

THE TOWN OF PORTSMOUTH, RHODE ISLAND

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

TOWN OF PORTSMOUTH

YEAR ENDED JUNE 30, 2010

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TOWN OF PORTSMOUTH

YEAR ENDED JUNE 30, 2010

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FINANCIAL SECTION

This Section contains the Following Subsections:

Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

REPORT OF INDEPENDENT AUDITORS

To the Honorable Members of the Town Council
Portsmouth, 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 Portsmouth, Rhode Island, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Portsmouth, Rhode Island's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 Portsmouth, Rhode Island, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2010 on our consideration of the Town of Portsmouth, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Management's Discussion and Analysis, budgetary comparison information and supplementary pension and other post employment benefits information on pages 3 through 11 and 60 through 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 of Portsmouth, Rhode Island's basic financial statements. The combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining agency fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining fiduciary fund financial statements, and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Branch PC

Providence, Rhode Island
December 30, 2010

Management's Discussion and Analysis

As management of the Town of Portsmouth, Rhode Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of financial activities of the Town for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements that follow this section.

Financial Highlights

The Town of Portsmouth's total net assets for the fiscal year ended June 30, 2010 were \$14,339,327 which is an increase of \$1,566,662 over the fiscal year ended June 30, 2009. Net assets at June 30, 2010 included \$12,146,181 invested in capital assets, net of related debt, a decrease of \$179,819 over June 30, 2009; \$3,163,068 of restricted net assets at June 30, 2010, an increase of \$2,442,942 over June 30, 2009 and (\$969,922) of unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors, a decrease of \$742,177 over June 30, 2009.

- Total assets at June 30, 2010 were \$39,912,713, which is an increase of \$1,761,370 or 4.6% over June 30, 2009.
- Total liabilities at June 30, 2010 were \$25,573,386, which is an increase of \$240,423 or 1.0% over June 30, 2009.
- The governments total net assets increased by \$1,566,662.
- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of \$6,554,206 which is an increase of \$2,519,226 over June 30, 2009. Approximately 99 percent of this total amount or \$6,485,755 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, fund balance for the general fund was \$3,112,292 or 5.7 percent of the Fiscal Year 2009-10 Adopted General Fund Expenditure Budget of \$54,979,950. This represents an increase of \$663,437 over June 30, 2009.
- The Town of Portsmouth's total long-term and short-term obligations (i.e., general obligation bonds, capital leases, notes payable, compensated absences, and OPEB liabilities) increased by \$1,132,556 (4.9 percent) during the current fiscal year. The key factors in this increase were the issuance of \$2,743,982 in general obligation bonds, the retirement of \$2,606,600 in general obligation bonds and the addition of \$1,112,679 for net OPEB liabilities.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

It is important to note that the Town implemented the reporting requirements outlined in GASB 34 effective July 1, 2002. The reporting of general infrastructure assets of government activities was included in the financial statements for the year ended June 30, 2007.

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 all of the 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.

The statement of activities presents information showing how the government'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 a government 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, education and community services. The Town has three business-type activities. These include the School Lunch Fund, Wind Turbine Generator Fund and the Transfer Station Fund.

The government-wide financial statements include only the activities of the Town of Portsmouth. There are no component units within the Town's jurisdiction.

The government-wide financial statements can be found on pages 12-13 of this report.

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, fiduciary funds and proprietary 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 funds with similar 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 of Portsmouth maintains eighty eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the school unrestricted funds, which are considered to be major funds. Data from the other eighty six governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-17 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. The proprietary funds of the Town are considered non-major funds. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 18-20 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 basic fiduciary fund financial statements can be found on pages 21-22 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 23-59 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. It presents schedules detailing certain pension and OPEB information, 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 60-67 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 of Portsmouth, assets exceeded liabilities by \$14,339,327 at the close of the most recent fiscal year, as compared to assets exceeding liabilities by \$12,818,831 at the close of the previous fiscal year.

A portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire these assets that is still outstanding. The current year's figure for invested in capital assets, net of related debt is \$12,146,181.

An additional portion of Portsmouth's net assets (22%) represents resources that are subject to external restrictions on how they may be used. The remaining deficit in the unrestricted net assets, \$969,922, is primarily due to the additional net OPEB obligation.

**Town of Portsmouth Net Assets
June 30, 2010**

	Governmental activities		Business-type Activities		Total		\$ Change	% Change
	2010	2009	2010	2009	2010	2009		
Current and other assets	\$ 9,206,669	\$ 7,868,609	\$ (107,764)	\$ 39,366	\$ 9,098,905	\$ 7,907,975	\$ 1,190,930	15.1%
Capital Assets	27,946,374	27,251,194	2,867,434	2,992,174	30,813,808	30,243,368	570,440	2.1%
Total Assets	37,153,043	35,119,803	2,759,670	3,031,540	39,912,713	38,151,343	1,761,370	5.0%
Long-term liabilities outstanding	19,328,515	17,826,386	2,422,952	2,622,667	21,751,467	20,449,053	\$ 1,302,414	7.3%
Other Liabilities	3,583,887	4,560,557	238,032	323,353	3,821,919	4,883,910	(1,061,991)	-23.3%
Total Liabilities	22,912,402	22,386,943	2,660,984	2,946,020	25,573,386	25,332,963	240,423	1.1%
Net assets:								
Invested in capital assets, net of related debt	11,929,405	12,160,493	216,776	165,507	12,146,181	12,326,000	(179,819)	-1.5%
Restricted	3,111,864	714,727	51,204	5,399	3,163,068	720,126	2,442,942	341.8%
Unrestricted	(800,628)	(142,360)	(169,294)	(85,385)	(969,922)	(227,745)	(742,177)	521.3%
Total net assets	\$14,240,641	\$12,732,860	\$98,686	\$85,521	\$14,339,327	\$12,818,381	\$1,520,946	11.9%

Governmental activities Governmental activities increased Portsmouth's net assets by \$1,507,781

Town of Portsmouth Changes in Net Assets
June 30, 2010

	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2010	2009	2010	2009	2010	2009		
Revenues:								
Program revenues:								
Charges for services	\$2,762,753	\$2,597,550	\$1,577,377	\$1,097,214	\$4,340,130	\$3,694,764	\$645,366	17.5%
Operating grants and contributions	3,231,539	3,508,986	147,946	182,147	3,379,485	3,691,133	(311,648)	-8.4%
Capital grants and contributions	355,810	89,015			355,810	89,015	266,795	299.7%
General revenues:								
Property taxes and payments in lieu of taxes	43,728,918	41,791,630			43,728,918	41,791,630	1,937,288	4.6%
State Aid, unrestricted	6,947,321	7,426,530			6,947,321	7,426,530	(479,209)	-6.5%
Investment and interest income	11,798	41,839			11,798	41,839	(30,041)	-71.8%
Other revenues	1,042,461	1,250,718			1,042,461	1,250,718	(208,257)	-16.7%
Transfers	(96,875)	(284,225)	96,875	284,225	-	-	-	
Total revenues	57,983,725	56,422,043	1,822,198	1,563,586	59,805,923	57,985,629	1,820,294	3.1%
Expenses:								
General government	4,930,847	5,064,984			\$4,930,847	\$5,064,984	(\$134,137)	-2.6%
Public safety	8,529,945	8,441,333			8,529,945	8,441,333	88,612	1.0%
Public works	2,657,651	2,916,519			2,657,651	2,916,519	(258,868)	-8.9%
Education	37,942,790	38,467,906			37,942,790	38,467,906	(525,116)	-1.4%
Community services	1,556,963	1,477,988			1,556,963	1,477,988	78,975	5.3%
Capital outlay	143,750	46,059			143,750	46,059	97,691	212.1%
Interest on long-term debt	632,034	756,738			632,034	756,738	(124,704)	-16.5%
Amortization expense	91,050	43,313			91,050	43,313	47,737	110.2%
Non-operating expense	-	37,250			-	37,250	(37,250)	-100.0%
School lunch fund			557,748	650,200	557,748	650,200	(92,452)	-14.2%
Transfer station fund			673,097	726,962	673,097	726,962	(53,865)	-7.4%
Wind turbine generator fund			462,739	159,750	462,739	159,750	302,989	189.7%
Non-major funds			60,647		60,647		60,647	
Total expenses	56,485,030	57,252,090	1,754,231	1,536,912	58,239,261	58,789,002	(549,741)	-0.9%
Increase (decrease) in net assets	1,498,695	(830,047)	67,967	26,674	1,566,662	(803,373)	2,370,035	-295.0%
Net assets - beginning of year, as reclassified	12,741,946	13,562,907	30,719	58,847	12,772,665	13,621,754	(849,089)	-6.2%
Net assets - ending	14,240,641	12,732,860	98,686	85,521	14,339,327	12,818,381	1,520,946	11.9%

Financial Analysis of the Government's Funds

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

Governmental funds The focus of Portsmouth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Portsmouth'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 the end of the current fiscal year, Portsmouth's governmental funds reported a combined ending fund balance of \$6,554,206, an increase of \$2,519,226 in comparison with the prior year's fund balance. Most of this total amount, \$6,485,755, 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, primarily for inventory.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,057,891, while total fund balance reached \$3,112,292. 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 and total fund balance represent 5.55 and 5.65 percent of total general fund budgeted expenditures, respectively, which includes funds transferred to the School Department.

The fund balance of Portsmouth's General Fund increased by \$663,437 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2010 were slightly more than budgeted amounts by \$19,309. Poor economic conditions resulted in lower than budgeted revenues for inspection fees, real estate transfers and investment income. However, greater than budgeted revenues in fines and forfeitures and other revenues offset the lower than budgeted revenues.

Actual expenditures were less than budgeted amounts by \$687,070. The primary reasons for this result were spending and hiring freezes, furlough days, no salary increases and loss of holiday pay due to the anticipated loss of revenues.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2009-2010 fiscal year, school department net revenues were less than budgeted amounts by \$938,835. This shortfall was primarily due to mid-year cuts in State Aid to Education.

Actual expenditures were less than budgeted amounts by \$1,517,331. The principal reasons for this were a reduction in required contributions to the Employees Retirement System due to a change in plan benefits enacted by the General Assembly, less special education tuition payments than anticipated and spending reductions implemented in anticipation of the State Aid reduction.

Capital Asset and Debt Administration

Capital Assets The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$30,236,930 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total decrease in the Town's investment in governmental activity capital assets for the current fiscal year was \$6,438.

Long-term Debt At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of \$16,908,082, entirely backed by the full faith and credit of the Town. This includes \$2,743,982 incurred in Fiscal Year 2009-10.

State statutes limit the amount of general obligation bonded debt a town can issue to 3 percent of the net assessed property values. However, all bonds approved through State enabling legislation and voter referendums are exempt from the limit. At June 30, 2010 the Town had a debt limit of \$111,154,796, which significantly exceeds the Town's outstanding general debt.

The Town of Portsmouth maintains an "Aa2" rating from Moody's Investors Service on its general obligation debt.

Additional information on the Town of Portsmouth's long-term debt can be found in Note #5 on pages 38-41 of this report.

Economic Factors and Next Year's Budgets and Rates

New economic development in Portsmouth will be a mix of growth of existing businesses and capitalizing on significant potential new development. Current initiatives provide opportunities for a variety of new development.

The Town continues to focus on objectives of the West Side Master Plan (WSMP) developed by the Aquidneck Island Planning Commission (AIPC). The WSMP is the result of ten years of regional planning efforts across the community lines on Aquidneck Island. In Portsmouth, the focus for much of this plan is the potential reuse of 146 acres of former Navy petroleum tank farms along the Eastern shore of Narragansett Bay. The possible release of the Navy land has been a key planning topic for several years. In 2008, the Navy made it official that the former tank farms will be made available. The land is ideally situated along the West coast of Aquidneck Island, adjacent to Rt. 114, the existing cluster of Melville marine businesses and the large Raytheon Company campus.

To be in the best position to facilitate the transfer of the land, the Portsmouth Town Council created the Portsmouth Redevelopment Agency (PRA). The PRA is empowered with creating a formal plan for the reuse of the excess federal land and to manage and control redevelopment projects. With this formal body in position, the Town is following the federally approved mechanism for the transfer of the unused land to the Town. The PRA is empowered to own, sell and lease land on behalf of the Town.

Initial ideas for reuse of the Navy land envision a future business park focused on expansion of the marine trades industry, defense and homeland security businesses, municipal facilities, improved transportation facilities and open space. Creating a business park for marine trades and defense work will complement the existing concentration of similar businesses. The marine trades in the Melville area are in need of expansion space and inquiries have been received from marine ventures outside the area wishing to locate

here. A similar attraction is possible with smaller defense contractors desiring to be located near Raytheon and the Naval Undersea Warfare Center. Marine trades and defense and homeland security are two of the key economic growth clusters identified by the State. These industries receive very active support from State agencies to attract new enterprises and grow existing businesses.

More immediate economic activity is underway on the property adjacent to the WSMP area. Just south of the cluster of marine businesses in the Melville area is the site for the new Weaver Cove marina. Critical DEM and CRMC permits have been approved for a 1,495 slip marina and related facilities. On shore construction has been slowed due to portions of the land being contaminated from prior government uses. This marina is drawing much attention, as it will ease a scarcity of marina slips in Rhode Island and act as a potential business growth generator. The developer also plans to include facilities for on-shore support services and housing units in a village setting. By including significant public access to the shoreline, the planned project is gaining wide support. The completion of all phases of the project will cost over \$80 million.

All of the planned development along the West Side is being encouraged through the actions of the Town's Planning Department. The Town adopted changes to the Zoning Ordinance for the creation of Planned Marina Village Developments and Planned Resort Developments. The zoning ordinances fully support the incorporation of "smart growth" principles. The zoning ordinances include enforceable performance and preservation standards that will ensure site development of benefit to the Town.

Portsmouth continues to be a leader in the marine trades industry. Having three top-of-the-line yacht companies in Portsmouth has attracted a large community of smaller marine support businesses that handle a wide range of specialized services for the boating industry and individual customers. A survey of the 43 marine companies located in Portsmouth shows that employment continues to be down from 2007 levels. In spite of the very poor employment picture for the State, principals at the companies indicate that the worst is over and many positions will be restored. The Town, existing marine businesses, the Rhode Island Economic Development Corporation and the federal government continue work on the transfer of 30 acres of waterfront land in Melville from the Navy to a partnership of existing marine businesses. When the transfer is completed, Portsmouth Marine Partners is poised for expansion. The acreage will provide much needed space for the boat builders and create new facilities for smaller marine support contractors. There is very high demand for space in the area.

The largest employer in Portsmouth, Raytheon Company, continues to grow and recover from a downturn in the 1990's. The Portsmouth Seapower Capability Center is the global leader for naval and marine integrated systems for the defense industry and the civilian marine community. The company continues with major work in underwater detection and weapons systems as well as Navy missile systems. It has developed new uses for many of its systems in the field of homeland security for both government projects and private industry. It has DOD and Department of Homeland Security contracts for shipboard guidance and harbor protection systems. Working with a \$1.2 million congressional appropriation, it is developing and testing harbor and undersea detection systems to protect critical infrastructure. Employment levels may be stabilized with continuing work on Navy systems for all-weather carrier landings.

The Newport Dinner Train (located in Portsmouth) has received grant funding for the upgrade of the existing rail line located along the West Side shoreline. The line currently is used for tourist activity and a dinner train. Tourist visits and special corporate event traffic continue to grow. In addition to reconstructing the tracks, the train purchased new rolling stock to upgrade its service offering.

Vacant parcels in the Town Center area are attracting developer interest for a mixed use project. Changes to East Main Road to create a pedestrian friendly corridor are progressing. The RI DOT has fully endorsed the conversion of the road from four narrow lanes to a series of three roundabouts. Public feedback at

hearings is very supportive. A new medical diagnostic services building was opened in the Town Center adjacent to a new medical office building. The new facilities reduce the need to travel to Newport or Fall River for medical attention. A new 12,000 sq. ft office building opened in 2007 and is now 100% leased.

On West Main Road/Rt. 114, the first two buildings of Clocktower Square are open and are 90% full. If completed, the \$15 million, multi-phased project will consist of 8 buildings on 9 acres. The very attractive facilities have small local retail and medical tenants.

Occupancy in the Portsmouth Business Park is holding steady at above 90% with only two lots unsold. The Park has 21 companies with 165 employees.

Building on the interest generated by the wind generator at the Portsmouth Abbey School, a second wind generator in Portsmouth became a reality in March, 2009. The new 1.5 Mw wind generator, valued at \$3 million, is located at the high school and created a positive cash flow in its first full year of operation and contributed to decreasing electrical energy costs for the Town and School Department. A third wind generator is under construction by Hodges Badge Company. The new machine will supply 100% of the electrical needs of the 100 employee manufacturing company and will send excess generated power into the electrical grid when the business is not open.

Work continues on new construction at the exclusive "Carnegie Abbey Club". The additional Carnegie developments include high-end vacation homes and condos which impact town services much less than conventional residential development. The new marina opened this year. The centerpiece of the project is the new 14 story tower consisting of exclusive condominiums and penthouses. O'Neill Properties, the developer of the Carnegie projects, has also acquired 73 acres of waterfront property just north of the Carnegie facilities and has approval for construction of a second resort development. The project will include 152 vacation homes, a small marina and other club amenities. Work has already begun on a large indoor equestrian riding and training center.

Portsmouth is fortunate to have a large portion of the town in a State designated Enterprise Zone. The Enterprise Zone program offers incentives through property tax relief for new development and State income tax credits for adding to existing employment levels. As one of eleven areas in the State where special economic incentives are available, it serves as an additional attraction to locate and expand in Portsmouth. The RIEDC recently approved extension of the Enterprise Zone program for Portsmouth through the year 2014.

The unemployment rate as of June 30, 2010 is 9.6% (not seasonally adjusted). This compares favorably with an unemployment rate of 12.0% for the State of Rhode Island and slightly exceeds the national unemployment rate of 9.5%.

All of these factors were considered in preparing the Town of Portsmouth's budget for the Fiscal Year 2010-11.

Requests for Information

This report is designed to provide a general overview of the Town of Portsmouth's financial results. Questions concerning any of the information provided in this report for requests for additional financial information should be addressed to the Finance Director, Portsmouth Town Hall, 2200 East Main Road, Portsmouth, RI 02871.

TOWN OF PORTMOUTH**Statement of Net Assets
June 30, 2010**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,828,328	\$ 71,414	\$ 5,899,742
Real estate and personal property tax receivable, net	1,584,454		1,584,454
Ambulance receivables	292,768		292,768
Due from federal and state governments	66,500	11,041	77,541
Internal balances	324,878	(324,878)	0
Inventories	47,179	14,204	61,383
Other receivables, net	1,062,562	120,455	1,183,017
Total Current Assets	9,206,669	(107,764)	9,098,905
Noncurrent Assets:			
Capital assets (non-depreciable)	4,190,544		4,190,544
Capital assets (net of depreciation)	23,206,944	2,839,442	26,046,386
Debt issuance costs, net	240,423	27,992	268,415
Deferred gain on refunding	308,463		308,463
Total Non-Current Assets	27,946,374	2,867,434	30,813,808
TOTAL ASSETS	37,153,043	2,759,670	39,912,713
LIABILITIES			
Current Liabilities:			
Accounts payable	793,415	33,973	827,388
Accrued interest payable	145,372	4,345	149,717
Accrued expenses	391,308		391,308
Current portion of long-term debt	2,253,792	199,714	2,453,506
Total Current Liabilities	3,583,887	238,032	3,821,919
Noncurrent Liabilities:			
Unearned revenue	66,500		66,500
Accrued compensated absences	2,028,474		2,028,474
Net OPEB obligation	2,431,196		2,431,196
Long-term liabilities (net)	14,802,345	2,422,952	17,225,297
Total Noncurrent Liabilities	19,328,515	2,422,952	21,751,467
TOTAL LIABILITIES	22,912,402	2,660,984	25,573,386
NET ASSETS			
Invested in capital assets, net of related debt	11,929,405	216,776	12,146,181
Restricted for specific programs	3,111,864	51,204	3,163,068
Unrestricted	(800,628)	(169,294)	(969,922)
TOTAL NET ASSETS	\$ 14,240,641	\$ 98,686	\$ 14,339,327

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH

**Statement of Activities
For the year ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 4,930,847	\$ 1,195,247	\$ 84,369	\$ 250,000	\$ (3,401,231)		\$ (3,401,231)
Public safety	8,529,945	632,623	210,477	28,505	(7,658,340)		(7,658,340)
Public services	2,657,651		20,000		(2,637,651)		(2,637,651)
Education	37,942,790	934,883	2,565,866	65,305	(34,376,736)		(34,376,736)
Community service	1,556,963		350,827	12,000	(1,194,136)		(1,194,136)
Capital outlay	143,750				(143,750)		(143,750)
Interest on long-term debt	632,034				(632,034)		(632,034)
Amortization expense	91,050				(91,050)		(91,050)
Total governmental activities	56,485,030	2,762,753	3,231,539	355,810	(50,134,928)		(50,134,928)
Business-type Activity:							
School lunch fund	557,748	415,623	147,946		\$ 5,821		5,821
Transfer station	673,097	582,877			(90,220)		(90,220)
Wind turbine generator fund	462,739	508,545			45,806		45,806
Non-major funds	60,647	70,332			9,685		9,685
Total business type activity	1,754,231	1,577,377	147,946		(28,908)		(28,908)
Totals	\$ 58,239,261	\$ 4,340,130	\$ 3,379,485	\$ 355,810	(50,134,928)	(28,908)	(50,163,836)
General revenues:							
Taxes:							
Property taxes and payments in lieu of taxes					43,728,918		43,728,918
State aid, unrestricted					6,947,321		6,947,321
Investment and interest income					11,798		11,798
Other revenues					1,042,461		1,042,461
Transfers					(96,875)	96,875	0
Total general revenues					51,633,623	96,875	51,730,498
Change in Net Assets					1,498,695	67,967	1,566,662
Net Assets - beginning of year					12,741,946	30,719	12,772,665
Net Assets - ending of year					\$ 14,240,641	\$ 98,686	\$ 14,339,327

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH

**Balance Sheet
Governmental Funds
June 30, 2010**

	Major Funds			Total Governmental Funds
	General Fund	School Unrestricted Fund	Other Governmental Funds	
ASSETS:				
Cash and cash equivalents	\$ 4,392,991	1,064,640	\$ 370,697	\$ 5,828,328
Real estate and personal property tax receivable (net)	1,584,454			1,584,454
Due from federal and state governments		-	66,500	66,500
Due from other funds	162,992	1,403,761	2,191,169	3,757,922
Ambulance receivable	385,820			385,820
Other receivables	282,363	140,644	639,555	1,062,562
Inventory	47,179			47,179
TOTAL ASSETS	\$ 6,855,799	\$ 2,609,045	\$ 3,267,921	\$ 12,732,765
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 77,491	\$ 186,834	\$ 24,986	\$ 289,311
Accrued expenses	245,696	145,612		391,308
Due to other funds	1,421,924	895,096	1,116,024	3,433,044
Deferred revenue	1,494,292		66,500	1,560,792
Other liabilities	504,104			504,104
TOTAL LIABILITIES	3,743,507	1,227,542	1,207,510	6,178,559
FUND BALANCES:				
Reserved for:				
Inventory	47,179			47,179
Encumbrances	7,222	9,229		16,451
Perpetual care and other			4,821	4,821
Unreserved:				
Designated for subsequent year's expenditures	323,744	316,000		639,744
Unreserved undesignated	2,734,147			2,734,147
Reported in:				
Special revenue funds		1,056,274	364,358	1,420,632
Capital project funds			1,552,728	1,552,728
Permanent funds			138,504	138,504
TOTAL FUND BALANCES	3,112,292	1,381,503	2,060,411	6,554,206
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,855,799	\$ 2,609,045	\$ 3,267,921	\$ 12,732,765

(CONTINUED)

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH

B-1

**Reconciliation of the Governmental Funds Balance Sheet (B-1)
to the Government-Wide Statement of Net Assets (A-1)
June 30, 2010**

TOTAL FUND BALANCES - Total Governmental Funds (B-1)	\$ 6,554,206
Amounts reported for governmental activities in the statement of net assets differ because:	
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	27,397,488
Other long-term assets are recognized as revenue in the period for which they are billed in the Government-Wide Financial Statements, but are reported as deferred revenue (a liability) in Governmental Fund Financial Statements.	1,494,292
Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund Financial Statements because they are offset by deferred revenue.	(93,052)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(145,372)
Debt issuance costs, deferred gain on refunding and premium on bonds are deferred and amortized over the life of the related debt in the Government-Wide Financial Statements, but are reported as an expenditure and other financing source in the year of issuance in the Governmental Fund Financial Statements.	548,886
Long-term liabilities (including bonds payable, compensated absences and leases payable) are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.	(19,084,611)
OPEB liability is recorded in the governmental activities, but not recorded in the funds.	(2,431,196)
Net Assets of Governmental Activities	<u>\$ 14,240,641</u>

(CONCLUDED)

TOWN OF PORTSMOUTH

**Statement of Revenues, Other financing sources
Expenditures, Other financing uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	School Unrestricted Fund		
Revenues				
General property taxes and payments in lieu of taxes	\$ 43,473,752			\$ 43,473,752
State aid and grants	1,117,559	\$ 5,548,594	\$ 2,246,838	8,912,991
State Fiscal Stabilization Funds		281,168		281,168
Licenses, permits and fees	205,831			205,831
Charges for services	484,022	907,081	84,185	1,475,288
Melville Ponds Campgrounds	212,926			212,926
Glen Manor House	331,975			331,975
Rescue wagon income	536,733			536,733
Fines and forfeitures	333,545			333,545
Interest and investment income	9,617		2,181	11,798
Contributions and private grants			25,716	25,716
Other revenues	438,591	277,445	843	716,879
Intergovernmental pension contribution		1,302,795		1,302,795
Total revenues	47,144,551	8,317,083	2,359,763	57,821,397
Expenditures				
<i>Current:</i>				
General government	3,953,486		11,335	3,964,821
Public safety	8,092,765		229,458	8,322,223
Public works	2,154,123		32,470	2,186,593
Education		34,500,894	1,287,215	35,788,109
Community services	1,056,729		361,210	1,417,939
Park & recreation			15,882	15,882
Intergovernmental pension contribution		1,302,795		1,302,795
<i>Debt Service:</i>				
Principal payments	2,606,600			2,606,600
Interest	670,989			670,989
Bond issuance costs	5,105			5,105
<i>Capital:</i>				
Capital expenditures			1,703,586	1,703,586
Total expenditures	18,539,797	35,803,689	3,641,156	57,984,642
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	28,604,754	(27,486,606)	(1,281,393)	(163,245)
Other financing sources (uses)				
Transfers in	272,323	28,074,331	113,396	28,460,050
Transfers out	(28,213,640)	(63,713)	(279,572)	(28,556,925)
Note proceeds			146,982	146,982
Bond proceeds			2,597,000	2,597,000
Bond premiums			35,364	35,364
Net other financing sources (uses)	(27,941,317)	28,010,618	2,613,170	2,682,471
Net change in fund balances	663,437	524,012	1,331,777	2,519,226
Fund balances - beginning of the year	2,448,855	857,491	728,634	4,034,980
Fund balances - ending of the year	\$ 3,112,292	\$ 1,381,503	\$ 2,060,411	\$ 6,554,206

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH***Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds (B-2) to the Statement of Activities (A-2)
For the year ended June 30, 2010***

Net change in fund balances - total governmental funds (B-2)	\$ 2,519,226
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets reported in the period.	1,991,894
Depreciation expense on capital assets is reported in the Government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental fund statements.	(1,845,600)
Long-term compensated absences is reported in the Government wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, compensated absences is not reported as expenditures in Governmental fund financial statements. This is the change in long-term compensated absences for the year.	(74,429)
Repayment of bonds is an expenditure in the Governmental Fund financial statements, but the payments reduce long-term liabilities in the Government-wide statements.	2,606,600
Accrued interest expense on long-term debt is reported in the Government-wide Statement of Activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in the Governmental fund financial statements. This is the change in accrued interest for the year.	(5,668)
Bond proceeds are reported as other financing sources in the Governmental Fund financial statements. However, the proceeds are recorded as long-term liabilities in the Government-Wide financial statements	(2,779,346)
Bond issuance costs are reported as an expenditure in the Governmental fund financial statements.	21,325
Amortization of deferred debt issuance costs, premium on bonds and gains on advance refunding are not reflected in Governmental fund financial statements.	(67,752)
Bad debt expense is reported in the Government-wide statement of activities and changes in net assets, but not reported in the Governmental fund financial statements.	(10,042)
Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental fund financial statements.	255,166
The increase in OPEB liability is not recorded in the governmental fund. The change from prior year is reflected in the statement of activities and changes in net assets.	<u>(1,112,679)</u>
<i>Change in net assets of Governmental Activities</i>	<u>\$ 1,498,695</u>

TOWN OF PORTSMOUTH**Statement of Net Assets
Proprietary Funds
June 30, 2010**

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
ASSETS					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 71,414				\$ 71,414
Due from other governmental units	11,041				11,041
Due from other funds	187,521	\$ 18,608		\$ 30,082	236,211
Accounts receivable		15,365	\$ 105,090		120,455
Inventory	14,204				14,204
Debt issuance costs, net			27,992		27,992
Total current assets	284,180	33,973	133,082	30,082	481,317
<i>Non-current assets:</i>					
Capital assets:					
Depreciable assets - net	39,836	37,250	2,762,356		2,839,442
Total non-current assets	39,836	37,250	2,762,356		2,839,442
TOTAL ASSETS	324,016	71,223	2,895,438	30,082	3,320,759
LIABILITIES					
<i>Current liabilities:</i>					
Bonds payable			199,714		199,714
Accrued interest payable			4,345		4,345
Due to other funds	268,668		217,222	75,199	561,089
Accounts payable		33,973			33,973
Total current liabilities	268,668	33,973	421,281	75,199	799,121
<i>Non-current liabilities:</i>					
Bonds payable, net of current portion			2,422,952		2,422,952
Total non-current liabilities			2,422,952		2,422,952
TOTAL LIABILITIES	268,668	33,973	2,844,233	75,199	3,222,073
NET ASSETS					
Invested in capital assets, net of related debt	39,836	37,250	139,690		216,776
Reserve for contingencies			34,136		34,136
Reserve for repairs			17,068		17,068
Unrestricted	15,512		(139,689)	(45,117)	(169,294)
TOTAL NET ASSETS	\$ 55,348	\$ 37,250	\$ 51,205	\$ (45,117)	\$ 98,686

TOWN OF PORTSMOUTH

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2010**

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
Operating Revenues:					
Intergovernmental	\$ 147,946				\$ 147,946
Other revenues	415,623		\$ 508,545		924,168
Charges for services		\$ 582,877		\$ 70,332	653,209
Total Operating Revenues	563,569	582,877	508,545	70,332	1,725,323
Operating Expenses:					
Cafeteria operations	554,333				554,333
Transfer Station operations		673,097			673,097
Wind Turbine Generator operations			14,136		14,136
Education				60,647	60,647
Depreciation and amortization	3,415		151,461		154,876
Total Operating Expenses	557,748	673,097	165,597	60,647	1,457,089
Income from operations	5,821	(90,220)	342,948	9,685	268,234
Non-operating Revenues (Expenses):					
Interest expense			(37,577)		(37,577)
Distribution to Town General Fund			(80,465)		(80,465)
Distribution to School General Fund			(179,100)		(179,100)
Net Non-operating Revenues	0	0	(297,142)	0	(297,142)
Net income (loss) before transfers	5,821	(90,220)	45,806	9,685	(28,908)
Transfers in (out)	6,655	90,220			96,875
Change in net assets	12,476	0	45,806	9,685	67,967
Net assets - beginning of the year	42,872	37,250	5,399	(54,802)	30,719
Net assets - ending of the year	\$ 55,348	\$ 37,250	\$ 51,205	\$ (45,117)	\$ 98,686

See Notes To Financial Statements

TOWN OF PORTSMOUTH

Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2010

	School Lunch Fund	Transfer Station	Wind Turbine Generator	Non-major Funds	Total
Cash flows from operating activities:					
Cash received from customers	\$ 415,623	\$ 568,971	\$ 440,195	\$ 70,332	\$ 1,495,121
Intergovernmental	148,219				148,219
Cash payments to suppliers for goods and services	(554,333)	(692,134)	(67,086)	(61,971)	(1,375,524)
Cash paid to employees		(12,145)			(12,145)
Net cash provided (used) by operating activities	9,509	(135,308)	373,109	8,361	255,671
Cash flows from non-capital financing activities:					
Operating transfers (to) from other funds	6,655	90,220	(259,565)		(162,690)
Interfund borrowings	50,176	45,088	124,936	(8,361)	211,839
Net cash provided (used) by non-capital financing activities	56,831	135,308	(134,629)	(8,361)	49,149
Cash flows from capital-related financing activities:					
Principal paid on bonds			(204,000)		(204,000)
Interest paid on bonds			(34,480)		(34,480)
Net cash used for capital-related financing activities	-	-	(238,480)	-	(238,480)
Net increase in cash	66,340	0	0	0	66,340
Cash and cash equivalents, beginning of the year	5,074	0	0	0	5,074
Cash and cash equivalents, end of the year	\$ 71,414	\$ -	\$ -	\$ -	\$ 71,414
Reconciliation of net income to net cash provided by operating activities:					
Income (loss) from operations	\$ 5,821	\$ (90,220)	\$ 342,948	\$ 9,685	\$ 268,234
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,415		151,461		154,876
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	273	(13,906)	(68,350)		(81,983)
(Decrease) in accounts payable		(31,182)	(52,950)	(1,324)	(85,456)
Total adjustments	3,688	(45,088)	30,161	(1,324)	(12,563)
Net cash provided by (used) by operating activities	\$ 9,509	\$ (135,308)	\$ 373,109	\$ 8,361	\$ 255,671

See Notes to Financial Statements

TOWN OF PORTSMOUTH**Statement of Net Assets
Fiduciary Funds
June 30, 2010**

	<u>Pension Trust Funds</u>	<u>Defined Contribution Pension Plan</u>	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 503,275		\$ 147,961	\$ 359,368
Investments, at fair value	27,729,576	\$ 2,305,899		
Accounts Receivable				243,289
Prepaid expenses	170,695			
Letter of credit				9,100
TOTAL ASSETS	28,403,546	2,305,899	147,961	611,757
<u>LIABILITIES</u>				
Other Liabilities			1,038	
Deposits held in custody for others				611,757
Total liabilities			1,038	611,757
<u>NET ASSETS</u>				
Held in trust for pension and OPEB benefits	28,403,546	2,305,899	146,923	
Total net assets	28,403,546	2,305,899	146,923	
Total liabilities and net assets	\$ 28,403,546	\$ 2,305,899	\$ 147,961	\$ 611,757

TOWN OF PORTSMOUTH

**Statement of Changes in Net Assets
Fiduciary Funds
For the year ended June 30, 2010**

	Pension Trust Fund	Defined Contribution Pension Plan	OPEB Trust Fund
Additions:			
Contributions:			
Employer	\$ 2,590,523	\$ 36,003	\$ 145,091
Plan member	500,733	97,990	
Total contributions	3,091,256	133,993	145,091
Investment income:			
Net gain or (loss) on value of investments	3,481,203	77,100	2,882
Net investment income (loss)	3,481,203	77,100	2,882
Total additions	6,572,459	211,093	147,973
Deductions:			
Benefits paid	1,973,098	126,717	
Administrative and other	27,663	84	1,050
Total deductions	2,000,761	126,801	1,050
Changes in net assets	4,571,698	84,292	146,923
Net assets - beginning of year	23,831,848	2,221,607	0
Net assets - ending of the year	\$ 28,403,546	\$ 2,305,899	\$ 146,923

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Portsmouth was established in 1638 and incorporated as a Town in 1640. The Town of Portsmouth is governed largely under the 1958 Home Rule Charter, which provides for a Council-Administrator form of government. The Town provides various services including education, solid waste disposal, public safety (police and fire), public works, (engineering, highway, recycling, public buildings, parks and recreation), social services and general government services.

The Town complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

As a general rule, the effect of Inter-fund activity has been eliminated from the government-wide financial statements.

Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 39. Under GASB Statement No. 39, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate entities that meet any one of the following three tests:

Test 1 - The primary government appoints the voting majority of the board of the potential component unit and:

- * is able to impose its will on the potential component unit and/or
- * is in a relationship of financial benefit or burden with the potential component unit;

Test 2 - The potential component unit is fiscally dependent upon the primary government; or

Test 3 - The financial statements would be misleading if data from the potential component unit were not included.

The following entities were considered for classification as component units for fiscal year 2010:

- * Portsmouth School Department
- * Portsmouth Water and Fire District

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

Although the Portsmouth School Department met certain criteria of the tests listed above, it is not deemed to have separate legal status apart from the Town. As a result, the financial data of the Portsmouth School Department has been included as a major special revenue fund within the Town's financial statements.

The Portsmouth Water and Fire District is a separate legal entity that appoints its own board members, sets its own billing rates and is not fiscally dependent upon the Town of Portsmouth. As a result, the Portsmouth Water and Fire District has not been included as a component unit.

The Town of Portsmouth does not have any component units.

Recently Issued Accounting Standards

The Town has implemented GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, effective for the Town's fiscal year ending June 30, 2010. The adoption of this Statement did not have an effect on the Town's financial statements or results of operations.

The Town has implemented GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments, effective for the Town's fiscal year ending June 30, 2010. The adoption of this Statement did not have an effect on the Town's financial statements or results of operations.

The Town will adopt the following new accounting pronouncements in the future years:

- ✓ GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, effective for the Town's fiscal year ending June 30, 2011.
- ✓ GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, full implementation effective for the Town's fiscal year ending June 30, 2011.
- ✓ GASB Statement No. 59 – Financial Instruments Omnibus, effective for the Town's fiscal year ending June 30, 2011.

The impact of these pronouncements on the Town's financial statements has not been determined.

Basis of Presentation

The accounting of the Town is organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds to demonstrate legal compliance and to aid management by segregating transactions related to specific Town functions or activities.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-Wide Financial Statements

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

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Town are reported in three categories: (1) charges for services; (2) operating grants and contributions; and (3) capital grants and contributions.

Fund Financial Statements

Fund financial statements of the reporting entity 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 expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. 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.

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide Financial Statements.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

All governmental funds are accounted for using the spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the Town are property tax and intergovernmental revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The funds of the financial reporting entity are described below:

Major Governmental Funds

General Fund

The General Fund is used to account for resources devoted to financing the general services the Town performs for its citizens.

School Unrestricted Fund

The School Unrestricted Fund is used to account for the budgeted resources devoted to financing the general operations of the School Department.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

The Town has three Major and two Non-Major Enterprise Funds as follows:

Wind Turbine Generator Fund- Major

The Wind Turbine Generator Fund is used to account for the operations of the Town's wind turbine generator.

Transfer Station Fund- Major

The Transfer Station Fund is used to account for the Town's transfer station operations. This fund did not meet the criteria for reporting as a major fund. However, management elected to present the fund as a major fund.

School Lunch Fund- Major

The School Lunch Fund is used to account for the School's cafeteria operations. This fund did not meet the criteria for reporting as a major fund. However, management elected to present the fund as a major fund.

Summer School Enrichment Fund- Non-Major

The Summer School Enrichment Fund is used to account for School's summer school enrichment program operations.

Summer School Remedial Fund- Non-Major

The Summer School Remedial Fund is used to account for the School's summer school remedial program operations.

Fiduciary Fund Financial Statements (Not included in government-wide statements)

Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Net Assets. The Town's Fiduciary Funds include Pension Trust Funds and Agency Funds. Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations or other governments. The Fiduciary Funds are accounted for on a spending or "economic resources" measurement focus and the accrual basis of accounting. Agency funds are purely custodial and do not involve the measurement of results of operations.

Pension Trust Funds

These funds account for resources held in trust for members and beneficiaries of the Town administered defined benefit pension plan and defined contribution pension plan.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

OPEB Trust Funds

These funds account for resources held in trust for members and beneficiaries of the Town administered retiree health plan.

Agency Funds

These funds account for assets held by the Town and the School as agent for various student groups and individuals: Town Activity Funds and Student Activity Funds.

Non-Major Governmental Funds

Special Revenue Funds

These 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 only major special revenue fund is the School Unrestricted Fund, which provides education to the Town's children. The non-major funds include the following: CDBG, AIPC/Shoreline Gateway, Bulletproof Vest Grant, COPS that Care, Mini-Grant, EDC Gateway Project, EMC WMD, EMP Grant, Byrne/JAG ARRA "Stimulus" Grant, PPD Homeland, PPD/PFD Homeland, Commemorative Bench Program, Island Park Skate Park, Sandy Point Trail Grant, Click it or Ticket, Tobacco Control Program, Town Center Grant, Town Commons Grant, EMPG Shelter Generator, Alcohol Survey, Cops Care Bike, CPR Certification Program, Dare Program, EMA Mitigation Planning, EMA OPS Plan, Explorer Program, Fire Alarm Maintenance, Fire Plan Review, Historic Records Fund, John Haskins Memorial Fund, Lower Glen Farm Preservation, Fed Equitable Sharing Drug, Melville Recreation Committee, NARC Forfeiture SEC, Pollution Abatement Waste, Pollution Abatement Storm, Proud Grant, Blue Riptide Impaired/Drunk, Blue Riptide Speed Management, Ruth Earle Memorial Fund, Senior Center Grant, State Fire Incentive, State Police Incentive, Substance Abuse, Tech Upgrade & Doc Preservation, Tobacco Survey, Miscellaneous Grant/Donation, Fire Smoke Detector Inspection, Waste Water Facilities Plan, Byrne Grant, EMA Meds Pods, Low Income Spay/Neuter, Shelter Spay/Neuter, Child Passenger Safety Grant, Conserv Commons, Mobil Data Printer Project, Mobil Data Computer Terminal, Friends of Glen Park, VIS Grant, Gate Receipts, IDEA, Title, Prior AP, Perkins, Misc Transfer, Insurance Vandalism, Literacy Dropout, RI NET, Technology, Parent Study Task Force, Summer School, Interschool Athletics, Professional Development, Student Equity Investment, Gym Fundraising, RITTI, Concord Consortium, Early Childhood, United Way Melville Playground Building Use Utilities, Benefit Appropriation Fund, Restricted Donation, Restricted Hathaway, Stimulus ARRA, Uniform Chart of Accounts, and Feinstein Grant.

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition or construction of specific capital projects or items: Glen Manor, 05-06 Warrants, 06-07 Warrants, 07-08 Warrants, 08-09 Warrants, 09-10 Warrants, Various Equipment and Capital Fund.

Permanent Funds

These funds are used to 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: Sherman Trust Fund and Cemetery Fund.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

Cash and cash equivalents are carried at cost. For the purpose of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Under Rhode Island laws, depository institutions holding deposits of the State, its agencies or governmental subdivision of the State, shall at a minimum, insure or pledge eligible collateral equal to 100% of the deposits which are time deposits with maturities greater than sixty days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure pledged collateral equal to 100% of the deposits, regardless of maturities.

Investments

Investments are recorded at fair value. Unrealized gains and losses from changes in fair value are recognized as investment income.

Accounts Receivable and Taxes Receivable

Accounts receivable and taxes receivable are shown net of an allowance for uncollectible accounts. The allowances are calculated based on the age of the individual receivables. The allowance for uncollectible property taxes in the governmental and government wide statements amounted to \$499,657 at June 30, 2010. Property taxes which were levied on July 1 of the current year and other delinquent balances are recorded as receivables.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Inventory

Inventory is maintained on a perpetual system and is stated at cost (first in, first out method of inventory valuation). Inventory is generally recorded as expenditures/expenses when consumed.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. In applying GASB No. 33 to grant revenue, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient. Program revenues generally consist of contributions, grants and charges for services (i.e., licenses, fees, etc.).

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Capital Assets and Depreciation

Capital assets are reported in the Government-Wide Statement of Net Assets, but are not reported in the Governmental Fund Financial Statements.

All capital assets are capitalized at historical cost or estimated historical cost. Donated capital assets are recorded at the fair market value as of the date received. The Town follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than 1 year. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not incurred during fiscal 2010.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend assets' lives are not included in capital assets.

Depreciation is calculated on the straight-line basis over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land improvements	20 years
Infrastructure	20 – 30 years
Buildings and improvements	10 – 50 years
Equipment, furniture and fixtures	4 – 20 years
Motor Vehicles	6 – 30 years

Deferred Revenue

In the Governmental Fund Financial Statements, deferred revenue represents funds received in advance of being owed or receivables which will be collected and included in revenues of future fiscal years. In the General Fund, deferred revenues relate to uncollected property taxes levied on the 1st of July to be payable on July 31 (with provisions to be paid quarterly), plus delinquent balances less property tax amounts due as of June 30 and received 60 days thereafter.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Property Taxes

Property taxes are recognized as revenue in the year they are levied and become available. To be considered available, property taxes must be then due and collected during the year or within 60 days subsequent to year-end. Property taxes not considered available are reported as deferred revenues.

The Town is permitted by State Law to levy property taxes. Current tax collections for the Town were approximately 96.5% of the total 2009 levy.

The Town's fiscal 2009-2010 property taxes were levied on July 1, 2009 on assessed valuations as of December 31, 2008. Upon levy, taxes are due September 1 or may be paid quarterly by September 1, December 1, March 1, and June 1. Failure to make payments by due dates will result in a lien on the taxpayer's property.

Rhode Island general laws restricts the Town's ability to increase either its total tax levy or its tax rates by more than 4.75% over those of the preceding year. Total taxes of \$42,275,881 resulting from tax rates of \$22.50, and \$11.26 per \$1,000 of assessed valuation for motor vehicles, real estate and tangible property, and business inventory, respectively, were levied on July 1, 2009.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

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.

Interfund activity within and among the funds of the Town have been classified and reported as follows:

Reciprocal interfund activities:

Interfund loans are reported as interfund receivables in the lending fund and interfund payables in borrower funds.

Interfund services are reported as revenues in the seller fund and as expenditures or expenses in the purchasing fund.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Interfund Transactions (Continued)

Non-reciprocal interfund activities:

Interfund transfers are reported in governmental funds as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds transfers are reported after nonoperating revenues and expenses.

Interfund reimbursements are repayments from the fund responsible for particular expenditures or expenses to other funds that initially paid for them. Reimbursements are not displayed separately within the financial statements.

Compensated Absences

Under the terms of various contracts and agreements, Town employees are granted vacation and sick leave in varying amounts based on length of service. Vacation benefits are accrued as a liability based on the accumulated benefits earned at June 30. Sick leave benefits are based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The liability is calculated at the rate of pay in effect at June 30, 2010.

The entire compensated absence liability is reported on the Government-Wide financial statements. For the Governmental Fund financial statements, accumulated vacation and sick leave has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability not paid with expendable available financial resources is not recorded in the Governmental Fund financial statements.

Accrued Liabilities and Long-Term Debt

All accrued liabilities and long-term debt are reported in the Government-Wide financial statements.

For Governmental Fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the Fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the Fund financial statements until due. For other long-term obligations, only that portion expected to be financed from expendable available financial sources is reported as a fund liability of the governmental fund. The face amount of debt issued is reported as other financial sources.

Bond Premiums and Issuance Costs

In the Governmental Fund financial statements, bond premiums and issuance costs are treated as period costs in the year issued. Bond issuance costs are included in debt service expenditures and bond premiums are reflected as other financing sources.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Bond Premiums and Issuance Costs (Continued)

In the Government-Wide statements, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an addition to the face amount of the bonds payable whereas issuance costs are presented as other assets. Bond premiums are reported as other financing sources while discounts are reported as other financing uses.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance.

Claims and Judgments

The Town is exposed with respect to risks including, but not limited to, property damages, personal injury and workers' compensation. In the governmental fund financial statements, expenditures for claims and judgments are recorded on the basis of whether the liability has matured in the current period. The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust. The Trust was established to offer a viable alternative to commercial insurance for public entities through intergovernmental pooling of risk. The Trust is a protected, self-insurance plan. The Town pays annual premium for its liability, property and worker's compensation coverage. The membership participation agreement provides that, in return for the payment of the annual premium, the Trust member transfers the financial responsibility for loss, but only according to the conditions of coverage and up to the stated maximum amount of insurance purchased by the Town or School Department. In the Government-Wide financial statements, the estimated liability for all claims and judgments is recorded as a liability and as an expense.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

2. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 as follows:

<i>Governmental Activities:</i>	BEGINNING BALANCE	ADDITIONS	RETIREMENTS AND TRANSFERS	ENDING BALANCE at 6/30/10
Nondepreciable assets:				
Land	\$ 4,037,922			\$ 4,037,922
Construction in Progress	92,964	152,622	92,964	152,622
Total Capital assets not being depreciated	<u>4,130,886</u>	<u>152,622</u>	<u>92,964</u>	<u>4,190,544</u>
Depreciable assets:				
Land improvements	629,155	8,693	-	637,848
Buildings	21,701,762	123,910	-	21,825,672
Buildings and improvements	5,126,590	618,992	-	5,745,582
Machinery & equipment	3,918,807	567,236	29,872	4,456,171
Construction equipment	396,909		-	396,909
Infrastructure	18,336,611	586,908	-	18,923,519
Vehicles	3,837,058	63,541	71,362	3,829,237
Total Capital assets being depreciated	<u>53,946,892</u>	<u>1,969,280</u>	<u>101,234</u>	<u>55,814,938</u>
Less: accumulated depreciation for:				
Land improvements	197,741	28,593	-	226,334
Buildings	13,424,445	409,899	-	13,834,344
Buildings and improvements	556,362	238,350	-	794,712
Machinery and equipment	2,263,567	504,574	17,391	2,750,750
Construction equipment	292,447	11,130	-	303,577
Infrastructure	12,227,498	411,176	-	12,638,674
Vehicles	1,864,524	241,877	46,798	2,059,603
Total accumulated depreciation	<u>30,826,584</u>	<u>1,845,599</u>	<u>64,189</u>	<u>32,607,994</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 27,251,194</u>	<u>\$ 276,303</u>	<u>\$ 130,009</u>	<u>\$ 27,397,488</u>
	BEGINNING BALANCE	ADDITIONS	RETIREMENTS AND TRANSFERS	ENDING BALANCE at 6/30/10
<i>Business-type activities</i>				
Nondepreciable assets:				
Land	\$ 37,251		-	\$ 37,251
Total Capital assets not being depreciated	<u>37,251</u>	<u>-</u>	<u>-</u>	<u>37,251</u>
Depreciable assets:				
Machinery, equipment & vehicles	3,035,193		-	3,035,193
TOTAL CAPITAL ASSETS	<u>3,035,193</u>	<u>-</u>	<u>-</u>	<u>3,035,193</u>
Less accumulated depreciation for:				
Machinery, equipment & vehicles	78,153	154,849	-	233,002
Total accumulated depreciation	<u>78,153</u>	<u>154,849</u>	<u>-</u>	<u>233,002</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 2,994,291</u>	<u>\$ (154,849)</u>	<u>\$ -</u>	<u>\$ 2,839,442</u>

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

2. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 55,585
Public safety	283,275
Public works	532,700
Education	867,307
Community service.....	<u>106,732</u>
Total depreciation expense	<u>\$1,845,599</u>

Depreciation expense was charged to business-type activities as follows:

School lunch	5,532
Wind Turbine Generator	<u>149,317</u>
Total depreciation expense	<u>\$154,849</u>

3. BUDGETARY AND LEGAL COMPLIANCE

The General Fund and the Public School Operations Fund are subject to an annual operating budget. The annual operating budgets' appropriation amounts are supported by revenue estimates and can be amended by either a special financial voter referendum or by the Town Council.

Actual revenue and expenditures in the Budgetary Basis Statements of Revenues and Expenditures for the General Fund and the Public School Operations Fund are presented on the budgetary basis which includes the net effect of non-budgeting for certain other items. Thus, the actual revenues and expenditures differ from those in the Governmental Fund financial statements which are presented in accordance with accounting principles generally accepted in the United States of America.

The following individual funds reported deficits in the unreserved fund balances in the fund financial statements at June 30, 2010.

Wastewater Facility Plan.....	\$ (33,518)
Illicit Discharge Detection.....	(8,220)
IDEA Part B	(605)
IDEA ARRA	(1,617)
Title II	(3,200)
Restricted Donations.....	(5,800)
Perkins.....	(191)
Feinstein Grant.....	(46)
FEMA Grant.....	(8,175)
Building Use Facilities	(1,880)

These deficits will be funded through loan proceeds, grant funds or transfers from other funds.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

3. BUDGETARY AND LEGAL COMPLIANCE (Continued)

Legal Debt Margin

The Town's legal debt margin as set forth by State Statute is limited to three percent of the total taxable assessed value which approximates \$111,154,796. As of June 30, 2010, the Town was in compliance with this Statute. The debt subject to the debt limitation is based on the type of debt that is used.

4. CASH DEPOSITS and INVESTMENTS

Deposits

Deposits are in various financial institutions and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and included \$1,600 of petty cash.

At year-end, the Town's carrying amount of cash deposits was \$5,746,135 and the bank balance was \$5,834,477. Of the bank balance, \$3,431,717 was covered by Federal Depository Insurance. Of the federal depository insured balance, only \$250,000 was fully insured as of July 1, 2010, due to a local financial institution no longer participating in the FDIC's Transaction Account Guarantee Program as of July 1, 2010. The remaining balance of \$2,402,760 was collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the Town's name.

Total cash deposits	\$5,746,135
Add: Petty Cash	1,600
Add: U. S. Government money market funds	1,162,611
Less: Fiduciary funds cash, including time deposits (not included in the Government-wide statement).....	<u>(1,010,604)</u>
Total cash and cash equivalents reported in the financial statements	<u>\$5,899,742</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town has a formal deposit policy for custodial credit risk, which follows State Laws as described below.

Under Rhode Island General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits which are time deposits with maturities greater than (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity.

Investments

Investments are stated at fair value for investment pools and historical cost for all other investments.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

4. DEPOSITS and INVESTMENTS (CONTINUED)

Concentration of Credit Risk

At June 30, 2010, the Town had a diversified portfolio in its Pension Trust Funds and was not deemed to be concentrated in any one investment category. Although all the investments were held in mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

Interest Rate Risk

The Town's investments are held in mutual funds. These investments do not specify an interest rate. The rate of return is dependent on operating results and economic conditions.

Concentration of Credit Risk

Custodial credit risk is the risk that, in the event of financial institution failure, the Town's investments may not be returned. The Town does not believe that it has a significant custodial credit risk as all the investments are registered and held in the name of the Town.

<u>Investment</u>	<u>Pension Funds</u>		
	<u>Percentage</u>	<u>Fair Value</u>	<u>Rating (Moody/S&P)</u>
Mutual Funds			
DFA Emerging Markets – Core	3.76%	\$1,128,120	N/A
DFA Emerging Markets – Value	2.19%	658,364	N/A
DFA 5 Year Global-Fixed Income	9.98%	2,997,342	N/A
DFA International-Equity	7.13%	2,140,235	N/A
DFA International RE - Securities	2.39%	717,157	N/A
DFA International Small Cap - Portfolio	3.57%	1,073,380	N/A
DFA International Small Com - Portfolio	1.19%	358,392	N/A
DFA 1 Year Fixed-Income Portfolio	16.62%	4,990,919	N/A
DFA RE – Securities	3.53%	1,061,435	N/A
DFA 2 Year Global-Fixed Income Portfolio	6.65%	1,996,368	N/A
DFA US Core Equity 2-Portfolio	16.24%	4,878,449	N/A
DFA US Large Cap Value-Portfolio	7.78%	2,337,598	N/A
DFA US Vector Equity-Portfolio	11.29%	3,391,816	N/A
PLUS Fund-91 Day T-Bills	7.05%	2,118,759	N/A
Bond Funds	0.06%	18,805	N/A
Balanced Funds	0.30%	91,157	N/A
U.S. Stock	0.19%	55,249	N/A
International Stock	0.08%	21,930	
		<hr/>	
Pension Trust Fund Total		\$ 30,035,475	
		<hr/>	
Total Investments	<u>100 %</u>		

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

5. LONG-TERM AND SHORT-TERM OBLIGATIONS

The Town issues general obligation bonds to provide funds for the acquisition of equipment, as well as construction and improvements to capital facilities. General obligation bonds have been issued for both general governmental and school department 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 bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from nontax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2008 was \$3,705,159,854, limiting the amount of nonexcepted general obligation bonds outstanding to \$111,154,796. At June 30, 2010, bonds outstanding totaled \$19,530,749.

During 2009, the Town issued \$4,665,000 of general obligation refunding bonds to provide resources that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$4,275,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. This advance refunding was undertaken to reduce total debt service payment over the next 12 years by \$340,802 and resulted in an economic gain of \$201,035. As of June 30, 2010, the in-substance defeased bonds, which remain outstanding was \$4,275,000. Accordingly, the trust accounts and the defeased bonds are not included in the accompanying basic financial statements.

During 1996, general obligation bonds totaling \$7,564,998 were defeased by replacing from the issuance of new general obligation bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the accompanying basic financial statements.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. LONG-TERM AND SHORT-TERM OBLIGATIONS (Continued)

The following is a summary of changes in long-term debt for the year ended June, 30, 2010:

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2009	Additions	Retirements	Balance, 6/30/2010	Interest Paid	Amounts Due Within One Year
General Long-Term Debt										
General obligation, revenue bonds, and loans:										
Town and School refunding bond	\$7,695,000	4/1/1996	4.60-5.30%	9/15/2009	\$485,000		\$485,000	-	\$12,852	-
School improvements	9,240,000	12/7/2000	5.00-5.40%	11/1/2020	1,425,000	475,000	475,000	950,000	59,375	\$ 475,000
Tax settlement bond	2,200,000	2/17/2004	2.25%-4.75%	2/15/2019	1,500,000		150,000	1,350,000	51,338	150,000
School improvements & computers	700,000	6/15/2005	4.20%	6/15/2010	140,000		140,000	-	4,410	-
Library land	450,000	9/27/2005	4.35%	9/15/2010	180,000		90,000	90,000	7,830	90,000
School computers	350,000	6/1/2006	4.35%	6/15/2011	140,000		70,000	70,000	5,451	70,000
Fire alarm system & dump trucks	124,000	6/1/2006	4.35%	6/15/2011	48,000		24,000	24,000	1,869	24,000
School improvements	350,000	6/27/2006	4.00-5.00%	4/1/2011	140,000		70,000	70,000	6,300	70,000
School gymnasium	3,500,000	6/27/2006	4.00-5.00%	4/1/2026	2,975,000		175,000	2,800,000	136,500	175,000
Road resurfacing	227,261	1/24/2007	4.40%	1/15/2012	136,200		45,400	90,800	5,618	45,400
School information technology	350,000	1/24/2007	4.50%	1/15/2012	210,000		70,000	140,000	8,663	70,000
Portsmouth Middle School sprinklers	1,900,000	5/16/2007	4.00-5.50%	4/1/2022	1,640,000		130,000	1,510,000	73,875	130,000
School improvements	350,000	5/16/2007	4.00-5.50%	4/1/2012	210,000		70,000	140,000	8,400	70,000
School improvements	350,000	5/17/2008	3.98%	3/17/2013	280,000		70,000	210,000	10,448	70,000
School Improvements	344,836	5/17/2008	3.98%	3/17/2013	274,000		70,000	204,000	10,209	68,000
Town Improvements	242,500	2/13/2009	3.51%	2/13/2014	242,500		50,500	192,000	8,064	48,000
Student Information Technology	350,000	8/7/2008	3.75-4.00%	5/15/2014	350,000		70,000	280,000	11,671	70,000
School Building Repairs	350,000	8/7/2008	3.75-4.00%	5/15/2013	280,000		70,000	210,000	10,675	70,000
School Information Technology	350,000	2/13/2009	3.51%	2/13/2014	350,000		70,000	280,000	13,475	70,000
Portsmouth High School Sprinklers	1,100,000	8/7/2008	3.75-6.00%	5/15/2024	1,100,000		75,000	1,025,000	50,212	75,000
School Improvements	4,655,000	6/4/2009	2.00-5.00%	11/1/2020	4,665,000		75,000	4,590,000	127,064	65,000
Open Space/Recreation Bond	1,980,000	6/15/2010	2.00-4.00%	6/15/2025	-	1,980,000		1,980,000	-	150,000
Town Improvements	267,000	8/12/2009	4.10%	8/12/2014	-	267,000	26,700	240,300	5,474	53,400
School Information Technology	350,000	8/12/2009	4.10%	8/12/2014	-	350,000	35,000	315,000	7,175	70,000
Rhode Island Clean Water Agency Loan	150,000	10/20/2009	1.00%	9/1/2012	-	146,982	-	146,982	445	50,000
Total governmental activity					\$16,770,700	2,743,982	2,606,600	16,908,082	637,393	2,228,800
Deferred amount for issuance premiums					135,988	35,364	23,298	148,054	-	24,992
Total general long-term debt					16,906,688	2,779,346	2,629,898	17,056,136	637,393	2,253,792

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. LONG-TERM AND SHORT-TERM OBLIGATIONS (Continued)

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2009	Additions	Retirements	Balance, 6/30/2010	Interest Paid	Amounts Due Within One Year
Enterprise Funds Long-Term Debt										
General obligation bonds:										
Wind Turbine Construction Project	2,600,000	11/4/2008	1.15%	12/15/2022	2,426,667		173,333	2,253,334	26,910	173,333
Wind Turbine Construction Project	400,000	9/4/2008	2.00%	7/15/2023	400,000		30,667	369,333	7,693	26,381
Total enterprise fund long-term debt					2,826,667	-	204,000	2,622,667	34,603	199,714
Compensated absences					1,954,045	77,920	3,491	2,028,474	-	-
Net OPEB Obligation					1,318,517	1,112,679		2,431,196		
Total long-term obligations					\$23,005,917	\$3,969,945	\$2,837,389	\$24,138,473	\$671,996	\$2,453,506

At June 30, 2010 the annual debt service requirements to maturity for general obligation, revenue bonds and loans for general long-term debt are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION AND LOANS		
	PRINCIPAL	INTEREST	TOTAL
2011	\$2,228,800	\$625,113	\$2,853,913
2012	1,974,800	539,277	2,514,077
2013	1,776,382	471,164	2,247,546
2014	1,511,400	415,643	1,927,043
2015	1,251,700	365,552	1,617,252
2016	1,150,000	325,263	1,475,263
2017	1,145,000	283,288	1,428,288
2018	1,135,000	239,656	1,374,656
2019	1,125,000	192,963	1,317,963
2020	965,000	147,238	1,112,238
2021-2025	2,470,000	293,138	2,763,138
2026	175,000	7,875	182,875
	\$16,908,082	\$3,906,170	\$20,814,252

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. LONG-TERM AND SHORT-TERM OBLIGATIONS (Continued)

At June 30, 2010 the annual debt service requirements to maturity for general obligation and revenue bonds for enterprise fund long-term debt are as follows:

<u>FISCAL YEAR ENDING</u> <u>June 30,</u>	<u>GENERAL OBLIGATION</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$199,714	\$32,152	\$231,866
2012	199,714	29,625	229,339
2013	199,714	27,114	226,828
2014	199,714	24,567	224,281
2015	199,714	22,040	221,754
2016	199,714	19,511	219,225
2017	199,714	16,994	216,708
2018	199,714	14,456	214,170
2019	199,714	11,927	211,641
2020	200,164	9,398	209,562
2021-2024	625,077	12,774	637,851
	<u>\$2,622,667</u>	<u>\$220,558</u>	<u>\$2,843,225</u>

6. LEASE REVENUE

The Town receives lease rental payments for a communication tower. Future minimum rental payments to be received for the lease are as follow

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activities</u>
2011.....	\$ 78,787
2012.....	82,495
2013.....	86,386
2014.....	90,418
2015.....	94,490
Total.....	<u>\$432,576</u>

7. RISK MANAGEMENT

Through their operations, the Town and the School Department are exposed to various risks of loss related, but not limited to, torts, general liability, errors and omissions, property losses due to theft, damage, or destruction, and employee injuries, each of which is insured through a public entity risk pool. The Town and the School Department are also exposed to risk loss related to claims for unemployment, for which the Town and the School Department retain the risk of loss.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

7. RISK MANAGEMENT (Continued)

The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust (the Trust), a nonprofit public entity risk pool which provides insurance coverage to participants in exchange for an annual premium and a pro-rata share of certain administrative expenses. Coverage is provided in accordance with each member's policy, subject to maximum insurable limits and deductibles, through a pooling of risks among participants, supplemented by commercial reinsurance for excess losses. Management believes the Trust's reserves to be adequate to meet all reported claims, as well as an estimate of potential claims for losses incurred but not reported. Accordingly, no accrual has been made for potential liabilities arising from risks once they have been transferred to the Trust. The Town and the School Department are members of the Trust, a joint purchasing group which provides health and dental insurance coverage to participants in exchange for a premium. There have been no significant reductions in insurance coverage during the year ended June 30, 2010.

8. INTERFUND BALANCES

The Town reports interfund balances between many of its funds. The totals of all balances agree with the sum of interfund balances presented in the fund statements.

Interfund receivables and payables are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
<i>General Fund</i>	\$ 162,992	\$ 1,421,924
<i>School Unrestricted Fund</i>	1,403,761	895,096
<i>Non-Major Governmental Funds</i>	2,191,169	1,116,024
<i>Proprietary School Lunch Fund</i>	187,521	268,668
<i>Proprietary Transfer Station Fund</i>	18,608	-
<i>Proprietary Wind Turbine Generator Fund</i>		217,222
<i>Non-Major Proprietary Funds</i>	30,082	75,199
Total	\$ <u>3,994,133</u>	\$ <u>3,994,133</u>

9. NET ASSETS/FUND BALANCES

The Government-Wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

9. NET ASSETS/FUND BALANCES (Continued)

Restricted Net Assets

This category presents external restrictions imposed by grantors or laws and regulations.

Unrestricted Net Assets

This category represents net assets of the Town, not restricted for any project or other purpose.

Reserved for Encumbrances

This category is intended to reserve the encumbrances outstanding at June 30, 2010.

10. POST EMPLOYMENT HEALTH CARE BENEFITS

Other Post-Employment Benefits (OPEB) – Town Employees

Plan Description

The Town maintains and administers a single-employer OPEB benefit plan that covers all Town employees. The plan provides health benefits to eligible retired Town employees and their beneficiaries. The plan's provisions may be amended by the Town and the Trustees of the plan. The trust is accounted for as an OPEB trust fund in the Town's financial statements.

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The OPEB activity is accounted for on the accrual basis of accounting. Contributions are recognized when they are due, pursuant to formal commitments and contractual requirements. Investment income is recognized when earned. Expenses (benefits and administration) are recognized when they are due and payable in accordance with terms of the plan. Administration costs are generally financed through the Town's General Fund.

b. Classes of Employees Covered

As of July 1, 2008 (date of the last actuarial valuation) membership data was as follows:

Active employees	107
Inactive employees:	
Retirees	<u>32</u>
Total plan members	<u><u>139</u></u>

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – Town Employees (Continued)

Funding Policy

The Town established a Trust Agreement (OPEB Trust) effective March 8, 2010, and has started to pre-fund OPEB liabilities as well as funding on a pay as you go basis. The Town contributed \$145,091 to the OPEB Trust for the year ended June 30, 2010. The Town pays 100% of the cost of the individual health care and dental insurance for all retired eligible employees except for Public Works employees who contribute 20% of the medical and dental premiums. The Town pays the cost of the health care and dental insurance until the retired employee is eligible for Medicare benefits. Expenditures for the benefits described above for the year ended June 30, 2010 were \$500,185.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation.

Annual required contribution	\$ 1,569,039
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	1,569,039
Contributions made	<u>645,276</u>
Increase in net OPEB obligation	923,763
Net OPEB obligation - July 1, 2009	<u>1,106,449</u>
Net OPEB obligation - June 30, 2010	<u>\$ 2,030,262</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset/(Obligation)</u>
6/30/2009	\$1,569,039	30%	\$(1,106,449)
6/30/2010	1,569,039	41%	\$(2,030,262)

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – Town Employees (Continued)

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements, presents multi-trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB – Town Employees with a valuation date of July 1, 2008, which is the most recent report available.

Actuarial accrued liability (AAL)	\$ 13,026,759
Actuarial value of plan assets	n/a
Unfunded actuarial accrued liability (UAAL)	13,026,759
Funded ratio (actuarial value of plan assets/AAL)	n/a
Covered payroll (active plan members)	5,510,188
UAAL as a percentage of covered payroll	236.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit cost method was used in the July 1, 2008 actuarial valuation. Actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses). Only assets that have been contributed are considered available for liabilities for purposes of the valuation. The Town does use other assets to pay the liabilities on a pay-as-you-go basis at the present time. The actuarial assumptions for healthcare cost trend is growth of 9.5% for 2008 and declining by .5% per year until 5% is reached for health care and 5% for 2008 and declining by .25% per year until 4% is reached for dental. The 5% and 4% growth is used on a go-forward basis. The UAAL will be amortized over a closed thirty year period.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – School Department Employees

Plan Description

The Town maintains and administers a single-employer OPEB benefit plan that covers all School Department employees with fifteen years of service. The plan provides health benefits and dental insurance benefits to eligible retired employees and their beneficiaries. The plan's provisions may be amended by the Portsmouth School Committee and the Trustees of the plan. The OPEB activity is accounted for in the School Unrestricted Fund in the Town's financial statements.

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The OPEB activity is accounted for on the accrual basis of accounting. Contributions are recognized when they are due, pursuant to formal commitments and contractual requirements. Investment income is recognized when earned. Expenses (benefits and administration) are recognized when they are due and payable in accordance with terms of the plan. Administrative costs are generally financed through the School Unrestricted Fund.

b. Classes of Employees Covered

As of July 1, 2007 (date of the last actuarial valuation) membership data was as follows:

Active Employees	235
Inactive employees:	
Retirees	<u>70</u>
Total plan members	<u><u>305</u></u>

Funding Policy

The School Department has not yet established a Trust to pre-fund OPEB liabilities. The amounts due for these benefits are funded on a pay as you go basis. The School Department pays 100% of the cost of individual health care insurance and dental insurance benefits for all retired eligible employees for six years, capped at the premium cost at the time of retirement and an additional three years for qualifying certified teachers, as part of an early notification agreement.

The School Department funds post retirement benefits on a pay as you go basis. Expenditures for the benefits described above for the year ended June 30, 2010 were \$332,804.

If a retiree chooses to not participate in the medical plan, the retiree will receive a 50% reimbursement of the cost of a single coverage for a six year period, capped at the premium cost at the time of retirement.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – School Department Employees (Continued)

Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Board of Education's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Annual required contribution	\$ 511,670
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	511,670
Contributions made	<u>322,804</u>
Increase in net OPEB obligation	188,866
Net OPEB obligation - July 1, 2009	<u>212,068</u>
Net OPEB obligation - June 30, 2010	<u>\$ 400,934</u>

The School Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset/(Obligation)</u>
6/30/2009	\$511,670	59%	\$(212,068)
6/30/2010	511,670	63%	\$(400,934)

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – School Department Employees (Continued)

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB with a valuation date of July 1, 2007, which is the most recent report available.

Actuarial accrued liability (AAL)	\$ 4,514,458
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>4,514,458</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	n/a
UAAL as a percentage of covered payroll	n/a

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit credit cost method was used in the July 1, 2007 actuarial valuation. Only assets that have been contributed are considered available for liabilities for purposes of the valuation. The School does use other assets to pay the liabilities on a pay-as-you-go basis at the present time. The actuarial assumptions for healthcare cost trend is growth of 9.5% for 2009 and declining by .5% per year until 5% is reached for health care costs and 6.5% and declining .5% per year until 4% is reached for dental costs. The 5% growth is used on a go-forward basis. The UAAL will be amortized over a closed thirty year period.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Other Post-Employment Benefits (OPEB) – School Department Employees (Continued)

Actuarial Methods and Assumptions (Continued)

Medical costs are adjusted to reflect expected cost increases related to age. The increase in the net costs is assumed to be as follows:

Age	Annual Increase Retiree
45-69	3.0%
70-74	2.5%
75-79	2.0%
80-84	1.0%
85-89	.5%
90 and over	0.0%

11. JOINT VENTURE

The Town of Portsmouth and Portsmouth School Department participate in a joint venture entitled the Rhode Island Interlocal Risk Management Trust, Inc. (the Trust). The Trust is a not-for-profit organization formed to provide risk-sharing programs of health, property/liability and workers' compensation insurance coverage to Rhode Island cities, towns, and other governmental units. The Trust is governed by a Board of Directors.

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

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

The Group agreement provides the Trust's Board of Directors a discretionary, fully allocable assessment feature with respect to specified circumstances. After it has been a member of the Trust for an initial three year period, a member may withdraw from the Trust by providing the Trust's Board of Directors with 90 days notice.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

11. JOINT VENTURE (Continued)

The Trust generated \$96,862,182 in revenues, and net expenses of \$(446,552) for the period ending June 30, 2010. The Trust had \$21,280,626 in total assets, and \$5,363,255 in total equity as of June 30, 2010. The Trust retains certain levels of insurance risk and acquires reinsurance for specific losses in excess of \$500,000. As of June 30, 2010, the Trust's membership consists of 37 governmental entities. Separately audited financial statements are available at the Rhode Island Interlocal Risk Management Trust, 501 Wampanoag trail, Suite 301, East Providence, RI 02915.

12. CONTINGENT LIABILITIES AND COMMITMENTS

Pending or threatened lawsuits against municipal governments arise in the ordinary course of operations. Generally, in the opinion of the administration, the ultimate resolution of any legal actions will not result in a material loss to the Town. However, at June 30, 2010, there are several claims against the Town for which the Town's legal counsel is unable to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

Under the terms of federal and state grants, periodic compliance audits by the grantors or their representatives are required and, consequently, certain costs may be questioned as not being appropriate, and result in reimbursement to the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies could not be determined at this time. Town officials believe that such disallowances, if any, would not be material. Currently, there is no review taking place.

State and federal laws and regulations required that the Town place a final cover on its landfill on Prudence Island and perform certain maintenance and monitoring functions at the site on an ongoing basis. The Rhode Island Department of Environmental Management (DEM) has issued notice that the Town, along with certain private parties, is a potential Responsible party to perform remediation of private land in Island Park that was the site of a town dump/landfill from the 1950s until the early 1970s, when it was closed pursuant to environmental regulations then applicable. The DEM has issued a notice of intent to enforce arising out of the alleged nonperformance of a remediation plan proposed, and to be performed, by the current owner of the property. Potential expenditures or contributions by the Town for remediation of the site are undetermined.

The School Department participates as part of the East Bay Collaborative for the school lunch program administered by the Compass Group, USA, Inc through its Chartwells Division under five one year agreements.

The School Department has as agreement with First Student to provide busing for the School Department based on the rate schedule specified in the agreement. The agreement expired June 30, 2010 and was renewed for five years. Busing costs associated with this agreement totaled approximately \$1,581,733 for the year ended June 30, 2010.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS

Town Retirement Plan

Plan Description

The Town Retirement Plan is a single employer, contributory defined benefit pension plan which provides retirements, disability and death benefits to all full-time employees of the Town except School Department personnel certified by the Rhode Island Department of Education (Certified Employees) who are eligible to participate in the Employees' Retirements System of the State of Rhode Island. The Plan was established in accordance with the Town Charter and State statutes. The plan is reported as a Pension Trust Fund in the Town's financial statements. As of July 1, 2010, employee membership data for the Town Retirement Plan is as follows:

Active members.....	184
Retired members.....	86
Terminated with vesting	12
Disabled members	10
Beneficiaries of deceased members	<u>6</u>
Total.....	<u>298</u>

Benefit Provisions and Contributions

The following benefit provision and contribution requirements were established and may be amended by Town ordinance.

- Plan participation commences on the first day of month coinciding with or following the date of hire, if the employee chooses to participate in the Plan. Elected officials and certified employees of the School Department are not eligible to participate in the Plan.
- The normal retirement date for Police and Fire employees is upon completion of twenty years of credited service. The normal retirement date for Town Hall, School and Public Works employees is the later of age 60 or the completion of ten years of service.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

- Any participant, who has attained his or her normal retirement date, as defined in the plan, is eligible for a normal retirement benefit. The monthly benefit payable upon normal retirement is based on average monthly salary multiplied by credited service as follows:

Police Employees	60% of average monthly earnings reduced prorated for service less than 20 years plus 2% for 5 additional years beyond 20 years to a maximum of 70%.
Fire Employees	60% of average monthly earnings prorated for service less than 20 years plus 2% for 7 additional years beyond 20 years to a maximum of 74%.
Town Hall Employees	60% of average monthly earnings prorated for service less than 20 years plus 2% for additional years beyond 20 years to a maximum of 74% except for PMEA employees whose normal benefit is 2.5% of average monthly earnings times years of credited services (maximum 27 years)
School Employees	2.5% of average monthly earnings multiplied by years of credited service and further prorated for service less than 20 years of service.
Public Works Employees	50% of average monthly earnings reduced prorated for less than 20 years of service. Employees who are age 60 with 20 years of services receive an additional 2.5% for each additional year beyond 20 and age 60 (maximum 67.5%) of average monthly salary multiplied by credited service.

Pension benefits are determined using the annual earnings averaged over the last three years for Town Hall union employees, the highest of the last three years earnings for Town Hall (non-union), Fire, Police and Public Works employees, and the average of the highest three years earnings for School employees.

School and Public Works employees who have reached age 55, have 20 years of service and are within 5 years of their normal retirement date may elect to retire early. The retirement benefit is the benefit accrued to the early retirement date reduced by the ratio of credited service at the early retirement divided by the number of years the employee would have had at the normal retirement date. Working beyond the normal retirement age is allowed by the applicable collective bargaining agreement if applicable fitness standards are met.

The Plan includes disability benefits for members who are totally disabled for 6 months. The benefit equals the benefit accrued to the date of disability reduced by the ratio of credited service at disability divided by the number of years the employee would have had at the normal retirement date. Police and Fire have a work-related disability pension which provides 72% of annual earnings for the date of the disability retirement. Police and Fire have an ordinary disability retirement at 50% of the average of the highest two consecutive years for police and three consecutive years for fire.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

The pre-retirement death benefits are as follows:

Police, Fire, Public Works and Town Hall	30% of the final five year average earnings payable to the unmarried spouse plus 10% of the final five year average earnings payable to each minor child under 21 (maximum 50% of the final five year average earnings).
School	100% of Joint & Survivor benefit is payable to the spouse.

All employees with 10 years of credited service have a nonforfeitable right to the accrued benefit as of the date of termination of employment payable at their normal retirement date. Employees who do not meet the vesting requirements are paid their contributions plus 5% interest at termination.

Employees are required to contribute to the Plan as follows:

Fire employees	9% of earnings; Exception-the Fire Chiefs and the two Deputy Fire Chiefs contribute 6.5% of earnings.
Police employees	8% of earnings.
School employees	Employees hired on or after July 1, 1991 contribute 6% of earnings. Employees hired prior to July 1, 1991 contribute 2% of earnings.
Town Hall employees	No contributions required from employees hired prior to July 1, 1991. Employees hired on or after July 1, 1991 contribute 5% of earnings.
Public Works employees	Union employees are not required to make contributions. Management and nonunion employees contribute 5% of earnings.
Town Hall management	For employees hired on or after July 1, 2004 the 5.5% contributions will cease once the employee earns the maximum benefit.

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Actuarial methods and significant assumptions

Basis of Accounting – The Town Retirement Trust Fund's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments – Investments are reportable at fair value.

The Town's annual pension cost and net pension obligation to the Town Retirement Plan over the preceding three years are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual pension costs	\$ 2,590,523	\$ 2,346,316	\$ 2,088,317
Actual contribution	2,590,523	2,346,316	2,088,317
Net pension obligation	NONE	NONE	NONE
% of annual pensions costs contributed	100%	100%	100%

The annual required contribution was determined as part of an actuarial valuation as of July 1, 2008. Significant actuarial methods and assumptions are as follows:

Actuarial Cost Method

The entry age normal actuarial cost method has been used to determine both the actuarial accrued liabilities and annual required contributions to the Plan. Under this method, the normal cost is the amount calculated to be the level percentage of pay necessary to fund the prospective benefits from each employee's entry age to retirement age. The actuarial accrued liability, which is re-determined for each active participant as of each valuation date, represents the theoretical accumulation of all prior years' normal costs for the present participants as if the plan had always been in effect. The unfunded actuarial accrued liability represents the excess of the actuarial accrued liability over the valuation assets.

Asset Valuation Method

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 requirement contributions for the Plan were performed annually through June 30, 2008.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. **PENSION PLANS (Continued)**

Town Retirement Plan (Continued)

Assumptions

1. Mortality	RP2000 Combined Healthy Table
2. Interest Rate	8.00% per annum
3. Salary increases	Projected 4% increase per year
4. Disability	100 % (school, public works and town) and 160% (fire and police)
5. Cost of Living Adjustments	1.7%~3.0%

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing and decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of with a valuation dated of July 1, 2010 which is the most recent report available from the State who administers this plan:

Actuarial Value of Asset	\$	32,779,646
Actuarial Accrued Liability (AAL)	\$	54,054,944
Unfunded AAL (UAAL)	\$	(21,275,298)
Funded Ratio		60.6%
Covered Payroll	\$	8,507,853
UAAL as a percentage of covered payroll		250.1%

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employees and management) and include the type of benefit provided at the time of each valuation. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS (Continued)

Employees' Retirement System of the State of Rhode Island ('ERS')

Plan Description

All full-time teachers, including superintendents, principals, school nurses and certain other school officials in the School Department are considered Certified Employees and are eligible to participate in the ERS, a cost-sharing multiple-employer public retirement system. ERS provides retirement, death and disability and health care benefits, all of which are established by State Statute. ERS issues a publicly available financial statement that includes the financial statements and required supplementary information for ERS. That report may be obtained from the Employees' Retirement System of Rhode Island, 40 Fountain Street, Providence, RI 02903, or by accessing their website at www.ersri.org.

The ERS was established under section two of chapter 2334 of the Rhode Island Public Laws of 1951 and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of title 16 of the Rhode Island General Laws. The plan provides a two tier benefit structure referred to as schedules A and B as follows:

Schedule A Benefits: Classified employees who retire at or after age 60 with 10 years of credited service on or before July 1, 2005, or at any age with 28 years of credited service are entitled to a retirement benefit payable for life. The retirement benefit is a percentage of the final average salary per year of credited service with a maximum benefit of 80% of "final average" salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pays. The retirement benefit is equal to 1.7 percent of their final average salary for each year of credited service up to 10 years, plus 1.9 percent of their final average salary in excess of 10 years through 20 years, plus 3.0 percent of their final average salary in excess of 20 years up to the 34th year of service, plus 2.0 percent of their final average salary for the 35th year. The percentage accrual a Schedule A member has earned as of September 30, 2009 will be frozen. Future accruals will be earned under Schedule B. The members' benefit will be based on the sum of credits, multiplied by his/her Final Average Salary.

Schedule B Benefits: Classified employees who were hired after July 1, 2005, or current employees with less than 10 years of contributory services on or before July 1, 2005, who attain at least 10 years of credited service, will become entitled to a retirement benefit payable monthly for life. The retirement benefit is a percentage of the final average salary per year of credited service with a maximum benefit of 75% of "final average" salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pays. The unreduced retirement benefit becomes available at age 65 and 10 years of service; actuarially reduced retirement benefits become available at age 55 and 20 years of service. The retirement benefit is equal to 1.6 percent of their final average salary for each year of credited service up to 10 years, plus 1.8 percent of their final average salary in excess of 10 years through 20 years, plus 2.0 percent of their final average salary in excess of 20 years through 25 year of service, plus 2.25 percent of their final average salary in excess of 26 years through 30 years of service, plus 2.5% of their final average salary of 31 years of service through the 37th year. The ERS plan also provides a survivor benefit to public school teachers via a "Teachers Survivor Benefits Fund" in lieu of Social Security. The details of the survivor death benefit and other death benefits are provided in the financial section of the Annual Financial Report of the Employees' Retirement System of Rhode Island for the fiscal year ending June 30, 2009 which can be found at www.ersri.org.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS (Continued)

Employees' Retirement System of the State of Rhode Island (Continued)

Rhode General Laws set the contribution rates for participating State employees at 9.5% of salary. Annual contributions by both employees and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. Plan members are required by State statute to contribute 9.5% of their salary. The School Department contributions are based on a percentage of annual compensation of active members, half of which is payable by the State of Rhode Island. The School Department contributions made for the years ended June 30, 2010, 2009, 2008 are listed under contributions below and were equal to the required contributions for each year. The employer contribution rates for ERS are determined actuarially. Separate rates are determined for State Employees and for Teachers. The valuation as of June 30, 2009 acts as an amendment to the previously calculated contribution rates for the years ending June 30, 2010 and 2009. Therefore, the rates included in the June 30, 2009 valuation report will be effective for the continuous three-year period July 1, 2008 through June 30, 2011. The rate consists of two pieces: the normal cost rate and the amortized rate. The normal cost rate is the Employer's Entry Age normal cost, expressed as a percentage of pay.

The amortized rate is the contribution required to amortize the unfunded actuarial liability over 21 years as a level percent of pay. For the Teachers, the State of Rhode Island pay 40% of the rate, adjusted so that the State pays the entire amortization charge for the 1990/91 and 1991/92 deferrals, and the town employing the Teacher pays the balance. The School Department was required to contribute 14.86%, 13.04% and 11.62% for all full-time employees for the fiscal years 2010, 2009 and 2008, respectively. 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.

A variety of significant actuarial assumptions are used and these assumptions are summarized below:

- A. Mortality - 1994 Group Annuity Mortality Table with mortality for disabled persons set equal to the age 65 under the PBGC Table.
- B. Investment return - 8.25%, compounded annually.
- C. Salary increase - Salaries will increase at a rate of 4.50% - 13.25%, compounded annually
- D. Retirement age - Teachers are assumed to retire at the later of age 61 or completion of the service requirements. Article 7 establishes a minimum retirement age of 62 for all future hires, but this age must not be less than under prior law.
- E. Cost of living adjustments - 3.0% compounded annually beginning on the January 1st following a participant's third anniversary of retirement.

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 2010, actuarial required contributions were 19.01% of the participant's salary. This resulted in contribution rates paid by the State on behalf of the School Department of 7.60% of non-federally reimbursable payrolls totaling \$16,828,363 for the year ended June 30, 2010, which has been included as revenues and expenditures in the School Department's unrestricted fund. The School Department contributed the remaining 11.41% of the required 19.01%.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

13. PENSION PLANS (Continued)

Employees' Retirement System of the State of Rhode Island (Continued)

The School Department does not have any investments or related party investments with the State Plan.

In accordance with GASB 27, "Accounting for Pensions by State and Local Governmental Employers," the Town has determined that there is and has been no net pension obligation related to the Plan.

Contributions

The School Department's required contributions and actual contributions made for the years ended June 30, 2010, 2009, and 2008 were as follows:

<u>FISCAL YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>ACTUAL CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTION</u>
6/30/2008	\$ 2,218,021	\$ 2,218,021	100%
6/30/2009	1,707,253	1,707,523	100%
6/30/2010	1,981,787	1,981,787	100%

Defined Contribution Pension Plan

The Town of Portsmouth has adopted a defined contribution money purchase plan for all full time NAGE local 280, PMEA local 871 members and non-union employees. The required contribution for the Town and participants are 1.75% earnings and 3.00% earnings, respectively. During fiscal year 2010, contributions made under this plan by participants and employer were \$97,990 and \$36,003, respectively.

Plan Description

The defined contribution money purchase plan provides funds to its participants' retirement, and to provide funds for their Beneficiaries in the event of death. The benefits provided in this Plan shall be paid from the Trust. For purposes of determining an Employee's initial or continued eligibility to participate in the Plan or the Nonforfeitable interest in the Participant's Account balance derived from employer contributions, an employee will receive credit for the aggregate of all time period(s) commencing with the employee's first day of employment or reemployment and ending on a break in service. The first day of employment or reemployment is the first day the employee performs an hour of service. An employee will also receive credit for any period of severance of less than twelve consecutive months.

- A. Plan Administrator – The ICMA Retirement Corporation
- B. Plan Year- The twelve consecutive month period designated by the Town
- C. Trust- The Trust created under Article VI of the Plan which shall consist of all of the assets of the Plan derived from Employer and Participant contributions under the Plan, plus any income and gains thereon, less any losses, expenses and distribution to Participants and Beneficiaries.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

14. DEFERRED COMPENSATION PLAN

The Town offers its municipal employees a deferred compensation plan established in accordance with the provisions of Internal Revenue Code Section 457. The Plan, available to certain municipal employees, permits the deferral of a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

During the year ended June 30, 2000, the Town implemented the Governmental Accounting Standards Board, Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan. All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As a result, deferred compensation investments and the respective liability have been removed from the Town's financial statements.

15. RECLASSIFICATION

As of June 30, 2010, the Summer School Enrichment Fund and Summer School Remedial Fund were reclassified from special revenue funds to enterprise funds and the Interschool Athletics Fund was reclassified from a special revenue fund to an agency fund.

(CONCLUDED)

Required Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENDITURES (NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL - GENERAL FUND**

YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Appropriation Transfers and Additions</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Encumbrances Carried Over</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues						
Property taxes	\$ 42,089,552	\$ -	\$ 42,089,552	\$ 42,131,134	\$ -	\$ 41,582
Intergovernmental revenue	2,478,702	-	2,478,702	2,460,177	-	(18,525)
Licenses, permits and fees	878,000	-	878,000	689,853	-	(188,147)
Fines & forfeitures	211,200	-	211,200	333,545	-	122,345
Earnings on investments	75,000	-	75,000	9,617	-	(65,383)
Other revenues	1,392,788	-	1,392,788	1,520,225	-	127,437
Total revenues	47,125,242	-	47,125,242	47,144,551	-	19,309
Expenditures						
Current:						
General government	4,121,972	26,434	4,148,405	3,953,486	1,450	193,469
Public safety	8,422,467	2,701	8,425,168	8,092,765	-	332,403
Public works	2,263,847	-	2,263,847	2,154,123	-	109,724
Community services:						-
Recreation, parks and grounds	515,435	36,042	551,478	482,912	5,772	62,794
Public and social services	553,522	16,824	570,346	573,817	-	(3,471)
Debt Service	3,304,843	(29,999)	3,274,844	3,282,694	-	(7,850)
Total expenditures	19,182,086	52,002	19,234,088	18,539,797	7,222	687,069
Excess (deficiency) of revenues over expenditures	27,943,156	(52,002)	27,891,154	28,604,754	(7,222)	706,378
Other financing sources (uses) transfer between funds	(27,943,156)	52,002	(27,891,154)	(27,941,317)	-	(50,163)
Total other financing sources (uses)	(27,943,156)	52,002	(27,891,154)	(27,941,317)	-	(50,163)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ 663,437	\$ (7,222)	\$ 656,215

TOWN OF PORTSMOUTH, RHODE ISLAND

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE AND EXPENDITURES (NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL - SCHOOL UNRESTRICTED FUND**

YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Encumbrances Carried Over</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues					
Intergovernmental revenue	\$ 6,302,902	\$ 6,302,902	\$ 5,548,594	\$ -	\$ (754,308)
State Fiscal Stabilization Funds	281,168	281,168	281,168		-
Other revenues	1,369,053	1,369,053	1,184,526		(184,527)
Total revenues	<u>7,953,123</u>	<u>7,953,123</u>	<u>7,014,288</u>	<u>-</u>	<u>(938,835)</u>
Expenditures					
Education	<u>36,027,454</u>	<u>36,027,454</u>	<u>34,500,894</u>	<u>9,229</u>	<u>1,517,331</u>
Total expenditures	<u>36,027,454</u>	<u>36,027,454</u>	<u>34,500,894</u>	<u>9,229</u>	<u>1,517,331</u>
Excess (deficiency) of revenues over expenditures	<u>(28,074,331)</u>	<u>(28,074,331)</u>	<u>(27,486,606)</u>	<u>(9,229)</u>	<u>578,496</u>
Other financing sources (uses):					
Transfer from General Fund	28,074,331	28,074,331	28,074,331		-
Transfer to school restricted funds		-	(63,713)		(63,713)
Transfer from school restricted funds					-
Transfer from prior year encumbrance		-			-
Total other financing sources (uses)	<u>28,074,331</u>	<u>28,074,331</u>	<u>28,010,618</u>	<u>-</u>	<u>(63,713)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 524,012</u>	<u>\$ (9,229)</u>	<u>\$ 514,783</u>

TOWN OF PORTSMOUTH

Required Supplementary Information

**Notes to Combining Statement of Revenues and Expenditures-Budget
(Non-GAAP Budgetary Basis) Actual**

Year Ended June 30, 2010

Budgetary-GAAP Reporting Reconciliation

In accordance with Town's Home Rule 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 the School Department's annual budget as approved by the School Committee. A final budget must be adopted by the Town Council by June 30th.

Budgets are adopted for the General Fund and the School Department's unrestricted fund (a special revenue fund) on a legally enacted budgetary basis which differs from accounting principles generally accepted in the United States (U.S. GAAP) in several regards. Budgets are adopted on the modified accrual basis of accounting, except that budgetary expenditures include encumbrances in the year incurring the commitment to purchase, and budgetary revenues include subsidies from fund balance previously recognized under U.S. GAAP.

Encumbrances are not liabilities and, therefore, are not recognized as expenditures under U.S. GAAP until receipt of materials or services. For budgetary purposes, unencumbered and unexpended appropriations lapse at year end and outstanding encumbrances are included in the budgetary expenditures in the year committed. The Town reserves a portion of fund balance in the governmental fund financial statements equal to outstanding encumbrances at year end.

Budgetary Compliance:

Municipal budgetary control is legally enforceable at the department level. An appropriation transfer between departments and intra-departmental transfers of municipal appropriations require approval of the Town Council. School Department budgetary control is legally enforced only at the Unrestricted Fund Level; inter-departmental transfers may be made without School Committee approval. In addition to limits enforced by the budget, the Town's Home Rule Charter further restricts municipal expenditures relative to budgeted revenues.

There were no municipal department expenditures that exceeded appropriations (after approved transfers) for the year ended June 30, 2010.

(CONCLUDED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Plan

Schedule of Funding Progress

Year Ended June 30, 2010

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
1/1/1999	\$11,604,444	\$ 14,874,442	\$ 3,269,998	78.0%	\$ 5,431,775	60.2%
1/1/2000	13,366,941	16,682,652	3,315,711	80.1%	5,656,718	58.6%
1/1/2001	14,764,504	20,772,711	6,008,207	71.1%	6,121,015	98.2%
1/1/2002	15,775,149	22,798,424	7,023,275	69.2%	6,347,972	110.6%
1/1/2003	15,770,989	24,582,923	8,811,934	64.2%	6,619,388	133.1%
1/1/2004	19,407,779	28,684,523	9,276,744	67.7%	6,696,215	138.5%
1/1/2005	22,451,034	33,089,944	10,638,910	67.8%	6,732,372	158.0%
7/1/2006	25,129,703	38,459,122	13,329,419	65.3%	7,767,018	171.6%
7/1/2007	27,628,308	43,087,640	15,459,332	64.1%	7,958,303	194.3%
7/1/2008	30,441,304	47,736,361	17,295,057	63.8%	8,221,692	210.4%
7/1/2009	31,609,237	51,284,315	19,675,078	61.6%	8,596,994	228.9%
7/1/2010	32,779,646	54,054,944	21,275,298	60.6%	8,507,853	250.07%

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Plan

Schedule of Funding Progress

Year Ended June 30, 2010

Schedule of Employer Contribution

<u>Actuarial Valuation Date</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent of ARC Contributed</u>
1/1/1999	\$ 802,090	\$ 831,195	103.63%
1/1/2000	799,190	801,401	101.53%
1/1/2001	1,088,547	1,088,547	100.00%
1/1/2002	1,162,063	1,162,063	100.00%
1/1/2003	1,292,432	1,292,432	100.00%
1/1/2004	1,370,682	1,370,682	100.00%
1/1/2005	1,552,168	1,552,168	100.00%
7/1/2006	1,671,713	1,671,713	100.00%
7/1/2007	2,088,317	2,088,317	100.00%
7/1/2008	2,346,316	2,346,316	100.00%
7/1/2009	2,590,523	2,590,523	100.00%

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Plan

Schedule of Funding Progress

Year Ended June 30, 2010

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 is as follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	21 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	8.0% per annum
Projected salary increase	4.0% per annum
Cost-of- living adjustments	Public works employees -2.0% Fire employees (retired before 6/30/2007) - 2.0% Fire employees (retired after 6/30/2007) - 3.0% Police employees - 3.0% Town hall employees - 2.0% School management and Non-Certified employees - 1.7 % Town management (retired before 7/1/2004) - 2.0% Town management (retired after 7/1/2004) - 3.0%
Assumed Retirement Age	Employees are assumed to retire as follows: Fire - 100% at 27 years of service Police - 50% at 25 years of service and the remainder at 27 years of service Town and Public Works - 100% at the later of age 60 or 10 years of service School (Council #94) - 50% on completion of age 55 and 20 years of services, 100% at age 60 with 10 years and 5% between age 56-59 School (Non-Council #94) - 100% on completion of age 60 with 10 years of services Any employee who has already passed the Assumed Retirement Age is assumed to retire immediately

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
Municipal employees 7/1/2008	N/A	\$13,026,759	\$13,026,759	N/A	\$5,510,188	236.4%
School employees 7/1/2007	0	4,514,458	4,514,458	N/A	N/A	N/A

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2010

<u>Actuarial Valuation Date</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent of ARC Contributed</u>
Municipal employees			
6/30/2009	\$1,569,039	\$462,590	29.5%
6/30/2010	\$1,569,039	\$645,276	41.1%
School employees			
6/30/2009	511,670	299,602	58.5%
6/30/2010	511,670	322,804	63.1%

(CONTINUED)

Other Supplementary Information

TOWN OF PORTSMOUTH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

ASSETS	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
Cash, cash equivalents and investments	\$ -	\$ 227,372	\$ 143,325	\$ 370,697
Accounts receivable	639,555	-	-	639,555
Cash payroll clearing	-	-	-	-
Other receivables	-	-	-	-
Due from federal and state governments	66,500	-	-	66,500
Due from other funds	860,172	1,330,997	-	2,191,169
Other assets	-	-	-	-
TOTAL ASSETS	\$ 1,566,227	\$ 1,558,369	\$ 143,325	\$ 3,267,921
LIABILITIES				
Accounts payable	\$ 19,345	\$ 5,641	\$ -	\$ 24,986
Accrued expenses	-	-	-	-
Accrued payroll	-	-	-	-
Due to other funds	1,116,024	-	-	1,116,024
Deferred revenue	66,500	-	-	66,500
Due to State	-	-	-	-
Due to Town	-	-	-	-
TOTAL LIABILITIES	1,201,869	5,641	-	1,207,510
FUND BALANCE				
<i>Reserved for:</i>				
Perpetual care and other	-	-	4,821	4,821
Encumbrances	-	-	-	-
<i>Unreserved for:</i>				
Special revenue funds	156,784	-	-	156,784
School restricted funds	207,574	-	-	207,574
Capital project funds	-	1,552,728	-	1,552,728
Permanent funds	-	-	138,504	138,504
TOTAL FUND BALANCE	364,358	1,552,728	143,325	2,060,411
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,566,227	\$ 1,558,369	\$ 143,325	\$ 3,267,921

**Combining Statement of Revenues other Financing Sources, Expenditures and other Financing Uses and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended June 30, 2010**

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES:				
State aid and grants (Intergovernmental)	\$ 1,996,838	\$ 250,000	\$ -	\$ 2,246,838
Charges for services	84,185	-	-	84,185
Impact aid	-	-	-	-
Investment and interest income	-	1,323	858	2,181
Contributions and private grants	25,716	-	-	25,716
Other revenue	843	-	-	843
TOTAL REVENUES	2,107,582	251,323	858	2,359,763
EXPENDITURES:				
Current:				
General government	11,335	-	-	11,335
Public safety	229,458	-	-	229,458
Public works	32,470	-	-	32,470
Education	1,287,215	-	-	1,287,215
Community services	361,210	-	-	361,210
Capital expenditures	-	1,703,586	-	1,703,586
Debt issuance costs	-	-	-	-
Park & recreation	725	15,157	-	15,882
TOTAL EXPENDITURES	1,922,413	1,718,743	-	3,641,156
Excess of revenue over(under) expenditures before transfers	185,169	(1,467,420)	858	(1,281,393)
Other financing sources (uses):				
Transfers from other funds	63,713	49,683	-	113,396
Transfers to other funds	(23,550)	(256,022)	-	(279,572)
Note Proceeds	146,982	0	-	146,982
Bond Proceeds	-	2,597,000	-	2,597,000
Bond premiums	-	35,364	-	35,364
Net other financing sources (uses)	187,145	2,426,025	-	2,613,170
Excess of revenues and other sources over (under) expenditures and other uses	372,314	958,605	858	1,331,777
FUND BALANCES, BEGINING OF YEAR	(7,956)	594,123	142,467	728,634
FUND BALANCES, ENDING OF YEAR	\$ 364,358	\$ 1,552,728	\$ 143,325	\$ 2,060,411

TOWN OF PORTSMOUTH
Combining Statement of Net Assets
Non-Major Proprietary Funds
June 30, 2010

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
ASSETS			
<i>Current assets:</i>			
Due from other funds	\$	30,082	\$ 30,082
Total current assets	-	30,082	30,082
TOTAL ASSETS	-	30,082	30,082
LIABILITIES			
<i>Current liabilities:</i>			
Due to other funds	\$ 27,895	47,304	75,199
Total current liabilities	27,895	47,304	75,199
TOTAL LIABILITIES	27,895	47,304	75,199
NET ASSETS			
Unrestricted	(27,895)	(17,222)	(45,117)
TOTAL NET ASSETS	\$ (27,895)	\$ (17,222)	\$ (45,117)

TOWN OF PORTSMOUTH

**Combining Statement of Revenues, Expenses and Changes in Net Assets
Non-Major Proprietary Funds
For the year ended June 30, 2010**

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
Operating Revenues:			
Charges for services	\$ 1,938	\$ 68,394	\$ 70,332
Total Operating Revenues	1,938	68,394	70,332
Operating Expenses:			
Education	2,432	58,215	60,647
Total Operating Expenses	2,432	58,215	60,647
Income from operations	(494)	10,179	9,685
Net assets - beginning of the year	(27,401)	(27,401)	(54,802)
Net assets - ending of the year	\$ (27,895)	\$ (17,222)	\$ (45,117)

TOWN OF PORTSMOUTH

**Combining Statement of Cash Flows
Non-Major Proprietary Funds
For the year ended June 30, 2010**

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
<i>Cash flows from operating activities:</i>			
Cash received from customers	\$ 1,938	\$ 68,394	\$ 70,332
Intergovernmental			-
Cash payments to suppliers for goods and services	(3,094)	(58,877)	(61,971)
<i>Net cash provided (used) by operating activities</i>	(1,156)	9,517	8,361
<i>Cash flows from non-capital financing activities:</i>			
Operating transfers (to) from other funds			-
Interfund borrowings	1,156	(9,517)	(8,361)
<i>Net cash provided (used) by non-capital financing activities</i>	1,156	(9,517)	(8,361)
<i>Net increase in cash</i>	0	0	0
<i>Cash and cash equivalents, beginning of the year</i>	0	0	0
<i>Cash and cash equivalents, end of the year</i>	\$ -	\$ -	\$ -
<i>Reconciliation of net income to net cash provided by operating activities:</i>			
Income (loss) from operations	(494)	10,179	9,685
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	(662)	(662)	(1,324)
Total adjustments	(662)	(662)	(1,324)
<i>Net cash provided by (used for) operating activities</i>	\$ (1,156)	\$ 9,517	\$ 8,361

TOWN OF PORTSMOUTH

**Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2010**

Town Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
<u>Soil Agency Fund</u>				
ASSET				
Account Receivable	213,312	14,295	46,685	180,922
Letters of Credit	9,100	0		9,100
ASSET	\$ 222,412	\$ 14,295	\$ 46,685	\$ 190,022
LIABILITY				
Deposits Held in Custody for Others	\$ 222,412	\$ 14,295	\$ 46,685	\$ 190,022
<u>Library State Aid</u>				
ASSET				
Account Receivable	\$ -	\$ 100,332	\$ 100,332	\$ -
LIABILITY				
Deposits Held in Custody for Others	\$ -	\$ 100,332	\$ 100,332	\$ -
<u>GMH Deposit Agency Fund</u>				
ASSET				
Account receivable	\$ 19,500	\$ 30,614	\$ 34,114	\$ 16,000
ASSET	\$ 19,500	\$ 30,614	\$ 34,114	\$ 16,000
LIABILITY				
Account payable	\$ -	\$ -	\$ -	\$ -
Deposits Held in Custody for Others	19,500	30,614	34,114	16,000
LIABILITY	\$ 19,500	\$ 30,614	\$ 34,114	\$ 16,000
<u>Drago Road Bond Agency Fund</u>				
ASSET				
Cash and cash equivalents	\$ 3,601	\$ 4	\$ -	\$ 3,605
LIABILITY				
Deposits Held in Custody for Others	\$ 3,601	\$ 4	\$ -	\$ 3,605
<u>Glen Park Damage Deposit</u>				
ASSET				
Account receivable	\$ 900	\$ 1,650	\$ 1,900	\$ 650
LIABILITY				
Deposits Held in Custody for Others	\$ 900	\$ 1,650	\$ 1,900	\$ 650
<u>Prescott Point Fund</u>				
ASSET				
Cash and cash equivalents	\$ -	\$ 100,000	\$ -	\$ 100,000
LIABILITY				
Deposits Held in Custody for Others	\$ -	\$ 100,000	\$ -	\$ 100,000
<u>TOTAL TOWN ACTIVITY AGENCY FUNDS</u>				
ASSET				
Cash	\$ 3,601	\$ 100,004	\$ -	\$ 103,605
Account receivables	233,712	146,891	183,031	197,572
Letters of Credit	9,100	-	-	9,100
TOTAL ASSETS	\$ 246,413	\$ 246,895	\$ 183,031	\$ 310,277
LIABILITY				
Deposits Held in Custody for Others	\$ 246,413	\$ 246,895	\$ 183,031	\$ 310,277
TOTAL LIABILITIES	\$ 246,413	\$ 246,895	\$ 183,031	\$ 310,277

TOWN OF PORTSMOUTH

**Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2010**

School Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
<u>Elmhurst</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 13,087	\$ 18,639	\$ 22,113	\$ 9,613
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 13,087	\$ 18,639	\$ 22,113	\$ 9,613
<u>Hathaway</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 963	\$ 12,860	\$ 13,013	\$ 810
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 963	\$ 12,860	\$ 13,013	\$ 810
<u>Melville</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 6,963	\$ 19,905	\$ 15,946	\$ 10,922
Citizens Bank Savings	2,891	-	202	2,689
	\$ 9,854	\$ 19,905	\$ 16,148	\$ 13,611
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 9,854	\$ 19,905	\$ 16,148	\$ 13,611
<u>PMS</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 22,910	\$ 110,554	\$ 118,027	\$ 15,437
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 22,910	\$ 110,554	\$ 118,027	\$ 15,437
<u>PHS</u>				
<u>ASSETS</u>				
PHS CD	\$ 50,000			\$ 50,000
Citizens Bank Checking	152,952	374,150	\$ 364,780	162,322
Citizens Bank Savings	3,965	5	-	3,970
	\$ 206,917	\$ 374,155	\$ 364,780	\$ 216,292
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 206,917	\$ 374,155	\$ 364,780	\$ 216,292

TOWN OF PORTSMOUTH

**Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2010**

School Activity Funds

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>INTERSCHOOL ATHLETICS</u>				
<u>ASSETS</u>				
Accounts Receivable	\$ 45,717			\$ 45,717
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 45,717	\$ -	\$ -	\$ 45,717
<u>TOTAL SCHOOL ACTIVITY AGENCY FUNDS</u>				
<u>ASSET</u>				
Cash	\$ 253,731	\$ 536,113	\$ 534,081	\$ 255,763
Accounts Receivable	45,717	-	-	45,717
TOTAL ASSETS	\$ 299,448	\$ 536,113	\$ 534,081	\$ 301,480
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 299,448	\$ 536,113	\$ 534,081	\$ 301,480
TOTAL LIABILITIES	\$ 299,448	\$ 536,113	\$ 534,081	\$ 301,480

Town of Portsmouth

**SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2010**

Tax Roll Year	Balance Uncollected July 1, 2009	2010 Assessment	Additions	Abatements & Adjustments	Current Year Collections	Refunds	Balance June 30, 2010
2009		\$ 42,275,881	\$ 286,644	\$ 97,487	40,780,578	20,695	\$ 1,705,155
2008	\$ 1,711,072		357	93,156	1,563,648	78,353	132,978
2007	75,980	-			37,889		38,091
2006	25,466	-			1,370		24,096
2005	22,192	-			868		21,324
2004	14,631	-			344		14,287
2003	16,305	-			238		16,067
2002	14,620	-			268		14,352
2001	51,082	-	-		592		50,490
2000	38,137	-	-		16		38,121
1999	29,188	-	-		38		29,150
1998	48,963	-	-	48,915	48		-
Total	2,047,636	\$ 42,275,881	\$ 287,001	\$ 239,558	\$ 42,385,897	\$ 99,048	2,084,111
Less: Allowance for Uncollectible accounts	(489,548)						(499,657)
Net	\$ 1,558,088						\$ 1,584,454

Schedule of property valuation assessed as of December 31, 2008:

	Valuation	Levy
Real property	\$ 3,724,335,800	\$ 40,380,382
Motor vehicles	134,245,632	1,075,565
Tangible personal property	72,767,234	819,934
Total	3,931,348,666	42,275,881
Less: Exemptions and motor vehicle phase out		
Real property	(139,748,738)	-
Motor vehicles	(86,437,697)	-
Tangible personal property	(2,376)	-
Total	\$ 3,705,159,855	\$ 42,275,881