$ 743,084         | \$ 157,205                   | \$ 20,041         | \$ -                        | \$ 920,330         |
| School Department   | 733,213            | 243,072                      | -                 | -                           | 976,285            |
| Capital Projects Fund   | 424,587            | -                            | -                 | -                           | 424,587            |
| Nonmajor funds  | 24,759             | 2,051                        | -                 | -                           | 26,810             |
| Reconciliation of balances in fund<br>financial statements to government-<br>wide financial statements. | -                  | -                            | 591,516           | \$333,206                   | 924,722            |
|   | <u>\$1,925,643</u> | <u>\$ 402,328</u>            | <u>\$ 611,557</u> | <u>\$333,206</u>            | <u>\$3,272,734</u> |
| Business-type activities:   |                    |                              |                   |                             |                    |
| Sewer   | \$ 816,695         | \$ 477,578                   | \$ 60,834         | \$ 50,103                   | \$1,405,210        |
| Parks and Recreation  | 117,212            | -                            | 121,190           | -                           | 238,402            |
| Refuse and Recycle  | 67,960             | -                            | 16,928            | -                           | 84,888             |
|   | <u>\$1,001,867</u> | <u>\$ 477,578</u>            | <u>\$ 198,952</u> | <u>\$ 50,103</u>            | <u>\$1,728,500</u> |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

7. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2018 were as follows:

|  | Balance,<br>July 1, 2017 | Additions          | Retirements         | Balance,<br>June 30, 2018 | Due within<br>one year |
|--|--------------------------|--------------------|---------------------|---------------------------|------------------------|
| Governmental activities:                       |                          |                    |                     |                           |                        |
| Bonds payable:                                 |                          |                    |                     |                           |                        |
| General obligation bonds                       | \$30,587,114             | \$5,300,000        | \$ 2,337,114        | \$33,550,000              | \$2,377,000            |
| Deferred premiums                              | 1,290,663                | -                  | 108,841             | 1,181,822                 | 119,824                |
| Total bonds payable                            | 31,877,777               | 5,300,000          | 2,445,955           | 34,731,822                | 2,496,824              |
| Loan payable                                   | 350,000                  | -                  | 50,000              | 300,000                   | 50,000                 |
| Capital leases                                 | 361,195                  | 391,306            | 336,855             | 415,646                   | 185,886                |
| Claims and judgments (Note 11)                 | 325,202                  | -                  | 2,273               | 322,929                   | 2,409                  |
| Unearned revenue, grants                       | 592,200                  | -                  | 49,350              | 542,850                   | 49,350                 |
| Accrued compensated absences                   | 2,813,207                | (59,651)           | -                   | 2,753,556                 | 2,990                  |
|  | <u>\$36,319,581</u>      | <u>\$5,631,655</u> | <u>\$ 2,884,433</u> | <u>\$39,066,803</u>       | <u>\$2,787,459</u>     |
| Business -type activities:                     |                          |                    |                     |                           |                        |
| Loans payable                                  | \$ 6,826,727             | \$4,550,000        | \$ 916,513          | \$10,460,214              | \$1,219,714            |
| Less undrawn loan proceeds held by the State   | -                        | (3,994,925)        |                     | (3,994,925)               |                        |
|  | 6,826,727                | 555,075            | 916,513             | 6,465,289                 | \$1,219,714            |
| Environmental remediation obligation (Note 12) | 1,399,000                | -                  | 488,000             | 911,000                   | -                      |
|  | <u>\$ 8,225,727</u>      | <u>\$ 555,075</u>  | <u>\$ 1,404,513</u> | <u>\$ 7,376,289</u>       | <u>\$1,219,714</u>     |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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, 2018 are as follows:

| Purpose   | Amount of<br>original issue | Date of<br>issue | Interest<br>rate | Date of<br>maturity | Balance,<br>June 30, 2017 | New issues          | Retired             | Balance,<br>June 30, 2018 |
|---|-----------------------------|------------------|------------------|---------------------|---------------------------|---------------------|---------------------|---------------------------|
| General obligation bonds:   |                             |                  |                  |                     |                           |                     |                     |                           |
| Police Station  | \$ 6,000,000                | 4/1/08           | 3.0-4.05%        | 4/1/22              | \$ 300,000                | -                   | \$ 300,000          | \$ -                      |
| Town Refunding Bond 2010  | 4,885,000                   | 5/20/10          | 2.0-5.0%         | 7/15/22             | 2,345,000                 | -                   | 475,000             | 1,870,000                 |
| Road, Drainage, Sidewalks & Judgement 2011                        | 5,000,000                   | 2/1/11           | 3.0-4.25%        | 2/1/31              | 3,500,000                 | -                   | 250,000             | 3,250,000                 |
| Town General Bond 13  | 210,000                     | 11/1/12          | 2.15%            | 11/5/17             | 17,114                    | -                   | 17,114              | -                         |
| Town General Bond 14  | 10,120,000                  | 2/12/14          | .47%-4.00%       | 2/1/34              | 8,445,000                 | -                   | 560,000             | 7,885,000                 |
| Town Refunding Bond 2016  | 6,300,000                   | 6/23/16          | 2.00-4.00%       | 4/1/28              | 6,230,000                 | -                   | 370,000             | 5,860,000                 |
| Public School Rev Bond 2017D (RIHEBC)                             | 9,750,000                   | 5/16/17          | 2.00-4.00%       | 4/1/37              | 9,750,000                 | -                   | 365,000             | 9,385,000                 |
| 2018 Open Space Bond (2008)                                       | 300,000                     | 3/21/18          | 3.839%           | 2/1/23              | -                         | 300,000             | -                   | 300,000                   |
| 2018 Road & Bridge (RIIB)   | 5,000,000                   | 6/20/18          | .10-2.50%        | 9/1/37              | -                         | 5,000,000           | -                   | 5,000,000                 |
| Total general obligation bonds                                    | 47,565,000                  |                  |                  |                     | 30,587,114                | 5,300,000           | 2,337,114           | 33,550,000                |
| Loan payable:   |                             |                  |                  |                     |                           |                     |                     |                           |
| Rhode Island Clean Water Protection<br>Finance Agency, Open Space | 1,000,000                   | 11/13/03         | 1.17%            | 9/1/23              | 350,000                   | -                   | 50,000              | 300,000                   |
| Total   | <u>\$ 48,565,000</u>        |                  |                  |                     | <u>\$ 30,937,114</u>      | <u>\$ 5,300,000</u> | <u>\$ 2,387,114</u> | <u>\$ 33,850,000</u>      |

## Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2018

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### 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, 2017 was \$3,322,106,863 limiting the amount of non-excepted general obligation bonds outstanding to \$99,663,206. At June 30, 2018, bonds outstanding totaled \$33,550,000, of which \$4,045,000 were issued subject to the 3% debt limit and \$29,505,000 were issued pursuant to special bond acts and are not subject to the 3% debt limit. Total bonds outstanding of \$33,550,000 represent 1.01% of assessed property value.

On June 20, 2018, the Town issued \$5,000,000 in road and bridge bonds, through the Rhode Island Infrastructure Bank, with interest ranging from .1% to 2.5% to provide for design, construction, repair, rehabilitation and improvement of streets and sidewalks in the Town, including paving, drainage, traffic control devices, safety improvements and landscaping. The net proceeds of \$4,936,000 (after payment of \$64,000 in issuance fees) are held by an escrow agent and were deposited in Wells Fargo Bank, N.A. These bonds were issued with Rhode Island Infrastructure Bank.

On March 21, 2018, the Town issued \$300,000 in open space bonds, through Webster Bank, with an interest rate of 3.839% for the acquisition and preservation of open space.

On May 16, 2017, the Town issued \$9,750,000 in revenue bonds with interest ranging from 2.0% to 4.0% to provide for health, safety and fire-code related repairs, alterations, renovations and improvements. The net proceeds of \$10,077,749 (after payment of \$53,721 in underwriting fees plus an additional \$381,470 of bond premium) are held by an escrow agent and were deposited in US Bank. These bonds were issued with Rhode Island Health and Education Building Corporation and have been approved by Rhode Island Department of Education for debt service reimbursements of approximately 35%.

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 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

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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7. Long-term obligations (continued):

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

June 30, 2018, the balance of the defeased debt totaled \$5,860,000.

As of June 30, 2018, previously authorized, but unissued, general obligation bonds amount to \$3,995,000.

Revenues from the sewer assessments are pledged as collateral for the repayment of the 2006, 2007, 2012 and 2018 loans issued through the Rhode Island Infrastructure Bank.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

7. Long-term obligations (continued):

*Loans payable for business-type activities:*

Loans payable for business-type activities are as follows:

| Purpose                                     | Authorized<br>and issued | Date of<br>issue | Interest rate | Date of<br>maturity | Balance,<br>June 30, 2017 | New<br>issues | Maturities | Balance,<br>June 30, 2018 |
|---|--------------------------|------------------|---------------|---------------------|---------------------------|---------------|------------|---------------------------|
| Enterprise Fund, Sewer:                     |                          |                  |               |                     |                           |               |            |                           |
| Rhode Island Clean Water Finance Agency     | \$ 1,000,000             | 11/1/01          | 1.88%         | 9/1/21              | \$ 266,443                | \$ -          | \$ 50,229  | \$ 216,214                |
| Rhode Island Clean Water Finance Agency     | 2,500,000                | 12/30/04         | 1.30%         | 9/1/24              | 1,000,000                 | -             | 125,000    | 875,000                   |
| Rhode Island Clean Water Finance Agency     | 6,000,000                | 12/15/05         | 1.34%         | 9/1/26              | 3,000,000                 | -             | 300,000    | 2,700,000                 |
| Rhode Island Clean Water Finance Agency     | 2,750,000                | 12/21/06         | 1.29%-1.43    | 9/1/27              | 1,508,000                 | -             | 138,000    | 1,370,000                 |
| Rhode Island Clean Water Finance Agency     | 1,503,284                | 12/12/07         | 1.32%-1.54    | 9/1/17              | 153,284                   | -             | 153,284    | -                         |
| Rhode Island Clean Water Finance Agency     | 1,500,000                | 6/28/12          | .22%-1.89%    | 9/1/22              | 899,000                   | -             | 150,000    | 749,000                   |
| RIIB - Upper Easton's Point Phase II        | <u>4,550,000</u>         | 4/25/18          | .39%-1.83%    | 9/1/27              | -                         | 4,550,000     | -          | 4,550,000                 |
|   | <u>\$ 19,803,284</u>     |                  |               |                     | 6,826,727                 | 4,550,000     | 916,513    | 10,460,214                |
| Less undrawn loan proceed held by the State |                          |                  |               |                     | -                         | (3,994,925)   |            | (3,994,925)               |
|   |                          |                  |               |                     | 6,826,727                 |               |            | 6,465,289                 |
| Less current portion                        |                          |                  |               |                     | <u>(916,513)</u>          |               |            | <u>(1,219,714)</u>        |
|   |                          |                  |               |                     | <u>\$ 5,910,214</u>       |               |            | <u>\$ 5,245,575</u>       |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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, 2018 of \$14,345 is reported within the governmental activities, interest on long-term debt on the statement of activities.

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 a 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.

On May 14, 2018, the Town entered into a lease purchase agreement in the amount of \$391,306 with an interest rate of 4.25%. The lease funded the purchase of two ambulances.

| Purpose                        | Authorized and<br>issued | Date of<br>issue | Interest<br>rate | Date of<br>maturity | Balance,<br>June 30, 2017 | New<br>issues    | Maturities       | Balance,<br>June 30, 2018 |
|--------------------------------|--------------------------|------------------|------------------|---------------------|---------------------------|------------------|------------------|---------------------------|
| Equipment                      | \$ 2,276,000             | 7/1/03           | 4.85%            | 11/30/18            | \$ 316,543                |                  | \$208,465        | \$ 108,078                |
| School Bleachers & DPW Vehicle | 245,000                  | 11/15/13         | 3.01%            | 8/1/17              | 35,787                    |                  | 35,787           | -                         |
| DPW Vehicle (Add'l Lease)      | 45,425                   | 5/1/14           | 3.04%            | 8/1/17              | 8,865                     |                  | 8,865            | -                         |
| Fire Two Ambulances            | 391,306                  | 5/14/18          | 4.25%            | 8/1/21              | -                         | 391,306          | 83,738           | 307,568                   |
|                                | <u>\$ 2,957,731</u>      |                  |                  |                     | <u>\$ 361,195</u>         | <u>\$391,306</u> | <u>\$336,855</u> | <u>\$ 415,646</u>         |

## Town of Middletown, Rhode Island

### Notes to Financial Statements

*For the Year Ended June 30, 2018*

#### 7. Long-term obligations (continued):

At June 30, 2018, 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                |
|---------------------------------------|----------------------|---------------------|----------------------|
| <b>Governmental activities:</b>       |                      |                     |                      |
| <i>Bonds and loans payable:</i>       |                      |                     |                      |
| 2019                                  | \$ 2,427,000         | \$ 992,852          | \$ 3,419,852         |
| 2020                                  | 2,627,000            | 990,822             | 3,617,822            |
| 2021                                  | 2,628,000            | 923,777             | 3,551,777            |
| 2022                                  | 2,644,000            | 844,941             | 3,488,941            |
| 2023                                  | 2,180,000            | 774,215             | 2,954,215            |
| 2024-2028                             | 10,159,000           | 2,940,240           | 13,099,240           |
| 2029-2033                             | 6,777,000            | 1,414,082           | 8,191,082            |
| 2034-2038                             | 4,408,000            | 368,643             | 4,776,643            |
|                                       | <u>\$ 33,850,000</u> | <u>\$ 9,249,572</u> | <u>\$ 43,099,572</u> |
| <br><i>Capital lease obligations:</i> |                      |                     |                      |
| 2019                                  | \$ 185,886           | \$ 8,577            | \$ 194,463           |
| 2020                                  | 73,169               | 10,569              | 83,738               |
| 2021                                  | 76,535               | 7,203               | 83,738               |
| 2022                                  | 80,056               | 3,683               | 83,739               |
|                                       | <u>\$ 415,646</u>    | <u>\$ 30,032</u>    | <u>\$ 445,678</u>    |
| <br><b>Business-type activities:</b>  |                      |                     |                      |
| <i>Loans payable:</i>                 |                      |                     |                      |
| 2019                                  | \$ 1,219,714         | \$ 167,281          | \$ 1,386,995         |
| 2020                                  | 1,221,243            | 164,115             | 1,385,358            |
| 2021                                  | 1,222,817            | 142,600             | 1,365,417            |
| 2022                                  | 1,224,440            | 120,362             | 1,344,802            |
| 2023                                  | 1,167,000            | 97,883              | 1,264,883            |
| 2024-2028                             | 4,405,000            | 200,710             | 4,605,710            |
|                                       | <u>\$ 10,460,214</u> | <u>\$ 892,951</u>   | <u>\$ 11,353,165</u> |

## Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2018

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### 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 and those employees that elected to roll over from the Town Plan to the Municipal Plan hired prior to 1999, a full time Fire Civilian Dispatcher hired prior to June 30, 2012, Police Department police officers sworn in on or after January 1, 2000, Fire Department firefighters hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Defined Contribution 401(a) Plan covers all Town Hall NEARI and Public Works Teamsters employees, full-time Civilian Dispatchers and any Town employees not affiliated with any recognized collective bargaining union, hired on or after July 1, 2012. The Town Plan, which is a closed plan, covers all other eligible employees.

#### Teachers' 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, 2018*

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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.

*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.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

8. Pension plans (continued):

Teachers' Plan

*Defined Benefit Pension Plan (continued):*

*TSB (continued)*

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, 2018*

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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 2017, 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 9.89% and 13.24% of annual covered payroll for the fiscal year ended June 30, 2018 for the state and the Town, respectively.

The Town contributed a total of \$2,372,889, \$2,371,498, and \$2,362,604, for the fiscal years ended June 30, 2018, 2017, and 2016, respectively, equal to 100% of the required contributions for each year

*TSB:*

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

The Town contributed \$23,475, \$20,831, and \$22,340 to the TSB Plan for the fiscal years ended June 30, 2018, 2017, and 2016, respectively, equal to 100% of the required contributions for each year.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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:*

*ERS:*

At June 30, 2018, the Town reported a liability of \$31,988,869 for its proportionate share of the net pension liability that reflected a reduction for contributions made by the state.

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                           | \$31,998,869               |
| State's proportionate share of the net pension liability associated with the Town | <u>24,175,899</u>          |
| Total net pension liability   | <u><u>\$56,164,768</u></u> |

The net pension liability was measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017. 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, 2017 the Town's proportion was 1.014%.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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, 2018 the Town ERS Plan recognized gross pension expense of \$4,805,196 and revenue of \$2,230,482 for support provided by the State. At June 30, 2018 the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description of Outflows/Inflows   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience  | \$ -                              | \$ 758,380                       |
| Changes of assumptions  | 2,793,767                         | 504,095                          |
| Net difference between projected and actual earnings on pension plan investments                          | 2,475,132                         | 1,667,072                        |
| Changes in proportion and differences between System contributions and proportionate share contributions  | 411,896                           | 1,755,730                        |
| Contributions subsequent to the measurement date  | 2,372,889                         | -                                |
|   | \$ 8,053,684                      | \$ 4,685,277                     |
| Net amount of deferred outflows and (inflows) excluding Town contributions subsequent to measurement date |                                   | \$ 995,518                       |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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):*

\$ 2,232,855 reported as deferred outflows of resources related to pensions resulting from the Town ERS contributions in fiscal year 2018 subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ended June 30, 2019. 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: |                   |
|---------------------|-------------------|
| 2019                | \$ 55,283         |
| 2020                | 587,857           |
| 2021                | 193,704           |
| 2022                | (368,572)         |
| 2023                | 168,358           |
| Thereafter          | <u>358,888</u>    |
|                     | <u>\$ 995,518</u> |

*TSB*

At June 30, 2018, the Town reported an asset of \$2,921,405 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, 2017, 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, 2016. The Town's proportion of the net pension asset was based on its share of contributions to the TSB for fiscal year 2016 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2016, the Town's proportion was 3.53%.

For the year ended June 30, 2018 the Town's TSB Plan recognized pension expense of \$613,729 – a decrease in the net pension asset. At June 30, 2018 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, 2018*

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):*

| <b>Description of Outflows/Inflows</b>  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
|   |   |  |
| Differences between expected and actual experience  | \$ 576,561                                | \$ 613,900                               |
| Changes of assumptions  | 481,276                                   | -  |
| Net difference between projected and actual earnings on pension plan investments                          | 671,658                                   | 485,007                                  |
| Changes in proportion and differences between System contributions and proportionate share contributions  | 179,060                                   | 68,625                                   |
| Contributions subsequent to the measurement date  | 23,475                                    | -  |
|   | \$ 1,932,030                              | \$ 1,167,532                             |
| Net amount of deferred outflows and (inflows) excluding Town contributions subsequent to measurement date |   | \$ 741,023                               |

The deferred outflows of resources related to pensions resulting from the Town's TSB contributions in the amount of \$23,745 in fiscal year 2018 subsequent to the measurement date will be recognized as an addition to the net pension asset for the fiscal year ended June 30, 2019. 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, 2018

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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: |                   |
|---------------------|-------------------|
| 2019                | \$ 118,680        |
| 2020                | 262,320           |
| 2021                | 157,593           |
| 2022                | 3,525             |
| 2023                | 88,867            |
| Thereafter          | <u>110,038</u>    |
|                     | <u>\$ 741,023</u> |

*Actuarial Assumptions:*

*ERS and TSB:*

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

|                           |                |
|---------------------------|----------------|
| Inflation                 | 2.50%          |
| Salary increases          | 3.00% - 13.50% |
| Investment rate of return | 7.00%          |

Mortality – variants of the RP-2014 mortality tables - for the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

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, 2016 valuation rolled forward to June 30, 2017 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of an actuarial experience study performed as of June 30, 2016.

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, 2018

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 35 sources. The June 30, 2017 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table

| Asset Class                    | Long-Term<br>Target Asset<br>Allocation | Long-Term<br>Expected Arithmetic<br>Real Rate of Return |
|--------------------------------|---|---|
| <b>Global Equity</b>           |   |   |
| US Equity                      | 20.60%                                  | 6.85%   |
| International Developed Equity | 15.90%                                  | 6.71%   |
| Emerging Markets Equity        | 3.50%                                   | 8.91%   |
| <b>Private Growth</b>          |   |   |
| Private Equity                 | 11.30%                                  | 9.62%   |
| Non-Core RE                    | 2.20%                                   | 5.17%   |
| OPP Private Credit             | 1.50%                                   | 9.62%   |
| <b>Income</b>                  |   |   |
| High Yield Infrastructure      | 1.00%                                   | 4.26%   |
| REITS                          | 1.00%                                   | 5.17%   |
| Liquid Credit                  | 2.80%                                   | 4.26%   |
| Private Credit                 | 3.20%                                   | 4.26%   |
| <b>Crisis Protection Class</b> |   |   |
| Treasury Duration              | 4.00%                                   | 0.83%   |
| Systematic Trend               | 4.00%                                   | 3.81%   |
| <b>Inflation Protection</b>    |   |   |
| Core Real Estate               | 3.60%                                   | 5.17%   |
| Private Infrastructure         | 2.40%                                   | 5.57%   |
| TIPs                           | 1.00%                                   | 1.72%   |
| Natural Resources              | 1.00%                                   | 3.98%   |
| <b>Volatility Protection</b>   |   |   |
| IG Fixed Income                | 11.50%                                  | 2.12%   |
| Absolute Return                | 6.50%                                   | 3.81%   |
| Cash                           | 3.00%                                   | 0.83%   |

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, 2018

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 7.0 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 7.00%, 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 (6.00%) or 1 percentage-point higher (8.00%) than the current rate:

|                         | 1% Decrease<br>(6.00%) | Current<br>Discount Rate<br>(7.00%) | 1% Increase<br>(8.00%) |
|-------------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability   | \$40,202,365           | \$31,988,869                        | \$25,871,121           |
| Net pension asset (TSB) | \$1,998,160            | \$2,921,405                         | \$3,608,739            |

*Pension plan fiduciary net position*

*ERS and TSB:*

**Pension plan fiduciary net position** - 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, 2018*

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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 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 School Department recognized pension expense of \$350,651 for the fiscal year ended June 30, 2018.

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, 2018

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### 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](http://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, 2018

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### 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 as described 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, 2018

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### 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, 2018

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### 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, 2018

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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, 2016 valuation date, the following employees were covered by the benefit terms:

|                               | <b>MERS General</b> | <b>MERS Police/Fire</b> |
|-------------------------------|---------------------|-------------------------|
| Retirees and Beneficiaries    | 48                  | 1                       |
| Inactive, Non-retired Members | 42                  | 12                      |
| Active Members                | 118                 | 58                      |
| <b>Total</b>                  | <b>208</b>          | <b>71</b>               |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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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 2% of their salaries as the Town opted to provide a COLA. General employees with more than 20 years of service as of June 30, 2012 are required to contribute 8.25% of their salaries due to the COLA provision. Public safety employees are required to contribute 10% of their salaries due to the COLA provision. 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 \$526,709 in the year ended June 30, 2018 which was 10.52% of annual covered payroll. For employees covered under the police/fire unit, the Town contributed \$270,184 in the year ended June 30, 2018 which was 6.50% of annual covered payroll.

*Net Pension Liability (Asset):*

The total pension liability was determined by actuarial valuations performed as of June 30, 2016 and rolled forward to June 30, 2017, 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, 2018*

8. Pension plans (continued):

Municipal Plan (continued)

*Defined Benefit Pension Plan:*

*Net Pension Liability (Asset) (continued):*

| <b>Summary of Actuarial Assumptions Used in the Valuations to determine the Net Pension Liability at the June 30, 2017 measurement date (June 30, 2016 valuation rolled forward to June 30, 2017)</b> |   |
|---|---|
| Actuarial Cost Method   | Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.   |
| Amortization Method   | Level Percent of Payroll – Closed   |
| Actuarial Assumptions   |   |
| Investment Rate of Return   | 7.0 %   |
| Inflation   | 2.5%  |
| Projected Salary Increases  | General Employees - 3.50% to 7.50%;<br>Police & Fire Employees - 4.00% to 14.00%  |
| Mortality   | Mortality – variants of the RP-2014 mortality tables - for the improvement scale, update to the ultimate rates of the MP-2016 projection scale. |
| Cost of Living Adjustments  | A 2% COLA is assumed after January 1, 2014.   |

The actuarial assumptions used in the June 30, 2015 valuation rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 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 35 sources. The June 30, 2016 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, 2018

### 8. Pension plans (continued):

#### Municipal Plan (continued)

#### *Defined Benefit Pension Plan:*

#### *Net Pension Liability (Asset) (continued):*

| Asset Class                    | Long-Term<br>Target Asset<br>Allocation | Long-Term<br>Expected Arithmetic<br>Real Rate of Return |
|--------------------------------|---|---|
| <b>Global Equity</b>           |   |   |
| US Equity                      | 20.60%                                  | 6.85%   |
| International Developed Equity | 15.90%                                  | 6.71%   |
| Emerging Markets Equity        | 3.50%                                   | 8.91%   |
| <b>Private Growth</b>          |   |   |
| Private Equity                 | 11.30%                                  | 9.62%   |
| Non-Core RE                    | 2.20%                                   | 5.17%   |
| OPP Private Credit             | 1.50%                                   | 9.62%   |
| <b>Income</b>                  |   |   |
| High Yield Infrastructure      | 1.00%                                   | 4.26%   |
| REITS                          | 1.00%                                   | 5.17%   |
| Liquid Credit                  | 2.80%                                   | 4.26%   |
| Private Credit                 | 3.20%                                   | 4.26%   |
| <b>Crisis Protection Class</b> |   |   |
| Treasury Duration              | 4.00%                                   | 0.83%   |
| Systematic Trend               | 4.00%                                   | 3.81%   |
| <b>Inflation Protection</b>    |   |   |
| Core Real Estate               | 3.60%                                   | 5.17%   |
| Private Infrastructure         | 2.40%                                   | 5.57%   |
| TIPs                           | 1.00%                                   | 1.72%   |
| Natural Resources              | 1.00%                                   | 3.98%   |
| <b>Volatility Protection</b>   |   |   |
| IG Fixed Income                | 11.50%                                  | 2.12%   |
| Absolute Return                | 6.50%                                   | 3.81%   |
| Cash                           | 3.00%                                   | 0.83%   |

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 7.0 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, 2018

#### 8. Pension plans (continued):

##### Municipal Plan (continued)

##### *Defined Benefit Pension Plan:*

##### *Net Pension Liability (Asset):*

| <b>MERS General Unit</b>                           | <b>Total Pension Liability<br/>(a)</b> | <b>Plan Fiduciary Net Position<br/>(b)</b> | <b>Net Pension Liability<br/>(a) - (b)</b> |
|--|--|--|--|
| <b>Balance as of June 30, 2016</b>                 | \$ 21,701,944                          | \$ 16,785,735                              | \$ 4,916,209                               |
| <b>Changes for the year:</b>                       |  |  |  |
| Service cost                                       | 469,665                                | -  | 469,665                                    |
| Interest on total pension liability                | 1,607,436                              | -  | 1,607,436                                  |
| Differences between expected and actual experience | (107,419)                              | -  | (107,419)                                  |
| Changes in assumptions                             | 1,017,603                              | -  | 1,017,603                                  |
| Contributions - employer                           | -                                      | 571,040                                    | (571,040)                                  |
| Contributions - employee                           | -                                      | 179,523                                    | (179,523)                                  |
| Net investment income                              | -                                      | 1,963,771                                  | (1,963,771)                                |
| Benefit payments, including employee refunds       | (1,008,605)                            | (1,008,605)                                | -  |
| Administrative expense                             | -                                      | (18,553)                                   | 18,553                                     |
| Other changes                                      | -                                      | 18,936                                     | (18,936)                                   |
| <b>Net changes</b>                                 | <u>1,978,680</u>                       | <u>1,706,112</u>                           | <u>272,568</u>                             |
| <b>Balance as of June 30, 2017</b>                 | <u>\$ 23,680,624</u>                   | <u>\$ 18,491,847</u>                       | <u>\$ 5,188,777</u>                        |
|  |  |  |  |
| <b>MERS Police/Fire Units</b>                      | <b>Total Pension Liability<br/>(a)</b> | <b>Plan Fiduciary Net Position<br/>(b)</b> | <b>Net Pension Liability<br/>(a) - (b)</b> |
| <b>Balance as of June 30, 2016</b>                 | \$ 5,744,873                           | \$ 5,772,514                               | \$ (27,641)                                |
| <b>Changes for the year:</b>                       |  |  |  |
| Service cost                                       | 729,877                                | -  | 729,877                                    |
| Interest on total pension liability                | 456,771                                | -  | 456,771                                    |
| Differences between expected and actual experience | 203,814                                | -  | 203,814                                    |
| Changes in assumptions                             | 510,364                                | -  | 510,364                                    |
| Contributions - employer                           | -                                      | 258,363                                    | (258,363)                                  |
| Contributions - employee                           | -                                      | 404,870                                    | (404,870)                                  |
| Net investment income                              | -                                      | 767,082                                    | (767,082)                                  |
| Benefit payments, including employee refunds       | (39,061)                               | (39,061)                                   | -  |
| Administrative expense                             | -                                      | (7,247)                                    | 7,247                                      |
| Other changes                                      | -                                      | 66,707                                     | (66,707)                                   |
| <b>Net changes</b>                                 | <u>1,861,765</u>                       | <u>1,450,714</u>                           | <u>411,051</u>                             |
| <b>Balance as of June 30, 2017</b>                 | <u>\$ 7,606,638</u>                    | <u>\$ 7,223,228</u>                        | <u>\$ 383,410</u>                          |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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 7.00%, 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 (6.00%) or one percentage-point higher (8.00%) than the current rate:

|   | 1% Decrease<br>(6.00%) | Current Discount Rate<br>(7.00%) | 1% Increase<br>(8.00%) |
|---|------------------------|----------------------------------|------------------------|
| Net pension liability-<br>MERS General  | \$7,904,571            | \$5,188,777                      | \$3,166,685            |
| Net pension asset -<br>MERS Police/Fire | \$1,225,420            | \$383,410                        | \$(243,406)            |

*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, 2018 the employer recognized pension expense of \$788,795 for the MERS General unit and \$321,200 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:

|   | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|---|---|--|
| Changes in assumptions  | \$ 853,473                                | \$ 32,737                                |
| Difference between expected<br>and actual experience  | 11,428                                    | 318,823                                  |
| Net difference between projected and<br>actual earnings on pension plan investments                     | 1,119,615                                 | 804,177                                  |
| Contributions subsequent to the<br>measurement date   | <u>526,709</u>                            | <u>-</u>                                 |
|   | <u>\$ 2,511,225</u>                       | <u>\$ 1,155,737</u>                      |
| Net amount of deferred outflows and (inflows) excluding<br>contributions subsequent to measurement date |   | <u>\$ 828,779</u>                        |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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 ended June 30: |                   |
|---------------------|-------------------|
| 2019                | \$ 140,867        |
| 2020                | 373,444           |
| 2021                | 199,434           |
| 2022                | (48,844)          |
| 2023                | 134,518           |
| Thereafter          | <u>29,360</u>     |
|                     | <u>\$ 828,779</u> |

MERS Police / Fire Unit:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Changes in assumptions   | \$ 473,524                                | \$ 73,093                                |
| Difference between expected<br>and actual experience   | 375,085                                   | 60,860                                   |
| Net difference between projected and<br>actual earnings on pension plan<br>investments                     | 345,734                                   | 311,884                                  |
| Contributions subsequent to the<br>measurement date  | <u>270,184</u>                            | <u>-</u>                                 |
|  | <u>\$ 1,464,527</u>                       | <u>\$ 445,837</u>                        |
| Net amount of deferred outflows and<br>(inflows) excluding contributions<br>subsequent to measurement date |   | <u>\$ 748,506</u>                        |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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 Police / Fire Unit reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: |                   |
|---------------------|-------------------|
| 2019                | \$ 57,458         |
| 2020                | 122,535           |
| 2021                | 74,074            |
| 2022                | (8,865)           |
| 2023                | 52,838            |
| Thereafter          | <u>450,466</u>    |
|                     | <u>\$ 748,506</u> |

*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 with over 20 years service as of June 30, 2012 are required to contribute 9.25% of their salaries due to the COLA provisions. There is no employer match. 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 \$23,664 for the fiscal year ended June 30, 2018.

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, 2018

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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 2018.

*Plan Membership*

As of June 30, 2018, pension plan membership consisted of the following:

| <u>Membership Status</u>  | <u>Count</u>      |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 138               |
| Inactive plan members entitled to but not yet receiving benefits    | 3                 |
| Active plan members   | <u>10</u>         |
|   | <u><u>151</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, 2018

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### 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, 2018*

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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 per the GAC 795 with John Hancock which may be amended by Town Council ordinance or union contract and are based on actuarially determined percentages.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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% |

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, 2018, the Town contributed \$2,403,830 to the Plan.

*Investments:*

*Rate of return*

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.61%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Receivables:*

An employer receivable contribution on behalf of the Library was made on August 21, 2018 and was also included in the plan assets.

*Net pension liability*

The components of the net pension liability at June 30, 2018 were as follows:

|  |                         |
|--|-------------------------|
| Total pension liability  | \$ 58,217,854           |
| Plan fiduciary net position  | <u>(60,206,214)</u>     |
| Town's net pension asset   | \$ <u>(\$1,988,360)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>103.42%</u>          |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

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, 2018, the Town recognized pension expense of \$2,215,735. At June 30, 2018, the Town reported deferred outflows of resources of \$644,118 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 0.26 years. This means that the difference between expected and actual experience, and the effect of changes in assumptions are effectively recognized immediately.

Town Private Plan

|   | Deferred Outflows<br>of Resources | Deferred inflows of<br>Resources |
|---|-----------------------------------|----------------------------------|
| Differences between projected and actual earnings | \$ 1,742,960                      | \$ 1,542,220                     |
| Total   | \$ 1,742,960                      | \$ 1,542,220                     |

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

| Year Ending<br>June 30 |    | Net Deferred Outflows<br>(Inflows) of Resources |
|------------------------|----|---|
| 2019                   | \$ | 644,117   |
| 2020                   |    | 153,439   |
| 2021                   |    | (472,701)                                       |
| 2022                   |    | (124,115)                                       |
| Total                  | \$ | 200,740   |

*Actuarial Assumptions:*

The June 30, 2018 total pension liability was determined by 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, 2018

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### 8. Pension plans (continued):

#### Town Plan (continued)

#### *Actuarial Assumptions (continued):*

| <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 June 30, 2017 and projected to June 30, 2018 according to the valuation's demographic assumptions.

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 July 2017:

| <u>Asset Class</u>           | <u>Allocation</u> |
|------------------------------|-------------------|
| Equity                       | 57.30%            |
| Investment Grade Bonds       | 6.60%             |
| High Yield/Convertible Bonds | 14.90%            |
| Money Market                 | 1.10%             |
| Hancock IPG                  | 20.10%            |
| Total                        | 100.00%           |

The 50<sup>th</sup> percentile of the 20-year projection of inflation from GEMS is 2.78%, which forms the basis of the underlying inflation assumption of 3.0% per year.

#### *Municipal bond rate*

2.98%. 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, 2018

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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%                    |

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

*Participant Data*

The Experience Study performed in 2018 represents 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 2.98% would have been used in the development of the blended GASB discount rate after that point. The 2.98% 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, 2018

8. Pension plans (continued):

Town Plan (continued)

*Net Pension Liability (Asset):*

|  | Increase (Decrease)        |                                | Net Pension           |
|--|----------------------------|--------------------------------|-----------------------|
| Town Plan  | Total Pension<br>Liability | Plan Fiduciary<br>Net Position | Liability<br>(Asset)  |
| Balances as of June 30, 2017                         | \$ 57,364,228              | \$ 57,899,788                  | \$ (535,560)          |
| Changes for the Year                                 |                            |                                |                       |
| Service cost   | 140,071                    |                                | 140,071               |
| Interest on the total pension liability              | 4,133,704                  |                                | 4,133,704             |
| Changes in benefits                                  |                            |                                |                       |
| Difference between expected and actual<br>experience | 1,444,275                  |                                |                       |
| Changes in assumptions                               |                            |                                |                       |
| Employer contributions                               |                            | 2,403,830                      | (2,403,830)           |
| Employee contributions                               |                            | 59,952                         | (59,952)              |
| Net investment income                                |                            | 4,868,722                      | (4,868,722)           |
| Benefit payments, including employee refunds         | (4,864,424)                | (4,864,424)                    | -                     |
| Administrative expense                               |                            | (161,654)                      | 161,654               |
| Other changes  |                            |                                |                       |
| Net changes  | <u>853,626</u>             | <u>2,306,426</u>               | <u>(1,452,800)</u>    |
| Balances as of June 30, 2018                         | <u>\$ 58,217,854</u>       | <u>\$ 60,206,214</u>           | <u>\$ (1,988,360)</u> |

*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%<br>Decrease<br>(6.50%) | Current<br>Discount Rate<br>(7.50%) | 1%<br>Increase<br>(8.50%) |
|-----------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability | <u>\$3,619,921</u>        | <u>\$(1,988,360)</u>                | <u>\$(6,748,172)</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, 2018*

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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 \$640,587, and the plan members and the Town each contributed \$38,436 during the fiscal year ended June 30, 2018.

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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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, 2018 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, 2018.

*Benefits and employee contributions:*

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$1,661,234 for the year ended June 30, 2018.

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, 2018, the membership census is as follows:

|                            |                   |
|----------------------------|-------------------|
| Active employees           | 351               |
| Retirees and beneficiaries | <u>227</u>        |
| Total                      | <u><u>578</u></u> |

*Net OPEB Liability:*

The Town's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

| <u>Description</u>                          | <u>Amounts</u>   |
|---|------------------|
| Total OPEB Liability (TOL)                  | \$ 28,238,723    |
| Fiduciary Net Position                      | <u>9,741,824</u> |
| Net OPEB Liability (NOL)                    | 18,496,899       |
| Funded ratio (Fiduciary Net Position / NOL) | 34.50%           |
| Covered payroll (active plan members)       | \$ 25,008,014    |
| NOL as a percentage of covered payroll      | 73.96%           |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

9. Other postemployment benefits (continued):

*Changes in Net OPEB Liability:*

|  | <b>Total OPEB<br/>Liability</b> | <b>Increase (Decrease)<br/>Plan Fiduciary<br/>Net Position</b> | <b>Net OPEB<br/>Liability</b> |
|--|---------------------------------|--|-------------------------------|
| Balance at June 30, 2017                           | \$ 32,070,969                   | \$ 7,339,697   | \$ 24,731,272                 |
| Service cost                                       | 478,012                         | -  | 478,012                       |
| Interest   | 2,380,004                       | -  | 2,380,004                     |
| Differences between actual and expected experience | (3,021,201)                     | -  | (3,021,201)                   |
| Changes in assumptions                             | (2,007,827)                     | -  | (2,007,827)                   |
| Contributions - employer                           | -                               | 3,550,098  | (3,550,098)                   |
| Contributions - active employees                   | -                               | 21,358   | (21,358)                      |
| Net investment income                              | -                               | 520,405  | (520,405)                     |
| Benefit payments                                   | (1,661,234)                     | (1,661,234)  | -                             |
| Administrative expenses                            | -                               | (28,500)   | 28,500                        |
| Net changes  | <u>(3,832,246)</u>              | <u>2,402,127</u>   | <u>(6,234,373)</u>            |
| Balances at June 30, 2018                          | <u>\$ 28,238,723</u>            | <u>\$ 9,741,824</u>  | <u>\$ 18,496,899</u>          |

*OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB:*

For the year ended June 30, 2018 the Town recognized OPEB expense of \$1,580,110. At June 30, 2018 the Town deferred outflows and inflows of resources related to OPEB from the following sources:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Changes in assumptions   | \$ -                                      | \$ 2,007,827                             |
| Difference between expected<br>and actual experience   | <u>99,361</u>                             | <u>3,021,201</u>                         |
|  | <u>\$ 99,361</u>                          | <u>\$ 5,029,028</u>                      |
| Net amount of deferred outflows and<br>(inflows) excluding contributions<br>subsequent to measurement date |   | <u>\$ (4,929,667)</u>                    |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

*For the Year Ended June 30, 2018*

9. Other postemployment benefits (continued):

*OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB (continued):*

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

|                     |    |                           |
|---------------------|----|---------------------------|
| Year ended June 30: |    |                           |
| 2019                | \$ | (665,282)                 |
| 2020                |    | (665,282)                 |
| 2021                |    | (665,282)                 |
| 2022                |    | (665,282)                 |
| 2023                |    | (685,154)                 |
| Thereafter          |    | <u>(1,583,385)</u>        |
|                     | \$ | <u><u>(4,929,667)</u></u> |

*Sensitivity of the net OPEB liability to changes in the discount rate:*

The following presents the net OPEB liability of the Town 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 discount rate:

|                      | <b>Impact of 1% Change in Discount Rate</b> |  |                                |
|----------------------|---|--|--------------------------------|
|                      | <b>1% Decrease<br/>(6.50%)</b>              | <b>Current discount<br/>rate (7.50%)</b> | <b>1% Increase<br/>(8.50%)</b> |
| Total OPEB liability | \$ 21,349,841                               | \$ 18,496,899                            | \$ 16,048,584                  |

The following presents the net OPEB liability of the Town if it were calculated using health care cost trend rates that are 1 percentage-point lower or 1 percentage point higher than the current discount rate:

|                      | <b>Impact of 1% Change in Healthcare Trend Rate</b> |                               |                    |
|----------------------|---|-------------------------------|--------------------|
|                      | <b>1% Decrease</b>                                  | <b>Current trend<br/>rate</b> | <b>1% Increase</b> |
| Total OPEB liability | \$ 15,760,317                                       | \$ 18,496,899                 | \$ 21,939,292      |

*Rate of Return:*

For the year ended June 30, 2018, the annual money-weighted rate of return on investment, net of investment expense was 6.52%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## Town of Middletown, Rhode Island

### Notes to Financial Statements

For the Year Ended June 30, 2018

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#### 9. Other postemployment benefits (continued):

##### *Actuarial methods and assumptions:*

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

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

|                               |  |
|-------------------------------|--|
| Measurement date:             | June 30, 2018  |
| Actuarial cost method:        | Entry age normal, level percent of salary.   |
| Investment rate of return:    | 7.5% per year, net of investment expense, based on the long-term rate of return of plan assets   |
| Projected Salary Increases    | 5.0% annually as of June 30, 2018 and for future periods   |
| Inflation                     | 3.0% as of June 30, 2018 and for future periods  |
| Funding Method:               | Pre-funding the UAAL by contributing the ARC annually over the 19 year amortization period   |
| Asset valuation method:       | Market value   |
| Health Care Cost Trend Rates: | Medical pre-Medicare rate of 7.93% decreasing to a rate of 5.0% after ten years; and post-Medicare rate of 6.40% decreasing to a rate of 5.0% after ten years. |

**Town of Middletown, Rhode Island**

Notes to Financial Statements

For the Year Ended June 30, 2018

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9. Other postemployment benefits (continued):

*Investment Policy:*

Investment Target Allocation

| <u>Asset Class</u>             | <u>Target Allocation</u> |
|--------------------------------|--------------------------|
| Equity                         | 57.30%                   |
| Investment grade bonds         | 6.60%                    |
| High yield / Convertible bonds | 14.90%                   |
| Money market                   | 1.10%                    |
| Hancock IPG                    | 20.10%                   |
| Total                          | <u>100%</u>              |

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, 2018.

## Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2018

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### 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, 2018

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### 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 \$3,323,033 for the year ended June 30, 2018.

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, 2018

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12. Commitments and subsequent events:

*Construction commitments:*

The Town has active construction projects as of June 30, 2018, including culvert replacement, road reconstruction, drainage and sanitary upgrades in designated areas of the Town, beach improvements to parking lot and dunes, and roof repairs and window repairs at school buildings. At June 30, 2018, the Town's commitments with contractors are as follows:

| <b>Project</b>   | <b>Spent To Date</b> | <b>Remaining<br/>Commitments</b> |
|--|----------------------|----------------------------------|
| Kingfisher Road: Hartford Paving                                   | \$ 37,355            | \$ 8,721                         |
| North Easton's Pond BMP: Crossman Engineering                      | 16,075               | 4,655                            |
| Permanent Patch Program: Pawtucket Hot Mix Asphalt                 | 345,315              | 51,685                           |
| Red Road Paving & Utility Repair: C B Utility Co                   | 1,864,003            | 144,773                          |
| Red Road Phase II: East Coast Construction                         | 30,000               | 3,202,345                        |
| Upper Easton's Point Sewer Lining: National Water Main Cleaning Co | 541,021              | 2,758,795                        |
| Upper Easton's Sewer Spot Repair: C B Utility Co                   | 966,273              | 94,392                           |
| Third Beach Road Raising: D'Ambra Construction                     | 470,112              | 16,688                           |
| Second Beach Painting: Scholar Painting                            | 11,095               | 2,861                            |
| Town Line Sewers: C B Utility Co                                   | 54,397               | 1,670,775                        |
| Second Beach, Campground, War Memorial: Contractor's Network       | 205,053              | 73,476                           |
| Second Beach Parking Lot Improvements: Yard Works Inc              | 157,518              | 395                              |
| Aquidneck School Main Entrance: Martone Constructions, Torrado     | 18,880               | 252,020                          |
| Gaudet School Main Entrance: Torrado                               | 7,080                | 40,120                           |
| Forrest Ave and Gaudet School Flat Roofs: Capeway Roofing, Torrado | 23,600               | 552,964                          |
| Aquidneck and Forest Ave School Shingle Roofs: Capeway Roofing     | 8,496                | 246,220                          |
| All Schools Windows and Doors: Torrado                             | 45,996               | 79,084                           |
|  | <u>\$ 4,802,269</u>  | <u>\$ 9,199,969</u>              |

## Town of Middletown, Rhode Island

Notes to Financial Statements

For the Year Ended June 30, 2018

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### 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 one contract. The contract, awarded to East Coast Landscaping & Construction, Inc. in the amount of \$394,000, relates to town wide asphalt patch program in various sections of Town and will be paid from the Capital Improvement Program Special Revenue 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 2018. 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 2018 was \$2,446,763. The towns have no equity interest in the net assets of NCRSEP at June 30, 2018.

At June 30, 2018, 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. The defined benefit pension liability for the NCRSEP is included in the Town's total pension liability accrued. 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

### Notes to Financial Statements

*For the Year Ended June 30, 2018*

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14. Fund balance restatement:

During the 2018 fiscal year audit, the Town implemented GASB statement 75 which replaced the prior year net OPEB obligation asset of \$996,746 with a beginning net OPEB liability of \$24,731,272.

15. Tax abatement disclosures:

The Town of Middletown negotiated property tax abatement agreements on an individual basis. The Town has tax abatement agreement with four entities as of June 30, 2018:

Each agreement was negotiated under Town Ordinance Chapter 39 Economic Development Incentive Program, allowing an exemption from assessed valuation of property. The abatement of property taxes is for job creation and/or renovation of existing facilities and construction of new facilities.

Job creation exemption applies only to jobs created in Middletown, annually for office, industrial or manufacturing uses and is based on the number of jobs established in Middletown with a minimum of 5 new jobs created. The Town may grant an exemption ranging from 3% to 40% of assessed value for a term of exemption from 3 to 6 years. The requirements to receive this exemption are met prior to the granting of the exemption and therefore, there are no provisions for the recapture of abated taxes. For the fiscal year ended June 30, 2018, the Town abated property taxes under the jobs creation program for one company totaling \$15,887.

Renovation of existing facilities and construction of new facilities exemption applies to a building or structure utilized or proposed to be utilized for office, industrial or manufacturing uses, and other similar businesses that create predominantly high-wage, skilled and professional jobs. A new construction of a qualified facility, or any expansion, renovation, retrofit of an existing qualified facility which increases gross floor area by 50% or more of any expansion, renovation, retrofit or combination thereof of an existing qualified facility which results in an increased assessment of not less than 50%, shall be entitled to an exemption from assessed value attributable to new construction. This exemption is for five years starting at 100% and reduction 20% each year. The requirements to receive this exemption are met prior to the granting of the exemption and therefore, there are no provisions for the recapture of abated taxes. For the fiscal year ended June 30, 2018, the Town abated property taxes under the renovation of existing facilities and construction of new facilities program for two companies totaling \$21,861.

**Town of Middletown, Rhode Island**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

*For the Year Ended June 30, 2018*

|  | Original<br>Budget | Final<br>Budget | Actual        | Variance with<br>Final Budget |
|--|--------------------|-----------------|---------------|-------------------------------|
| Revenues:  |                    |                 |               |                               |
| Taxes  | \$47,277,140       | \$47,111,112    | \$47,322,990  | \$ 211,878                    |
| Intergovernmental  | 2,928,404          | 3,395,476       | 3,273,462     | (122,014)                     |
| Licenses, permits and fees   | 1,889,572          | 2,340,727       | 2,461,005     | 120,278                       |
| Interest and investment  | 10,000             | 10,000          | 19,515        | 9,515                         |
| Other revenues   | 262,256            | 414,090         | 333,492       | (80,598)                      |
| Total revenues   | 52,367,372         | 53,271,405      | 53,410,464    | 139,059                       |
| Expenditures:  |                    |                 |               |                               |
| Current:   |                    |                 |               |                               |
| General government   | 2,696,946          | 3,023,111       | 2,914,385     | 108,726                       |
| Public safety  | 9,267,414          | 9,731,414       | 9,584,825     | 146,589                       |
| Public works and sanitation  | 1,849,245          | 1,862,101       | 1,873,018     | (10,917)                      |
| Planning and inspection  | 688,424            | 713,767         | 647,001       | 66,766                        |
| Library  | 828,402            | 828,402         | 824,280       | 4,122                         |
| Community services   | 376,051            | 377,131         | 374,690       | 2,441                         |
| Other expenditures   | 6,206,591          | 6,095,111       | 6,129,872     | (34,761)                      |
| Grants   | 205,159            | 377,119         | 343,384       | 33,735                        |
| Capital outlay   | 1,495,223          | 3,476,663       | 3,414,562     | 62,101                        |
| Debt service   | 4,171,052          | 4,171,052       | 3,756,031     | 415,021                       |
| Total expenditures   | 27,784,507         | 30,655,871      | 29,862,048    | 793,823                       |
| Excess of revenues over expenditures, budgetary basis  | 24,582,865         | 22,615,534      | 23,548,416    | 932,882                       |
| Other financing sources (uses):  |                    |                 |               |                               |
| Transfers from other funds   | 3,691,424          | 3,967,449       | 3,252,348     | (715,101)                     |
| Transfers to other funds   | (28,349,289)       | (28,349,289)    | (28,414,239)  | (64,950)                      |
| Reappropriated fund balance  | 75,000             | 1,375,000       | -             | (1,375,000)                   |
| Proceeds from capital leases   | -                  | 391,306         | 391,306       | -                             |
| Total other financing sources (uses)   | (24,582,865)       | (22,615,534)    | (24,770,585)  | (2,155,051)                   |
| Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis | \$ -               | \$ -            | (1,222,169)   | \$(1,222,169)                 |
| Adjustments of budgetary basis to U.S. GAAP basis  |                    |                 | 898,950       |                               |
| Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis |                    |                 | (323,219)     |                               |
| Fund balance, beginning of year  |                    |                 | 10,790,200    |                               |
| Fund balance, end of year  |                    |                 | \$ 10,466,981 |                               |

*See independent auditors' report*

**Town of Middletown, Rhode Island**

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

BUDGETARY COMPARISON

*For the Year Ended June 30, 2018*

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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 re-appropriations 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<br/>Fund</u> |
|---|-------------------------|
| Adjustments of budgetary basis to GASB 54 | \$ 905,224              |
| Accrued payroll                           | (29,037)                |
| Compensated absences                      | <u>22,763</u>           |
| Total adjustments                         | <u>\$ 898,950</u>       |

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON  
*For the Year Ended June 30, 2018*

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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.

*See independent auditors' report*

**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, 2018*

|   | <u>2018</u>          | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|----------------------|----------------------|
| Employer's proportion of the net pension liability  | 1.01420390%          | 1.04739490%          | 1.02728705%          | 1.09025855%          |
| Employer's proportionate share of the net pension liability   | \$ 31,988,869        | \$ 31,249,839        | \$ 28,281,240        | \$ 26,536,897        |
| State's proportionate share of the net pension liability associated with the school district                | <u>24,175,899</u>    | <u>21,401,551</u>    | <u>19,320,855</u>    | <u>18,197,573</u>    |
| Total   | <u>\$ 56,164,768</u> | <u>\$ 52,651,390</u> | <u>\$ 47,602,095</u> | <u>\$ 44,734,470</u> |
| Employer's covered employee payroll   | \$ 16,392,832        | \$ 15,577,365        | \$ 14,926,723        | \$ 17,967,267        |
| Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll | 195.14%              | 200.61%              | 189.47%              | 147.70%              |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 54.00%               | 54.06%               | 57.55%               | 61.40%               |

**Notes:**

1.) *The amounts presented for each fiscal year were determined as of 6/30 measurement date prior to the fiscal year-end.*

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

*See independent auditors' report*

**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, 2018*

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|  | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|------------------|------------------|
| Actuarially determined contribution                                  | \$ 2,372,889     | \$ 2,371,498     | \$ 2,362,604     | \$ 2,238,487     |
| Contributions in relation to the actuarially determined contribution | <u>2,372,889</u> | <u>2,371,498</u> | <u>2,362,604</u> | <u>2,238,487</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| Covered-employee payroll   | \$ 16,392,832    | \$ 15,577,365    | \$ 14,926,723    | \$ 17,967,267    |
| Contributions as a percentage of covered- employee payroll           | 14.48%           | 15.22%           | 15.83%           | 12.46%           |

**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.

*See independent auditors' report*

**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, 2018*

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|  | <u>2018</u>   | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   |
|--|---------------|---------------|---------------|---------------|
| Employer's proportion of the net pension asset   | 3.53140620%   | 3.47820720%   | 3.67779124%   | 3.65867986%   |
| Employer's proportionate share of the net pension asset  | \$ 2,921,405  | \$ 3,463,316  | \$ 3,433,424  | \$ 4,548,498  |
| Employer's covered employee payroll  | \$ 16,392,832 | \$ 15,577,365 | \$ 14,926,723 | \$ 17,967,267 |
| Employer's proportionate share of the net pension asset<br>as a percentage of its covered employee payroll | 17.82%        | 22.23%        | 23.00%        | 25.32%        |
| Plan fiduciary net position as a percentage of the total pension liability                                 | 136.1%        | 153.3%        | 146.6%        | 173.3%        |

***Notes:***

*1.) The amounts presented for each fiscal year were determined as of 6/30 measurement date prior to the fiscal year-end.*

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

*See independent auditors' report*

**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, 2018*

|  | <b>2018</b>   | <b>2017</b>   | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|---------------|---------------|
| Statutorily determined contribution                                  | \$ 23,475     | \$ 20,831     | \$ 22,340     | \$ 22,191     |
| Contributions in relation to the statutorily determined contribution | <u>23,475</u> | <u>20,831</u> | <u>22,340</u> | <u>22,191</u> |
| Contribution deficiency (excess)                                     | <u>-</u>      | <u>-</u>      | <u>-</u>      | <u>-</u>      |
| Covered-employee payroll   | \$ 16,392,832 | \$ 15,577,365 | \$ 14,926,723 | \$ 17,967,267 |
| Contributions as a percentage of covered-employee payroll            | 0.14%         | 0.13%         | 0.15%         | 0.12%         |

**Notes:**

1.) Employers participating in the Teachers' Survivor's Benefit Plan contribute at a rate established by the RI General Laws, Section 16-16-35.

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

*See independent auditors' report*

**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, 2018*

|  | Year Ended<br>June 30, 2017 | Year Ended<br>June 30, 2016 | Year Ended<br>June 30, 2015 | Year Ended<br>June 30, 2014 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>A. Total pension liability</b>  |                             |                             |                             |                             |
| 1. Service Cost  | \$ 469,665                  | \$ 453,067                  | \$ 452,635                  | \$ 485,224                  |
| 2. Interest on the Total Pension Liability   | 1,607,436                   | 1,556,763                   | 1,461,200                   | 1,399,456                   |
| 3. Changes of benefit terms  | -                           | -                           | 324,034                     | -                           |
| 4. Difference between expected and actual experience<br>of the Total Pension Liability | (107,419)                   | (336,952)                   | 20,395                      | -                           |
| 5. Changes of assumptions  | 1,017,603                   | -                           | -                           | (74,921)                    |
| 6. Benefit payments, including refunds<br>of employee contributions                    | <u>(1,008,605)</u>          | <u>(1,002,493)</u>          | <u>(966,110)</u>            | <u>(974,316)</u>            |
| 7. Net change in total pension liability   | 1,978,680                   | 670,385                     | 1,292,154                   | 835,443                     |
| 8. Total pension liability – beginning   | <u>21,701,944</u>           | <u>21,031,559</u>           | <u>19,739,405</u>           | <u>18,903,962</u>           |
| 9. Total pension liability – ending (a)  | <u>\$ 23,680,624</u>        | <u>\$ 21,701,944</u>        | <u>\$ 21,031,559</u>        | <u>\$ 19,739,405</u>        |
| <b>B. Plan fiduciary net position</b>  |                             |                             |                             |                             |
| 1. Contributions – employer  | \$ 571,040                  | \$ 572,585                  | \$ 615,951                  | \$ 664,994                  |
| 2. Contributions – employee  | 179,523                     | 174,919                     | 108,157                     | 113,801                     |
| 3. Net investment income   | 1,963,771                   | (13,063)                    | 401,825                     | 2,287,085                   |
| 4. Benefit payments, including refunds of employee contributions                       | (1,008,605)                 | (1,002,493)                 | (966,110)                   | (974,316)                   |
| 5. Pension Plan Administrative Expense   | (18,553)                    | (8,437)                     | (16,119)                    | (14,322)                    |
| 6. Other   | <u>18,936</u>               | <u>(84,056)</u>             | <u>(169,167)</u>            | <u>124</u>                  |
| 7. Net change in plan fiduciary net position   | 1,706,112                   | (360,545)                   | (25,463)                    | 2,077,366                   |
| 8. Plan fiduciary net position – beginning   | <u>16,785,735</u>           | <u>17,146,280</u>           | <u>17,171,743</u>           | <u>15,094,377</u>           |
| 9. Plan fiduciary net position – ending (b)  | <u>\$ 18,491,847</u>        | <u>\$ 16,785,735</u>        | <u>\$ 17,146,280</u>        | <u>\$ 17,171,743</u>        |
| <b>C. Net pension liability - ending (a) - (b)</b>                                     | <u>\$ 5,188,777</u>         | <u>\$ 4,916,209</u>         | <u>\$ 3,885,279</u>         | <u>\$ 2,567,662</u>         |
| <b>D. Plan fiduciary net position as a percentage of the total pension liability</b>   | 78.09%                      | 77.35%                      | 81.53%                      | 86.99%                      |
| <b>E. Covered employee payroll</b>   | \$ 5,392,247                | \$ 5,286,658                | \$ 5,407,822                | \$ 5,495,171                |
| <b>F. Net pension liability as a percentage of covered payroll</b>                     | 96.23%                      | 92.99%                      | 71.85%                      | 46.73%                      |

*See independent auditors' report*

**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, 2018*

|  | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution                                  | \$ 526,709           | \$ 571,040           | \$ 572,585           | \$ 615,952           |
| Contributions in relation to the actuarially determined contribution | <u>526,709</u>       | <u>571,040</u>       | <u>572,585</u>       | <u>615,952</u>       |
| Contribution deficiency (excess)                                     | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Covered-employee payroll   | \$ 5,005,681         | \$ 5,392,247         | \$ 5,286,658         | \$ 5,407,822         |
| Contributions as a percentage of covered-employee payroll            | 10.52%               | 10.59%               | 10.83%               | 11.39%               |

**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.*

*See independent auditors' report*

**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, 2018*

|  | <u>Year Ended<br/>June 30, 2017</u> | <u>Year Ended<br/>June 30, 2016</u> | <u>Year Ended<br/>June 30, 2015</u> | <u>Year Ended<br/>June 30, 2014</u> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>A. Total pension liability</b>  |                                     |                                     |                                     |                                     |
| 1. Service Cost  | \$ 729,877                          | \$ 655,022                          | \$ 565,349                          | \$ 492,417                          |
| 2. Interest on the Total Pension Liability   | 456,771                             | 365,197                             | 281,564                             | 235,509                             |
| 3. Changes of benefit terms  | -                                   | -                                   | 349,008                             | -                                   |
| 4. Difference between expected and actual experience<br>of the Total Pension Liability | 203,814                             | 217,355                             | (76,610)                            | -                                   |
| 5. Changes of assumptions  | 510,364                             | -                                   | -                                   | (109,693)                           |
| 6. Benefit payments, including refunds<br>of employee contributions                    | <u>(39,061)</u>                     | <u>(68,966)</u>                     | <u>(29,128)</u>                     | <u>(52,136)</u>                     |
| 7. Net change in total pension liability   | 1,861,765                           | 1,168,608                           | 1,090,183                           | 566,097                             |
| 8. Total pension liability – beginning   | <u>5,744,873</u>                    | <u>4,576,265</u>                    | <u>3,486,082</u>                    | <u>2,919,985</u>                    |
| 9. Total pension liability – ending (a)  | <u>\$ 7,606,638</u>                 | <u>\$ 5,744,873</u>                 | <u>\$ 4,576,265</u>                 | <u>\$ 3,486,082</u>                 |
| <b>B. Plan fiduciary net position</b>  |                                     |                                     |                                     |                                     |
| 1. Contributions – employer  | \$ 258,363                          | \$ 238,230                          | \$ 222,974                          | \$ 100,942                          |
| 2. Contributions – employee  | 404,870                             | 371,200                             | 278,022                             | 227,700                             |
| 3. Net investment income   | 767,082                             | (2,004)                             | 122,572                             | 615,657                             |
| 4. Benefit payments, including refunds of employee contributions                       | (39,061)                            | (68,966)                            | (29,128)                            | (52,136)                            |
| 5. Pension Plan Administrative Expense   | (7,247)                             | (5,390)                             | (4,908)                             | (3,855)                             |
| 6. Other   | <u>66,707</u>                       | <u>9,139</u>                        | <u>18,336</u>                       | <u>557</u>                          |
| 7. Net change in plan fiduciary net position   | 1,450,714                           | 542,209                             | 607,868                             | 888,865                             |
| 8. Plan fiduciary net position – beginning   | <u>5,772,514</u>                    | <u>5,230,305</u>                    | <u>4,622,437</u>                    | <u>3,733,572</u>                    |
| 9. Plan fiduciary net position – ending (b)  | <u>\$ 7,223,228</u>                 | <u>\$ 5,772,514</u>                 | <u>\$ 5,230,305</u>                 | <u>\$ 4,622,437</u>                 |
| <b>C. Net pension liability - ending (a) - (b)</b>                                     | <u>\$ 383,410</u>                   | <u>\$ (27,641)</u>                  | <u>\$ (654,040)</u>                 | <u>\$ (1,136,355)</u>               |
| <b>D. Plan fiduciary net position as a percentage of the total pension liability</b>   | 94.96%                              | 100.48%                             | 114.29%                             | 132.60%                             |
| <b>E. Covered employee payroll</b>   | \$ 4,036,930                        | \$ 3,717,494                        | \$ 3,440,955                        | \$ 3,035,863                        |
| <b>F. Net pension liability as a percentage of covered payroll</b>                     | 9.50%                               | -0.74%                              | -19.01%                             | -37.43%                             |

*See independent auditors' report*

**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, 2018*

|  | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution                                  | \$ 270,184           | \$ 258,363           | \$ 238,230           | \$ 222,974           |
| Contributions in relation to the actuarially determined contribution | <u>270,184</u>       | <u>258,363</u>       | <u>238,230</u>       | <u>222,974</u>       |
| Contribution deficiency (excess)                                     | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Covered-employee payroll   | \$ 4,159,086         | \$ 4,036,930         | \$ 3,717,494         | \$ 3,440,955         |
| Contributions as a percentage of covered-employee payroll            | 6.50%                | 6.40%                | 6.41%                | 6.48%                |

**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.

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO ERS, TSB, AND MERS RSI

*For the Year Ended June 30, 2018*

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The amounts presented for each fiscal year were determined as of the June 30 measurement date prior to the fiscal year end.

The schedules are intended to show information for 10 years – additional years will be displayed as they become available.

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.

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.

Employers participating in the Teachers' Survivors Benefit Plan contribute at a rate established by RI General Laws, Section 16-16-35.

***June 30, 2017 measurement date –***

As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability (asset) at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

***June 30, 2016 measurement date –***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date.

***June 30, 2015 measurement date –***

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO ERS, TSB, AND MERS RSI

*For the Year Ended June 30, 2018*

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The June 30, 2015 measurement date determination of the net pension liability for the ERS and MERS plans reflects changes in benefit changes resulting from the settlement of litigation challenging the various pension reform measures enacted in previous years by the General Assembly. 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, are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.
- MERS public safety employees may retire at age 50 with 25 years of service, or any age with 27 years of service. MERS public safety employees will contribute 9.00% (10.00% for units with a COLA provision)
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than \$35,000 per year will not be required to pay the administrative fees to the defined contribution plan.
- Members who retired from a COLA eligible plan before July 1, 2012 will received a one-time cost of living adjustment of 2% of the first \$25,000 paid as soon as administratively possible.
- Retirees as of June 30, 2015 will receive two \$500 stipends; the interim cost of living increases will occur at 4 year rather than 5 year intervals.
- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5.5% (5yr Return - 5.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first \$25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

*See independent auditors' report*

**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, 2018*

|  | <b>Year Ended<br/>June 30, 2018</b> | <b>Year Ended<br/>June 30, 2017</b> | <b>Year Ended<br/>June 30, 2016</b> | <b>Year Ended<br/>June 30, 2015</b> | <b>Year Ended<br/>June 30, 2014</b> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <b>A. Total pension liability</b>  |                                     |                                     |                                     |                                     |                                     |
| 1. Service Cost  | \$ 140,071                          | \$ 188,703                          | \$ 193,763                          | \$ 297,782                          | \$ 304,872                          |
| 2. Interest on the Total Pension Liability   | 4,133,704                           | 4,176,449                           | 4,201,990                           | 4,170,261                           | 4,152,814                           |
| 3. Changes of benefit terms  | -                                   | -                                   | -                                   | -                                   | -                                   |
| 4. Difference between expected and actual experience of the Total Pension Liability  | 1,444,275                           | -                                   | 152,749                             | 615,865                             | -                                   |
| 5. Changes of assumptions  | -                                   | -                                   | -                                   | 199,475                             | -                                   |
| 6. Benefit payments, including refunds of employee contributions                     | <u>(4,864,424)</u>                  | <u>(4,907,688)</u>                  | <u>(4,861,136)</u>                  | <u>(4,655,198)</u>                  | <u>(4,395,204)</u>                  |
| 7. Net change in total pension liability   | 853,626                             | (542,536)                           | (312,634)                           | 628,185                             | 62,482                              |
| 8. Total pension liability – beginning   | <u>57,364,228</u>                   | <u>57,906,764</u>                   | <u>58,219,398</u>                   | <u>57,591,213</u>                   | <u>57,528,731</u>                   |
| 9. Total pension liability – ending (a)  | <u>\$ 58,217,854</u>                | <u>\$ 57,364,228</u>                | <u>\$ 57,906,764</u>                | <u>\$ 58,219,398</u>                | <u>\$ 57,591,213</u>                |
| <b>B. Plan fiduciary net position</b>  |                                     |                                     |                                     |                                     |                                     |
| 1. Contributions – employer  | \$ 2,403,830                        | \$ 2,995,805                        | \$ 3,684,562                        | \$ 3,594,123                        | \$ 3,678,880                        |
| 2. Contributions – employee  | 59,952                              | 66,002                              | 78,302                              | 92,124                              | 119,499                             |
| 3. Net investment income   | 4,868,722                           | 5,731,526                           | 909,971                             | 1,558,969                           | 7,108,227                           |
| 4. Benefit payments, including refunds of employee contributions                     | (4,864,424)                         | (4,907,688)                         | (4,861,136)                         | (4,655,198)                         | (4,395,204)                         |
| 5. Pension Plan Administrative Expense   | (161,654)                           | (144,458)                           | (133,879)                           | (162,898)                           | (68,915)                            |
| 6. Other   | -                                   | -                                   | -                                   | -                                   | -                                   |
| 7. Net change in plan fiduciary net position   | 2,306,426                           | 3,741,187                           | (322,180)                           | 427,120                             | 6,442,487                           |
| 8. Plan fiduciary net position – beginning   | <u>57,899,788</u>                   | <u>54,158,601</u>                   | <u>54,480,781</u>                   | <u>54,053,661</u>                   | <u>47,611,174</u>                   |
| 9. Plan fiduciary net position – ending (b)  | <u>\$ 60,206,214</u>                | <u>\$ 57,899,788</u>                | <u>\$ 54,158,601</u>                | <u>\$ 54,480,781</u>                | <u>\$ 54,053,661</u>                |
| <b>C. Net pension liability - ending (a) - (b)</b>                                   | <u>\$ (1,988,360)</u>               | <u>\$ (535,560)</u>                 | <u>\$ 3,748,163</u>                 | <u>\$ 3,738,617</u>                 | <u>\$ 3,537,552</u>                 |
| <b>D. Plan fiduciary net position as a percentage of the total pension liability</b> | 103.42%                             | 100.93%                             | 93.53%                              | 93.58%                              | 93.86%                              |
| <b>E. Covered employee payroll</b>   | \$ 887,727                          | \$ 890,382                          | \$ 954,884                          | \$ 1,164,923                        | \$ 1,265,639                        |
| <b>F. Net pension liability as a percentage of covered payroll</b>                   | -223.98%                            | -60.15%                             | 392.53%                             | 320.93%                             | 279.51%                             |

*See independent auditors' report*

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

*For the Year Ended June 30, 2018*

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|  | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Actuarially determined contribution                                  | \$ 1,132,150         | \$ 1,729,348         | \$ 2,339,907         | \$ 2,904,159         | \$ 3,535,930         | \$ 3,456,284         | \$ 3,240,416         | \$ 2,761,665         | \$ 2,780,271         | \$ 2,715,725         |
| Contributions in relation to the actuarially determined contribution | <u>2,403,830</u>     | <u>2,995,805</u>     | <u>3,684,562</u>     | <u>3,594,123</u>     | <u>3,678,880</u>     | <u>3,378,624</u>     | <u>2,873,858</u>     | <u>3,795,486</u>     | <u>2,826,050</u>     | <u>2,575,587</u>     |
| Contribution deficiency (excess)                                     | \$ (1,271,680)       | \$ (1,266,457)       | \$ (1,344,655)       | \$ (689,964)         | \$ (142,950)         | \$ 77,660            | \$ 366,558           | \$ (1,033,821)       | \$ (45,779)          | \$ 140,138           |
| Covered-employee payroll   | \$ 887,727           | \$ 890,382           | \$ 954,884           | \$ 1,164,923         | \$ 1,265,639         | \$ 1,671,072         | \$ 1,837,941         | \$ 1,890,372         | \$ 2,645,008         | \$ 2,917,842         |
| Contributions as a percentage of covered-employee payroll            | 270.78%              | 336.46%              | 385.86%              | 308.53%              | 290.67%              | 202.18%              | 156.36%              | 200.78%              | 106.84%              | 88.27%               |

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
TOWN PENSION PLAN  
SCHEDULE OF INVESTMENT RETURNS  
*For the Year Ended June 30, 2018*

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|  | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Annual money-weighted rate of return,<br>net of investment expense | 8.61%                | 10.85%               | 1.71%                | 2.93%                | 15.96%               |

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO TOWN'S PRIVATE PENSION PLAN  
*For the Year Ended June 30, 2018*

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**Notes to the Schedules:**

Valuation Date:

Actuarially determined contribution rates are calculated as of June 30, 2018.

Methods and assumptions used to determine contribution rates:

|   |   |
|---|---|
| Discount rate                           | 7.50%   |
| Long term rate of return on investments | 7.50%   |
| Salary increases                        | 5.00%   |
| Inflation                               | 3.50%   |
| Mortality rates:                        | RP-2000 Combined Healthy Mortality<br>with Generational Projection per Scale AA |

*See independent auditors' report*

**Town of Middletown, Rhode Island**

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OTHER POST EMPLOYMENT BENEFITS PLAN

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

*For the Year Ended June 30, 2018*

|   | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|---|----------------------|----------------------|
| <b>Total OPEB liability</b>   |                      |                      |
| Service cost  | \$ 478,012           | \$ 506,972           |
| Interest  | 2,380,004            | 2,296,966            |
| Differences between expected and actual experience                      | (3,021,201)          | -                    |
| Changes of assumptions  | (2,007,827)          | -                    |
| Net benefit payments  | <u>(1,661,234)</u>   | <u>(1,674,163)</u>   |
| Net change in total OPEB liability                                      | (3,832,246)          | 1,129,775            |
| Total OPEB liability - beginning  | <u>32,070,969</u>    | <u>30,941,194</u>    |
| Total OPEB liability - ending   | <u>\$ 28,238,723</u> | <u>\$ 32,070,969</u> |
| <b>OPEB fiduciary net position</b>                                      |                      |                      |
| Contributions - employer  | \$ 3,550,098         | \$ 2,846,481         |
| Contributions - employees   | 21,358               | -                    |
| Net investment income   | 520,405              | 726,504              |
| Benefit payments  | (1,661,234)          | (1,674,163)          |
| Administrative expenses   | <u>(28,500)</u>      | <u>(32,580)</u>      |
| Net change in plan fiduciary net position                               | 2,402,127            | 1,866,242            |
| Plan fiduciary net position - beginning                                 | <u>7,339,697</u>     | <u>5,473,455</u>     |
| Plan fiduciary net position - ending                                    | <u>\$ 9,741,824</u>  | <u>\$ 7,339,697</u>  |
| Plan's net pension liability - ending                                   | <u>\$ 18,496,899</u> | <u>\$ 24,731,272</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 34.50%               | 22.89%               |
| Covered-employee payroll  | \$ 25,008,014        | \$ 22,684,805        |
| Town's net OPEB liability as a percentage of covered employee payroll   | 73.96%               | 109.02%              |

\* Second year of implementation of GASB 74/75, therefore only two years of the ten required data is available.

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TOWN OTHER POST EMPLOYMENT BENEFITS PLAN**  
**SCHEDULE OF TOWN'S CONTRIBUTIONS**

*For the Year Ended June 30, 2018*

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|   | <b>June 30, 2018</b> | <b>June 30, 2017</b> |
|---|----------------------|----------------------|
| Actuarial determined contribution                                       | \$ 2,415,706         | \$ 2,174,483         |
| Contributions in relation to the<br>actuarially determined contribution | 3,550,098            | 2,846,481            |
| Contribution deficiency (excess)  | \$ (1,134,392)       | \$ (671,998)         |
| <br>Covered-employee payroll  | <br>\$ 25,008,014    | <br>\$ 22,684,805    |
| <br>Contributions as a percentage of<br>covered-employee payroll        | <br>14.20%           | <br>12.55%           |

\* Second year of implementation of GASB 74/75, only two of the ten years required is available.

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
TOWN OTHER POST EMPLOYMENT BENEFITS PLAN  
SCHEDULE OF TOWN'S INVESTMENT RETURNS  
*For the Year Ended June 30, 2018*

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|  | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|--|----------------------|----------------------|
| Annual money-weighted rate of return,<br>net of investment expense | 6.52%                | 12.68%               |

\* Second year of implementation of GASB 74/75, therefore only two years of the ten required data is available.

**Town of Middletown, Rhode Island**  
REQUIRED SUPPLEMENTARY INFORMATION  
TOWN OTHER POST EMPLOYMENT BENEFITS PLAN  
NOTES TO OPEB RSI

*For the Year Ended June 30, 2018*

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**Notes to Required Supplementary Information:**

|                         |   |
|-------------------------|---|
| Valuation Date:         | Actuarially Determined Contribution was calculated as of June 30, 2018. |
| Actuarial Cost Method:  | Projected Credit Unit   |
| Asset-Valuation Method: | Market Value of Assets as of the Measurement Date, June 30, 2018.       |

**Actuarial Assumptions:**

|                            |   |
|----------------------------|---|
| Investment Rate of Return: | 7.50%, net of OPEB plan investment expense                |
| Medical inflation          | 7.93%-5.00%   |
| Inflation:                 | 3.00% as of June 30, 2018 and for future periods          |
| Salary Increases:          | 5.00% annually as of June 30, 2018 and for future periods |

*See independent auditors' report*

**Town of Middletown, Rhode Island**

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

*For the Year Ended June 30, 2018*

|  | Original<br>Budget  | Final<br>Budget     | Actual              | Variance with<br>Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| Revenues:  |                     |                     |                     |                               |
| Intergovernmental  | \$11,372,892        | \$11,408,414        | \$11,502,116        | \$ 93,702                     |
| Fees for service   | 683,088             | 625,503             | 601,648             | (23,855)                      |
| Other revenues   | 203,163             | 184,660             | 160,000             | (24,660)                      |
| Total revenues   | <u>12,259,143</u>   | <u>12,218,577</u>   | <u>\$12,263,764</u> | <u>45,187</u>                 |
| Expenditures:  |                     |                     |                     |                               |
| Current:   |                     |                     |                     |                               |
| Salaries   | 21,750,366          | 21,944,902          | 21,802,236          | 142,666                       |
| Employee benefits  | 7,839,527           | 7,795,204           | 7,655,601           | 139,603                       |
| Purchased services   | 7,506,237           | 8,959,550           | 8,832,302           | 127,248                       |
| Supplies and materials   | 1,092,234           | 1,141,323           | 1,089,984           | 51,339                        |
| Other  | 75,233              | 103,686             | 105,375             | (1,689)                       |
| Capital expenditures   | 3,691,821           | 1,644,136           | 1,635,114           | 9,022                         |
| Total expenditures   | <u>41,955,418</u>   | <u>41,588,801</u>   | <u>41,120,612</u>   | <u>468,189</u>                |
| Excess of expenditures over revenues, budgetary basis                                    | <u>(29,696,275)</u> | <u>(29,370,224)</u> | <u>(28,856,848)</u> | <u>513,376</u>                |
| Other financing sources:   |                     |                     |                     |                               |
| Transfer from other funds  | 26,228,589          | 26,228,589          | 26,230,276          | 1,687                         |
| Reappropriated fund balance  | 553,555             | 3,141,635           | 67,054              | (3,074,581)                   |
| Proceeds from financing  | 2,914,131           | -                   | -                   | -                             |
| Total other financing sources  | <u>29,696,275</u>   | <u>29,370,224</u>   | <u>\$26,297,330</u> | <u>(3,072,894)</u>            |
| Deficiency of revenues and other financing sources<br>over expenditures, budgetary basis | <u>\$ -</u>         | <u>\$ -</u>         | <u>(2,559,518)</u>  | <u>\$ (2,559,518)</u>         |
| Adjustment of budgetary basis to U.S. GAAP basis,<br>reappropriated fund balance         |                     |                     | <u>-</u>            |                               |
| Deficiency of revenues and other financing sources<br>over expenditures, U.S. GAAP basis |                     |                     | (2,559,518)         |                               |
| Fund balance, beginning of year  |                     |                     | <u>14,266,314</u>   |                               |
| Fund balance, end of year  |                     |                     | <u>\$11,706,796</u> |                               |

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
SUPPLEMENTARY INFORMATION  
ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)  
*For the Year Ended June 30, 2018*

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**OTHER SUPPLEMENTARY INFORMATION**

The Annual Supplemental Transparency Report Schedules  
required by the State of Rhode Island General Law § 45-12-22.2 and § 44-35-10

Annual Supplemental Transparency Report (MTP2) - Revenue  
Annual Supplemental Transparency Report (MTP2) – Expenditures  
Combining Schedule of Reportable Government Services with Reconciliation to MTP2 – Municipal  
Combining Schedule of Reportable Government Services with Reconciliation to MTP2 – Education  
Department  
Notes to Supplementary Information – Annual Supplemental Transparency Report (MTP2)

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
**SUPPLEMENTARY INFORMATION**  
**ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)**

*For the Year Ended June 30, 2018*

| <u>REVENUE</u>                                     | <u>Municipal</u>     | <u>Education<br/>Department</u> |
|--|----------------------|---------------------------------|
| Current Year Levy Tax Collection                   | \$ 46,090,149        | \$ -                            |
| Last Year's Levy Tax Collection                    | 902,556              | -                               |
| Prior Years Property Tax Collection                | 18,633               | -                               |
| Interest & Penalty                                 | 150,170              | -                               |
| PILOT & Tax Treaty (excluded from levy) Collection | 106,733              | -                               |
| Other Local Property Taxes                         | 55,662               | -                               |
| Licenses and Permits                               | 798,694              | -                               |
| Fines and Forfeitures                              | 756,167              | -                               |
| Investment Income                                  | 19,515               | -                               |
| Departmental                                       | 3,089,513            | -                               |
| Rescue Run Revenue                                 | 712,063              | -                               |
| Police & Fire Detail                               | 905,594              | -                               |
| Other Local Non-Property Tax Revenues              | 39,085               | -                               |
| Tuition  | -                    | -                               |
| Impact Aid   | -                    | 1,153,878                       |
| Medicaid   | -                    | 433,460                         |
| Federal Stabilization Funds                        | -                    | -                               |
| Federal Food Service Reimbursement                 | -                    | 326,506                         |
| CDBG   | -                    | -                               |
| COPS Grants  | -                    | -                               |
| SAFER Grants                                       | -                    | -                               |
| Other Federal Aid Funds                            | 1,574,957            | 1,266,310                       |
| MV Excise Tax Reimbursement & Phase-out            | 229,034              | -                               |
| State PILOT Program                                | -                    | -                               |
| Distressed Community Relief Fund                   | -                    | -                               |
| Library Resource Aid                               | 145,593              | -                               |
| Library Construction Aid                           | 51,353               | -                               |
| Public Service Corporation Tax                     | 202,470              | -                               |
| Meals & Beverage Tax / Hotel Tax                   | 1,884,307            | -                               |
| LEA Aid  | -                    | 8,262,827                       |
| Group Home   | -                    | -                               |
| Housing Aid Capital Projects                       | 73,235               | -                               |
| Housing Aid Bonded Debt                            | 140,841              | -                               |
| State Food Service Revenue                         | -                    | 10,026                          |
| Incentive Aid                                      | -                    | -                               |
| Property Revaluation Reimbursement                 | -                    | -                               |
| Other State Revenue                                | 173,921              | 49,109                          |
| Other Revenue                                      | 315,355              | 803,910                         |
| Local Appropriation for Education                  | -                    | 26,228,589                      |
| Regional Appropriation for Education               | -                    | -                               |
| Supplemental Appropriation for Education           | -                    | -                               |
| Regional Supplemental Appropriation for Education  | -                    | -                               |
| Other Education Appropriation                      | -                    | 67,054                          |
| Rounding   | -                    | -                               |
| <b>Total Revenue</b>                               | <b>\$ 58,435,600</b> | <b>\$ 38,601,670</b>            |
| Financing Sources: Transfer from Capital Funds     | \$ -                 | \$ -                            |
| Financing Sources: Transfer from Other Funds       | 244,827              | -                               |
| Financing Sources: Debt Proceeds                   | 391,306              | -                               |
| Financing Sources: Other                           | 2,718                | -                               |
| Rounding   | -                    | -                               |
| <b>Total Other Financing Sources</b>               | <b>\$ 638,851</b>    | <b>\$ -</b>                     |

*See independent auditors' report*

# Town of Middletown, Rhode Island

## SUPPLEMENTARY INFORMATION

### ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)

*For the Year Ended June 30, 2018*

| EXPENDITURES                                      | General             |                   | Social            | Centralized       |                   | Public            | Parks and           | Police              |                     |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
|   | Government          | Finance           | Services          | IT                | Planning          |                   |                     |                     | Works               |
| Compensation- Group A                             | \$ 433,161          | \$ 535,749        | \$ 210,043        | \$ 153,083        | \$ 361,804        | \$ 383,608        | \$ 763,863          | \$ 765,253          | \$ 2,939,888        |
| Compensation - Group B                            | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 201,245             |
| Compensation - Group C                            | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Compensation - Volunteer                          | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Overtime- Group A                                 | 7,685               | 1,494             | 18,442            | 932               | -                 | 4,853             | 128,752             | 70,016              | 426,913             |
| Overtime - Group B                                | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 5,055               |
| Overtime - Group C                                | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Police & Fire Detail                              | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 579,798             |
| Active Medical Insurance - Group A                | 48,883              | 93,395            | 28,130            | 24,123            | 68,757            | 42,372            | 159,505             | 19,848              | 345,066             |
| Active Medical Insurance- Group B                 | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 23,509              |
| Active Medical Insurance- Group C                 | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Active Dental insurance- Group A                  | 3,392               | 6,001             | 1,779             | 1,591             | 5,054             | 2,966             | 11,525              | 1,357               | 22,142              |
| Active Dental insurance- Group B                  | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 1,364               |
| Active Dental insurance- Group C                  | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Payroll Taxes                                     | 31,994              | 38,898            | 17,199            | 11,216            | 26,810            | 29,965            | 63,358              | 63,053              | 320,358             |
| Life Insurance                                    | 5,292               | 6,302             | 1,821             | 1,603             | 4,226             | 834               | 1,833               | 1,784               | 4,816               |
| State Defined Contribution- Group A               | 3,648               | 3,531             | 1,497             | 1,440             | 2,683             | -                 | 5,497               | 1,572               | -                   |
| State Defined Contribution - Group B              | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| State Defined Contribution - Group C              | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Other Benefits- Group A                           | 7,135               | 14,929            | 1,328             | -                 | 209               | 1,299             | 6,293               | 36,142              | 185,192             |
| Other Benefits- Group B                           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 1,354               |
| Other Benefits- Group C                           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Local Defined Benefit Pension- Group A            | 2,065               | -                 | -                 | -                 | -                 | 65,036            | 44,121              | -                   | 1,150,754           |
| Local Defined Benefit Pension - Group B           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 7,562               |
| Local Defined Benefit Pension - Group C           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| State Defined Benefit Pension- Group A            | 42,354              | 40,729            | 19,435            | 15,149            | 21,442            | -                 | 48,489              | 16,012              | 179,056             |
| State Defined Benefit Pension - Group B           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | 5,305               |
| State Defined Benefit Pension - Group C           | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Other Defined Benefit / Contribution              | 11,315              | 8,205             | -                 | -                 | 9,570             | 11,676            | 6,826               | 2,008               | 15,618              |
| Purchased Services                                | 606,992             | 73,370            | 60,888            | 24,969            | 135,486           | 36,523            | 236,788             | 133,796             | 122,537             |
| Materials/Supplies                                | 30,218              | 4,167             | 16,533            | 43,443            | 1,318             | 121,684           | 248,288             | 174,859             | 80,343              |
| Software Licenses                                 | -                   | -                 | -                 | 219,710           | -                 | 2,831             | -                   | -                   | 8,500               |
| Capital Outlays                                   | 1,300,000           | -                 | 74,826            | 56,589            | -                 | 20,000            | 1,209,220           | 170,900             | 146,939             |
| Insurance   | 242,202             | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Maintenance                                       | 104,712             | 90                | 14,563            | 24,148            | -                 | 53,490            | 65,363              | 106,413             | 169,773             |
| Vehicle Operations                                | -                   | 89                | -                 | 643               | 1,710             | -                 | 166,633             | 50,573              | 155,468             |
| Utilities   | 89,299              | 1,561             | 17,080            | 58,812            | 1,251             | 68,452            | 40,776              | 65,217              | 94,569              |
| Contingency                                       | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Street Lighting                                   | -                   | -                 | -                 | -                 | -                 | -                 | 220,390             | -                   | -                   |
| Revaluation                                       | -                   | 129,870           | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Snow Removal-Raw Material & External Contracts    | -                   | -                 | -                 | -                 | -                 | -                 | 150,267             | -                   | -                   |
| Trash Removal & Recycling                         | -                   | -                 | -                 | -                 | -                 | -                 | 812,126             | -                   | -                   |
| Claims & Settlements                              | 750                 | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Community Support                                 | 220,076             | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Other Operation Expenditures                      | 23,905              | 2,994             | 190               | 2,259             | 822               | 308               | 1,101               | 2,192               | 11,925              |
| Local Appropriation for Education                 | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Regional Appropriation for Education              | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Supplemental Appropriation for Education          | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| Regional Supplemental 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  | -                   | -                 | -                 | -                 | -                 | -                 | -                   | -                   | -                   |
| <b>Total Expenditures</b>                         | <b>\$ 3,215,078</b> | <b>\$ 961,374</b> | <b>\$ 483,754</b> | <b>\$ 639,710</b> | <b>\$ 641,142</b> | <b>\$ 845,897</b> | <b>\$ 4,391,014</b> | <b>\$ 1,689,495</b> | <b>\$ 7,196,549</b> |

*See independent auditors' report*

# Town of Middletown, Rhode Island

## SUPPLEMENTARY INFORMATION

### ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)

*For the Year Ended June 30, 2018*

| EXPENDITURES                                      | Fire<br>Department  | Centralized<br>Dispatch | Public Safety<br>Other | Education<br>Appropriation | Debt                | OPEB                | Total<br>Municipal   | Education<br>Department |
|---|---------------------|-------------------------|------------------------|----------------------------|---------------------|---------------------|----------------------|-------------------------|
| Compensation- Group A                             | \$ 1,799,301        | \$ -                    | \$ -                   | \$ -                       | \$ -                | \$ -                | \$ 8,345,753         | \$ 17,168,020           |
| Compensation - Group B                            | 231,629             | -                       | -                      | -                          | -                   | -                   | 432,874              | 1,356,046               |
| Compensation - Group C                            | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 3,121,863               |
| Compensation -Volunteer                           | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Overtime- Group A                                 | 395,185             | -                       | -                      | -                          | -                   | -                   | 1,054,272            | -                       |
| Overtime - Group B                                | 35,521              | -                       | -                      | -                          | -                   | -                   | 40,576               | -                       |
| Overtime - Group C                                | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 156,307                 |
| Police & Fire Detail                              | 16,942              | -                       | -                      | -                          | -                   | -                   | 596,740              | -                       |
| Active Medical Insurance - Group A                | 323,086             | -                       | -                      | -                          | -                   | -                   | 1,153,165            | 2,166,575               |
| Active Medical Insurance- Group B                 | 25,298              | -                       | -                      | -                          | -                   | -                   | 48,807               | 110,351                 |
| Active Medical Insurance- Group C                 | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 677,529                 |
| Active Dental insurance- Group A                  | 24,120              | -                       | -                      | -                          | -                   | -                   | 79,927               | 162,472                 |
| Active Dental Insurance- Group B                  | 2,683               | -                       | -                      | -                          | -                   | -                   | 4,047                | 6,680                   |
| Active Dental Insurance- Group C                  | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 45,813                  |
| Payroll Taxes                                     | 178,680             | -                       | -                      | -                          | -                   | -                   | 781,531              | 572,715                 |
| Life Insurance                                    | 12,688              | -                       | -                      | -                          | -                   | -                   | 41,199               | 43,256                  |
| State Defined Contribution- Group A               | -                   | -                       | -                      | -                          | -                   | -                   | 19,668               | 334,846                 |
| State Defined Contribution - Group B              | 732                 | -                       | -                      | -                          | -                   | -                   | 732                  | 15,805                  |
| State Defined Contribution - Group C              | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 23,863                  |
| Other Benefits- Group A                           | 92,416              | -                       | -                      | -                          | -                   | -                   | 344,943              | 274,162                 |
| Other Benefits- Group B                           | 2,655               | -                       | -                      | -                          | -                   | -                   | 4,009                | 14,397                  |
| Other Benefits- Group C                           | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 29,709                  |
| Local Defined Benefit Pension- Group A            | 1,140,422           | -                       | -                      | -                          | -                   | -                   | 2,402,398            | -                       |
| Local Defined Benefit Pension - Group B           | -                   | -                       | -                      | -                          | -                   | -                   | 7,562                | 23,637                  |
| Local Defined Benefit Pension - Group C           | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 9,316                   |
| State Defined Benefit Pension- Group A            | 91,129              | -                       | -                      | -                          | -                   | -                   | 473,795              | 2,247,535               |
| State Defined Benefit Pension - Group B           | 9,896               | -                       | -                      | -                          | -                   | -                   | 15,201               | 120,603                 |
| State Defined Benefit Pension - Group C           | -                   | -                       | -                      | -                          | -                   | -                   | -                    | 259,631                 |
| Other Defined Benefit / Contribution              | 7,554               | -                       | -                      | -                          | -                   | -                   | 72,772               | -                       |
| Purchased Services                                | 89,640              | -                       | -                      | -                          | -                   | -                   | 1,520,989            | 7,923,456               |
| Materials/Supplies                                | 69,034              | -                       | -                      | -                          | -                   | -                   | 789,887              | 474,418                 |
| Software Licenses                                 | -                   | -                       | -                      | -                          | -                   | -                   | 231,041              | 49,967                  |
| Capital Outlays                                   | 606,987             | -                       | -                      | -                          | -                   | -                   | 3,585,461            | 1,593,341               |
| Insurance   | -                   | -                       | -                      | -                          | -                   | -                   | 242,202              | 195,188                 |
| Maintenance                                       | 71,830              | -                       | -                      | -                          | -                   | -                   | 610,382              | 406,826                 |
| Vehicle Operations                                | 144,500             | -                       | -                      | -                          | -                   | -                   | 519,616              | 58,950                  |
| Utilities   | 446,918             | -                       | -                      | -                          | -                   | -                   | 883,935              | 718,826                 |
| Contingency                                       | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Street Lighting                                   | -                   | -                       | -                      | -                          | -                   | -                   | 220,390              | -                       |
| Revaluation                                       | -                   | -                       | -                      | -                          | -                   | -                   | 129,870              | -                       |
| Snow Removal-Raw Material & External Contracts    | -                   | -                       | -                      | -                          | -                   | -                   | 150,267              | -                       |
| Trash Removal & Recycling                         | -                   | -                       | -                      | -                          | -                   | -                   | 812,126              | -                       |
| Claims & Settlements                              | -                   | -                       | -                      | -                          | -                   | -                   | 750                  | 40                      |
| Community Support                                 | -                   | -                       | -                      | -                          | -                   | -                   | 220,076              | -                       |
| Other Operation Expenditures                      | 1,760               | -                       | -                      | -                          | -                   | -                   | 47,456               | 265,162                 |
| Local Appropriation for Education                 | -                   | -                       | -                      | 26,228,589                 | -                   | -                   | 26,228,589           | -                       |
| Regional Appropriation for Education              | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Supplemental Appropriation for Education          | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Regional Supplemental Appropriation for Education | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Other Education Appropriation                     | -                   | -                       | -                      | 67,054                     | -                   | -                   | 67,054               | -                       |
| Municipal Debt- Principal                         | -                   | -                       | -                      | -                          | 1,920,505           | -                   | 1,920,505            | -                       |
| Municipal Debt- Interest                          | -                   | -                       | -                      | -                          | 651,751             | -                   | 651,751              | -                       |
| School Debt- Principal                            | -                   | -                       | -                      | -                          | 803,465             | -                   | 803,465              | -                       |
| School Debt- Interest                             | -                   | -                       | -                      | -                          | 373,061             | -                   | 373,061              | -                       |
| Retiree Medical Insurance- Total                  | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Retiree Dental Insurance- Total                   | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| OPEB Contribution- Total                          | -                   | -                       | -                      | -                          | -                   | 3,022,354           | 3,022,354            | 516,706                 |
| Non-Qualified OPEB Trust Contribution             | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| Rounding  | -                   | -                       | -                      | -                          | -                   | -                   | -                    | -                       |
| <b>Total Expenditures</b>                         | <b>\$ 5,820,606</b> | <b>\$ -</b>             | <b>\$ -</b>            | <b>\$ 26,295,643</b>       | <b>\$ 3,748,782</b> | <b>\$ 3,022,354</b> | <b>\$ 58,951,398</b> | <b>\$ 41,144,011</b>    |

|   |                      |                      |
|---|----------------------|----------------------|
| Financing Uses: Transfer to Capital Funds                   | \$ -                 | \$ -                 |
| Financing Uses: Transfer to Other Funds                     | 8,715                | -                    |
| Financing Uses: Payment to Bond Escrow Agent                | -                    | -                    |
| Financing Uses: Other                                       | -                    | -                    |
| <b>Total Other Financing Uses</b>                           | <b>\$ 8,715</b>      | <b>\$ -</b>          |
| <b>Net Change in Fund Balance<sup>1</sup></b>               | <b>114,338</b>       | <b>(2,542,341)</b>   |
| <b>Fund Balance<sup>1</sup>- beginning of year</b>          | <b>\$16,614,177</b>  | <b>\$14,486,521</b>  |
| Funds removed from Reportable Government Services (RGS)     | -                    | -                    |
| Funds added to Reportable Government Services (RGS)         | -                    | -                    |
| Prior period adjustments                                    | -                    | -                    |
| Misc. Adjustment  | -                    | -                    |
| <b>Fund Balance<sup>1</sup>- beginning of year adjusted</b> | <b>16,614,177</b>    | <b>14,486,521</b>    |
| Rounding  | -                    | 1                    |
| <b>Fund Balance<sup>1</sup>- end of year</b>                | <b>\$ 16,728,515</b> | <b>\$ 11,944,181</b> |

<sup>1</sup> and Net Position if Enterprise Fund activity is included in the transparency portal report.

*See independent auditors' report*

Town of Middletown, Rhode Island

SUPPLEMENTARY INFORMATION

ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)

For the Year Ended June 30, 2018

| Per Audited Fund Financial Statements  |                      |                               |                      |                            |   |   |                         |  |  |  |
|--|----------------------|-------------------------------|----------------------|----------------------------|---|---|-------------------------|--|--|--|
| Fund Description   | Total Revenue        | Total Other Financing Sources | Total Expenditures   | Total Other Financing Uses | Net Change in Fund Balance <sup>1</sup> | Beginning Fund Balance <sup>1</sup> (Deficit) | Prior Period Adjustment | Restated Beginning Fund Balance <sup>1</sup> (Deficit) | Ending Fund Balance <sup>1</sup> (Deficit) |  |
| Fund Balance <sup>1</sup> - per MTP-2 at June 30, 2017   |                      |                               |                      |                            |   | \$ 16,614,177                                 |                         | \$ 16,614,177  |  |  |
| <i>No funds removed from RGS for fiscal 2018</i>   |                      |                               |                      |                            |   |   |                         |  | -  |  |
| <i>No funds added to RGS for Fiscal 2018</i>   |                      |                               |                      |                            |   |   |                         |  | -  |  |
| <i>No misc. adjustments made for fiscal 2018</i>   |                      |                               |                      |                            |   |   |                         |  | -  |  |
| Fund Balance <sup>1</sup> - per MTP-2 at June 30, 2017 adjusted  |                      |                               |                      |                            |   | <u>\$ 16,614,177</u>                          |                         | <u>\$ 16,614,177</u>                                   |  |  |
| General Fund   | \$ 54,128,227        | \$ 1,906,316                  | \$ 29,896,401        | \$ 26,461,361              | \$ (323,219)                            | \$ 10,790,200                                 | \$ -                    | \$ 10,790,200  | \$ 10,466,981                              |  |
| Public Private Venture   | 1,132,912            | -                             | -                    | 1,270,183                  | \$ (137,271)                            | 395,126                                       | -                       | 395,126  | 257,855                                    |  |
| Parks & Recreation   | 2,110,712            | 158,596                       | 1,787,145            | -                          | \$ 482,163                              | 4,982,019                                     | -                       | 4,982,019  | 5,464,182                                  |  |
| Refuse and Recycling   | 1,063,749            | 1,125                         | 972,209              | -                          | \$ 92,665                               | 446,832                                       | -                       | 446,832  | 539,497                                    |  |
| <b>Totals per audited financial statements</b>   | <u>\$ 58,435,600</u> | <u>\$ 2,066,037</u>           | <u>\$ 32,655,755</u> | <u>\$ 27,731,544</u>       | <u>\$ 114,338</u>                       | <u>\$ 16,614,177</u>                          | <u>\$ -</u>             | <u>\$ 16,614,177</u>                                   | <u>\$ 16,728,515</u>                       |  |
| <b>Reconciliation from financial statements to MTP2</b>  |                      |                               |                      |                            |   |   |                         |  |  |  |
| Reclassify transfer of municipal appropriation to Education Department as expenditure on MTP2  | \$ -                 | \$ -                          | \$ 26,228,589        | \$ (26,228,589)            | \$ -                                    | \$ -  | \$ -                    | \$ -   | \$ -                                       |  |
| Reclassify transfer of municipal appropriation from a Special Revenue Fund (GASB 54) to Education Department as expenditure on MTP-2 | -                    | -                             | 67,054               | (67,054)                   | -                                       | -   | -                       | -  | -  |  |
| Eliminate transfers between Funds reported on MTP2:  | -                    | -                             | -                    | -                          | -                                       | -   | -                       | -  | -  |  |
| - from Parks & Recreation Fund to a Special Revenue Fund (GASB 54)   | -                    | (157,003)                     | -                    | (157,003)                  | -                                       | -   | -                       | -  | -  |  |
| - from Public Private Venture to General Fund  | -                    | (1,270,183)                   | -                    | (1,270,183)                | -                                       | -   | -                       | -  | -  |  |
| Rounding   | -                    | -                             | -                    | -                          | -                                       | -   | -                       | -  | -  |  |
| <b>Totals Per MTP2</b>   | <u>\$ 58,435,600</u> | <u>\$ 638,851</u>             | <u>\$ 58,951,398</u> | <u>\$ 8,715</u>            | <u>\$ 114,338</u>                       | <u>\$ 16,614,177</u>                          | <u>\$ -</u>             | <u>\$ 16,614,177</u>                                   | <u>\$ 16,728,515</u>                       |  |

<sup>1</sup> and Net Position if Enterprise Fund activity is included in the transparency portal report.

See independent auditors' report

**Town of Middletown, Rhode Island**

SUPPLEMENTARY INFORMATION

ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)

*For the Year Ended June 30, 2018*

| Per Audited Fund Financial Statements<br>Fund Description  | Total<br>Revenue     | Total Other<br>Financing<br>Sources | Total<br>Expenditures | Total Other<br>Financing<br>Uses | Net Change<br>in Fund<br>Balance <sup>1</sup> | Beginning Fund<br>Fund Balance <sup>1</sup><br>(Deficit) | Prior Period<br>Adjustment | Restated Beginning<br>Fund Balance <sup>1</sup><br>(Deficit) | Ending<br>Fund Balance <sup>1</sup><br>(Deficit) |
|--|----------------------|-------------------------------------|-----------------------|----------------------------------|---|--|----------------------------|--|--|
| Fund Balance <sup>1</sup> - per MTP-2 at June 30, 2017   |                      |                                     |                       |                                  |   | \$ 14,486,521  |                            | \$ 14,486,521  |  |
| <i>No misc. adjustments made for fiscal 2018</i>   |                      |                                     |                       |                                  |   | -  |                            | -  |  |
| Fund Balance <sup>1</sup> - per MTP-2 at June 30, 2017 adjusted  |                      |                                     |                       |                                  |   | <u>\$ 14,486,521</u>                                     |                            | <u>\$ 14,486,521</u>   |  |
| School Unrestricted Fund   | \$ 11,161,996        | \$ 26,228,589                       | \$ 37,452,577         | \$ 1,687                         | \$ (63,679)                                   | \$ 3,258,588   | \$ -                       | \$ 3,258,588   | \$ 3,194,909                                     |
| Enterprise Fund  | 832,099              | -                                   | 855,892               | -                                | (23,793)                                      | 319,842  | -                          | 319,842  | 296,049  |
| SBA School Capital Project Fund  | 445,559              | 67,054                              | 2,890,658             | -                                | (2,378,045)                                   | 10,288,918   | -                          | 10,288,918   | 7,910,873  |
| School Special Revenue Funds   | 1,382,868            | 1,687                               | 1,478,556             | -                                | (94,001)                                      | 398,966  | -                          | 398,966  | 304,965  |
| <b>Totals per audited financial statements</b>   | <u>\$ 13,822,522</u> | <u>\$ 26,297,330</u>                | <u>\$ 42,677,683</u>  | <u>\$ 1,687</u>                  | <u>\$ (2,559,518)</u>                         | <u>\$ 14,266,314</u>                                     | <u>\$ -</u>                | <u>\$ 14,266,314</u>   | <u>\$ 11,706,796</u>                             |
| <b>Reconciliation from financial statements to MTP2</b>  |                      |                                     |                       |                                  |   |  |                            |  |  |
| Municipal appropriation for Education reported as a transfer on financial statements but as revenue/expense on MPT2.     | \$ 26,228,589        | \$ (26,228,589)                     | \$ -                  | \$ -                             | \$ -  | \$ -   | \$ -                       | \$ -   | \$ -   |
| Reclassify transfer of municipal appropriation from a special revenue fund/town to school department as revenue on MTP-2 | 67,054               | (67,054)                            | -                     | -                                | -   | -  | -                          | -  | -  |
| Student Scholarships/Agency (Special Revenue)  | 40,574               | -                                   | 23,400                | -                                | 17,174  | 220,208  | -                          | 220,208  | 237,382  |
| State contributions on behalf of teacher pensions are reported as revenue and expenditures on financial statements only  | (1,558,759)          | -                                   | (1,558,759)           | -                                | -   | -  | -                          | -  | -  |
| Reclass of financing sources and uses  | 1,687                | (1,687)                             | 1,687                 | (1,687)                          | -   | -  | -                          | -  | -  |
| Rounding   | 3                    | -                                   | -                     | -                                | 3   | (1)  | -                          | (1)  | 3  |
| <b>Totals Per MTP2</b>   | <u>\$ 38,601,670</u> | <u>\$ -</u>                         | <u>\$ 41,144,011</u>  | <u>\$ -</u>                      | <u>\$ (2,542,341)</u>                         | <u>\$ 14,486,521</u>                                     | <u>\$ -</u>                | <u>\$ 14,486,521</u>   | <u>\$ 11,944,181</u>                             |
| <b>Reconciliation from MTP2 to UCOA</b>  |                      |                                     |                       |                                  |   |  |                            |  |  |
| No reconciling items from MTP2 to UCOA   | -                    | -                                   |                       |                                  |   |  |                            |  |  |
| <b>Totals per UCOA Validated Totals Report</b>   | <u>\$ 38,601,670</u> | <u>\$ 41,144,011</u>                |                       |                                  |   |  |                            |  |  |

<sup>1</sup> and Net Position if Enterprise Fund activity is included in the transparency portal report.

*See independent auditors' report*

# Town of Middletown, Rhode Island

## SUPPLEMENTARY INFORMATION

### NOTES TO THE ANNUAL SUPPLEMENTAL TRANSPARENCY REPORT (MTP2)

*For the Year Ended June 30, 2018*

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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)*

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
**SUPPLEMENTARY INFORMATION**  
**TAX COLLECTOR ANNUAL REPORT**

*For the Year Ended June 30, 2018*

| Year                            | Balance,<br>July 1, 2017 | Current year<br>assessment | Addenda/<br>abatements | Amount to<br>be collected | Collections          | Balance,<br>June 30, 2018 | FY2018 Cash Collections Summary  |  |                                | July - August 2018<br>(FY19) Cash Collections<br>Subject to 60 day<br>FY18 Accrual |
|---------------------------------|--------------------------|----------------------------|------------------------|---------------------------|----------------------|---------------------------|--|--|--------------------------------|--|
|                                 |                          |                            |                        |                           |                      |                           | July - August<br>2017 Collections<br>Subject to 60 day<br>FY17 Accrual | September 2017 -<br>June 2018<br>Collections | Total FY18<br>Cash Collections |  |
| 2017                            | \$ -                     | \$ 47,025,116              | \$ (85,796)            | \$ 46,939,320             | \$ 46,318,762        | \$ 620,558                | \$ -   | \$ 46,318,762                                | \$ 46,318,762                  | \$ 335,257   |
| 2016                            | 988,841                  | -                          | (4,610)                | 984,231                   | 902,247              | 81,984                    | 618,513  | 283,734                                      | 902,247                        | 3,474  |
| 2015                            | 62,306                   | -                          | (1,958)                | 60,348                    | 10,769               | 49,580                    | 4,034  | 6,735  | 10,769                         | 779  |
| 2014                            | 96,436                   | -                          | (759)                  | 95,677                    | 3,163                | 92,512                    | 661  | 2,502  | 3,163                          | 439  |
| 2013                            | 54,658                   | -                          | (376)                  | 54,282                    | 1,613                | 52,669                    | 424  | 1,189  | 1,613                          | 185  |
| 2012                            | 53,201                   | -                          | -                      | 53,201                    | 1,042                | 52,159                    | 195  | 847  | 1,042                          | 97   |
| 2011                            | 50,474                   | -                          | -                      | 50,474                    | 162                  | 50,312                    | 62   | 100  | 162                            | 83   |
| 2010                            | 45,455                   | -                          | -                      | 45,455                    | 441                  | 45,014                    | 69   | 372  | 441                            | 77   |
| 2009                            | 22,497                   | -                          | -                      | 22,497                    | 324                  | 22,173                    | 35   | 289  | 324                            | 76   |
| 2008                            | 30,858                   | -                          | (16)                   | 30,842                    | 358                  | 30,484                    | -  | 358  | 358                            | 51   |
| 2007                            | 29,396                   | -                          | (22,956)               | 6,440                     | 462                  | 5,978                     | -  | 462  | 462                            | -  |
| Prior                           | 32,305                   | -                          | -                      | 32,305                    | 299                  | 32,006                    | -  | 299  | 299                            | -  |
|                                 | <u>1,466,427</u>         | <u>\$ 47,025,116</u>       | <u>\$ (116,471)</u>    | <u>\$ 48,375,072</u>      | <u>\$ 47,239,642</u> | <u>1,135,429</u>          | <u>\$ 623,993</u>  | <u>\$ 46,615,649</u>                         | <u>\$ 47,239,642</u>           | <u>\$ 340,518</u>  |
| Allowance for doubtful accounts | <u>(490,384)</u>         |                            |                        |                           |                      | <u>(497,545)</u>          |  |  |                                |  |
| Net Property Tax Receivable     | <u>\$ 976,043</u>        |                            |                        |                           |                      | <u>\$ 637,884</u>         |  |  |                                |  |

*See independent auditors' report*

**Town of Middletown, Rhode Island**  
 SUPPLEMENTARY INFORMATION  
 TAX COLLECTOR ANNUAL REPORT  
*For the Year Ended June 30, 2018*

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Schedule of net assessed property value by category:

| Description of property | Valuations              | Levy                 |
|-------------------------|-------------------------|----------------------|
| Real property           | \$ 2,715,024,154        | \$ 43,837,660        |
| Motor vehicles          | 162,734,762             | 1,747,414            |
| Tangible personal       | 93,390,887              | 1,440,042            |
| Total                   | 2,971,149,803           | 47,025,116           |
| Exemptions              | 110,352,811             |                      |
| Current year assessment | <u>\$ 2,860,796,992</u> | <u>\$ 47,025,116</u> |

Reconciliation of current year property tax revenue:

|   |                      |
|---|----------------------|
| Current year collections  | \$ 46,318,762        |
| Revenue collected within 60 days subsequent to year ended June 30, 2018 | <u>340,518</u>       |
|   | 46,659,280           |
| Prior year revenue received in current year                             | <u>(623,993)</u>     |
| Current year real estate and personal property tax revenue              | <u>\$ 46,035,287</u> |

*See independent auditors' report*