

**TOWN OF MIDDLETOWN, RHODE ISLAND**

**BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2008**



TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2008

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic financial statements:	
Government-wide financial statements:	
Statement of net assets	14
Statement of activities	15
Fund financial statements:	
Balance sheet - governmental funds	16
Reconciliation of the governmental funds balance sheet to the statement of net assets	17
Statement of revenues, expenses and changes in fund balances – governmental funds	18
Reconciliation of the governmental funds statement of revenues, expenses and changes in fund balances to the statement of activities	19
Statement of net assets - enterprise funds	20
Statement of revenues, expenses and changes in net assets - enterprise funds	21
Statement of cash flows - enterprise funds	22-23
Statement of fiduciary net assets - fiduciary funds	24
Statement of changes in fiduciary net assets - fiduciary funds	25
Notes to basic financial statements	26-64

TOWN OF MIDDLETOWN, RHODE ISLAND

YEAR ENDED JUNE 30, 2008

CONTENTS (CONTINUED)

	Page
Required supplementary information to financial statements:	
Budgetary comparison schedules	65-68
Schedules of funding progress	69-70
Schedule of employer contributions	71
Notes to required supplementary information	72
Supplementary information to financial statements:	
Tax collector's annual report	73-74



Lefkowitz, Garfinkel, Champi & DeRienzo P.C.  
Certified Public Accountants / Business Consultants

## **Independent Auditors' Report**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island (the Town) as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middletown, Rhode Island as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2008 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

**Independent Auditors' Report (Continued)**

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

The Management's Discussion and Analysis, budgetary comparison schedules and historical pension information on pages 3 to 13 and pages 65 to 72 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hefkowitz, Jai Jankel, Charpi & DeGuzot, P.C.*

December 29, 2008

## Management's Discussion and Analysis

As management of the Town of Middletown, Rhode Island (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008.

### Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2008 by \$49,554,937 (*net assets*). Net assets include \$21,222,649 invested in capital assets, net of related debt; \$13,455,239 of restricted net assets; \$14,877,049 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$89,845,343 and total liabilities were \$40,290,406 at June 30, 2008. Total net assets increased by \$7,481,515 in the current fiscal year.

As of June 30, 2008, the Town's governmental funds reported combined ending fund balances of \$27,033,562, an increase of \$5,732,207 in comparison with the prior year. Current year bond proceeds in the Capital Projects Fund and favorable conditions in the School Department and other governmental nonmajor funds resulted in the net increase in fund balance.

As of June 30, 2008, the unreserved fund balance for the General Fund was \$8,958,239, or 20.0% of total budgeted 2008 General Fund expenditures and other financing uses (\$44,796,510). This portion is unreserved and available for spending at the Town's discretion; however, \$740,102 of this unreserved fund balance was appropriated on June 30, 2008 to meet 2009 General Fund expenditures. This reduces the available unreserved fund balance for the General Fund to \$8,218,137, or 17.0% of total budgeted 2009 General Fund expenditures and other financing uses (\$48,477,950).

The Town's long-term obligations increased by \$6,486,749 (22.1%) during the current fiscal year. The key factors in this increase were the issuance of \$6,000,000 of general obligation bonds; \$710,457 of capitalized leases and \$1,917,086 of clean water loan proceed drawdowns, less the repayment of principal of \$2,121,948.

### Overview of the Financial Statements

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

- government-wide financial statements
- fund financial statements, and
- notes to the financial statements.

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

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

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

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

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

The government-wide financial statements can be found on pages 14 and 15 of this report.

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

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

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains thirty 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, the School Department and the Capital Projects Fund, all of which are considered to be major funds. Data for the other twenty-seven governmental funds are combined into a single, aggregated presentation.

**Governmental funds (continued).** The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

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

The basic proprietary fund financial statements can be found on pages 20-23 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 24-25 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 26-64 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. It presents a schedule detailing the Town's progress in funding its pension benefits obligation, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 65-72 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$49,554,937 at June 30, 2008.

Net assets invested in capital assets, net of related debt, makes up \$21,222,649, or 42.8%, of total net assets. This represents the Town's investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**Town of Middletown's Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$31,129,775	\$26,951,290	\$ 4,450,460	\$ 2,838,199	\$35,580,235	\$29,789,489
Capital assets	36,227,997	33,401,604	18,037,111	14,473,118	54,265,108	47,874,722
Total assets	67,357,772	60,352,894	22,487,571	17,311,317	89,845,343	77,664,211
Long-term liabilities outstanding	25,768,665	21,243,895	10,108,549	8,146,570	35,877,214	29,390,465
Other liabilities	2,935,466	4,992,938	1,477,726	1,207,386	4,413,192	6,200,324
Total liabilities	28,704,131	26,236,833	11,586,275	9,353,956	40,290,406	35,590,789
Net assets:						
Invested in capital assets, net of related debt	13,294,087	12,012,168	7,928,562	6,326,548	21,222,649	18,338,716
Restricted	13,455,239	11,870,665			13,455,239	11,870,665
Unrestricted	11,904,315	10,233,228	2,972,734	1,630,813	14,877,049	11,864,041
<b>Total net assets</b>	<b>\$38,653,641</b>	<b>\$34,116,061</b>	<b>\$10,901,296</b>	<b>\$ 7,957,361</b>	<b>\$49,554,937</b>	<b>\$42,073,422</b>

A portion of the Town's net assets, totaling \$13,455,239 (27.2%), represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$180,398 is permanently restricted and is nonexpendable. The remaining balance of *unrestricted net assets* of \$14,877,049 may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2008, the Town is able to report positive balances in all three categories of net assets both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**Governmental activities.** Governmental activities increased the Town's net assets by \$4,537,580, thereby accounting for 60.7% of the total growth in the net assets of the Town. Key elements of this increase are as follows:

- Property taxes were levied for debt service payments and issuance costs, resulting in decreased outstanding debt
- Property taxes were levied for capital purchases
- Expenses for governmental activities were less than anticipated, while revenues were favorable

**Business-type activities.** Business-type activities increased the Town's net assets by \$2,943,935, accounting for 39.3% of the total growth in the government's net assets. Key elements of this increase include increased sewer user fees, which were raised for debt service payments, and the investment in the purchase of capital items.

## Government-wide Financial Analysis (Continued)

### Town of Middletown's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 4,004,056	\$ 4,274,073	\$ 6,213,915	\$ 4,341,539	\$ 10,217,971	\$ 8,615,612
Operating grants and contributions	16,675,718	17,585,952	160,250	34,282	16,835,968	17,620,234
Capital grants and contributions	961,412	535,134		23,100	961,412	558,234
General revenues:						
Property taxes	36,929,501	35,304,644			36,929,501	35,304,644
Grants and contributions not restricted to specific programs	3,310,854	4,990,325	845,084		4,155,938	4,990,325
Other	1,024,174	768,020	86,771	63,584	1,110,945	831,604
Total revenues	62,905,715	63,458,148	7,306,020	4,462,505	70,211,735	67,920,653
Expenses:						
General government	3,475,990	2,827,685			3,475,990	2,827,685
Public safety	11,105,029	11,416,920			11,105,029	11,416,920
Public works/sanitation	3,457,115	4,081,389			3,457,115	4,081,389
Planning/inspection	541,626	536,670			541,626	536,670
Library	844,003	880,992			844,003	880,992
Education	37,281,173	37,070,828			37,281,173	37,070,828
Community services	416,171	642,974			416,171	642,974
Interest on long-term debt	899,285	737,994			899,285	737,994
Refuse and recycling			830,957		830,957	
Parks and recreation			1,226,319	1,063,686	1,226,319	1,063,686
Sewer			2,652,552	3,039,797	2,652,552	3,039,797
Total expenses	58,020,392	58,195,452	4,709,828	4,103,483	62,730,220	62,298,935
Increase in net assets before transfers	4,885,323	5,262,696	2,596,192	359,022	7,481,515	5,621,718
Transfers	(347,743)	(238,646)	347,743	238,646	-	-
Increase in net assets	4,537,580	5,024,050	2,943,935	597,668	7,481,515	5,621,718
Net assets – beginning	34,116,061	29,092,011	7,957,361	7,359,693	42,073,422	36,451,704
Net assets – ending	\$ 38,653,641	\$ 34,116,061	\$ 10,901,296	\$ 7,957,361	\$ 49,554,937	\$ 42,073,422

### 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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2008, the Town's governmental funds reported combined ending fund balances of \$27,033,562. Of this amount, \$26,177,851 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$575,313), 2) to generate income to pay for the perpetual care of the municipal cemetery (\$121,790), 3) for long-term notes receivable (\$100,000), or 4) other restricted purposes (\$58,608).

## Financial Analysis of the Government's Funds (Continued)

**Governmental funds (continued).** The General Fund is the chief operating fund of the Town. At June 30, 2008, unreserved fund balance of the General Fund was \$8,958,239 with \$2,850,102 designated for various purposes (see Note 2 to the basic financial statements), while total fund balance reached \$9,533,552. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20.4% of total General Fund expenditures and other financing uses (\$43,954,027), while total fund balance represents 21.7% of that same amount.

The fund balance of the Town's General Fund decreased by \$69,542 during the fiscal year ended June 30, 2008.

The School Department, a special revenue fund of the Town, had an unreserved fund balance at June 30, 2008 of \$1,966,204, with \$300,000 designated to balance the fiscal 2009 budget. The resulting unreserved-undesignated fund balance is \$1,666,204, representing 4.4% of total School Department expenditures (\$37,867,287).

The Capital Projects Fund is where the Town accounts for the ongoing capital projects resulting from general obligation bond proceeds in 2002, 2004, 2007 and 2008. Fund balance increased by \$3,531,458 in FY 2008 due to bond proceeds used for construction projects. At June 30, 2008, the ending fund balance is \$7,034,121, which will be expended as the Town completes various construction projects.

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

Net assets of the Sewer Fund at June 30, 2008 amounted to \$6,536,374, of which \$2,191,744 is unrestricted. Parks and Recreation Fund net assets amounted to \$4,364,922, of which \$810,554 is unrestricted. Refuse and Recycling Fund net assets amounted to \$- 0 -. The total growth in net assets for each of the three funds was \$2,867,824, \$76,111 and \$- 0 -, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town's business-type activities.

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY 2008 totaled an increase in expenditures of approximately \$352,000. Major items resulting in this increase are as follows:

- \$160,000 increase to Public Safety due to:
  - \$34,000 increase necessary to purchase various police equipment
  - \$126,000 increase necessary to fund contract settlement for comp/benefits
  
- \$187,000 increase in Public Works and Sanitation due to:
  - \$39,000 increase necessary to fund Transfer Station transition
  - \$85,000 increase to fund engineering services for drainage projects
  - \$58,000 increase to fund property maintenance
  - \$5,000 increase various other accounts

## **General Fund Budgetary Highlights (Continued)**

- \$148,000 increase in General Government to fund full revaluation project and union contract settlement
- \$37,000 increase in Planning and Inspection to fund GIS/Business Development consulting services
- \$369,000 decrease in Other to reallocate contingent expenses to various departments for contract settlement
- \$336,000 increase in Capital Outlay for DPW building and Senior Center building upgrades, public safety vehicles, records archival project, and GIS project
- \$109,000 decrease in Debt Service due to the timing of a lease payment
- \$40,000 decrease due to grant expenditures being lower than anticipated

## **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, 2008 amounts to \$54,265,108 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, furniture and equipment, library books, and motor vehicles. The total increase in the Town's investment in capital assets for the current fiscal year was \$6,390,386 (13.3%), of which \$2,826,393 increased for governmental activities and \$3,563,993 increased for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Residential street upgrades were made, encompassing adding sewer lines, water lines, improved drainage, and road re-pavement
- The School Department made renovations to server room, fire alarm, security system, electrical and/or additions to all district schools
- The Town purchased a harbor master boat, building inspector vehicle and various public safety vehicles, including police cruisers and an ambulance
- The Town started construction of a new police station
- The Town purchased land for open space
- The Town made renovations to the public works buildings, including a new boiler and roof replacement

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

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 5,653,615	\$ 4,850,765	\$ 2,751,380	\$ 2,751,380	\$ 8,404,995	\$ 7,602,145
Buildings and improvements	10,251,899	10,367,576	95,876	40,841	10,347,775	10,408,417
Land improvements	1,192,603	698,244	611,640	586,691	1,804,243	1,284,935
Furniture and equipment	705,209	739,530	1,039,712	459,722	1,744,921	1,199,252
Infrastructure	14,296,004	14,326,866	10,860,804	5,630,393	25,156,808	19,957,259
Construction in progress	2,721,585	994,387	2,562,138	5,002,591	5,283,723	5,996,978
Library books	90,657	124,296			90,657	124,296
Motor vehicles	1,316,425	1,299,940	115,561	1,500	1,431,986	1,301,440
Total	\$36,227,997	\$33,401,604	\$18,037,111	\$14,473,118	\$54,265,108	\$47,874,722

The Town's active construction projects as of June 30, 2008 include residential street paving, drainage and sanitary upgrades in designated areas of the Town. Remaining commitments at June 30, 2008 total approximately \$8,653,000. The commitments for residential street paving and road drainage are funded through general obligation bonds and general obligation bond anticipation notes. The commitments for sanitary sewer upgrades are funded through loans with the Rhode Island Clean Water Finance Agency.

Additional information on the Town's capital assets can be found in Note 5 on pages 40-43 of this report.

**Long-term debt**

At June 30, 2008, the Town had total bonded debt outstanding of \$20,295,000 entirely backed by the full faith and credit of the Town. An additional \$14,370,665 is outstanding loans payable to the Rhode Island Clean Water Finance Agency. The Town has capital leases outstanding at June 30, 2008 in the amount of \$2,640,436. 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	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$20,295,000	\$15,505,000			\$20,295,000	\$15,505,000
Loans payable	800,000	850,000	\$13,570,665	\$12,640,596	14,370,665	13,490,596
Capital leases	2,022,330	2,218,714	618,106		2,640,436	2,218,714
Total	\$23,117,330	\$18,573,714	\$14,188,771	\$12,640,596	\$37,306,101	\$31,214,310

## **Long-term debt (Continued)**

The Town's total debt increased \$6,091,791 (19.5%) during the current fiscal year. The key factors in this increase are the issuance of new General Obligation Bonds in Governmental Activities and loans payable in business-type activities. The Town's bond rating is "Aa2" from Moody's for general obligation debt.

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2007 was \$3,140,257,527, limiting the amount of non-excepted general obligation bonds outstanding to \$94,207,726. At June 30, 2008, bonds outstanding totaled \$20,295,000, or .65% of assessed property.

## **Economic Factors and Next Year's Budgets and Rates**

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

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

The Town had a 2000 U.S. Census Bureau population of 17,334. The Town is located approximately 30 miles southeast of Providence. The Town is centrally located on Aquidneck Island between the City of Newport to the south and the Town of Portsmouth to the north; the Town is located in Newport County, which has an employed labor force of approximately 40,200, with an unemployment rate of approximately 7.0% (not seasonally adjusted) as of October 2008. 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.

## **Economic Factors and Next Year's Budgets and Rates (Continued)**

The State's major airport facility, T.F. Green State 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, but is expected to expand service to Warwick and Wickford, RI, as well as Fall River and New Bedford, MA. Middletown is also served with scheduled bus service by the Rhode Island Public Transit Authority (RIPTA) and its statewide system, as well as Peter Pan Bus Lines, which provides service to Providence, Boston and New York City. Freight transportation is provided by local and long distance trucking firms. Railroad freight service is available on the mainland. The nearby Port of Providence provides the Town with excellent shipping facilities.

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

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

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

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

## **Economic Factors and Next Year's Budgets and Rates (Continued)**

Strong commercial development has continued over the past year. Construction of a 65,000 square foot self-storage facility was recently completed, as was a 20,000 square foot electronics retail store. Redevelopment and expansion of existing older commercial properties continue. New office development will also continue, as new buildings are to be constructed on two newly created building lots within the Aquidneck Corporate Park (the Park). Expansion and rehabilitation of existing buildings in the Park are also expected due to low vacancy rates and expected growth of defense contractors.

Meanwhile, there continues to be steady residential development. Construction of a 60-unit condominium development for those age 55 and over continues. The Town is currently considering a proposal for a 14-lot single-family subdivision.

### **Subsequent Events**

The Town has budgeted and set aside funds in fiscal years 2006, 2007 and 2008 totaling approximately \$2,000,000 (in a nonmajor special revenue fund) for the purpose of funding the Unfunded Actuarial Liability and Annual Required Contribution relating to its postemployment benefits program. Based upon the July 1, 2007 valuation, the Town has budgeted adequate funds in fiscal year 2008. The Town anticipates establishing and remitting the accumulated funds to an Other Postemployment Benefits (OPEB) Trust, and implementing GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in fiscal year 2009. Legislation passed by the Rhode Island General Assembly on June 26, 2008 will allow the Town to establish the Trust under Rhode Island State Statute.

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleges that the Town's sanitary sewer and storm water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizens' groups seek injunctive relief requiring the Town to cease violations, 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 believes that a reasonable out-of-court settlement could potentially be reached, but intends to vigorously contest the allegations in the complaint.

The market value of the Town's pension investment account as of November 30, 2008 is \$32,095,987, which represents an 18.7% decline in the value since June 30, 2008. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

### **Requests for Information**

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

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 26,202,906	\$ 2,343,165	\$ 28,546,071
Investments	2,226,438		2,226,438
Accounts receivable, less allowance for doubtful accounts of \$229,191:			
Property taxes	1,134,631		1,134,631
Federal and state government	1,131,963		1,131,963
Assessments and user fees		509,164	509,164
Loans	100,000		100,000
Other	225,251	27,314	252,565
Prepaid expenses	468,518		468,518
Internal balances	(500,584)	500,584	-
Noncurrent assessments and user fees		851,944	851,944
Deferred charges	140,652	218,289	358,941
Capital assets not being depreciated	8,375,200	5,313,518	13,688,718
Capital assets being depreciated, net	27,852,797	12,723,593	40,576,390
 Total assets	 <u>67,357,772</u>	 <u>22,487,571</u>	 <u>89,845,343</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	2,918,966	1,477,726	4,396,692
Unearned revenue	16,500		16,500
Long-term obligations:			
Due within one year	2,051,209	1,059,903	3,111,112
Due in more than one year	23,717,456	9,048,646	32,766,102
 Total liabilities	 <u>28,704,131</u>	 <u>11,586,275</u>	 <u>40,290,406</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	13,294,087	7,928,562	21,222,649
Restricted for:			
Capital projects	7,034,121		7,034,121
Education	1,966,204		1,966,204
Perpetual care:			
Expendable	31,357		31,357
Nonexpendable	121,790		121,790
Other:			
Expendable	4,243,159		4,243,159
Nonexpendable	58,608		58,608
Unrestricted	11,904,315	2,972,734	14,877,049
 Total net assets	 <u>\$ 38,653,641</u>	 <u>\$ 10,901,296</u>	 <u>\$ 49,554,937</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 3,475,990	\$ 690,347	\$ 19,166	\$ 736,082	\$ (2,030,395)		\$ (2,030,395)
Public safety	11,105,029	1,871,285	79,317	21,208	(9,133,219)		(9,133,219)
Public works and sanitation	3,457,115	27,403	157,217		(3,272,495)		(3,272,495)
Planning and inspection	541,626	477,780	37,641		(26,205)		(26,205)
Library	844,003	8,961	218,413		(616,629)		(616,629)
Education	37,281,173	928,280	15,924,845	164,122	(20,263,926)		(20,263,926)
Community services	416,171		239,119	40,000	(137,052)		(137,052)
Interest on long-term debt	899,285				(899,285)		(899,285)
Total governmental activities	<u>58,020,392</u>	<u>4,004,056</u>	<u>16,675,718</u>	<u>961,412</u>	<u>(36,379,206)</u>		<u>(36,379,206)</u>
<b>Business-type activities:</b>							
Sewer	2,652,552	4,526,242		-		\$ 1,873,690	1,873,690
Parks and recreation	1,226,319	1,241,173				14,854	14,854
Refuse and recycling	830,957	446,500	160,250			(224,207)	(224,207)
Total business-type activities	<u>4,709,828</u>	<u>6,213,915</u>	<u>160,250</u>	<u>-</u>		<u>1,664,337</u>	<u>1,664,337</u>
Total	<u>\$ 62,730,220</u>	<u>\$ 10,217,971</u>	<u>\$ 16,835,968</u>	<u>\$ 961,412</u>	<u>(36,379,206)</u>	<u>1,664,337</u>	<u>(34,714,869)</u>
General revenues:							
Property taxes					36,929,501		36,929,501
Grants and contributions not restricted to specific programs					3,310,854	845,084	4,155,938
Investment earnings					773,213	86,771	859,984
Miscellaneous					250,961		250,961
Transfers					(347,743)	347,743	-
Total general revenues and transfers					<u>40,916,786</u>	<u>1,279,598</u>	<u>42,196,384</u>
Change in net assets					4,537,580	2,943,935	7,481,515
Net assets, beginning of year					<u>34,116,061</u>	<u>7,957,361</u>	<u>42,073,422</u>
Net assets, end of year					<u>\$ 38,653,641</u>	<u>\$ 10,901,296</u>	<u>\$ 49,554,937</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

ASSETS	<u>General Fund</u>	<u>School Department</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 11,378,319	\$ 2,354,552	\$ 7,875,631	\$ 4,594,404	\$ 26,202,906
Investments	2,127,782			98,656	2,226,438
Accounts receivable, less allowance for doubtful accounts of \$229,191:					
Property taxes	1,134,631				1,134,631
Federal and state government	393,835	723,419		14,709	1,131,963
Loans				100,000	100,000
Other	87,193	1,000		137,058	225,251
Prepaid expenses	468,518				468,518
Due from other funds	277,149	455,474	109,286	4,190,413	5,032,322
<b>Total assets</b>	<b>\$ 15,867,427</b>	<b>\$ 3,534,445</b>	<b>\$ 7,984,917</b>	<b>\$ 9,135,240</b>	<b>\$ 36,522,029</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 367,321	\$ 1,051,772	\$ 950,796	\$ 16,477	\$ 2,386,366
Accrued compensated absences	294,745	32,954			327,699
Due to other funds	5,013,514			519,392	5,532,906
Deferred revenue	658,295	483,515		99,686	1,241,496
<b>Total liabilities</b>	<b>6,333,875</b>	<b>1,568,241</b>	<b>950,796</b>	<b>635,555</b>	<b>9,488,467</b>
Fund balances:					
Reserved for:					
Encumbrances	575,313				575,313
Long-term loans receivable				100,000	100,000
Perpetual care				121,790	121,790
Other				58,608	58,608
Unreserved, reported in:					
General Fund	8,958,239				8,958,239
Special revenue funds		1,966,204		8,179,922	10,146,126
Capital Projects Fund			7,034,121		7,034,121
Permanent funds				39,365	39,365
<b>Total fund balances</b>	<b>9,533,552</b>	<b>1,966,204</b>	<b>7,034,121</b>	<b>8,499,685</b>	<b>27,033,562</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,867,427</b>	<b>\$ 3,534,445</b>	<b>\$ 7,984,917</b>	<b>\$ 9,135,240</b>	<b>\$ 36,522,029</b>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

JUNE 30, 2008

Total fund balances for governmental funds		\$	27,033,562
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	36,227,997	
Deferred charges		<u>140,652</u>	36,368,649
Some taxes and grants will be collected after year end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds.			1,224,996
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable	(20,252,232)		
Loans payable	(800,000)		
Capital leases	(2,022,330)		
Legal settlements payable	(236,908)		
Compensated absences payable	(2,457,195)		
Accrued interest	<u>(204,901)</u>		<u>(25,973,566)</u>
Net assets of governmental activities		\$	<u>38,653,641</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>School Department</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Taxes	\$ 36,597,600				\$ 36,597,600
Intergovernmental	3,703,913	\$ 14,292,688	\$ 732,367	1,432,508	20,161,476
Licenses, permits and fees	1,560,489	789,846			2,350,335
Interest and investment	431,549		185,756	155,908	773,213
State contribution to teachers' pension plan		1,509,695			1,509,695
Other revenues	250,961	138,434		660,744	1,050,139
<b>Total revenues</b>	<u>42,544,512</u>	<u>16,730,663</u>	<u>918,123</u>	<u>2,249,160</u>	<u>62,442,458</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	2,409,481			29,500	2,438,981
Public safety	8,031,889			37,203	8,069,092
Public works and sanitation	2,019,256			31,958	2,051,214
Planning and inspection	446,493				446,493
Library	747,299			1,691	748,990
Education		36,991,752			36,991,752
Community services	169,467			231,093	400,560
Other expenditures	3,990,081				3,990,081
Grants	85,264				85,264
Capital outlay	1,235,044		3,522,015		4,757,059
<b>Debt service:</b>					
Debt issuance	38,776				38,776
Principal	877,904	578,480			1,456,384
Interest	599,045	297,055			896,100
<b>Total expenditures</b>	<u>20,649,999</u>	<u>37,867,287</u>	<u>3,522,015</u>	<u>331,445</u>	<u>62,370,746</u>
Excess (deficiency) of revenues over expenditures	<u>21,894,513</u>	<u>(21,136,624)</u>	<u>(2,603,892)</u>	<u>1,917,715</u>	<u>71,712</u>
<b>Other financing sources (uses):</b>					
Bond proceeds	8,238		6,000,000		6,008,238
Transfers from other funds	1,331,735	22,161,571	135,350	1,718,888	25,347,544
Transfers to other funds	(23,304,028)	(381,000)		(2,010,259)	(25,695,287)
<b>Total other financing sources (uses)</b>	<u>(21,964,055)</u>	<u>21,780,571</u>	<u>6,135,350</u>	<u>(291,371)</u>	<u>5,660,495</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(69,542)	643,947	3,531,458	1,626,344	5,732,207
Fund balance, beginning of year	<u>9,603,094</u>	<u>1,322,257</u>	<u>3,502,663</u>	<u>6,873,341</u>	<u>21,301,355</u>
Fund balance, end of year	<u>\$ 9,533,552</u>	<u>\$ 1,966,204</u>	<u>\$ 7,034,121</u>	<u>\$ 8,499,685</u>	<u>\$ 27,033,562</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2008

Net change in fund balances for governmental funds		\$ 5,732,207
<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	\$ 4,605,220	
Depreciation expense	<u>(1,778,827)</u>	2,826,393
<p>Governmental funds report bond issuance costs as expenditures. However, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.</p>		
		23,554
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
		463,257
<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 assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Bond premiums and refunding charges are deferred and amortized as part of future interest expense.</p>		
Principal repayment on long-term debt	1,456,384	
Issuance of general obligation bonds	(6,008,238)	
Amortization of:		
Deferred charge on refunding	(22,337)	
Bond premiums	<u>6,163</u>	(4,568,028)
<p>Some expenditures requiring the use of current financial resources in governmental funds were previously accrued in the statement of activities and are not expenses this year:</p>		
Claims and judgments - previously reported in long-term debt		102,961
<p>Some expenses accrued in the statement of activities do not require the use of current financial resources in governmental funds in the current year:</p>		
Accrued compensated absences		(59,703)
<p>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</p>		
		<u>16,939</u>
Change in net assets of governmental activities		<u><u>\$ 4,537,580</u></u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2008

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycling Fund	Total
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 1,349,015	\$ 994,150		\$ 2,343,165
Accounts receivable:				
Assessments and user fees	357,134		\$ 152,030	509,164
Other		27,314		27,314
Due from other funds	781,307			781,307
<b>Total current assets</b>	<b>2,487,456</b>	<b>1,021,464</b>	<b>152,030</b>	<b>3,660,950</b>
Noncurrent assets:				
Assessments and user fees	851,944			851,944
Deferred charges, net	218,289			218,289
Capital assets not being depreciated	2,691,418	2,622,100		5,313,518
Capital assets being depreciated, net	11,143,655	932,268	647,670	12,723,593
<b>Total assets</b>	<b>17,392,762</b>	<b>4,575,832</b>	<b>799,700</b>	<b>22,768,294</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accrued expenses	1,333,342	19,263	86,617	1,439,222
Due to other funds		185,746	94,977	280,723
Accrued compensated absences	32,603	5,901		38,504
Current portion of long-term debt	862,489		197,414	1,059,903
<b>Total current liabilities</b>	<b>2,228,434</b>	<b>210,910</b>	<b>379,008</b>	<b>2,818,352</b>
Noncurrent liabilities, long-term debt, net of current portion	8,627,954		420,692	9,048,646
<b>Total liabilities</b>	<b>10,856,388</b>	<b>210,910</b>	<b>799,700</b>	<b>11,866,998</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	4,344,630	3,554,368	29,564	7,928,562
Unrestricted	2,191,744	810,554	(29,564)	2,972,734
<b>Total net assets</b>	<b>\$ 6,536,374</b>	<b>\$ 4,364,922</b>	<b>\$ -</b>	<b>\$ 10,901,296</b>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
ENTERPRISE FUNDS

YEAR ENDED JUNE 30, 2008

	Sewer Fund	Parks and Recreation Fund	Refuse and Recycling Fund	Total
Operating revenues:				
Assessments and user fees	\$ 4,496,643		\$ 446,000	\$ 4,942,643
Beach admittance and rental fees		\$ 1,053,159		1,053,159
Campground admittance and rental fees		142,119		142,119
Other revenues	29,599	45,895	500	75,994
<b>Total operating revenues</b>	<b>4,526,242</b>	<b>1,241,173</b>	<b>446,500</b>	<b>6,213,915</b>
Operating expenses:				
Salaries and benefits	542,441		30,062	572,503
Materials and supplies	18,120		2,325	20,445
Professional services	306,411		726,302	1,032,713
Repairs and maintenance	109,308		590	109,898
Utilities	103,332		1,702	105,034
Sewage disposal	1,076,314			1,076,314
Beaches		485,114		485,114
Lifeguards		173,905		173,905
Harbormaster		36,123		36,123
Security		37,234		37,234
Campground		35,429		35,429
Recreation		96,185		96,185
Parks and grounds		107,175		107,175
Civic appropriations		27,500		27,500
Miscellaneous	16,411	158,230	1,125	175,766
Depreciation	252,029	69,424	49,821	371,274
<b>Total operating expenses</b>	<b>2,424,366</b>	<b>1,226,319</b>	<b>811,927</b>	<b>4,462,612</b>
Operating income (loss)	2,101,876	14,854	(365,427)	1,751,303
Nonoperating revenues (expenses):				
Interest revenue	57,740	28,234	797	86,771
Grant revenue			160,250	160,250
Interest expense	(217,220)		(19,030)	(236,250)
Amortization of bond issuance costs	(10,966)			(10,966)
<b>Total nonoperating revenues (expenses)</b>	<b>(170,446)</b>	<b>28,234</b>	<b>142,017</b>	<b>(195)</b>
Income (loss) before capital contributions and transfers	1,931,430	43,088	(223,410)	1,751,108
Capital contributions, sewer construction	845,084			845,084
Transfers from special revenue funds	91,310	33,023	223,410	347,743
Change in net assets	2,867,824	76,111	-	2,943,935
Net assets, beginning of year	3,668,550	4,288,811	-	7,957,361
Net assets, end of year	<u>\$ 6,536,374</u>	<u>\$ 4,364,922</u>	<u>\$ -</u>	<u>\$ 10,901,296</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS  
YEAR ENDED JUNE 30, 2008

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycling Fund</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 4,414,838	\$ 1,215,198	\$ 293,970	\$ 5,924,006
Cash received from other sources	29,599	7,796	500	37,895
Cash paid to employees and for benefits	(551,487)	(710,249)	(30,062)	(1,291,798)
Cash paid to suppliers	(1,252,154)	(417,592)	(645,976)	(2,315,722)
Cash paid to civic groups	(27,500)	(27,500)	-	(27,500)
Net cash provided by (used in) operating activities	<u>2,640,796</u>	<u>67,653</u>	<u>(381,568)</u>	<u>2,326,881</u>
Cash flows from noncapital financing activities:				
Interfund balances	(41,984)	4,246	318,387	280,649
Noncapital grants	-	-	160,250	160,250
Cash provided by (used in) noncapital financing activities	<u>(41,984)</u>	<u>4,246</u>	<u>478,637</u>	<u>440,899</u>
Cash flows from capital and related financing activities:				
Transfers from other funds	91,310	33,023	-	124,333
Capital contributions	79,136	-	-	79,136
Acquisition and construction of fixed assets	(1,235,376)	(256,729)	-	(1,492,105)
Interfund balances	(629,122)	-	-	(629,122)
Principal paid on long-term debt	(573,213)	-	(79,385)	(652,598)
Interest paid on long-term debt	(205,775)	-	(18,481)	(224,256)
Net cash used in capital and related financing activities	<u>(2,473,040)</u>	<u>(223,706)</u>	<u>(97,866)</u>	<u>(2,794,612)</u>
Cash provided by investing activities, interest received	<u>57,740</u>	<u>28,234</u>	<u>797</u>	<u>86,771</u>
Net increase (decrease) in cash and cash equivalents	183,512	(123,573)	-	59,939
Cash and cash equivalents, beginning of year	<u>1,165,503</u>	<u>1,117,723</u>	<u>-</u>	<u>2,283,226</u>
Cash and cash equivalents, end of year	<u>\$ 1,349,015</u>	<u>\$ 994,150</u>	<u>\$ -</u>	<u>\$ 2,343,165</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2008

	<u>Sewer Fund</u>	<u>Parks and Recreation Fund</u>	<u>Refuse and Recycling Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$2,101,876	\$ 14,854	\$(365,427)	\$1,751,303
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	252,029	69,424	49,821	371,274
Changes in assets and liabilities:				
Increase in:				
Accounts receivable	(81,805)	(18,180)	(152,030)	(252,015)
Accounts payable and accrued expenses	377,742	4,424	86,068	468,234
Decrease in accrued compensated absences	(9,046)	(2,869)		(11,915)
Net cash provided by (used in) operating activities	<u>\$2,640,796</u>	<u>\$ 67,653</u>	<u>\$(381,568)</u>	<u>\$2,326,881</u>
Supplemental disclosures, noncash capital and related financing activities:				
Acquisition and construction of fixed assets paid from loan proceeds held by State of Rhode Island	<u>\$1,880,386</u>			<u>\$1,880,386</u>
Deferred charges paid from loan proceeds held by State of Rhode Island	<u>\$ 36,700</u>			<u>\$ 36,700</u>
Capital contributions from new sewer construction assessments receivable over twenty years	<u>\$ 845,084</u>			<u>\$ 845,084</u>
Capital lease used to acquire equipment			<u>\$ 697,491</u>	<u>\$ 697,491</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS

JUNE 30, 2008

	Pension Trust Fund	Clarke Scholarship Private Purpose Trust Fund	Agency Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>			
Cash and cash equivalents		\$ 47,636	\$ 444,745
Investments	\$ 39,456,618		116,740
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>39,456,618</u>	<u>47,636</u>	<u>\$ 561,485</u>
<b>LIABILITIES:</b>			
Deposits held in custody for others			<u>\$ 561,485</u>
<b>NET ASSETS:</b>			
Held in trust for pension benefits and other purposes	<u>\$ 39,456,618</u>	<u>\$ 47,636</u>	

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -  
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2008

	Pension Trust Fund	Clarke Scholarship Private Purpose Trust Fund
	<u>                    </u>	<u>                    </u>
Additions to net assets:		
Contributions:		
Employer	\$ 2,480,745	
Plan members	229,928	
	<u>2,710,673</u>	
Investment income (loss), net:		
Interest income	1,476,438	\$ 1,723
Net depreciation in fair value of investments	<u>(2,927,547)</u>	
	<u>(1,451,109)</u>	<u>1,723</u>
Total additions	<u>1,259,564</u>	<u>1,723</u>
Deductions from net assets:		
Benefits	2,833,912	
Administrative expense	235,839	
Scholarships		9,750
	<u>3,069,751</u>	<u>9,750</u>
Change in net assets	(1,810,187)	(8,027)
Net assets, beginning of year	<u>41,266,805</u>	<u>55,663</u>
Net assets, end of year	<u>\$ 39,456,618</u>	<u>\$ 47,636</u>

See notes to basic financial statements.

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies:

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

*Financial reporting entity:*

The Town was established in 1639 and incorporated in 1743 and is governed under a home rule charter adopted in 1968. The charter 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, 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 the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Town has identified no component units through the application of GASB Statement No. 14 criteria.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Basis of presentation:*

*Government-wide financial statements:*

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

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

*Fund financial statements:*

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

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Fund financial statements (continued):*

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

*Governmental funds:*

Governmental funds are used to account for operations that supply basic government services. The Town uses the following governmental funds:

*General Fund:*

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for 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 the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. 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 resources restricted for the acquisition or construction of specific capital projects or items. The Town's Capital Project Fund is a major fund.

*Permanent funds:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Fund financial statements (continued):*

*Proprietary funds:*

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

*Fiduciary funds:*

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

*Pension trusts:*

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

*Private purpose trust:*

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

*Agency:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

*Measurement focus and basis of accounting:*

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

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

Those revenues susceptible to accrual are property taxes, special assessments, federal impact aid, state aid, telephone 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 and thus are recognized when received.

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

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Basis of presentation (continued):*

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

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

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

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

*Property taxes:*

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

Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 5.25% over that of the preceding year for 2008. The rate decreases annually to 4% in 2013.

*Use of estimates:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

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

*Investments:*

Investments are reported at fair value. Fair values are established by 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 burial fund (Managed Funds). The Town's Pension Trust Fund Investment Advisory Committee is responsible for the supervision of the investment of the Town's Managed Funds investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

*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.

Interfund receivables and payables are classified as "due from other funds" or "due to other funds."

*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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Capital assets (continued):*

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is 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 government-wide operations and enterprise funds are deferred and amortized over the term of the bonds using the straight-line method. In governmental funds, bond issuance costs are recognized 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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

1. Summary of significant accounting policies (continued):

*Compensated absences (continued):*

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

*Long-term obligations:*

In the government-wide financial statements, long-term debt and long-term compensated absences are reported as liabilities in the statement of net assets. Bond issuance costs are deferred and amortized over the term of the related debt.

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 issuance costs are expensed as incurred.

*Fund equity:*

*Government-wide financial statements:*

*Net assets:*

The Town's net assets have been segregated into the following three components in accordance with GASB Statement No. 34:

Invested in capital assets, net of related debt - represents the net book value of all capital assets less the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted - those that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted - a residual category for the balance of net assets.

*Fund financial statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

2. Designated fund balances:

As of June 30, 2008, unreserved fund balance designations are as follows:

	<u>General Fund</u>	<u>School Department</u>
UV Stormwater Treatment System	\$ 1,500,000	
Legal contingencies	600,000	
To balance fiscal 2009 budget	740,102	\$ 300,000
Other	<u>10,000</u>	
Total	<u>\$ 2,850,102</u>	<u>\$ 300,000</u>

3. Deposits and investments:

*Cash and cash equivalents (deposits):*

At June 30, 2008, the carrying amount of the Town's deposits, including \$15,457,452 of cash equivalents, was \$29,038,452 and the bank balance was \$32,932,993, of which \$27,474,556 was uninsured and collateralized with securities held by the pledging financial institution, but not in the Town's name.

At June 30, 2008, deposits are categorized as follows:

	<u>Insured/ collateralized in Town's name</u>	<u>Rating</u>	<u>Maturities</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Deposits:					
Demand deposits	\$ 5,458,437			\$12,180,985	\$ 8,286,444
Repurchase agreements		Not rated	7/1/08	5,294,366	5,294,366
Money market				<u>15,457,642</u>	<u>15,457,642</u>
	<u>\$ 5,458,437</u>			<u>\$32,932,993</u>	<u>\$29,038,452</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

3. Deposits and investments (continued):

*Investments:*

Investments other than Pension Trust Fund:

	<u>Carrying amount</u>	<u>Maturities</u>	<u>Rating</u>
Certificates of deposit	\$ 2,127,782	9/5/08 to 7/2/09	Not rated
Certificates of deposit	116,740	12/30/08	Not rated
Mutual funds, U.S.			
Government securities	<u>98,656</u>	Not applicable	Not rated
Total investments	<u>\$ 2,343,178</u>		

Pension Trust Fund investments:

	<u>Carrying amount</u>
Mutual funds	\$ 24,861,626
Group annuity	<u>14,594,992</u>
Total investments	<u>\$ 39,456,618</u>

The market value of the Town's pension investment account as of November 30, 2008 is \$32,095,987, which represents an 18.7% decline in the value since June 30, 2008. The Town is currently reviewing various options with its actuarial consultant and investment advisors to address the contributions required as a result of the current market conditions.

*Interest rate risk:*

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

Although there is no established policy, the Town manages its exposure to declines in fair values by limiting the term of liquid investments to less than 60 days. It does not hold long-term investments other than those managed by the Pension Trust Investment Advisory Committee (Committee).

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

3. Deposits and investments (continued):

*Interest rate risk (continued):*

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

*Credit risk:*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization to debt securities. The Town does not hold debt investments. Managed Funds are invested in equities and a group annuity, neither of which are debt instruments. The group annuity is held by an insurance company rated by Moody's as Aa1.

*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.

As of June 30, 2008, the following pension investment represents 5% or more of the Town Plan's net assets:

John Hancock Life Insurance Company, Group Annuity Contract 795 GAC	\$ 14,594,992
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*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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

4. Interfund transactions:

Interfund receivables and payables at June 30, 2008 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Nonmajor funds	\$ 96,426
	Parks and Recreation	85,746
	Refuse and Recycling	<u>94,977</u>
		<u>277,149</u>
School Department	Governmental funds:	
	General Fund	36,633
	Nonmajor funds	<u>418,841</u>
		<u>455,474</u>
Nonmajor governmental funds	Governmental funds,	
	General Fund	4,090,413
	Enterprise funds,	
	Parks and Recreation	<u>100,000</u>
		<u>4,190,413</u>
Capital Projects Fund	Governmental funds:	
	General Fund	105,161
	Nonmajor funds	<u>4,125</u>
		<u>109,286</u>
Enterprise funds, Sewer Fund	Governmental funds, General Fund	<u>781,307</u>
		<u>\$ 5,813,629</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

4. Interfund transactions (continued):

Operating transfers between funds for the year ended June 30, 2008 were as follows:

<u>Transfer to Fund</u>	<u>Transfer from Fund</u>	<u>Amount</u>
Governmental funds:		
General Fund	Governmental funds, nonmajor funds	<u>\$ 1,331,735</u>
Capital Improvement Fund	Governmental funds, nonmajor funds	<u>135,350</u>
School Department	Governmental Funds: General Fund Nonmajor funds	<u>21,742,730</u> <u>418,841</u>
		<u>22,161,571</u>
Nonmajor governmental funds	Governmental funds: General Fund School Department	<u>1,337,888</u> <u>381,000</u>
		<u>1,718,888</u>
Enterprise funds:		
Sewer	Governmental funds, nonmajor funds	<u>91,310</u>
Parks and Recreation	Governmental funds, nonmajor funds	<u>33,023</u>
Refuse and Recycling	Governmental funds, General Fund	<u>223,410</u>
		<u>\$ 25,695,287</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. Capital assets:

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,850,765	\$ 802,850		\$ 5,653,615
Construction in progress:				
Infrastructure	975,861	2,562,798	\$ (835,600)	2,703,059
Other	<u>18,526</u>			<u>18,526</u>
Total capital assets not being depreciated	<u>5,845,152</u>	<u>3,365,648</u>	<u>(835,600)</u>	<u>8,375,200</u>
Capital assets being depreciated:				
Infrastructure	26,124,937	611,226		26,736,163
Land improvements	1,144,107	556,472		1,700,579
Buildings and improvements	19,105,299	453,674		19,558,973
Furniture and equipment	2,320,953	149,752	(11,200)	2,459,505
Library books	1,432,686			1,432,686
Motor vehicles	<u>3,838,672</u>	<u>304,048</u>	<u>(255,093)</u>	<u>3,887,627</u>
Total capital assets being depreciated	<u>53,966,654</u>	<u>2,075,172</u>	<u>(266,293)</u>	<u>55,775,533</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Governmental activities (continued):				
Capital assets being depreciated (continued):				
Less accumulated depreciation for:				
Infrastructure	\$ (11,798,071)	\$ (642,088)		\$ (12,440,159)
Land improvements	(445,863)	(62,113)		(507,976)
Buildings and improvements	(8,737,723)	(569,351)		(9,307,074)
Furniture and equipment	(1,581,423)	(184,073)	\$ 11,200	(1,754,296)
Library books	(1,308,390)	(33,639)		(1,342,029)
Motor vehicles	(2,538,732)	(287,563)	255,093	(2,571,202)
	<u>(26,410,202)</u>	<u>(1,778,827)</u>	<u>266,293</u>	<u>(27,922,736)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>27,556,452</u>	<u>296,345</u>	<u>- 0 -</u>	<u>27,852,797</u>
Governmental activities capital assets, net	<u>\$ 33,401,604</u>	<u>\$ 3,661,993</u>	<u>\$ (835,600)</u>	<u>\$ 36,227,997</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,751,380			\$ 2,751,380
Construction in progress	5,002,591	\$ 2,355,066	\$ (4,795,519)	2,562,138
Total capital assets not being depreciated	<u>7,753,971</u>	<u>2,355,066</u>	<u>(4,795,519)</u>	<u>5,313,518</u>

(continued)

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Business-type activities (continued):				
Capital assets being depreciated:				
Land improvements	\$ 865,739	\$ 66,554	\$ - 0 -	\$ 932,293
Buildings and improvements	116,357	60,272		176,629
Equipment	1,436,393	722,716		2,159,109
Sewer lines and pumps	6,442,720	5,406,105		11,848,825
Vehicles	23,740	120,073		143,813
Total capital assets being depreciated	<u>8,884,949</u>	<u>6,375,720</u>	<u>- 0 -</u>	<u>15,260,669</u>
Less accumulated depreciation for:				
Land improvements	(279,048)	(41,605)	- 0 -	(320,653)
Buildings and improvements	(75,516)	(5,237)		(80,753)
Equipment	(976,671)	(142,726)		(1,119,397)
Sewer lines and pumps	(812,327)	(175,694)		(988,021)
Vehicles	(22,240)	(6,012)		(28,252)
Total accumulated depreciation	<u>(2,165,802)</u>	<u>(371,274)</u>	<u>- 0 -</u>	<u>(2,537,076)</u>
Total capital assets being depreciated, net	<u>6,719,147</u>	<u>6,004,446</u>	<u>- 0 -</u>	<u>12,723,593</u>
Business-type activities capital assets, net	<u>\$ 14,473,118</u>	<u>\$ 8,359,512</u>	<u>\$ (4,795,519)</u>	<u>\$ 18,037,111</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

5. Capital assets (continued):

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 79,737
Public safety	292,408
Public works and sanitation	821,444
Planning and inspection	1,350
Library	55,431
Education	513,063
Community services	<u>15,394</u>
	<u>\$ 1,778,827</u>

Business-type activities:

Sewer Fund	\$ 252,029
Parks and Recreation Fund	69,424
Refuse and Recycling Fund	<u>49,821</u>
	<u>\$ 371,274</u>

6. Long-term debt:

*General obligation bonds and loan payable:*

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. In addition, general obligation bonds have been issued to refund previously outstanding general obligation bonds.

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2007 was \$3,140,257,527, limiting the amount of non-excepted general obligation bonds outstanding to \$94,207,726. At June 30, 2008, bonds outstanding totaled \$20,295,000.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

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

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. General obligation bonds and loan payable outstanding at June 30, 2008 are as follows:

Purpose	Amount of original issue	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2007	New issues	Retired	Balance, June 30, 2008
General obligation bonds:								
Town Refunding Bond	\$ 2,960,000	4/19/94	3.2-5.75%	7/15/10	\$ 335,000		\$ 185,000	\$ 150,000
Road, drainage, library construction and improvements, open space, Police and Town Hall repairs	5,100,000	11/1/01	3.2-5.5%	7/15/21	3,750,000		250,000	3,500,000
School Refunding	2,395,000	10/29/02	3.0-4%	11/15/13	1,470,000		220,000	1,250,000
School improvements	4,390,000	10/29/02	3.0-5%	3/15/22	3,450,000		230,000	3,220,000
Road, drainage, open space	6,500,000	4/1/07	3.5-5%	6/15/27	6,500,000		325,000	6,175,000
Police station	<u>6,000,000</u>	4/1/08	3.0-4.05%	4/1/22	<u>- 0 -</u>	<u>\$ 6,000,000</u>		<u>6,000,000</u>
Total general obligation bonds	27,345,000				15,505,000	6,000,000	1,210,000	20,295,000
Loan payable:								
Rhode Island Clean Water Finance Agency, Open Space	<u>1,000,000</u>	11/13/03	1.17%	9/1/23	<u>850,000</u>		<u>50,000</u>	<u>800,000</u>
Total	<u>\$ 28,345,000</u>				<u>\$ 16,355,000</u>	<u>\$ 6,000,000</u>	<u>\$ 1,260,000</u>	<u>\$ 21,095,000</u>

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

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

At June 30, 2008, annual debt service requirements to maturity for general obligation bonds and loan payable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,425,000	\$ 814,058	\$ 2,239,058
2010	1,420,000	760,569	2,180,569
2011	1,415,000	710,359	2,125,359
2012	1,360,000	659,339	2,019,339
2013	1,355,000	609,058	1,964,058
2014-2018	5,975,000	2,324,989	8,299,989
2019-2023	5,295,000	1,145,338	6,440,338
2024-2028	2,850,000	310,675	3,160,675
	<u>\$ 21,095,000</u>	<u>\$ 7,334,385</u>	<u>\$ 28,429,385</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

*Loans payable:*

Loans payable are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2007	New issues	Maturities	Balance, June 30, 2008
Enterprise Fund, Sewer:								
Rhode Island Clean Water Finance Agency	\$ 1,996,000	6/1/94	2.99%	9/1/14	\$ 840,422		\$ 105,052	\$ 735,370
Rhode Island Clean Water Finance Agency	1,000,000	11/1/01	1.89%	9/1/21	800,174		43,161	757,013
Rhode Island Clean Water Finance Agency	2,500,000	12/30/04	1.30%	9/1/24	2,250,000		125,000	2,125,000
Rhode Island Clean Water Finance Agency	6,000,000	12/15/05	1.34%	9/1/26	6,000,000		300,000	5,700,000
Rhode Island Clean Water Finance Agency	2,750,000	12/21/06	1.29-1.43%	9/1/27	2,750,000			2,750,000
Rhode Island Clean Water Finance Agency	<u>1,503,282</u>	12/13/07	1.91%	9/1/27	- 0 -	\$ 1,503,282		1,503,282
	<u>\$ 15,749,282</u>				12,640,596	<u>\$ 1,503,282</u>	<u>\$ 573,213</u>	13,570,665
Less undrawn loan proceeds held by the State					<u>(4,494,026)</u>			<u>(4,080,222)</u>
					8,146,570			9,490,443
Less current portion					<u>(573,213)</u>			<u>(862,489)</u>
					<u>\$ 7,573,357</u>			<u>\$ 8,627,954</u>

At June 30, 2008, the Sewer Fund has \$4,080,222 due from State for undrawn loan proceeds available for sewer construction projects.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

*Loans payable (continued):*

At June 30, 2008, scheduled annual debt service requirements for the loans payable (excluding interest adjustments for the undrawn balance) are as follows:

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2009	\$ 862,489	\$ 253,249	\$ 1,115,738
2010	863,803	237,509	1,101,312
2011	865,156	220,920	1,086,076
2012	866,548	204,081	1,070,629
2013	867,981	183,312	1,051,293
2014-2018	4,051,066	690,908	4,741,974
2019-2023	3,063,622	353,791	3,417,413
2024-2028	2,130,000	85,332	2,215,332
	<u>\$ 13,570,665</u>	<u>\$ 2,229,102</u>	<u>\$ 15,799,767</u>

*Capital lease obligations:*

The Town has financed the acquisition of certain equipment through lease-purchase agreements. Equipment financed under capital leases has been acquired for the General Fund and the School Department (recorded in the governmental activities capital assets being depreciated) and for the Refuse and Recycling Fund (recorded in the business-type activities capital assets being depreciated). Governmental activity fixed assets under capital lease of \$2,633,604 are recorded net of \$547,860 of accumulated depreciation. Interest expense for the year ended June 30, 2008 of \$105,147 is reported within the governmental activities, interest on long-term debt on the statement of activities.

Business-type activity fixed assets under capital lease of \$697,491 are recorded net of accumulated depreciation of \$49,821. Interest expense for the year ended June 30, 2008 of \$19,830 was recorded in the Refuse and Recycling Fund.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

*Capital lease obligations (continued):*

Capital lease obligations currently outstanding are as follows:

Purpose	Authorized and issued	Date of issue	Interest rate	Date of maturity	Balance, July 1, 2007	New issues	Maturities	Balance, June 30, 2008
Capital leases:								
Governmental activities:								
Equipment	\$ 2,276,000	7/1/03	4.85%	11/30/18	\$ 1,929,461	\$ - 0 -	\$ 128,480	\$ 1,800,981
Vehicles under contract	<u>360,518</u>	12/1/05	4.21%	7/1/10	<u>289,253</u>		<u>67,904</u>	<u>221,349</u>
Total	<u>\$ 2,636,518</u>				<u>\$ 2,218,714</u>	<u>\$ - 0 -</u>	<u>\$ 196,384</u>	<u>\$ 2,022,330</u>
Business-type activities:								
Enterprise Fund, Refuse and Recycling	<u>\$ 710,457</u>	11/6/07	4.26%	6/15/11	<u>\$ - 0 -</u>	<u>\$ 710,457</u>	<u>\$ 92,351</u>	<u>\$ 618,106</u>

At June 30, 2008, annual debt service requirements to maturity for capital lease obligations are as follows:

Capital leases:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2009	\$ 205,614	\$ 95,917	\$ 301,531
2010	215,280	86,251	301,531
2011	225,404	76,127	301,531
2012	155,925	65,525	221,450
2013	163,657	57,793	221,450
2014-2018	948,377	158,873	1,107,250
2019	<u>108,073</u>	<u>2,647</u>	<u>110,720</u>
	<u>\$ 2,022,330</u>	<u>\$ 543,133</u>	<u>\$ 2,565,463</u>

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

Capital leases (continued):

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2009	\$ 197,414	\$ 24,251	\$ 221,665
2010	205,913	15,752	221,665
2011	214,779	6,886	221,665
	<u>\$ 618,106</u>	<u>\$ 46,889</u>	<u>\$ 664,995</u>

Changes in the long-term obligations of governmental activities during the year ended June 30, 2008 were as follows:

	Balance, July 1, 2007	Additions	Retirements	Balance, June 30, 2008	Due within one year
Bonds payable:					
General obligation bonds	\$ 15,505,000	\$ 6,000,000	\$ 1,210,000	\$ 20,295,000	\$ 1,375,000
Deferred amounts:					
For issuance premiums	70,290	8,238	6,163	72,365	6,671
On refunding	(137,470)		(22,337)	(115,133)	21,760
Total bonds payable	15,437,820	6,008,238	1,193,826	20,252,232	1,403,431
Loans payable	850,000		50,000	800,000	50,000
Capital leases	2,218,714		196,384	2,022,330	205,614
Legal settlements payable	339,869		102,961	236,908	25,961
Accrued compensated absences	2,397,492	59,703		2,457,195	366,203
Total long-term obligations	<u>\$ 21,243,895</u>	<u>\$ 6,067,941</u>	<u>\$ 1,543,171</u>	<u>\$ 25,768,665</u>	<u>\$ 2,051,209</u>

Compensated absences and legal settlements typically have been liquidated in the General and School Department governmental funds.

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2008

6. Long-term debt (continued):

Changes in the long-term obligations of business-type activities during the year ended June 30, 2008 were as follows:

	<u>Balance, July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2008</u>	<u>Due within one year</u>
Loans payable	\$ 12,640,596	\$ 1,503,282	\$ 573,213	\$ 13,570,665	
Less undrawn loan proceeds held by the State	<u>(4,494,026)</u>			<u>(4,080,222)</u>	
	8,146,570			9,490,443	\$ 862,489
Capital leases	<u>- 0 -</u>	710,457	92,351	<u>618,106</u>	<u>197,414</u>
Total long-term obligations	<u>\$ 8,146,570</u>			<u>\$ 10,108,549</u>	<u>\$ 1,059,903</u>

7. General Obligation Bond Anticipation Notes (BANs):

<u>Purpose</u>	<u>Authorized and issued</u>	<u>Date of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>Balance, July 1, 2007</u>	<u>New issues</u>	<u>Maturities</u>	<u>Balance, June 30, 2008</u>
Police station	<u>\$ 3,000,000</u>	4/1/07	4.00%	4/1/08	<u>\$ 3,000,000</u>	\$ - 0 -	<u>\$ 3,000,000</u>	<u>\$ - 0 -</u>

Note: The BAN was recorded in the Capital Projects Fund. Interest on the BAN was recorded in the General Fund. All BANs are repaid by either rolling over the obligations or replacing them with long-term debt.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

8. Accounts payable and accrued expenses:

	Vendors	Other Governments	Employees	Accrued interest	Total
Governmental activities:					
General Fund	\$ 362,158	\$ 5,128	\$ 294,780	\$	\$ 662,066
School Department	452,496	599,276	32,954		1,084,726
Capital Projects Fund	950,796				950,796
Nonmajor funds	16,477				16,477
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 204,901	204,901
	<u>\$ 1,781,927</u>	<u>\$ 604,404</u>	<u>\$ 327,734</u>	<u>\$ 204,901</u>	<u>\$ 2,918,966</u>
Business-type activities:					
Sewer Fund	\$ 865,803	\$ 406,840	\$ 32,603	\$ 60,699	\$ 1,365,945
Parks and Recreation Fund	19,263		5,901		25,164
Refuse and Recycling Fund	86,068			549	86,617
	<u>\$ 971,134</u>	<u>\$ 406,840</u>	<u>\$ 38,504</u>	<u>\$ 61,248</u>	<u>\$ 1,477,726</u>

9. Pension plans:

All eligible employees of the Town are covered by one of three pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), or the Town of Middletown Retirement Plan (Town Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all Town Hall employees, all but four library employees (who elected to remain in the Town Plan), all new Public Works employees hired on or after July 1, 1999, all new Police Department employees sworn in on or after January 1, 2000, all new Fire Department employees hired on or after January 1, 2001, and all School Department clerks, custodians and teacher assistants. The Town Plan covers all other eligible employees. Total covered payroll under all plans during 2008 was \$27,186,867. Total Town payroll was \$29,520,348 for the same period.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Teachers' Plan

*Plan description:*

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. Total covered payroll under the plan during 2008 was \$17,319,780, including \$489,287 of federally reimbursed payroll.

Participants' rights to pension benefits become fully vested after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age. Benefits are equal to 1.7% of final average salary for each of the first 10 years of service, 1.9% for each of the next ten years, 3% for each of the next 14 years thereafter, and 2% for the 35<sup>th</sup> year, resulting in a maximum benefit of 80% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings. Retirees' benefits are subject to a 3% compounded annual cost of living increase, commencing on the January 1<sup>st</sup> following the third anniversary of an employee's retirement.

The plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

*Funding policy:*

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

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2008, the Town's actuarial required contributions were 13.04% of participant salary (22.01% for federally reimbursed salary). This resulted in a contribution rate paid by the State on behalf of Town teachers of 8.97% (\$1,509,695). The Town's required and actual contributions to the Teacher's Plan for fiscal years 2008, 2007 and 2006 were \$2,326,471, \$2,095,057, and \$1,772,110, respectively.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Municipal Plan

*Plan description:*

The Municipal Plan is an agent multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. For fiscal year 2008, payroll for employees covered under the plan totaled \$6,227,365.

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 (age 55 for police and fire) or after 30 years of service (20 years for police and fire) regardless of age. Benefits are equal to 2% of final average salary for each year of service for municipal employees, and 2.5% of final average salary for each year of service for fire and police, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3%, not compounded, to allow for cost of living increases under an optional benefit provision adopted by the Town.

The plan also provides pre-retirement benefits under the Retirement Formula for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2008, 154 active employees (30 police and firefighters) were members of the Municipal Plan.

*Funding policy:*

Rhode Island general laws set contributions of participating employees at 6% (8% for police) of salary. An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of July 1, 1988 over a closed period of 25 years (or over 25 from date joined if after July 1, 1988). Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Municipal Plan (continued)

*Annual pension costs and net pension obligations:*

The following table summarizes annual pension costs and actual contributions for the plan for the past three years. There was no net pension obligation during the three-year period.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension costs	\$ 1,103,577	\$ 953,855	\$ 532,311
Actual contributions:			
Employee	463,120	410,574	356,611
Employer	640,457	543,281	175,700
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Funded status and funding progress:*

As of June 30, 2006, the date of the most recent actuarial valuation available, the Municipal Plan was 67.9% and 130.1% funded for general employee unit and police and fire unit, respectively. The actuarial accrued liability for benefits was \$12,597,772 and \$260,312 for general employee unit and police and fire unit, respectively, and the actuarial value of assets was \$8,555,676 and \$338,618, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$4,042,096 and (\$78,306) for general employee unit and police and fire unit, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$4,348,342 and \$661,230 for general employee unit and police and fire unit, respectively, and the ratio of the UAAL to the covered payroll was 93.0% and (11.8%), respectively.

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

*Actuarial methods and significant assumptions:*

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

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Municipal Plan (continued)

*Actuarial methods and significant assumptions (continued):*

Significant actuarial assumptions used in each valuation are summarized as follows:

Asset appreciation: 8.25% annually

Salary increases: 3.75% annually

Cost of living adjustments: 3.00%, not compounded

Retirement probability:

100% at age 70 or upon eligibility (100% at age 60 or upon eligibility - police)

Mortality:

Healthy members - 1994 Group Annuity Mortality Tables

Disabled members - PBGC Table set to age 65 (55 for police and fire employees)

Disability:

Probabilities ranging from .05% at age 25 to .85% at age 60 (.17% at age 25 to 1.21% at age 50 for police and fire)

Town Plan

*Plan description:*

The Town Plan is a single employer defined benefit pension plan established by the Town in accordance with the Town Charter. The Town Plan was administered by the John Hancock Mutual Life Insurance Company through a Group Annuity Contract (GAC). Effective July 1, 1999, the Town established a pension trust fund with Citizens Bank as trustee and the GAC was transferred to the trust. For fiscal year 2008, payroll for employees covered under the plan totaled \$3,639,722.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Town Plan (continued)

*Plan description (continued):*

As of July 1, 2007, the date of the latest actuarial valuation, employee membership data related to the pension plan is as follows:

Active participants	51
Terminated vested participants	10
Retirees and beneficiaries	119
Disabled participants	<u>3</u>
Total	<u><u>183</u></u>

*Benefit provisions:*

The following eligibility and benefit provisions were established and may be amended by an ordinance of the Town Council. Effective July 1, 2001, all new employees of the Town will join the Municipal or Teachers' Plans.

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

The pension 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 twenty 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 thirty 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 thirty 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.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Town Plan (continued)

*Benefit provisions (continued):*

The normal retirement benefit is determined as follows:

- a. Police Department Members - 3% (2½% if less than 20 years of service) of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- b. Fire Department Members - 2.75% of average compensation multiplied by completed years and months of service (total maximum benefit equals 75% of average compensation). If a participant joined the Fire Department after July 1, 1983, only Fire Department service is considered.
- c. School Custodial, Town Hall and School Clerical Members - 2% of average compensation multiplied by completed years and months of service. The maximum benefit for members hired after July 1, 1986 is 70% of average compensation.
- d. Public Works Members - 2.5% of average compensation multiplied by completed years and months of service. The maximum benefit for employees hired after July 1, 1986 is 70% of average compensation.

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

In lieu of the normal form of benefit, a Police or Fire member may elect a pension that provides, upon the member's death, for a 67½% contingent annuity payable either to the spouse until remarriage or to dependent children until they attain age 18. Other members may elect a modified cash refund.

Members, other than Police or Fire members, who have completed 10 years of service and are within 5 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 pension plan includes disability benefits for members who have completed 10 years of service, are totally disabled for 6 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 67% of salary.

TOWN OF MIDDLETOWN, RHODE ISLAND  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Town Plan (continued)

*Benefit provisions (continued):*

The pension plan includes a pre-retirement spouse's benefit as follows:

- a. Police and Fire Members - The pre-retirement benefit equals 67½% of the pension benefit previously described payable until remarriage unless there are dependent children. A member is eligible upon completion of 20 years of service.
- b. Other Members - The pre-retirement benefit equals 50% of the pension benefit previously described reduced by the Contingent Annuitant factor and Early Optional Retirement factor. Members are eligible if they are within 5 years of their normal retirement date and have completed at least 10 years of service.

Death benefits are also provided by the pension 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.

*Funding policy and contributions:*

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

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

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

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

*Actuarial method and significant assumptions:*

The Aggregate Actuarial Cost Method is used to compute the actuarially determined contribution requirements. Under this method, the annual cost is equal to the normal cost, which is computed to spread the balance of the total liability (after subtracting plan assets) over the future compensation expected to be earned by plan participants. As a result, this method does not specifically determine an amortization of past service liability, but instead spreads all unfunded costs over the future working lifetimes of active members. The actuarial assumptions include: a) 7.5% investment rate of return and b) projected salary increases of 5% per year. Assets used for valuation purposes are equal to the market value. The most recent valuation was performed on July 1, 2007.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Town Plan (continued)

*Annual pension costs and net benefit obligation:*

The actuarially determined employer contribution requirement of \$2,475,038 was determined as described above and was based on an actuarial valuation as of July 1, 2007. The contribution consists of normal cost plus estimated expenses and one year of interest at 7.5%. Total contributions to the pension plan in fiscal 2008 amounted to \$2,710,673, of which \$2,480,745 and \$229,928 were made by the Town and its employees, respectively. Contributions made by the Town and employees represented 68.16% and 6.32%, respectively, of covered payroll for the year.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost	\$ 2,625,137	\$ 2,465,612	\$ 2,693,913
Actual contributions	<u>(2,480,745)</u>	<u>(2,743,486)</u>	<u>(2,565,355)</u>
Increase (decrease) in net pension obligation	144,392	(277,874)	128,558
Net pension obligation, beginning of year	<u>none</u>	<u>none</u>	<u>none</u>
Net pension obligation, end of year	<u>none</u>	<u>none</u>	<u>none</u>
% of annual pension costs contributed	<u>94.50%</u>	<u>111.27%</u>	<u>95.23%</u>

*Funded status and funding progress:*

The aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC) for the Town Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status of the Town Plan.

As of July 1, 2007, the most recent actuarial valuation date, the Town Plan was 83% funded. The actuarial accrued liability for benefits was \$49,694,529 and the actuarial value of assets was \$41,266,807, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,427,722. The covered payroll (annual payroll of active employees covered by the Town Plan) was \$3,560,276 and the ratio of the UAAL to the covered payroll was 236.7%.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

9. Pension plans (continued):

Town Plan (continued)

*Funded status and funding progress (continued):*

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

10. Other postemployment benefits:

In addition to pension benefits, the Town and School Department provide, under the provisions of various union contracts and other employment agreements, postemployment health insurance benefits, or compensation in lieu of postemployment health insurance benefits, to eligible retirees for a specified maximum number of years. Eligibility is determined based on years of service, employee age, and other available health care coverage. The Town and School Department fund these benefits on a pay-as-you-go basis. During the year ended June 30, 2008, expenditures for post-employment benefits totaled \$1,231,740. For the year ended June 30, 2008, 168 participants received such benefits.

The Town engaged an actuary to prepare an actuarial valuation of its postemployment benefits program as of July 1, 2007. The purpose of the valuation was to analyze the current funded position of the Town's postemployment benefits program, determine the level of contributions necessary to assure sound funding, and provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The estimated Unfunded Actuarial Liability (UAL) was \$21,552,897 at July 1, 2007; the estimated Normal Cost for fiscal year 2007 was \$364,471; the estimated Amortization of UAL for fiscal year 2008 was \$1,051,153; the estimated interest to the middle of fiscal year 2008 was \$52,127; the estimated Annual Required Contribution (ARC) for fiscal year 2008 was \$1,467,751; the estimated benefit payment for fiscal year 2008 was \$1,279,954; and the estimated increase in annual cost to fund the Plan was \$187,797.

The Town budgeted and set aside funds in fiscal year 2008 totaling \$381,000 (in a nonmajor special revenue fund) for the purpose of funding the UAL. As of June 30, 2008, the Town had set aside a total of \$1,993,283 to fund its UAL. Based upon the July 1, 2007 valuation, the Town has budgeted \$1,535,690, which is adequate in fiscal year 2008 to fund the ARC, including the funding of postemployment benefits and the amortization of the UAL. In fiscal 2009, the Town plans to establish, and remit the accumulated funds to, an Other Postemployment Benefits (OPEB) Trust, which was authorized by the Rhode Island General Assembly on June 26, 2008. Also in fiscal year 2009, the Town is required, and expects, to implement the provisions of GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

11. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for 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 insurance coverage during the year ended June 30, 2008.

12. Contingencies:

*Litigation:*

On November 20, 2003, a road-building contractor engaged by the Town to perform roadway and subsurface utility work submitted a claim against the Town for breach of contract. The Town filed a countersuit for damages resulting from work performed by the contractor in the amount of \$219,215. The contractor has since filed for bankruptcy, and its surety has continued the lawsuit against the Town. Recently, the original claim by the contractor was amended to include negligence in addition to breach of contract claims for a total of \$602,145. Currently, discovery is ongoing in this matter, and it is still premature for the Town and its legal counsel to assess the likely outcome of the case or reasonably estimate the amount of liability that may be incurred if an adverse decision is rendered.

On August 28, 2008, Environment Rhode Island and four residents of the City of Newport filed a complaint in the U.S. District Court for the District of Rhode Island against the Town under the so-called "citizen suit" provisions of the federal Clean Water Act. The complaint alleges that the Town's sanitary sewer and storm water discharge systems have operated in violation of the wastewater discharge standards and requirements of the Clean Water Act since 2003. The citizens' groups seek injunctive relief requiring the Town to cease violations, 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 believes that a reasonable out-of-court settlement could potentially be reached, but intends to vigorously contest the allegations in the complaint.

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

12. Contingencies (continued):

*Other contingencies:*

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$4,387,000 for the year ended June 30, 2008.

The State of Rhode Island, Department of Environmental Management (DEM) filed a notice of violation against the Town on or about July 17, 2007, alleging a violation of State Law regarding the discharge of sewage within town limits. The Town entered into a consent agreement with the DEM in November 2008.

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 made at this time.

13. Commitments:

*Construction commitment:*

The Town has active construction projects as of June 30, 2008, including land improvements, residential street paving, drainage and sanitary sewer upgrades in designated areas of the Town. At June 30, 2008, the Town's commitments with contractors are as follows:

Project	Spent to-date	Remaining commitment
Gaudet Middle School: Tennis and basketball courts	\$ 164,350	\$ 92,525
Evergreen Park: Engineering fees for residential street paving, road drainage upgrades, and sanitary sewer upgrades	2,051,955	717,070
Police station	1,116,953	6,283,040
Wastewater Scada System: Design and engineering fees	366,490	87,608
Wave Avenue pump station replacement: Engineering fees and construction	1,286,060	1,441,974
Paradise valley: Park and trails extension	180,031	30,764
Totals	<u>\$ 5,165,839</u>	<u>\$ 8,652,981</u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

13. Commitments (continued):

*Construction commitment (continued):*

The commitments for land improvements, residential street paving and road drainage are funded through general obligation bonds. The commitments for sanitary sewer upgrades are funded through loans with the Rhode Island Clean Water Finance Agency.

14. Joint ventures:

*Newport County Regional Special Education Program:*

The Middletown School Department (MSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. NCRSEP also administers the federally funded IDEA Part B program for each of the towns. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program and such amounts are deducted from the gross annual assessment. MSD's net assessment for 2008 was \$1,570,544. The towns have no equity interest in the net assets of NCRSEP, which totaled approximately \$335,000 at June 30, 2008. Separately audited financial statements are available at Newport County Regional Special Education Program, Elmhurst School – Glen Road, Portsmouth, RI 02871.

*The Governmental Health Group of Rhode Island, Inc.:*

The Town and MSD participate in a joint venture entitled The Governmental Health Group of Rhode Island, Inc. (the Group). The Group is a not-for-profit organization formed to provide programs of health insurance coverage to Rhode Island cities, towns, and other governmental units. The Group is governed by a Board of Directors.

Upon joining the Group, members execute a member agreement. That document, pursuant to which the Group was established and operates, outlines the rights and responsibilities of both the members and the Group. Members of the Group participate in the Group's health insurance plan administered through Blue Cross Blue Shield of Rhode Island (BCBSRI).

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2008

14. Joint ventures (continued):

*The Governmental Health Group of Rhode Island, Inc. (continued):*

Using the rate calculations prepared by BCBSRI, the Group sets annual contribution rates for the subscribers of each member for each program offered. The Group agreement requires that those contribution rates be set at a level sufficient, in the aggregate, to satisfy the funding requirements of the Group. The contributions of each member are deposited in the General Fund, and are used to pay for claims, reinsurance and all administrative expenses. The Group agreement provides for an annual independent audit of its financial statements.

A member's share of surplus or deficit is equal to the ratio of the member's subscribers (employees and retirees) participating in the Group's plan for each month of the one-year period immediately prior to the member's effective date of termination divided by the sum of all subscribers in the Group for the same period.

The Group agreement provides the Group's Board of Directors a discretionary, fully allocable assessment feature with respect to specified circumstances.

After it has been a member of the Group for an initial three-year period, a member may withdraw from the Group by providing the Group's Board of Directors with 90 days notice; liquidated damages would also be assessed at that time. The Group may terminate a member's coverage for failure to pay amounts due.

The Group generated \$50,791,039 in revenues, and net revenue of \$2,493,977 for the year ended June 30, 2008. The Group had \$14,003,162 in total assets, and \$6,635,268 in total equity as of June 30, 2008.

The Group retains certain levels of insurance risk and acquires reinsurance for specific losses in excess of \$300,000. As of June 30, 2008, the Group's membership consisted of 14 cities, towns or other governmental units.

Separate financial statements are available at Governmental Health Group of Rhode Island, Inc., P.O. Box 4430, Middletown, RI 02842.

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	\$ 36,609,021	\$ 36,609,021	\$ 36,597,600	\$ (11,421)
Intergovernmental	3,804,959	3,916,295	3,703,913	(212,382)
Licenses, permits and fees	1,426,950	1,447,516	1,560,489	112,973
Interest and investment	400,000	400,000	431,549	31,549
Other revenues	121,500	158,684	250,961	92,277
<b>Total revenues</b>	<b>42,362,430</b>	<b>42,531,516</b>	<b>42,544,512</b>	<b>12,996</b>
Expenditures:				
Current:				
General government	2,401,905	2,549,877	2,478,173	71,704
Public safety	7,733,891	7,893,487	7,761,651	131,836
Public works and sanitation	1,727,295	1,914,437	1,776,004	138,433
Planning and inspection	513,103	552,034	477,428	74,606
Library	775,897	775,897	746,763	29,134
Community services	119,501	119,501	119,467	34
Other expenditures	4,601,467	4,232,184	4,163,481	68,703
Grants	109,685	70,052	85,264	(15,212)
Capital outlay	1,489,074	1,824,989	1,235,044	589,945
Debt service	1,675,024	1,566,024	1,515,725	50,299
<b>Total expenditures</b>	<b>21,146,842</b>	<b>21,498,482</b>	<b>20,359,000</b>	<b>1,139,482</b>
Excess of revenues over expenditures, budgetary basis	21,215,588	21,033,034	22,185,512	1,152,478
Other financing sources (uses):				
Transfers from other funds	1,516,955	1,752,010	1,331,735	(420,275)
Transfers to other funds	(22,832,543)	(23,298,028)	(23,304,028)	(6,000)
Reappropriated fund balance	100,000	512,984	512,984	-
Proceeds from financing			8,238	8,238
<b>Total other financing sources (uses)</b>	<b>(21,215,588)</b>	<b>(21,033,034)</b>	<b>(21,451,071)</b>	<b>(418,037)</b>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	\$ -	\$ -	734,441	\$ 734,441
Adjustments of budgetary basis to U.S. GAAP basis			(803,983)	
Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis			(69,542)	
Net assets, beginning of year			9,603,094	
Net assets, end of year			<u>\$ 9,533,552</u>	

TOWN OF MIDDLETOWN, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT SPECIAL REVENUE FUND

YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental	\$ 13,640,313	\$ 13,735,139	\$ 14,292,688	\$ 557,549
Fees for service	886,308	886,308	789,846	(96,462)
Other revenues	116,615	153,515	138,434	(15,081)
<b>Total revenues</b>	<b>14,643,236</b>	<b>14,774,962</b>	<b>15,220,968</b>	<b>446,006</b>
Expenditures:				
Current:				
Salaries	20,247,609	20,647,550	20,019,444	628,106
Employee benefits	6,910,969	6,667,441	6,452,546	214,895
Purchased services	6,937,323	7,063,260	7,235,737	(172,477)
Supplies and materials	843,446	888,379	948,537	(60,158)
Other	25,977	35,976	30,337	5,639
Capital expenditures	304,432	332,111	795,456	(463,345)
Debt service	878,335	878,335	875,535	2,800
<b>Total expenditures</b>	<b>36,148,091</b>	<b>36,513,052</b>	<b>36,357,592</b>	<b>155,460</b>
Excess (deficiency) of revenues over expenditures, budgetary basis	(21,504,855)	(21,738,090)	(21,136,624)	601,466
Other financing sources:				
Transfer from other funds	21,204,855	21,204,855	21,780,571	575,716
Reappropriated fund balance	300,000	533,235	533,235	-
<b>Total other financing sources</b>	<b>21,504,855</b>	<b>21,738,090</b>	<b>22,313,806</b>	<b>575,716</b>
Excess of revenues and other financing sources over expenditures, budgetary basis	\$ -	\$ -	1,177,182	\$ 1,177,182
Adjustment of budgetary basis to U.S. GAAP basis:				
Reappropriated fund balance			(533,235)	
Excess of revenues and other financing sources over expenditures, U.S. GAAP basis			643,947	
Net assets, beginning of year			1,322,257	
Net assets, end of year			\$ 1,966,204	

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGET COMPARISON

YEAR ENDED JUNE 30, 2008

Budget preparation and budgetary basis of accounting:

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

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

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

	<u>General Fund</u>	<u>School Department</u>
Reappropriated fund equity	\$ 512,984	\$ 533,235
Change in reserve for encumbrances	<u>290,999</u>	<u>                    </u>
Total adjustments	<u><u>\$ 803,983</u></u>	<u><u>\$ 533,235</u></u>

TOWN OF MIDDLETOWN, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGET COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2008

**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 of the seven-member Town Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Unencumbered and unexpended appropriations lapse at fiscal year-end.

TOWN OF MIDDLETOWN, RHODE ISLAND  
MUNICIPAL PENSION PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
YEAR ENDED JUNE 30, 2008

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
<i>General employee unit:</i>						
June 30, 2004	\$ 7,211,885	\$ 9,683,092	\$ 2,471,207	74.5%	\$ 4,160,401	59.4%
June 30, 2005	7,733,571	10,809,459	3,075,888	71.5%	4,199,793	73.2%
June 30, 2006	8,555,676	12,597,772	4,042,096	67.9%	4,348,342	93.0%
<i>Police and fire unit:</i>						
June 30, 2004	\$ 131,356	\$ 104,763	\$ (26,593)	125.4%	\$ 159,835	(16.6%)
June 30, 2005	193,222	164,831	(28,391)	117.2%	279,513	(10.2%)
June 30, 2006	338,618	260,312	(78,306)	130.1%	661,230	(11.8%)

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2008

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a % of covered payroll</u>
July 1, 2007	\$ 41,266,807	\$ 49,694,529	\$ 8,427,722	83%	\$ 3,560,276	237%

\* The ARC is calculated using the aggregate actuarial cost method. Information in this schedule is calculated using the entry age actuarial method as a surrogate for the funding progress of the plan.

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDED JUNE 30, 2008

<u>Year ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$ 2,625,137	94.50%
2007	2,465,612	111.27%
2006	2,693,913	95.23%
2005	2,427,677	97.97%
2004	2,038,820	100.89%
2003	1,431,456	107.88%

TOWN OF MIDDLETOWN, RHODE ISLAND

TOWN PENSION PLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

The information presented in the required supplementary schedule was determined as part of the annual actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation (1) follows:

Valuation date	July 1, 2007
Actuarial cost method	Aggregate Actuarial Cost Method (2)
Amortization method	N/A - the aggregate cost method does not identify and separately amortize unfunded actuarial liabilities.
Remaining amortization period	N/A - the aggregate cost method does not identify and separately amortize unfunded actuarial liabilities.
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5% per annum
Cost-of-living adjustments	N/A

- (1) There have been no changes in the above actuarial assumptions or methods from the July 1, 2005 and 2006 actuarial valuations.
- (2) The aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC) for the Town Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status of the Town Plan.

TOWN OF MIDDLETOWN, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2008

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2007</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2008</u>
2007		\$ 36,797,361	\$ (97,370)	\$ 36,699,991	\$ 35,581,692	\$ 1,118,299
2006	\$ 962,414		(15,327)	947,087	891,145	55,942
2005	69,152		(6,516)	62,636	28,859	33,777
2004	36,905		(4,659)	32,246	6,227	26,019
2003	29,018		(526)	28,492	4,047	24,445
2002	32,961		(605)	32,356	1,712	30,644
2001	32,141		(128)	32,013	710	31,303
2000	39,829		(132)	39,697	695	39,002
1999	1,900			1,900		1,900
1998	810			810		810
1997	1,681			1,681		1,681
	<u>\$ 1,206,811</u>	<u>\$ 36,797,361</u>	<u>\$ (125,263)</u>	<u>\$ 37,878,909</u>	<u>\$ 36,515,087</u>	1,363,822
						Less allowance for doubtful accounts
						<u>(229,191)</u>
						<u>\$ 1,134,631</u>

TOWN OF MIDDLETOWN, RHODE ISLAND  
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)

YEAR ENDED JUNE 30, 2008

Schedule of net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,988,472,300	\$ 35,201,412
Motor vehicles	134,317,300	2,155,793
Tangible personal	146,876,028	1,294,071
Total	3,269,665,628	38,651,276
Exemptions	136,888,406	1,853,915
Current year assessment	<u>\$ 3,132,777,222</u>	<u>\$ 36,797,361</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 36,515,087
Revenue collected within 60 days subsequent to year ended June 30, 2008	<u>493,911</u>
	37,008,998
Prior year revenue received in current year	<u>(677,954)</u>
Current year real estate and personal property tax revenue	<u>\$ 36,331,044</u>