

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

of the

**CITY OF NEWPORT,
RHODE ISLAND**



FOR THE YEAR ENDED

JUNE 30, 2011

PREPARED BY:

**LAURA SITRIN, CPA
DIRECTOR OF FINANCE**

CITY OF NEWPORT, RHODE ISLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

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Introductory Section



THE CITY OF NEWPORT, RHODE ISLAND – AMERICA'S FIRST RESORT

December 20, 2011

To the Honorable Mayor, Councilors, and Citizens of the City of Newport, Rhode Island:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year (June 30) a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Newport, Rhode Island as of and for the fiscal year ended June 30, 2011.

This report consists of management's representations concerning the finances of the City of Newport, Rhode Island. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Newport, Rhode Island has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Newport, Rhode Island's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Newport, Rhode Island's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Newport, Rhode Island's financial statements have been audited by CCR LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Newport, Rhode Island for the fiscal year ended June 30, 2011 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Newport, Rhode Island's financial statements as of and for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Newport, Rhode Island was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Newport, Rhode Island's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Newport, Rhode Island's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Newport, Rhode Island (City), founded in 1639, incorporated in 1784 and re-chartered in 1853, is located at the southern end of Aquidneck Island in Narragansett Bay, about 30 miles southeast of Rhode Island's capital of Providence. The City is bounded by the Atlantic Ocean on the east and south and Narragansett Bay on the west. The City is 11 square miles in size, with 7.7 square miles of land and 3.3 square miles of inland water. The City has a year-round population of about 25,000, which grows substantially during the summer months. The City is also visited by over 4,000,000 people annually.

The City operates under a Home Rule Charter providing for a council/city manager form of government. There is a seven-member City Council serving two-year terms, headed by its Chairperson, who is elected by the at large City Councilors and also holds the title of Mayor. Four of the Councilors are elected at large and three from voting wards. All legislative powers of the City are vested in the City Council by the Charter, including the ordering of any tax, making appropriations, and transacting any other business pertaining to the financial affairs of the City. The City Council is also responsible for passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Solicitors, Municipal Judges and Canvassing Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing all other employees.

An elected seven-member School Committee, all at large and serving two-year terms, is vested with autonomous legislative authority over the public school system. The School Committee appoints the Superintendent of Schools as the chief executive officer for the school system. The school system provides elementary and primary education to City residents and vocational programs to other Newport County residents.

Municipal services include public safety; potable water and wastewater collection, treatment and distribution; solid waste and recyclables collection and disposal; street and sidewalk maintenance; beach, harbor, recreation, tourism and parking operations; and planning, zoning and economic development functions.

The accompanying financial statements present the primary government and its component units. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship is such that exclusion would lead the primary government's financial statements to be misleading or incomplete. The City identifies and includes The Newport Public Library as a component unit. Additional information on this agency can be found in Note I in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All departments, the Newport Public Schools and the Newport Public Library are required to submit requests for appropriations to the City Manager by May 14th of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents the proposed budget to the City Council for review no later than 45 days prior to June 30. The Council is required to hold 2 public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g. public safety) and department. Department heads may make transfers of appropriations within a department with City Manager approval. Transfers of appropriations between departments, however, require the approval of the City Council. Budget-to-actual comparisons are provided in this report for the general fund and the school unrestricted fund.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy

From its early years when commerce involved the whale-oil trade, to today's highly sophisticated research in electronic submarine warfare, the seaport has continued to play a vital role in Newport's economy. The U.S. Navy, beginning with the founding of the Naval War College in 1884, influenced the development of the City and continues to do so as one of the major contributors to the local economy.

Newport's location, natural and cultural resources, and sense of history are responsible for the growth of tourism into a primary source of revenue. The third largest economic factor in Newport, the service sector, benefits from both the defense and tourism industries. As the State's principal tourist center and resort community, Newport is visited annually by millions of tourists who attend special events, sail and view the City's mansions and other attractions. The City's popularity has stimulated significant private investment in retail shopping facilities, hotels, timeshare units, restaurants, clubs and other tourist-oriented enterprises.

The personal income per capita for Newport County is \$50,290 compared to \$42,095 and \$39,945 for Rhode Island and the United States, respectively. The unemployment rate is 8.6% compared to the state unemployment rate of 10.4%. The median selling price of an existing home in 2011 is \$317,500, an amount that has remained flat in the last 24 months. The City is attracting older retired residents and empty-nesters as well as tourists. The value of property has declined due to the poor housing market and the national and local economy. However, property values have not declined to the extent that they have in other parts of the state and country due to the City's proximity to the Narragansett Bay and Atlantic Ocean. The tourist industry recovered somewhat in 2011 and is expected to continue to grow.

Long-term financial planning

The City was awarded a federal grant in FY2011 to help evaluate redevelopment options for excessed Navy property including the old naval hospital. A separate island-wide commission has been established to develop plans for the excessed property. The City administration and Council are also evaluating ideas for renovation in the Broadway and Long-Wharf areas. These renovation and development initiatives include plans to address parking and traffic issues.

Long-term financial planning includes significant capital renovation and additions in both the Water and Water Pollution Control (sewer) funds in response to new state and federal water quality standards and deteriorating buildings and systems. The City is in the process of awarding a design-build contract for the replacement of the Lawton Valley Treatment Plant and significant long-term improvements to the Station 1 Water Plant in order to comply with new federal drinking water standards. The cost associated with this project is approximately \$85MM.

The City is developing a long-term Combined Sewer Overflow (CSO) plan and has undertaken and financed several capital projects in the last year. Total costs related to future improvements are unknown at this time. Funds will likely come from a variety of sources including state subsidized revenue bonds, grants, and rates. The City is also in the process of building a new elementary school on the site of an existing school. The proposed cost is \$30MM. It is anticipated that there will be operation savings in the future because all elementary schools (4) will be consolidated into the new school.

Financial Policies

The City has a set of Council approved financial policies that were developed to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Newport. Financial policies have impacted decisions in both the year under audit (FY2011) and future years.

One key policy is that budgets must balance which means that budgeted current revenues must be equal to or greater than budgeted current expenditures in governmental funds; and revenues and other sources of cash must equal expenditures and other uses of cash in the enterprise funds. In conjunction with this is a policy that revenues must be increased or expenditures decreased in the same fiscal year that deficits appear. A third budget policy states that significant one-time revenues shall only be used for one-time expenditures.

The City Council is required by law to adopt balanced budgets although at times fund balance is appropriated for a specific use. Fund balances were appropriated in both the school unrestricted fund and the parking fund in FY2011. The school committee appropriates fund balance in order to balance the school budget; however, they often do not use most of the appropriated fund balance. The City Council approved an appropriation of parking fund net assets in the amount of \$1,500,000 to be transferred to the Water Pollution Control Fund to offset one-time capital improvements.

The City Council approved a mid-year budget adjustment to offset higher than anticipated overtime costs in the fire department. The net adjustment was a reduction of \$198,200 to the general fund budget.

Other financial policies deal with debt. These policies state that annual general fund debt service expenditures shall be less than 9% of annual general fund expenditures. The actual general fund debt service expenditures were significantly less than 9%.

A second debt policy says that the term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended. The City borrowed money during FY2011 to fund water pollution control fund capital improvements. The amortization of the bond is less than the expected useful life of the improvements.

There are reporting compliance policies that require the City administration to provide budget to actual reports to the City Council on a monthly basis and to provide quarterly budget, actual and projected revenues and expenditures to the State Office of Municipal Affairs. The City administration complied with these policies during FY2011.

Pension and other postemployment benefits

The City sponsors two single-employer defined benefit pension plans for police and fire employees. Each year, an independent actuary engaged by the pension plans calculates the amount of the annual contribution that the City must make to the pension plans to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contributions to the pension plans as determined by the actuary. The City also fully funds the calculation by the actuary of the annual amortization of the unfunded actuarially accrued liability. The liability is being amortized over a closed 30-year period. The City is in the 21st year (declining to 1). The plans are currently funded at 40% for the fire plan and 57% for the police plan.

The City provides pension benefits for its non-public safety employees (except teachers) through a state-wide plan managed by the State Treasurer. Newport teachers are members of the State of Rhode Island

Employee Retirement System. State-hired actuaries determine the funding level and unfunded actuarially accrued liability for each individual participating employer. The City is 60% funded in the State's municipal employees' retirement plan. The State of Rhode Island General Assembly recently enacted legislation that significantly changes the pension plan for participants in the State Municipal Employees Plan and the State Teachers Plan. The changes are expected to reduce the long-term liability by about 50%. These changes are not reflected in the June 30, 2011 footnotes and required supplementary information.

The City provides postretirement health coverage for all vested retirees, certain dependents and beneficiaries and life insurance benefits to police retirees. Vesting and participation is determined by bargaining contract and varies by length of employment and type of employment. As of June 30, 2011, 719 retirees were eligible to receive health insurance benefits, which are currently financed on a pay-as-you-go basis. The actuarial calculation of the combined municipal and school liability as of June 30, 2011 is \$150MM. The City has established and is funding a trust to accumulate assets for the payment of other post-employment benefits in the future. Assets of \$20MM have been accumulated as of June 30, 2011. Benefits will not be paid from the trust until such time as City management feels that sufficient assets are available to begin paying benefits. Retiree benefits and various options are currently being studied in order to reduce the liability.

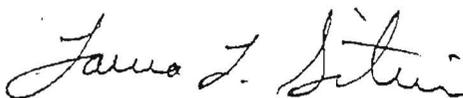
Additional information on the City's pension arrangements and postemployment benefits can be found in Notes V B. and V C. in the notes to the basic financial statements.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department. Credit also must be given to the Mayor and City Council for their unfailing support for achieving and maintaining the highest standards of professionalism in the management of the City of Newport's finances.

Respectfully submitted,

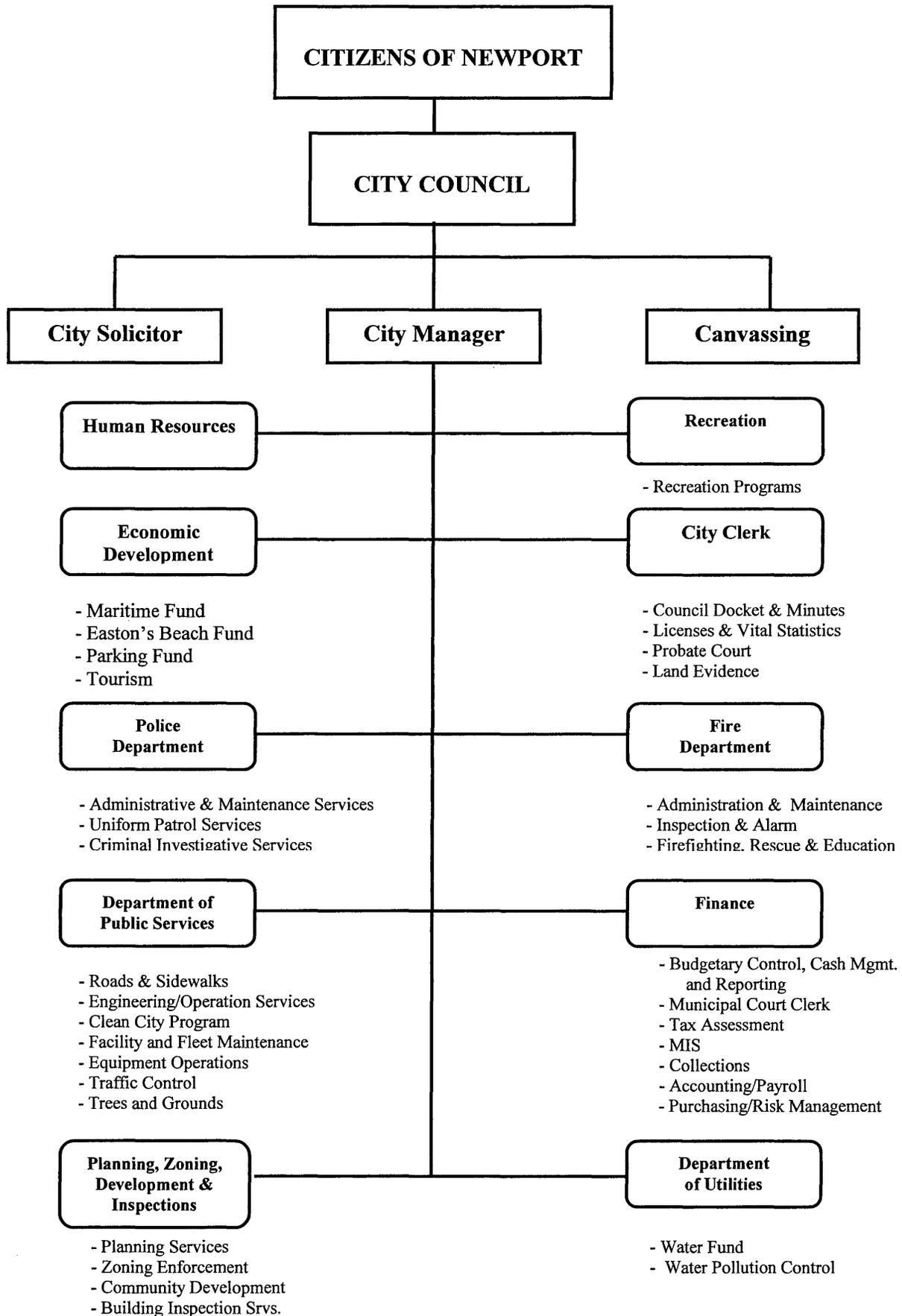


Edward F. Lavallee
City Manager



Laura L. Sitrin, CPA
Director of Finance

THE CITY OF NEWPORT, RI



CITY OF NEWPORT, RHODE ISLAND

PRINCIPAL ELECTED AND APPOINTED OFFICIALS

Elected Officials:

Honorable Stephen C. Waluk
Charles Y. Duncan
Justin S. McLaughlin
Kathryn E. Leonard
Henry F. Winthrop
Jeanne Marie Napolitano
Naomi L. Neville
Patrick K. Kelley
Thomas S. Phelan
Dr. Charles P. Shoemaker
Rebecca Bolan
Sandra J. Flowers, Ph.D.
Robert J. Leary
Jo Eva Gaines

Mayor
1st Ward Councilor
2nd Ward Councilor, Vice-Chair
3rd Ward Councilor
Councilor At Large
Councilor At Large
Councilor At Large
School Committee Chair
School Committee
School Committee
School Committee/Vice Chair
School Committee
School Committee
School Committee

Principal Appointed Officials:

Edward F. Lavallee
Laura L. Sitrin, CPA
John H. Ambrogi, Ed.D.
John Miley
Joseph J. Nicholson Jr.
Julia Fogue
William Riccio
Paige Bronk
Gary Silva
Peter Connerton

City Manager
Director of Finance
Superintendent of Schools
School Business Manager
City Solicitor
Director of Utilities
Director of Public Services
Director of Planning
Police Chief
Fire Chief

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Newport
Rhode Island

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Financial Section

INDEPENDENT AUDITORS' REPORT

Members of the City Council
City of Newport, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Newport, Rhode Island (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Newport, Rhode Island, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the School Restricted Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011 on our consideration of the City'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 21 and the schedules of funding progress and employer contributions on pages 84 through 86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

CCR LLP

Providence, Rhode Island
December 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

As management of the City of Newport, we offer readers of the City of Newport's financial statements this narrative overview and analysis of the financial activities of the City of Newport for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the Introductory section of this report.

Financial Highlights

- The assets of the City of Newport exceeded its liabilities at the close of the most recent fiscal year by \$176,560,639 (*net assets*).
- The government's net assets increased by \$1,428,436. Governmental activities' net assets increased by \$548,357 due primarily to increases in operating grant revenues, property taxes and investment income offset by increased expenditures. Business-type activities had an increase of \$880,079 in net assets due to a significant increase in sewer rates.
- At June 30, 2011, the City of Newport's governmental funds reported a combined ending fund balance of \$26,391,467, a decrease of \$2,017,074 in comparison to the prior year fund balance that is in large part due to the payment of retroactive salary increases to the firefighters. Of the total fund balance, \$16,378,844 (62%) is either nonspendable, restricted or committed, leaving \$10,012,623 as available for spending at the City's discretion (assigned and unassigned fund balance).
- At the end of the current fiscal year, total fund balance for the general fund was \$9,669,083, or 12.6% of total general fund expenditures and net other financing uses. Expressed another way, total fund balance for the general fund was sufficient to cover 1.51 months of general fund operating expenditures.
- The City of Newport's long-term liabilities net increase of \$23,929,041 (43%) was attributable to replacing short-term notes with long-term debt and the issuance of additional debt in the water pollution control fund.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Newport's basic financial statements. The City of Newport's basic financial statements are comprised 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.

Government-Wide Financial Statements

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

The *statement of net assets* presents information on all of the City of Newport'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 City of Newport 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City of Newport 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 City of Newport include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Newport include water utilities, sewer utilities (water pollution control utilities), parking facilities, harbor facilities and Easton's Beach operations.

The government-wide financial statements include not only the City of Newport itself (known as the primary government), but also a legally separate public library for which the City of Newport is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A and B 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 City of Newport uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Newport can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental 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 City of Newport maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the School Unrestricted Fund, the Community Development Block Grant Fund, the Capital Projects Fund and the Permanent Fund, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is included on Schedules 5 and 6 of this report.

The City of Newport adopts an annual budget for its General Fund and its School Unrestricted Fund. Budgetary comparison statements have been provided for the General Fund and the School Unrestricted Fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on Exhibits C and D of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements (Continued)

Proprietary funds

The City of Newport maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Newport uses enterprise funds to account for its water operations, water pollution control operations, parking operations, beach operations and its maritime (harbor) operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Newport's various functions. The City of Newport uses an internal service fund to account for its fleet and equipment maintenance operations. Because this fund predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Utilities Fund and for the Water Pollution Control operation, both of which are considered to be major funds of the City of Newport. The Parking Operations Fund, Maritime Fund and Beach Fund are combined into a single, aggregated presentation in the proprietary fund financial statements. The internal service fund is presented separately in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on Exhibits H, I and J 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 City of Newport's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibits K and L of this report.

Notes to the basic 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 Exhibit M of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Newport's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and proprietary funds are presented immediately following the required supplementary information on pensions.

The statistical section is presented immediately following the combining statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

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 City of Newport, assets exceeded liabilities by \$176,560,639 at the close of the most recent fiscal year.

By far the largest portion of the City of Newport’s net assets (87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Newport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Newport’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Newport's Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|---------------------------------|-------------------------|---------------|--------------------------|---------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current and other assets | \$ 43,457,631 | \$ 43,399,053 | \$ 15,617,644 | \$ 16,576,468 | \$ 59,075,275 | \$ 59,975,521 |
| Capital assets | 83,321,959 | 78,929,928 | 140,250,089 | 123,663,250 | 223,572,048 | 202,593,178 |
| Total assets | 126,779,590 | 122,328,981 | 155,867,733 | 140,239,718 | 282,647,323 | 262,568,699 |
| Long-term liabilities | 37,974,674 | 37,895,777 | 43,942,778 | 19,270,005 | 81,917,452 | 57,165,782 |
| Other liabilities | 12,182,895 | 8,359,540 | 11,986,337 | 21,911,174 | 24,169,232 | 30,270,714 |
| Total liabilities | 50,157,569 | 46,255,317 | 55,929,115 | 41,181,179 | 106,086,684 | 87,436,496 |
| Net assets: | | | | | | |
| Invested in capital assets, net | | | | | | |
| of related debt | 62,576,195 | 58,114,920 | 91,514,668 | 87,919,616 | 154,090,863 | 146,034,536 |
| Restricted | 9,537,541 | 7,959,203 | 9,173,231 | 8,924,854 | 18,710,772 | 16,884,057 |
| Unrestricted | 4,508,285 | 9,999,541 | (749,281) | 2,214,069 | 3,759,004 | 12,213,610 |
| Total net assets | \$ 76,622,021 | \$ 76,073,664 | \$ 99,938,618 | \$ 99,058,539 | \$ 176,560,639 | \$ 175,132,203 |

An additional portion of the City of Newport’s net assets (11%) represents resources that are restricted by external parties.

The City’s net assets increased by \$1,428,436 during the current fiscal year. This increase is primarily due to an increase in permanent fund investment income plus an increase in the sewer rate.

Governmental Activities

Governmental activities net assets increased by \$548,357. A comparison of FY2011 and FY2010 activity can be found on the next page which indicates an increase in property tax revenue of \$935,700, an increase in operating grants of \$1,124,888 and an increase in permanent fund investment income of \$756,210. The increases were offset by increased expenditures including an increase in public safety due to approved salary increases, increases in overtime costs, and six years of retroactive wage increases from a recently settled fire union contract. Property tax revenue increased because of a slight increase in the total tax levy of 0.35%. Investment income increased due to realized and unrealized gains in the permanent fund due to better market conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-Wide Financial Analysis (Continued)

Governmental Activities (continued)

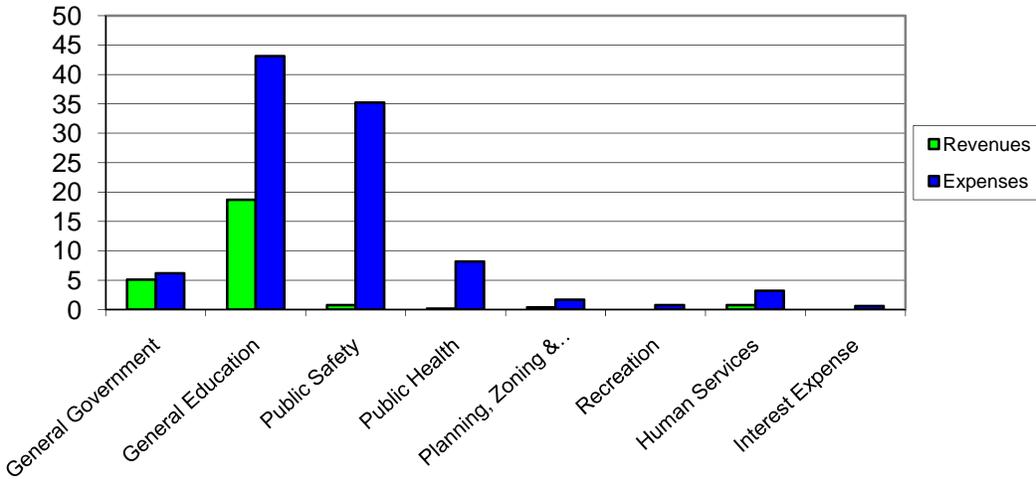
City of Newport's Changes in Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 10,127,069 | \$ 10,894,124 | \$ 24,122,942 | \$ 21,485,528 | \$ 34,250,011 | \$ 32,379,652 |
| Operating grants and contributions | 21,164,485 | 20,039,597 | - | - | 21,164,485 | 20,039,597 |
| Capital grants and contributions | 551,913 | 1,773,730 | 78,856 | 154,107 | 630,769 | 1,927,837 |
| General revenues: | | | | | | |
| Property taxes | 64,518,899 | 63,583,199 | - | - | 64,518,899 | 63,583,199 |
| Grants and contributions not restricted to specific programs | 1,257,171 | 2,540,966 | - | - | 1,257,171 | 2,540,966 |
| Investment income | 2,014,016 | 1,257,806 | 39,502 | 78,285 | 2,053,518 | 1,336,091 |
| Contributed capital | - | - | - | 320,000 | - | 320,000 |
| Total revenues | <u>99,633,553</u> | <u>100,089,422</u> | <u>24,241,300</u> | <u>22,037,920</u> | <u>123,874,853</u> | <u>121,807,342</u> |
| Expenses: | | | | | | |
| General government | 6,197,935 | 6,782,232 | - | - | 6,197,935 | 6,782,232 |
| General education | 43,124,023 | 43,071,429 | - | - | 43,124,023 | 43,071,429 |
| Public safety | 35,191,714 | 31,829,739 | - | - | 35,191,714 | 31,829,739 |
| Public health | 8,240,164 | 8,023,199 | - | - | 8,240,164 | 8,023,199 |
| Planning, zoning and development | 1,744,516 | 1,363,899 | - | - | 1,744,516 | 1,363,899 |
| Recreation | 753,272 | 769,888 | - | - | 753,272 | 769,888 |
| Human services | 3,207,552 | 3,241,886 | - | - | 3,207,552 | 3,241,886 |
| Interest expense | 626,020 | 863,546 | - | - | 626,020 | 863,546 |
| Water | - | - | 10,528,183 | 8,982,066 | 10,528,183 | 8,982,066 |
| Water pollution control | - | - | 10,114,458 | 8,108,213 | 10,114,458 | 8,108,213 |
| Nonmajor business-type | - | - | 2,718,580 | 2,914,382 | 2,718,580 | 2,914,382 |
| Total expenses | <u>99,085,196</u> | <u>95,945,818</u> | <u>23,361,221</u> | <u>20,004,661</u> | <u>122,446,417</u> | <u>115,950,479</u> |
| Increase in net assets | 548,357 | 4,143,604 | 880,079 | 2,033,259 | 1,428,436 | 5,856,863 |
| Transfers | - | (743,534) | - | 743,534 | - | - |
| Change in net assets | 548,357 | 3,400,070 | 880,079 | 2,776,793 | 1,428,436 | 5,856,863 |
| Net assets July 1 | <u>76,073,664</u> | <u>72,380,333</u> | <u>99,058,539</u> | <u>95,827,261</u> | <u>175,132,203</u> | <u>168,207,594</u> |
| Net assets June 30 | <u>\$ 76,622,021</u> | <u>\$ 75,780,403</u> | <u>\$ 99,938,618</u> | <u>\$ 98,604,054</u> | <u>\$ 176,560,639</u> | <u>\$ 174,064,457</u> |

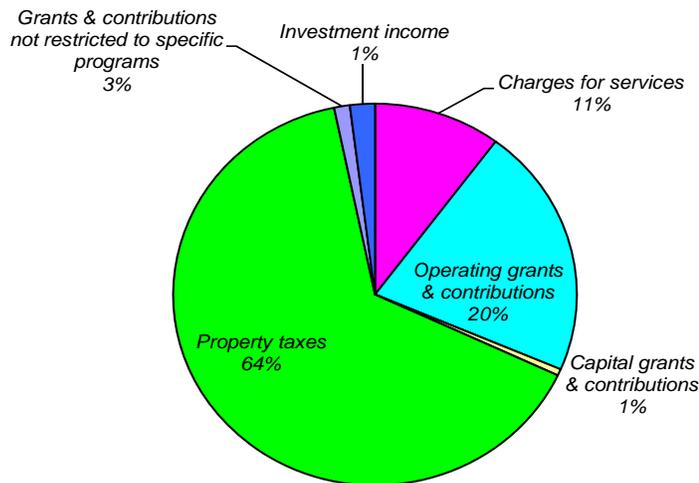
Government-Wide Financial Analysis (Continued)

Governmental Activities (continued)

**Expenses and Program Revenues -
Governmental Activities**



Revenues by Source - Governmental Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

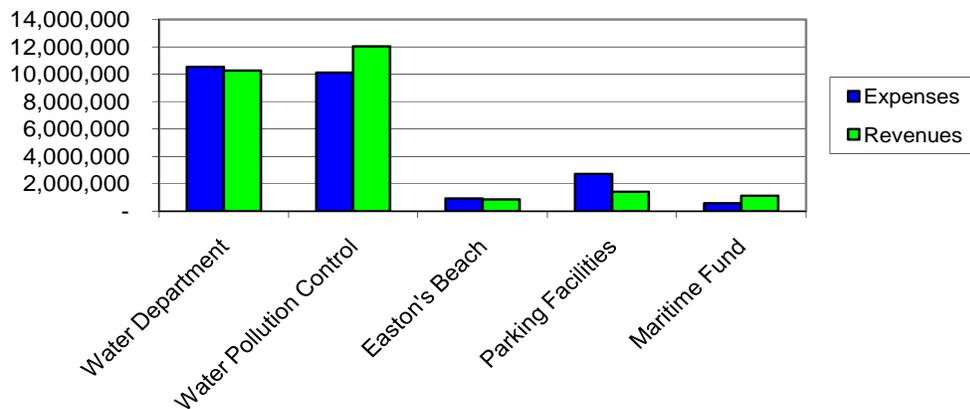
Government-Wide Financial Analysis (Continued)

Business-type activities

Business-type activities' net assets increased by \$880,079. The increase is due to an increase in water pollution control fees of 49.85% offset by increased expenditures in both the water and water pollution control funds. An approved transfer of \$1,500,000 was made from the parking fund to the water pollution control fund for capital improvements.

The Water Fund had a net loss of \$254,969 for the year ended June 30, 2011, the Water Pollution Control Fund had net income of \$1,918,289 and the non-major proprietary funds had a net loss of \$783,241.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City of Newport uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City of Newport's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Newport's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Newport's governmental funds reported combined ending fund balances of \$26,391,467, a decrease of \$2,017,074 in comparison with the prior year fund balance. Much of the total combined ending fund balance amount (\$16,378,844) constitutes fund balance that is either nonspendable, restricted by outside legal sources or committed for capital or contractual purposes. An additional \$2,235,063 of the fund balance is assigned by either the School Committee or the City Council and the balance of \$7,777,560 is unassigned, which is available for spending at the government's discretion.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the City's Funds (Continued)

Governmental funds (continued)

The General Fund is the operating fund of the City of Newport. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$7,646,392, while total fund balance was \$9,669,083. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 9.9% of total General Fund expenditures and transfers, while total fund balance represents 12.6% of that same amount. Expressed another way, unassigned fund balance was sufficient to cover 1.19 months of general fund operating expenditures, while total fund balance was sufficient to cover 1.51 months of general fund operating expenditures.

The fund balance of the City of Newport's General Fund decreased by \$1,409,691. The City settled a contract with the Local 1080 IAFF (International Association of Firefighters) that spans from July 1, 2007 through June 30, 2014. The settlement included retroactive pay in the amount of \$1,394,439 which was accrued as of June 30, 2011. Key factors in this year's operations are as follows:

There was an overall decrease in General Fund revenues of \$1,042,990 from the prior year due to a reduction in state aid. Revenues were also lower than budgeted by \$590,349 due to lower than anticipated investment income in the general fund and building permit fees.

The School Unrestricted Fund revenues include monies from the state's allotment of federal stabilization funds in the amount of \$1,224,278. The school unrestricted fund had an increase in net assets of \$127,264 due primarily to higher than anticipated revenues.

The Community Development Block Grant Fund had a slight decrease of fund balance of \$15,758 which is due to timing differences between grant revenues and expenditures.

The Capital Projects Fund had a decrease in fund balance of \$1,941,813 that is the result of timing differences between funding and capital spending.

The Permanent Fund had an increase in fund balance of \$1,406,754 due to realized and unrealized gains and interest income from investments.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were due to budgetary carryovers from fiscal year 2010 of \$787,965 and a mid-year increase in revenues and expenditures of \$198,700.

Proprietary funds

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

Unrestricted net assets of the Water Fund at the end of the year amounted to a deficit of \$2,798,107 while restricted net assets were \$5,842,782. The Rhode Island Public Utilities Commission sets rates at a level that allows revenues to the extent that they cover approved operating, debt service and capital expenditures. The rates do not allow for reserves, thus any unforeseen expense is covered by curbing operating and maintenance expenses.

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the City’s Funds (Continued)

Proprietary funds (continued)

Unrestricted net assets of the Water Pollution Control Fund at the end of the year amounted to a deficit of \$1,991,023 which is a decrease from the prior year of \$1,425,894. Much of the revenue in the Water Pollution Control Fund was used for capital improvements leading to an increase in net assets invested in capital assets, net of related debt, of \$4,357,660. The Parking Fund had unrestricted net assets of \$2,863,331; the Maritime Fund had unrestricted net assets of \$1,197,933, and the Easton’s Beach Fund had a deficit of (\$21,415.) The total decline in net assets for the Water Fund was \$254,969; an increase of \$1,918,289 for the Water Pollution Control Fund; a decline for the parking operations fund of (\$1,274,673); an increase for the Maritime Fund of \$555,902 and a decline for Easton’s Beach of (\$64,470). The parking fund transferred \$1,500,000 into the Water Pollution Control Fund for capital projects per Council appropriation. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Newport’s business-type activities.

Capital Asset and Debt Administration

Capital assets

The City of Newport’s investment in capital assets for its governmental and business-type activities as of June 30, 2011 is \$223,572,048 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and systems, machinery and equipment, vehicles, infrastructure and construction in progress. There was a total increase in the City of Newport’s investment in capital assets for the current fiscal year of 10.4%. Individually, governmental activities had a 5.6% increase and business-type activities had a 13.4% increase.

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

- \$2,519,911 was spent on road and sidewalk reconstruction and improvements.
- \$618,558 was spent on seawall repairs.
- \$1,570,948 was spent on city and school owned building improvements.
- \$573,883 was spent on computer and radio systems and infrastructure.
- \$708,860 was spent on vehicle and equipment purchases.
- \$977,507 was spent on the new Pell Elementary School
- \$289,002 was spent on Easton’s Beach and public pier and boating center improvements.
- \$4,605,387 was spent on water infrastructure, mains, buildings and pump stations.
- \$16,664,045 was spent on combined sewer overflow and other water pollution control issues.

City of Newport's Capital Assets
(net of depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | \$ 4,920,148 | \$ 4,920,148 | \$ 6,492,359 | \$ 6,492,359 | \$ 11,412,507 | \$ 11,412,507 |
| Construction in progress | 1,404,700 | 224,335 | 4,133,403 | 20,161,491 | 5,538,103 | 20,385,826 |
| Buildings & systems | 33,344,412 | 31,843,681 | 128,325,225 | 95,651,955 | 161,669,637 | 127,495,636 |
| Machinery & equipment | 3,400,353 | 3,287,402 | 747,130 | 955,523 | 4,147,483 | 4,242,925 |
| Vehicles | 2,728,914 | 2,509,242 | 551,972 | 401,922 | 3,280,886 | 2,911,164 |
| Infrastructure | 37,523,432 | 36,145,120 | - | - | 37,523,432 | 36,145,120 |
| Total | \$ 83,321,959 | \$ 78,929,928 | \$ 140,250,089 | \$ 123,663,250 | \$ 223,572,048 | \$ 202,593,178 |

Additional information on the City of Newport’s capital assets can be found in Exhibit M. Note IV. C.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the City's Funds (Continued)

Capital Asset and Debt Administration (Continued)

Long-term debt

At the end of the current fiscal year, the City of Newport had total bonded debt outstanding of \$64,981,922. Of this amount, \$20,712,430 comprises debt backed by the full faith and credit of the government. The remainder of the City of Newport's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

General Obligation and Revenue Bonds

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| General Obligation Bonds | \$ 19,781,572 | \$ 20,815,008 | \$ 930,858 | \$ 1,585,368 | \$ 20,712,430 | \$ 22,400,376 |
| Revenue Bonds | - | - | 44,269,492 | 18,616,758 | 44,269,492 | 18,616,758 |
| Total | \$ 19,781,572 | \$ 20,815,008 | \$ 45,200,350 | \$ 20,202,126 | \$ 64,981,922 | \$ 41,017,134 |

The City of Newport's total bonds increased by \$23,964,788 (58%) during the current fiscal year. The increase was primarily the result of converting a short-term revenue note of \$15,000,000 into long-term debt, along with new subsidized revenue bond debt of \$9,173,578 in the water pollution control fund and water revenue bond drawdowns of \$2,618,839.

The City of Newport maintains an "AA" rating from Standard and Poor for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may have outstanding to 3% of its assessed property values. The current debt limitation for the City is \$171,729,613, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Newport's long-term debt can be found in Exhibit M. Note IV. E. of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Newport is currently 8.6%, which is a decrease of 1.1% from a rate of 9.7% a year ago. This is less than the state's unemployment rate of 10.4% and the federal national average rate of 9.0%
- The occupancy rate of the government's central business district is about 95% during the summer tourist season (May through October) and 65% in the remaining months. This is about the same from the previous year.
- Inflationary trends in the region follow national indices.

All of these factors were considered in preparing the City of Newport's budget for the 2012 fiscal year.

Unassigned fund balance in the General Fund at June 30, 2011 is \$7,646,392 or 9.9% of general fund expenditures, which is slightly lower than the City's fiscal policy of maintaining 10% of total General Fund expenditures and transfers out as a reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The Water Pollution Control Fund's rates increased by 15% in FY2012 for usage based on volume, and 1% for a fixed fee designated for combined sewer overflow issues. The Water Fund rates are controlled and set by the Rhode Island Public Utilities Commission. A rate increase was approved effective December 1, 2011 of 22.5%. Rates in both funds are increasing to pay for required capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Newport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Laura Sitrin, City of Newport, 43 Broadway, Newport, Rhode Island 02840.

Basic Financial Statements

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF NET ASSETS
JUNE 30, 2011

| | PRIMARY GOVERNMENT | | | COMPONENT UNIT |
|--|----------------------------|-----------------------------|-----------------------|------------------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | NEWPORT PUBLIC LIBRARY |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 9,793,668 | \$ 3,313,131 | \$ 13,106,799 | \$ 546,784 |
| Investments | 8,673,088 | 1,134,311 | 9,807,399 | 669,449 |
| Receivables (net) | 7,812,849 | 2,789,901 | 10,602,750 | 5,645 |
| Internal balances (advances) | 1,170,879 | (1,170,879) | - | - |
| Inventories | 21,292 | 249,513 | 270,805 | - |
| Prepaid expenses | 866,308 | 227,436 | 1,093,744 | 64,362 |
| Total current assets | 28,338,084 | 6,543,413 | 34,881,497 | 1,286,240 |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Temporarily restricted cash and cash equivalents | - | 9,074,231 | 9,074,231 | - |
| Permanently restricted investments | 8,251,652 | - | 8,251,652 | - |
| Receivables (net) | 569,136 | - | 569,136 | - |
| Pension asset | 6,298,759 | - | 6,298,759 | - |
| Capital assets not being depreciated | 6,324,848 | 10,625,762 | 16,950,610 | - |
| Capital assets (net of accumulated depreciation) | 76,997,111 | 129,624,327 | 206,621,438 | 4,833,507 |
| Total noncurrent assets | 98,441,506 | 149,324,320 | 247,765,826 | 4,833,507 |
| TOTAL ASSETS | 126,779,590 | 155,867,733 | 282,647,323 | 6,119,747 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 2,697,085 | 4,929,349 | 7,626,434 | 184,866 |
| Accrued salaries and benefits | 3,213,014 | 1,383,033 | 4,596,047 | 140,361 |
| Unearned revenue | 1,474,937 | - | 1,474,937 | - |
| Other liabilities | 340,176 | 99,000 | 439,176 | - |
| Current portion of long-term obligations | 4,457,683 | 5,574,955 | 10,032,638 | 8,750 |
| Total current liabilities | 12,182,895 | 11,986,337 | 24,169,232 | 333,977 |
| Noncurrent liabilities: | | | | |
| Long-term obligations | 37,974,674 | 43,942,778 | 81,917,452 | 78,750 |
| Total noncurrent liabilities | 37,974,674 | 43,942,778 | 81,917,452 | 78,750 |
| TOTAL LIABILITIES | 50,157,569 | 55,929,115 | 106,086,684 | 412,727 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 62,576,195 | 91,514,668 | 154,090,863 | 4,746,007 |
| Restricted for: | | | | |
| Endowments: | | | | |
| Expendable | 5,955,530 | - | 5,955,530 | 102,996 |
| Nonexpendable | 2,181,651 | - | 2,181,651 | - |
| Held in trust | - | 99,000 | 99,000 | - |
| Debt service | 1,400,360 | 9,074,231 | 10,474,591 | - |
| Unrestricted (Deficit) | 4,508,285 | (749,281) | 3,759,004 | 858,017 |
| TOTAL NET ASSETS | \$ 76,622,021 | \$ 99,938,618 | \$ 176,560,639 | \$ 5,707,020 |

**CITY OF NEWPORT, RHODE ISLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

| FUNCTIONS/PROGRAMS | PROGRAM REVENUES | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | COMPONENT UNIT NEWPORT PUBLIC LIBRARY |
|--|-----------------------|-------------------------|--|--|--|-----------------------------|------------------------|---|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | PRIMARY GOVERNMENT | | | |
| | | | | | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| PRIMARY GOVERNMENT: | | | | | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | | |
| General government | \$ 6,197,935 | \$ 4,343,388 | \$ 763,283 | \$ - | \$ (1,091,264) | \$ - | \$ (1,091,264) | \$ - |
| General education | 43,124,023 | 1,440,324 | 18,712,193 | - | (22,971,506) | - | (22,971,506) | - |
| Public safety | 35,191,714 | 3,484,757 | 439,130 | 327,779 | (30,940,048) | - | (30,940,048) | - |
| Public health | 8,240,164 | 99,195 | 14,592 | 224,134 | (7,902,243) | - | (7,902,243) | - |
| Planning, zoning and development | 1,744,516 | 908,497 | 392,967 | - | (443,052) | - | (443,052) | - |
| Recreation and parks | 753,272 | 113,660 | 37,706 | - | (601,906) | - | (601,906) | - |
| Human services | 3,207,552 | (262,752) | 804,614 | - | (2,665,690) | - | (2,665,690) | - |
| Interest expense | 626,020 | - | - | - | (626,020) | - | (626,020) | - |
| TOTAL GOVERNMENTAL ACTIVITIES | 99,085,196 | 10,127,069 | 21,164,485 | 551,913 | (67,241,729) | - | (67,241,729) | - |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | | |
| Water Department | 10,528,183 | 10,270,053 | - | - | - | (258,130) | (258,130) | - |
| Water Pollution Control | 10,114,458 | 10,530,416 | - | - | - | 415,958 | 415,958 | - |
| Recreational and parking facilities | 2,718,580 | 3,322,473 | - | 78,856 | - | 682,749 | 682,749 | - |
| TOTAL BUSINESS-TYPE ACTIVITIES | 23,361,221 | 24,122,942 | - | 78,856 | - | 840,577 | 840,577 | - |
| TOTAL PRIMARY GOVERNMENT | \$ 122,446,417 | \$ 34,250,011 | \$ 21,164,485 | \$ 630,769 | \$ (67,241,729) | \$ 840,577 | \$ (66,401,152) | \$ - |
| COMPONENT UNITS: | | | | | | | | |
| Newport Public Library | \$ 2,392,772 | \$ 108,964 | \$ 2,107,987 | \$ - | \$ - | \$ - | \$ - | \$ (175,821) |
| GENERAL REVENUES: | | | | | | | | |
| Property taxes | | | | | \$ 64,518,899 | \$ - | \$ 64,518,899 | \$ - |
| Grants and contributions not restricted to specific programs | | | | | 1,257,171 | - | 1,257,171 | - |
| Investment income | | | | | 2,014,016 | 39,502 | 2,053,518 | 66,657 |
| TOTAL GENERAL REVENUES | | | | | 67,790,086 | 39,502 | 67,829,588 | 66,657 |
| CHANGE IN NET ASSETS | | | | | 548,357 | 880,079 | 1,428,436 | (109,164) |
| NET ASSETS - JULY 1, 2010 | | | | | 76,073,664 | 99,058,539 | 175,132,203 | 5,816,184 |
| NET ASSETS - JUNE 30, 2011 | | | | | \$ 76,622,021 | \$ 99,938,618 | \$ 176,560,639 | \$ 5,707,020 |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

| | GENERAL FUND | SCHOOL UNRESTRICTED FUND | COMMUNITY DEVELOPMENT BLOCK GRANT FUND | PERMANENT FUND | CAPITAL PROJECTS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|----------------------|--------------------------------|---|---------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 1,783,788 | \$ 2,261,693 | \$ 483,401 | \$ - | \$ 3,284,937 | \$ 3,152,695 | \$ 10,966,514 |
| Investments | 8,676,437 | - | - | 8,248,303 | - | - | 16,924,740 |
| Receivables, net: | | | | | | | |
| Property taxes | 2,159,788 | - | - | - | - | - | 2,159,788 |
| Motor vehicle excise | 1,362,710 | - | - | - | - | - | 1,362,710 |
| Intergovernmental | - | 10,879 | 92,953 | - | 1,320,857 | 1,874,112 | 3,298,801 |
| Note/loan | - | - | 2,590,088 | - | - | 308,630 | 2,898,718 |
| Other | 933,283 | 378,115 | - | - | 44,657 | 88,000 | 1,444,055 |
| Due from other funds | 758,629 | - | - | - | - | 87,500 | 846,129 |
| Advances to other funds | - | - | - | - | - | 300,421 | 300,421 |
| TOTAL ASSETS | \$ 15,674,635 | \$ 2,650,687 | \$ 3,166,442 | \$ 8,248,303 | \$ 4,650,451 | \$ 5,811,358 | \$ 40,201,876 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Cash overdraft | \$ - | \$ - | \$ - | \$ 103,464 | \$ - | \$ 1,139,683 | \$ 1,243,147 |
| Accounts payable | 871,150 | 664,472 | 1,000 | 7,658 | 960,452 | 168,344 | 2,673,076 |
| Accrued liabilities | 2,345,304 | 413,540 | - | - | - | - | 2,758,844 |
| Unearned/deferred revenue | 2,361,422 | - | 2,683,041 | - | 637,120 | 1,026,083 | 6,707,666 |
| Due to other funds | 87,500 | - | - | - | - | - | 87,500 |
| Other liabilities | 340,176 | - | - | - | - | - | 340,176 |
| Total liabilities | 6,005,552 | 1,078,012 | 2,684,041 | 111,122 | 1,597,572 | 2,334,110 | 13,810,409 |
| Fund balances: | | | | | | | |
| Nonspendable | - | - | - | 2,181,652 | - | - | 2,181,652 |
| Restricted | - | - | 482,401 | 5,955,529 | - | 3,548,544 | 9,986,474 |
| Committed | 1,157,839 | - | - | - | 3,052,879 | - | 4,210,718 |
| Assigned | 864,852 | 1,370,211 | - | - | - | - | 2,235,063 |
| Unassigned | 7,646,392 | 202,464 | - | - | - | (71,296) | 7,777,560 |
| Total fund balances | 9,669,083 | 1,572,675 | 482,401 | 8,137,181 | 3,052,879 | 3,477,248 | 26,391,467 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 15,674,635 | \$ 2,650,687 | \$ 3,166,442 | \$ 8,248,303 | \$ 4,650,451 | \$ 5,811,358 | |

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT
OF NET ASSETS ARE DIFFERENT BECAUSE:

| | |
|---|--------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 83,309,542 |
| Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds | 9,597,525 |
| Internal service funds are used by management to charge the cost of fleet maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 168,457 |
| Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note II) | (42,844,970) |

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 76,622,021

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

| | GENERAL FUND | SCHOOL UNRESTRICTED FUND | COMMUNITY DEVELOPMENT BLOCK GRANT FUND | PERMANENT FUND | CAPITAL PROJECTS FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|---------------------|--------------------------------|---|---------------------|-----------------------------|--------------------------------|--------------------------------|
| REVENUES: | | | | | | | |
| Local taxes | \$ 64,411,792 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 64,411,792 |
| Intergovernmental revenues | 2,024,875 | 14,358,350 | 408,050 | - | 1,220,307 | 5,273,683 | 23,285,265 |
| Charges for services | 8,447,421 | - | 115,954 | - | 307,787 | 670,599 | 9,541,761 |
| Use of money and property | 154,807 | - | 49,508 | 1,672,092 | 841 | 136,768 | 2,014,016 |
| Contributions | - | - | - | - | 64,657 | 96,850 | 161,507 |
| Other revenues | 231,695 | 897,140 | - | - | - | - | 1,128,835 |
| TOTAL REVENUES | 75,270,590 | 15,255,490 | 573,512 | 1,672,092 | 1,593,592 | 6,177,900 | 100,543,176 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | 5,435,280 | - | - | - | - | - | 5,435,280 |
| General education | - | 37,846,215 | - | - | - | 4,893,970 | 42,740,185 |
| Public safety | 32,406,236 | - | - | - | - | 229,562 | 32,635,798 |
| Public health | 7,322,902 | - | - | - | - | 8,130 | 7,331,032 |
| Planning, zoning and development | 1,203,781 | - | - | - | - | 397,773 | 1,601,554 |
| Recreation | 590,517 | - | - | - | - | 300 | 590,817 |
| Human services | 1,735,869 | - | 373,773 | 265,338 | - | 658,752 | 3,033,732 |
| Pension expenditures | 2,722,514 | - | - | - | - | - | 2,722,514 |
| Debt service: | | | | | | | |
| Principal | 1,040,489 | - | - | - | - | - | 1,040,489 |
| Interest | 693,395 | - | - | - | - | - | 693,395 |
| Capital outlays | - | 1,391,978 | 215,497 | - | 4,367,436 | - | 5,974,911 |
| TOTAL EXPENDITURES | 53,150,983 | 39,238,193 | 589,270 | 265,338 | 4,367,436 | 6,188,487 | 103,799,707 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 22,119,607 | (23,982,703) | (15,758) | 1,406,754 | (2,773,844) | (10,587) | (3,256,531) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Lease proceeds | - | 1,239,457 | - | - | - | - | 1,239,457 |
| Transfers in | 341,085 | 22,870,510 | - | - | 1,173,116 | 133,110 | 24,517,821 |
| Transfers out | (23,870,383) | - | - | - | (341,085) | (306,353) | (24,517,821) |
| NET OTHER FINANCING SOURCES (USES) | (23,529,298) | 24,109,967 | - | - | 832,031 | (173,243) | 1,239,457 |
| NET CHANGE IN FUND BALANCES | (1,409,691) | 127,264 | (15,758) | 1,406,754 | (1,941,813) | (183,830) | (2,017,074) |
| FUND BALANCES, JULY 1, 2010, AS RESTATED | 11,078,774 | 1,445,411 | 498,159 | 6,730,427 | 4,994,692 | 3,661,078 | 28,408,541 |
| FUND BALANCES, JUNE 30, 2011 | \$ 9,669,083 | \$ 1,572,675 | \$ 482,401 | \$ 8,137,181 | \$ 3,052,879 | \$ 3,477,248 | \$ 26,391,467 |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
ARE DIFFERENT DUE TO:

Net Change in Fund Balances-Total Governmental Funds \$ (2,017,074)

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 by which capital outlays exceeded depreciation in the current period. 4,393,528

Reductions in deferred revenue that provide current financial resources to governmental funds are not reported as revenues in the Statement of Activities. (909,623)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (786,881)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amount is the net effect of these differences in the treatment of long-term debt and related items. (131,593)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 548,357

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2011

| | ORIGINAL ADOPTED BUDGET | FINAL AMENDED BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|---|-------------------------------|----------------------------|---------------------|-------------------------------------|
| REVENUES: | | | | |
| Local taxes | \$ 64,695,524 | \$ 64,945,524 | \$ 64,411,792 | \$ (533,732) |
| Intergovernmental revenues | 1,497,809 | 1,646,509 | 2,024,875 | 378,366 |
| Charges for services | 8,769,550 | 8,769,550 | 8,447,421 | (322,129) |
| Use of money and property | 500,000 | 300,000 | 154,807 | (145,193) |
| Other revenues | 161,950 | 161,950 | 194,289 | 32,339 |
| TOTAL REVENUES | 75,624,833 | 75,823,533 | 75,233,184 | (590,349) |
| EXPENDITURES: | | | | |
| General government: | | | | |
| Mayor and city council | 113,501 | 113,501 | 89,007 | 24,494 |
| City manager | 733,128 | 733,128 | 730,296 | 2,832 |
| City solicitor | 413,401 | 413,401 | 389,343 | 24,058 |
| Canvassing | 223,877 | 223,877 | 210,489 | 13,388 |
| Finance | 2,828,659 | 2,860,690 | 2,757,565 | 103,125 |
| City clerk | 529,399 | 709,292 | 487,274 | 222,018 |
| Reserve accounts | 420,959 | 814,659 | 1,263,553 | (448,894) |
| Public safety: | | | | |
| Police department | 15,393,813 | 15,424,613 | 15,219,723 | 204,890 |
| Fire department | 15,482,879 | 15,722,879 | 17,224,494 | (1,501,615) |
| Public health | 8,098,287 | 8,625,291 | 7,149,699 | 1,475,592 |
| Planning, zoning, and development | 1,249,180 | 1,249,180 | 1,203,781 | 45,399 |
| Recreation | 593,036 | 593,036 | 551,867 | 41,169 |
| Human services: | | | | |
| Donations | 83,150 | 83,150 | 64,150 | 19,000 |
| Public library | 1,671,719 | 1,671,719 | 1,671,719 | - |
| Pension expenditures | 3,152,061 | 2,635,761 | 2,722,514 | (86,753) |
| Debt service | 1,853,177 | 1,853,177 | 1,733,884 | 119,293 |
| TOTAL EXPENDITURES | 52,840,226 | 53,727,354 | 53,469,358 | 257,996 |
| EXCESS OF REVENUES OVER EXPENDITURES | 22,784,607 | 22,096,179 | 21,763,826 | (332,353) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Appropriations of fund balance | 800,000 | 1,638,101 | - | (1,638,101) |
| Transfers in | - | - | 341,085 | 341,085 |
| Transfers out | (23,584,607) | (23,684,144) | (23,833,096) | (148,952) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES (BUDGETARY BASIS) | \$ - | \$ 50,136 | (1,728,185) | \$ (1,778,321) |
| FUND BALANCE, JULY 1, 2010 | | | <u>9,175,860</u> | |
| FUND BALANCE, JUNE 30, 2011 | | | <u>\$ 7,447,675</u> | |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

SCHOOL UNRESTRICTED FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2011

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--|-----------------------|-----------------------|---------------------|-------------------------------------|
| REVENUES: | | | | |
| Federal revenues | \$ 2,061,305 | \$ 2,061,305 | \$ 2,437,453 | \$ 376,148 |
| State revenues | 10,466,114 | 10,466,114 | 10,577,518 | 111,404 |
| Local revenues | 816,411 | 816,411 | 897,140 | 80,729 |
| TOTAL REVENUES | <u>13,343,830</u> | <u>13,343,830</u> | <u>13,912,111</u> | <u>568,281</u> |
| EXPENDITURES: | | | | |
| General education | <u>37,061,140</u> | <u>37,061,140</u> | <u>37,894,814</u> | <u>(833,674)</u> |
| EXCESS OF EXPENDITURES OVER REVENUES | <u>(23,717,310)</u> | <u>(23,717,310)</u> | <u>(23,982,703)</u> | <u>(265,393)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Lease proceeds | - | - | 1,239,457 | |
| Transfers in | <u>22,564,158</u> | <u>22,564,158</u> | <u>22,870,510</u> | <u>306,352</u> |
| NET OTHER FINANCING SOURCES (USES) | <u>22,564,158</u> | <u>22,564,158</u> | <u>24,109,967</u> | <u>306,352</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | <u>\$ (1,153,152)</u> | <u>\$ (1,153,152)</u> | <u>127,264</u> | <u>\$ 40,959</u> |
| FUND BALANCE - JULY 1, 2010 | | | <u>1,445,411</u> | |
| FUND BALANCE - JUNE 30, 2011 | | | <u>\$ 1,572,675</u> | |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | TOTALS | GOVERNMENTAL ACTIVITIES |
|--|--|----------------------|------------------------------|----------------------|----------------------------|
| | WATER FUND | W.P.C. FUND | OTHER ENTERPRISE FUNDS | | INTERNAL SERVICE FUNDS |
| ASSETS: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents - unrestricted | \$ - | \$ - | \$ 3,313,131 | \$ 3,313,131 | \$ 70,301 |
| Investments | - | - | 1,134,311 | 1,134,311 | - |
| Accounts receivable: | | | | | |
| User fees (net of allowances) | 1,137,815 | 1,509,040 | 58,776 | 2,705,631 | - |
| Intergovernmental | - | - | 84,270 | 84,270 | - |
| Other | - | - | - | - | 18,184 |
| Due from other funds | - | 410,578 | - | 410,578 | 111,829 |
| Advances to other funds | - | - | 188,380 | 188,380 | - |
| Inventories | 249,511 | - | - | 249,511 | 21,292 |
| Prepaid expenses | 5,000 | 222,436 | - | 227,436 | - |
| Total current assets | 1,392,326 | 2,142,054 | 4,778,868 | 8,313,248 | 221,606 |
| Noncurrent assets: | | | | | |
| Cash and cash equivalents - restricted | 5,842,782 | 3,231,449 | - | 9,074,231 | - |
| Capital assets (net of accumulated depreciation) | 50,450,546 | 84,325,837 | 5,473,706 | 140,250,089 | 12,417 |
| Total noncurrent assets | 56,293,328 | 87,557,286 | 5,473,706 | 149,324,320 | 12,417 |
| TOTAL ASSETS | 57,685,654 | 89,699,340 | 10,252,574 | 157,637,568 | 234,023 |
| LIABILITIES: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,314,955 | 3,481,999 | 132,395 | 4,929,349 | 24,011 |
| Accrued expenses | 866,630 | 398,578 | 117,825 | 1,383,033 | 41,555 |
| Due to other funds | 1,226,536 | 54,500 | - | 1,281,036 | - |
| Escrow held in Trust | - | 99,000 | - | 99,000 | - |
| Current portion advances | - | - | 29,642 | 29,642 | - |
| Current portion notes payable | 3,335,070 | - | - | 3,335,070 | - |
| Current portion bonds payable | 1,004,789 | 1,235,096 | - | 2,239,885 | - |
| Total current liabilities | 7,747,980 | 5,269,173 | 279,862 | 13,297,015 | 65,566 |
| Long-term liabilities: | | | | | |
| Advances from other funds | - | - | 459,157 | 459,157 | - |
| Notes payable | - | - | 200,000 | 200,000 | - |
| Bonds payable | 9,490,058 | 33,470,408 | - | 42,960,466 | - |
| Net other post-employment benefits obligation | 782,312 | - | - | 782,312 | - |
| Total long-term liabilities | 10,272,370 | 33,470,408 | 659,157 | 44,401,935 | - |
| TOTAL LIABILITIES | 18,020,350 | 38,739,581 | 939,019 | 57,698,950 | 65,566 |
| NET ASSETS: | | | | | |
| Invested in capital assets, net of related debt | 36,620,629 | 49,620,333 | 5,273,706 | 91,514,668 | 12,417 |
| Restricted by regulatory agencies and bond covenants | 5,842,782 | 3,231,449 | - | 9,074,231 | - |
| Assets held in trust | - | 99,000 | - | 99,000 | - |
| Unrestricted | (2,798,107) | (1,991,023) | 4,039,849 | (749,281) | 156,040 |
| TOTAL NET ASSETS | \$ 39,665,304 | \$ 50,959,759 | \$ 9,313,555 | \$ 99,938,618 | \$ 168,457 |

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | TOTALS | GOVERNMENTAL ACTIVITIES |
|---|--|----------------|------------------------------|---------------|----------------------------|
| | WATER FUND | W.P.C. FUND | OTHER ENTERPRISE FUNDS | | INTERNAL SERVICE FUNDS |
| OPERATING REVENUES: | | | | | |
| User fees | \$ 9,779,528 | \$ 10,530,416 | \$ 3,322,473 | \$ 23,632,417 | \$ 1,429,537 |
| Other revenues | 490,525 | - | 78,856 | 569,381 | - |
| TOTAL OPERATING REVENUES | 10,270,053 | 10,530,416 | 3,401,329 | 24,201,798 | 1,429,537 |
| OPERATING EXPENSES: | | | | | |
| Salaries and benefit: | 3,999,154 | 191,193 | 1,085,761 | 5,276,108 | 91,572 |
| Materials and supplies: | 919,725 | 1,140,710 | 181,545 | 2,241,980 | 486,609 |
| Repairs and maintenance: | 530,385 | 4,050 | 130,478 | 664,913 | 37,751 |
| Support services: | 151,831 | 3,854,585 | 514,550 | 4,520,966 | 789,509 |
| Utilities: | 1,231,777 | 623,535 | 52,748 | 1,908,060 | 22,600 |
| Administrative and other: | 684,173 | 1,040,484 | 431,154 | 2,155,811 | - |
| Property taxes: | 212,323 | - | - | 212,323 | - |
| Depreciation: | 1,365,831 | 2,368,599 | 314,590 | 4,049,020 | 1,496 |
| TOTAL OPERATING EXPENSES | 9,095,199 | 9,223,156 | 2,710,826 | 21,029,181 | 1,429,537 |
| OPERATING INCOME | 1,174,854 | 1,307,260 | 690,503 | 3,172,617 | - |
| NONOPERATING REVENUES AND (EXPENSES): | | | | | |
| Loss on disposal of asset | (924,574) | - | - | (924,574) | - |
| Investment income | 3,161 | 2,331 | 34,010 | 39,502 | - |
| Interest expense | (508,410) | (891,302) | (7,754) | (1,407,466) | - |
| NET NONOPERATING REVENUES AND (EXPENSES) | (1,429,823) | (888,971) | 26,256 | (2,292,538) | |
| NET INCOME (LOSS) BEFORE TRANSFERS | (254,969) | 418,289 | 716,759 | 880,079 | |
| TRANSFERS IN | - | 1,500,000 | - | 1,500,000 | - |
| TRANSFERS OUT | - | - | (1,500,000) | (1,500,000) | - |
| NET INCOME (LOSS) | (254,969) | 1,918,289 | (783,241) | 880,079 | - |
| TOTAL NET ASSETS - JULY 1, 2010 | 39,920,273 | 49,041,470 | 10,096,796 | 99,058,539 | 168,457 |
| TOTAL NET ASSETS - JUNE 30, 2011 | \$ 39,665,304 | \$ 50,959,759 | \$ 9,313,555 | \$ 99,938,618 | \$ 168,457 |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES | |
|---|--|---------------------|------------------------------|----------------------------|---------------------------|
| | WATER FUND | W.P.C. FUND | OTHER ENTERPRISE FUNDS | TOTALS | INTERNAL SERVICE FUNDS |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Cash received from customers | \$ 10,535,109 | \$ 10,639,925 | \$ 3,323,294 | \$ 24,498,328 | \$ 1,379,813 |
| Cash payments to suppliers for goods and service | (2,494,398) | (4,534,817) | (812,380) | (7,841,595) | (1,336,033) |
| Cash payments to employees for service: | (3,890,584) | (218,478) | (1,088,749) | (5,197,811) | (91,721) |
| Payment of property taxes | (212,323) | - | - | (212,323) | - |
| Payment of administrative expenses | (684,173) | (1,040,484) | (431,154) | (2,155,811) | - |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 3,253,631 | 4,846,146 | 991,011 | 9,090,788 | (47,941) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Interfund loans and transfers | - | 1,500,000 | (1,500,000) | - | - |
| Principal paid on interfund loans and transfer: | - | - | (58,728) | (58,728) | - |
| NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES | - | 1,500,000 | (1,558,728) | (58,728) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Acquisition and construction of capital asset | (4,607,381) | (16,664,051) | (289,001) | (21,560,433) | - |
| Proceeds from borrowing | 3,981,674 | 24,173,579 | - | 28,155,253 | - |
| Principal paid on bonds, notes and loans | (927,679) | (14,235,787) | - | (15,163,466) | - |
| Interest paid on bonds, notes and loans | (488,052) | (635,695) | (7,754) | (1,131,501) | - |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (2,041,438) | (7,361,954) | (296,755) | (9,700,147) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Investment income | 3,161 | 2,331 | 2,376 | 7,868 | - |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 3,161 | 2,331 | 2,376 | 7,868 | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,215,354 | (1,013,477) | (862,096) | (660,219) | (47,941) |
| CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED ASSETS) - JULY 1, 2010 | 4,627,428 | 4,244,926 | 4,175,227 | 13,047,581 | 118,242 |
| CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED ASSETS) - JUNE 30, 2011 | \$ 5,842,782 | \$ 3,231,449 | \$ 3,313,131 | \$ 12,387,362 | \$ 70,301 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | | | |
| Operating income | \$ 1,174,854 | \$ 1,307,260 | \$ 690,503 | \$ 3,172,617 | \$ - |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | | | | |
| Depreciation | 1,365,831 | 2,368,599 | 314,590 | 4,049,020 | 1,496 |
| Changes in assets and liabilities | | | | | |
| Decrease (Increase) in accounts receivable | 265,056 | 347,932 | (78,035) | 534,953 | - |
| Decrease (Increase) in accounts receivable - other | - | - | - | - | (3,934) |
| Decrease (Increase) in due from other funds | - | (238,423) | - | (238,423) | (45,790) |
| Decrease (Increase) in inventory | (77,923) | - | - | (77,923) | (2,936) |
| Decrease (Increase) in prepaid expense | - | 18,537 | - | 18,537 | - |
| (Decrease) Increase in accounts payable | 232,845 | 1,102,101 | 66,941 | 1,401,887 | 3,372 |
| (Decrease) Increase in accrued expenses | (50,370) | (27,285) | (2,988) | (80,643) | (149) |
| (Decrease) Increase in due to other funds | 184,398 | (32,575) | - | 151,823 | - |
| (Decrease) Increase net other post employment benefit obligation: | 158,940 | - | - | 158,940 | - |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ 3,253,631 | \$ 4,846,146 | \$ 991,011 | \$ 9,090,788 | \$ (47,941) |
| NON CASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS: | | | | | |
| (Loss) on disposal of assets | (924,574) | - | - | (924,574) | - |
| Increase in fair value of investments | - | - | 31,635 | 31,635 | - |
| TOTAL NON CASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS | \$ (924,574) | \$ - | \$ 31,635 | \$ (892,939) | \$ - |

CITY OF NEWPORT, RHODE ISLANDSTATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

| | PENSION AND OTHER POST- EMPLOYMENT BENEFIT TRUST FUNDS | PRIVATE PURPOSE TRUST FUNDS | AGENCY FUNDS |
|---|---|-----------------------------------|-----------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,842,400 | \$ 21,581 | \$ 274,374 |
| Investments, at fair value: | | | |
| Fixed Income Mutual Funds | 23,908,448 | 503,254 | - |
| Domestic Equity Mutual Funds | 58,086,653 | 813,002 | - |
| International Equity Mutual Funds | 13,293,355 | - | - |
| TOTAL INVESTMENTS | 95,288,456 | 1,316,256 | - |
| TOTAL ASSETS | 97,130,856 | 1,337,837 | 274,374 |
| LIABILITIES | | | |
| Cash overdraft | - | 47,124 | - |
| Accounts payable | 54,074 | 960 | - |
| Amounts held in escrow | - | - | 274,374 |
| TOTAL LIABILITIES | 54,074 | 48,084 | 274,374 |
| NET ASSETS | | | |
| Held in trust for pension/other post-employment benefits and other purposes | \$ 97,076,782 | \$ 1,289,753 | \$ - |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | PENSION AND OTHER POST- EMPLOYMENT BENEFITS TRUST FUNDS | PRIVATE PURPOSE TRUST FUNDS |
|---|--|--------------------------------------|
| ADDITIONS: | | |
| Contributions and other income: | | |
| Employees | \$ 1,238,236 | \$ - |
| Employer | 9,235,820 | - |
| Contributions | - | 10,700 |
| Total contributions and other income | 10,474,056 | 10,700 |
| Investment income: | | |
| Net appreciation in fair value of investments | 20,367,121 | 245,478 |
| Interest and dividends | 729,005 | 20,695 |
| Total investment income | 21,096,126 | 266,173 |
| Less investment expenses | 172,236 | 2,065 |
| Net investment income | 20,923,890 | 264,108 |
| TOTAL ADDITIONS | 31,397,946 | 274,808 |
| DEDUCTIONS: | | |
| Benefits | 8,359,829 | - |
| Administration | 114,234 | 2,138 |
| Awards | - | 49,165 |
| TOTAL DEDUCTIONS | 8,474,063 | 51,303 |
| CHANGES IN NET ASSETS | 22,923,883 | 223,505 |
| NET ASSETS - JULY 1, 2010 | 74,152,899 | 1,066,248 |
| NET ASSETS - JUNE 30, 2011 | \$ 97,076,782 | \$ 1,289,753 |

The notes to the financial statements are an integral part of this statement.

CITY OF NEWPORT, RHODE ISLANDNOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

The City was founded in 1639, incorporated under the laws of the State of Rhode Island in 1784 and re-chartered in 1853. The City is governed by a home rule charter which provides for a Council/City Manager form of government. Legislative authority is vested in a seven-member City Council, of which four are elected at large and three from voting wards. The Mayor is chosen by council members from among its four at-large members. A seven-member School Committee, all elected at large, is vested with autonomous legislative authority over the public school system. Members of both the City Council and School Committee are elected to non-partisan biennial terms.

The City Manager is appointed by the Council and serves as the chief executive officer over all municipal services except those performed by the Solicitor, Canvassing Authority, and municipal judges, each of whom is appointed by and reports directly to the Council. Municipal services include public safety; potable water and wastewater collection, treatment and distribution; solid waste collection and disposal; street and sidewalk maintenance and operations which support economic and residential development, open space preservation and State law and City code enforcement.

The Superintendent of Schools, appointed by the School Committee, is the chief executive officer for the school system. The school system provides elementary and primary education to City residents and vocational programs to other Newport County residents.

The accompanying financial statements present the government and its component units. In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the City applied the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit**Newport Public Library**

Incorporated under Rhode Island law in 1869, the Newport Public Library (the "Library") provides free educational and reference resources to residents of the City as well as other patrons. The Library is governed by a Board of Trustees, which must be composed of at least nine and no more than fifteen members, one of whom is a member of the City Council. Operations of the Library are primarily financed through an appropriation from the City's General Fund and the City Council must approve the Library Budget as well as any issuance of debt. The Library capital assets belong to the City. Complete financial statements for the Library may be obtained from its business office on 300 Spring Street, Newport, RI 02840.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency Funds have no measurement focus but are accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions under capital leases are reported as other financing sources.

Local taxes, including property taxes and franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *School Unrestricted Fund*, a special revenue fund, is the school's primary operating fund. This is a special revenue fund because the revenue sources are legally restricted to educational expenditures. It accounts for all financial resources of the school, other than those specifically restricted by the provider for certain uses.

The *Community Development Block Grant Fund* (CDBG fund) is a special revenue fund, whereby the City receives federal funding to promote specific types of community and economic development. Funds can only be spent in accordance with a legally binding grant agreement.

The *Permanent Funds* are used to account for resources legally held in trust for specific functions, normally provided by governments. In most cases, only the earnings on the principal can be expended.

The *Capital Projects Fund* is used to account for the acquisition of capital assets or construction of major capital projects other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The *Water Fund* records the costs of collection and treatment of raw water and the distribution of potable water for user consumption and fire protection. The City's water system directly serves retail users throughout Newport and in parts of two neighboring towns. The Water Fund also provides water to the United States Naval Base and customers of a neighboring water and fire district through wholesale contracts. Costs of servicing the users are recovered through both fixed and commodity charges under tariffs regulated by the Rhode Island Public Utilities Commission.

The *Water Pollution Control Fund* records the costs of collection and treatment of wastewater, the extraction and treatment of sludge and the discharge of treated effluent. These costs are recovered from the retail customers through rates assessed on their metered water charges and from contractual agreements with the United States Naval Base and a neighboring town.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on a qualified zone (QZAB) bond, the proceeds of which were used to help finance the construction and renovation of Thompson Middle School.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The *Internal Service Fund*, a proprietary type fund, is used to account for fleet management services provided to other departments of the government on a cost reimbursement basis.

The *Enterprise Funds* are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges.

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust for use by outside individuals, trusts or organizations to provide awards and scholarships in accordance with a donor's specific instructions or criteria.

The *Pension Trust Fund* accounts for the activities of the Police Retirement Fund and the Fire Retirement Fund, which accumulate resources for pension benefits to qualified police and fire employees.

The *OPEB Trust Fund* accumulates resources for future retiree health benefits and retiree life insurance benefits for eligible teachers and police retirees.

The *Agency Funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds include student activity funds and a community group that exists for purposes normally provided by the City.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include fees for services provided by one fund to another fund, annual lease payments for vehicles paid to the capital projects fund, and other charges between the City's water and water pollution control (sewer) function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

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

It is the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

D. Assets, Liabilities and Net Assets or Equity**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City's deposits are subject to certain State and municipal restrictions. Under Rhode Island general laws, depository institutions must insure deposits of the City or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of maturities. The City Council has further enacted restrictions which essentially limit short-term investments to U.S. Treasuries or debt instruments issued by agencies of the U.S. Government or certificates of deposit less than or equal to the amount covered by FDIC or FSLIC. Maturities of these instruments are required to be matched to any underlying liabilities.

Investments

Investments of the City, as well as its component units, are reported at fair value. The City accounts for the carrying value of investments by utilizing the specific identification method. Fair value is determined by the last reported bid price on the last business day of the year. The City participates in a cooperative investment pool that operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

The City Council restricts both the type and maturity of instruments in which City assets, other than those of fiduciary funds and deferred compensation plans, may be invested. Acceptable investments include certificates of deposit, debt instruments issued by the U.S. Treasury and agencies of the Federal government, or high grade municipal securities. Maturities must be matched to meet the underlying obligations for which invested proceeds were collected. The authority for investing fiduciary assets is vested with a commission appointed by and accountable to the City Council.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

2. Receivables and Payables

a. Interfunds

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

b. Property Taxes and Other Receivables

All property tax receivables, user fees receivables and notes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance at June 30, 2011, is equal to 63% of outstanding property taxes. Other allowances vary depending on the nature of the receivable and the history of collections.

Taxes are levied each July 1 on (a) the full and fair value of real and tangible personal property owned within the City the previous December 31; and (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the City the previous calendar year, prorated for the actual number of days so registered. Taxes are levied for the year commencing on that date, payable in equal quarterly installments on the fifth days of August, November, February and May. Taxes are considered overdue on the 6th day of each quarter and are assessed penalties and will be collected through the sale of tax titles if required. The City has a tax lien on the property as a matter of law on the date the roll is certified, which is December 31 of the previous year.

Rhode Island general laws restrict the City's ability to increase its total tax levy to less than 4.50% for the year ending June 30, 2011 and declining by one-quarter percent for each year thereafter until 4% is reached.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in, first-out (FIFO) method of valuation.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of the Water Pollution Control Fund and Water Fund revenue bonds are classified as restricted assets on the statement of net assets because they are maintained in separate escrow accounts managed by trustees in accordance with the bond covenants. These include debt service reserves and capitalized interest.

The Water Fund has additional cash on the balance sheet classified as restricted since, by order of the Rhode Island Public Utilities Commission, it may only be used for debt service, capital, electricity, certain specified retiree/new hire benefits, or chemical expenditures.

Endowment funds held by the City for various purposes are restricted to expenditure of the investment income only for the purposes designated by the various donors.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets or Equity (Continued)

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as machinery and equipment with an initial, individual cost of more than \$10,000, land or building improvements of more than \$20,000 and infrastructure of more than \$25,000, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The value of both governmental and business-type activities infrastructure is fully reported and depreciated as applicable.

Property, plant and equipment of the City, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 40 - 125 |
| Building improvements | 20 - 40 |
| Water & Sewer improvements | 20 - 50 |
| Water & Sewer infrastructure | 50 - 100 |
| Infrastructure | 75 |
| Equipment and other capital assets | 6 - 30 |

6. Compensated Absences

City and school employees are allowed under various labor agreements and by City ordinance to accumulate earned but unused vacation and sick leave. The City reports a liability based on the various provisions as follows:

- Supervisory (Nonunion); Supervisory (NEA); AFSCME-City
 maximum sick leave accrual is 960 hours
 maximum sick leave payout is 65% up to \$7,500 - \$25,000 if 10 years service
 maximum vacation accrual and payout is 200-300 hours
- Police and Fire:
 maximum vacation accrual and payout is 400 hours
 sick leave payout of 65% of accumulated leave up to 2,000 hours and 45% over 2,000 hours for police; no cap for firefighters

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Compensated Absences (Continued)

- Teachers:
sick leave payout of 25% of number of days in excess of 50 and up to a maximum of 165
- AFSCME – School:
maximum vacation accrual of 40 days; all accumulated payable upon separation
maximum sick leave accrual of 225 days; payout 30% of days greater than 60 and less than 123

All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of the leave is determined based on historical and current usage. The current and non-current portion is recorded in the government-wide financial statements. The entire amount is reported as current in the proprietary fund financial statements.

7. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums paid on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, expenditures for judgments and claims are recorded on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements, the estimated liability for all judgments and claims is recorded as a liability.

8. Fund Equity and Net Assets

The government-wide statement of net assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt - This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of capital assets.

Restricted net assets - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Fund Equity and Net Assets (Continued)

Unrestricted net assets - This category consists of net assets which do not meet the definition of the two preceding categories.

During the year ended June 30, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes criteria for classifying fund balances into specifically defined classifications for all governments that report governmental funds. The City's governmental funds report the following fund balance categories:

Nonspendable - Amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through enabling legislation.

Committed - Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the highest level of decision making authority of the City) and cannot be used for any other purpose unless the City removes or changes the specified use by taking the same formal action. The formal action required to be taken by the City Council to commit fund balance includes formal voting procedures regulated by the City Charter that of which is consistent with the City's budgeting procedures as described in Note III A.

Assigned - Amounts are constrained by the government's intent to be used for specific purposes, but are not restricted or committed. The City Director of Finance has been authorized by the City Council to assign Fund Balance as needed to meet the obligations of the City, with the exception of those amounts assigned by the City Council during the City's annual budgeting process as described in Note III A.

Unassigned - Residual classification for the General Fund or amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

The City does not have a formal policy over the use of fund balance. In accordance with GASB Statement No. 54, the City will use restricted resources first, then unrestricted resources as needed. Unrestricted resources are used in the following order: committed; assigned; then unassigned.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental funds' balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

| | |
|---|---------------------------------|
| Bonds payable | \$ 19,781,572 |
| Bond premium | 964,192 |
| Leases payable | 1,239,457 |
| Claims and judgments | 421,252 |
| Compensated absences | 7,604,865 |
| Net pension benefit obligation | 4,782,838 |
| Net other post-employment benefit obligation | 7,638,181 |
| Accrued interest payable | <u>412,613</u> |
| Net adjustment for long-term liabilities not due and payable in the current period | <u><u>\$ 42,844,970</u></u> |

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

| | |
|---|--------------------------------|
| Net pension asset | \$ 6,298,759 |
| Prepaid expenses | 866,308 |
| Deferred property taxes and unearned grant revenue | 5,232,730 |
| Allowance for doubtful accounts | (6,851,418) |
| Property tax and loan interest accrual | <u>4,051,146</u> |
| Net adjustment for long-term assets not available in the current period | <u><u>\$ 9,597,525</u></u> |

Another element of the reconciliation explains that "Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

| | |
|---|---------------------------------|
| Capital assets as of July 1, 2010, net of accumulated depreciation | \$ 78,929,928 |
| Capital assets of internal service funds accounted for in the net assets adjustment for internal service funds | (12,417) |
| Current year capital outlay | 6,679,497 |
| Depreciation expense | <u>(2,287,466)</u> |
| Net adjustment for capital assets | <u><u>\$ 83,309,542</u></u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(CONTINUED)

Explanation of certain differences between the statement of revenues, expenditures and changes in fund balances of the governmental funds to the statement of activities for the year ended June 30, 2011.

One of the reconciling items on the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities is that governmental funds report capital outlays as expenditures. The Statement of Activities allocates the cost of those assets over their estimated useful lives and reports depreciation expense. The details of this difference are as follows:

| | |
|--|---------------------|
| Capital additions for the year ended June 30, 2011 | \$ 6,679,497 |
| Miscellaneous adjustments | (136) |
| Depreciation expense, excluding internal service funds | <u>(2,285,833)</u> |
| Net adjustment for capital outlays | <u>\$ 4,393,528</u> |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

| | |
|--|---------------------|
| Current year change in compensated absences | \$ 510,329 |
| Current year change in claims and judgments | (90,492) |
| Current year change in net pension asset | 26,982 |
| Current year change in net pension obligation | (11,664) |
| Current year change in OPEB benefit obligation | <u>(1,222,036)</u> |
| Net adjustment for current year expenses | <u>\$ (786,881)</u> |

The repayment of long-term debt uses current financial resources of governmental funds while it has no effect on net assets. Interest expense is not accrued in governmental funds while it is in government-wide statements:

| | |
|---|---------------------|
| Principal repayment of debt | \$ 1,033,436 |
| Amortization of bond premium | 92,543 |
| Lease proceeds | (1,239,457) |
| Current year change in interest accrual | <u>(18,115)</u> |
| Net adjustment for long-term debt | <u>\$ (131,593)</u> |

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

A budget is adopted for the General and School Unrestricted Funds on the modified accrual basis with the exception that encumbrances are treated as budgeted expenditures in the year of the commitment to purchase.

In accordance with the City Charter, the City Manager must present to the Council a recommended annual budget for the operations of all municipal departments no later than 45 days prior to the commencement of each fiscal year. The recommended budget must include an appropriation to fund mandated contractual obligations in excess of school anticipated revenues. The Council may amend recommended municipal appropriations but not those of the school. The budget must be adopted by ordinance by the last Council meeting prior to the new fiscal year.

- Budgets are adopted on a legally enacted budgetary basis, which differs from generally accepted accounting principles (GAAP) in that budgetary expenditures for goods and non-employment services are recognized when legally binding orders referred to as encumbrances are placed.
- In addition to limits enforced by the budget ordinance, the City Charter further restricts the incurrence of municipal expenditures or expenses to budgeted revenues at the fund level. The City Manager must periodically review revenues and reduce annual appropriations sufficiently to cover any shortfalls in budgeted revenues.
- Costs of operations for all departments established within the City Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund and the School Unrestricted Fund.
- Municipal budgetary control is legally enforced at the department level.
- Appropriation transfers between departments require approval by five of the seven-member Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Amendments to the budget during the year totaled \$787,965 from fund balance due to prior year appropriation carryovers and an increase of \$198,700 from budget amendment ordinances.
- Intra-departmental transfers of municipal appropriations may be made with the approval of the City Manager or his designee.
- Unencumbered and unexpended appropriations lapse at fiscal year-end. School budgetary control is legally enforced only at the unrestricted fund level; inter-departmental transfers may be made without School Committee approval.

B. Budgetary-GAAP Reporting Reconciliation

The General Fund and School Unrestricted Fund Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budgetary Basis) in the financial statements presents comparisons of the legally adopted budget with actual data on a budgetary basis. The budgetary basis differs from GAAP because the GAAP basis includes encumbrances and teachers' retirement on-behalf payments made by the State that are not recognized under the budgetary basis.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Budgetary-GAAP Reporting Reconciliation (Continued)

A reconciliation of revenues, expenditures, and fund balance between the accounting treatment required by GAAP (Exhibit D), and budgetary requirements (Exhibit F), is as follows:

| | General Fund | |
|---|--------------------------|----------------------|
| | Expenditures | Fund Balance |
| Balance, Budgetary Basis, Exhibit F- June 30, 2011 | \$ 53,469,358 | \$ 7,447,675 |
| Encumbrances outstanding at June 30, 2010 and liquidated during the year ended June 30, 2011 | 787,965 | - |
| Miscellaneous adjustments | 12,849 | (1,227) |
| Fund balances of unbudgeted combined funds | - | 1,064,796 |
| Expenditures of unbudgeted combined funds | 38,650 | - |
| Encumbrances outstanding at June 30, 2011 charged to budgetary expenditures | (1,157,839) | 1,157,839 |
| Balance, GAAP Basis, Exhibit D - June 30, 2011 | <u>\$ 53,150,983</u> | <u>\$ 9,669,083</u> |
| | School Unrestricted Fund | |
| | Revenues | Expenditures |
| Balance, Budgetary Basis, Exhibit G- June 30, 2011 | \$ 13,912,111 | \$ 37,894,814 |
| Teachers' retirement on-behalf payment | 1,343,379 | 1,343,379 |
| Balance, GAAP Basis, Exhibit D - June 30, 2011 | <u>\$ 15,255,490</u> | <u>\$ 39,238,193</u> |

C. Excess of Expenditures Over Appropriations

The legal level of control for which expenditures cannot exceed appropriations is at the category level within a department. The table below shows the amounts by which certain departmental expenditures exceeded fiscal year 2011 appropriations (after approved transfers).

| Department | Expenditures in Excess of Budget |
|----------------------|-------------------------------------|
| Reserve accounts | \$ 448,894 |
| Fire department | 1,501,615 |
| Transfers out | 148,952 |
| Pension expenditures | 86,753 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

D. Capital Projects Authorizations

| <u>Capital Project</u> | <u>Total Project Authorizations</u> | <u>Cumulative Expenditures</u> | <u>Balance June 30, 2011</u> |
|---|-------------------------------------|--------------------------------|------------------------------|
| Building, Facilities and Infrastructure | | | |
| Improvements and Renovation Projects | \$ 48,597,669 | \$ 13,498,170 | \$ 35,099,499 |
| Maritime Fund Improvements | 2,044,990 | 377,345 | 1,667,645 |
| Parking Improvements | 941,368 | 430,451 | 510,917 |
| Easton's Beach Improvements | 461,925 | 449,733 | 12,192 |
| Water Pollution Control Projects | 41,512,477 | 32,136,148 | 9,376,329 |
| Water Fund Projects | 23,687,676 | 9,252,289 | 14,435,387 |
| Total | \$ 117,246,105 | \$ 56,144,136 | \$ 61,101,969 |

E. Donor Restricted Endowments

Investments in marketable equity and all debt securities are carried at market value. The City allocates investment income in accordance with donor restrictions and Rhode Island law, which adopted the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the investment of endowments in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. It requires prudence in incurring investment costs, authorizing only costs that are appropriate and reasonable. Factors to be considered in investing are expanded to include, for example, the effects of inflation. UPMIFA emphasizes that investment decisions be made in relation to the overall resources of the City.

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and Cash Equivalents:

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. Rhode Island Public Law requires 100% of public deposits in a qualified public depository with maturities greater than sixty (60) days are collateralized with either bank segregated assets, in a trust department or in custodial accounts at a federal reserve bank or federal home loan bank. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of maturities. The City Council further restricts deposits and short-term investments (less than 3 months) to insured or collateralized cash accounts, U.S. Treasuries, debt instruments issued by U.S. Government agencies or Certificates of Deposit (CDs) less than or equal to the amount covered by the Federal Deposit Insurance Corporation (FDIC). The City Council also requires that CDs in excess of FDIC limits and any repurchase agreements are collateralized in amounts of at least 102% of the market value of the deposit. The 2a7 Investment pool is regulated and managed by the State of Rhode Island. At June 30, 2011, the City's deposits are not exposed to custodial risk since most of the above deposits are collateralized at 102% with assets held either in trust or by a third party bank, in U.S. Government National Mortgage Association (GNMA) pass-through pools or Federal Home Loan Mortgage Corporation (FHLMC) securities held in the City's name. The remaining deposits are insured by the FDIC.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

Cash and Cash Equivalents (Continued)

As of June 30, 2011, the City's bank balance of \$24,555,508 was insured and collateralized as follows:

| | |
|---|-----------------------------|
| Insured | \$ 1,037,896 |
| Collateralized: | |
| Collateral held by the pledging bank's trust department in the City's name | <u>23,517,612</u> |
| Total amount subject to custodial credit risk | <u><u>\$ 24,555,508</u></u> |

Investments

Certain investments are covered by the Securities Investor Protection Corporation (SIPC) up to \$500,000, including \$100,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

At June 30, 2011, the City's investments (including restricted investments) consisted of the following:

| Type of Investment | Fair Value | Investment Maturities (In Years) | | |
|-----------------------------------|-----------------------|----------------------------------|----------------------|-------------------|
| | | Less Than 1 | 1 - 5 | 6 - 10 |
| Debt Securities: | | | | |
| Money Market Funds | \$ 538,498 | \$ 538,498 | | |
| Certificates of Deposits | 3,377,182 | 3,377,182 | | |
| U.S. Government Agency Securities | 7,295,068 | - | 6,408,978 | 886,090 |
| Fixed Income Mutual Funds | 27,565,331 | | 27,565,331 | |
| | <u>\$ 38,776,079</u> | <u>\$ 3,915,680</u> | <u>\$ 33,974,309</u> | <u>\$ 886,090</u> |
| Other Investments: | | | | |
| Equity Mutual Funds | 77,287,684 | | | |
| | <u>\$ 116,063,763</u> | | | |

Interest rate risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

Investments (Continued)

Credit risk - The City Investment Policy requires that at least 90% of investments shall at any time be invested in U.S. Treasury or Agency securities, top grade (AAA, AA and A or those with bond insurance) municipal securities, certificates of deposit backed by collateral consisting of U.S. Treasuries or Agencies or covered by FDIC or FSLIC insurance, and repurchase contracts backed by collateral consisting of U.S. Treasuries or Agencies and delivered to the City or held by an independent third party. The policy also allows for investment in uncollateralized Certificates of Deposit of Rhode Island banks. The policy further restricts investments with a maturity of greater than one year to 10% of total investments or \$2,000,000, whichever is lower. The City's Certificates of Deposit all have maturity dates of less than one year. The State of Rhode Island does not have any pertinent laws on investments that apply to municipalities.

Certificates of Deposit - Certificates of Deposit are all insured by FDIC insurance. The weighted average maturity of all certificates of deposit is .18 years. The City intends to hold all certificates to maturity, although they are subject to interest rate risk in the event that they are sold prior to maturity.

The City's investments in money market funds, government securities and fixed income mutual funds had average ratings as follows by Standard & Poor's.

| | U.S. | | |
|----------------|---------------------------------|------------------------------------|---------------------------------|
| | Money Market Mutual Funds | Government Agency Securities | Fixed Income Mutual Funds |
| Average Rating | <hr/> | | |
| AAA..... | \$ 538,498 | \$ 7,295,068 | \$ 27,565,331 |
| | <hr/> <hr/> | | |

Custodial credit risk - The City does not have a formal policy regarding custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The following City investments are held by the counterparty's trust department or agent but not in the City's name and therefore are subject to custodial credit risk.

| | Total | Less Insured Amounts | Subject To Custodial Credit Risk |
|-----------------------------------|--------------|----------------------------|--|
| | <hr/> | | |
| U.S. Government Agency Securities | \$ 7,295,068 | \$ 500,000 | \$ 6,795,068 |
| | <hr/> <hr/> | | |

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

Fiduciary and Permanent Funds

The City Council and Charter grant authority to a five-member Trust and Investment Commission (Commission) to manage fiduciary fund assets. The members are appointed by the City Council. The fiduciary funds include the police pension plan assets, the fire pension plan assets, the OPEB Trust assets, trust assets and scholarship assets. Separate investment policies exist as these assets are invested for long-term growth and/or to meet specific funding targets. The policies identify the asset allocation plans and objectives developed by the Commission. The absolute objectives are to achieve growth in the principal value of assets while maintaining a level of stability and liquidity sufficient to ensure the timely payment of obligations, and to achieve the target rate of return as defined by the actuarial rate of return, currently 7.5% for the pension plans, the OPEB Trust, and trust investments per year net of investment expenses, over a full market cycle defined as 5 to 7 years. The policies are used to inform investment managers, consultants and custodians of the Commission's goals, objectives, and restrictions. The policies are also designed to identify and mitigate performance risk. Investments are not restricted to any particular type of investment. The investment managers are held to certain performance standards as compared to an appropriate national index. The current asset allocation plans set minimum, maximum and target allocation percentages of assets. The Large Cap Value and Large Cap Growth performances are benchmarked against the Russell 1000 Value and Russell 1000 Growth Indices, respectively. The Mid Cap performance is benchmarked against the

S & P 400 Index. The Small Cap is compared to the Russell 2000 Growth, the International Equity to the MSCI All-World Free Ex-US Index, and the Fixed Income to the Barclays Aggregate Index. Further, the Commission instructs managers to invest the equity portion of the portfolio so as to prevent the returns from underperforming the equity index in any three consecutive quarters. Currently, most of the funds are invested in mutual funds or collective trusts. For mutual funds, the managers are subject to the mutual fund prospectus. The assets are rebalanced quarterly as needed.

Fiduciary and Permanent Fund Investments included in the financial statements as of June 30, 2011 totaled \$104,853,364.

Component Unit

Cash and Cash Equivalents

Library

The Library assumes levels of custodial credit risk for its cash deposits and cash equivalents. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned to it. Cash deposits and cash equivalents are exposed to credit risk if they are not covered by depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Library's name. The Library does not have a deposit policy for custodial risk. At June 30, 2011, \$213,065 of the Library's bank balances of \$607,794 was uninsured and uncollateralized.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

Component Unit (Continued)

Investments

Library

At June 30, 2011, the Library's investments consist of the following:

| Type of Investment | Fair Value | Investment Maturities (In Years) | |
|--------------------------|-------------------|----------------------------------|-------------|
| | | Less Than 1 | 1 - 5 Years |
| Debt Securities: | | | |
| Money Market Funds | \$ 27,730 | \$ 27,730 | \$ - |
| | <u>27,730</u> | <u>\$ 27,730</u> | <u>\$ -</u> |
| Other Securities: | | | |
| Equity Mutual Funds | 349,995 | | |
| Certificates of Deposit | 291,724 | | |
| | <u>\$ 669,449</u> | | |

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in a debt instrument. The Library does not have a policy with respect to interest rate risk.

Credit Risk - The Library's Board of Directors restricts both the type and maturity of instruments in which Library assets may be invested. Acceptable investments include Certificates of Deposit, debt instruments issued by the U.S. Treasury and agencies of the federal government, or high-grade municipal securities.

The Library's investments in money market funds had average ratings as follows by Standard & Poor's.

| <u>AVERAGE RATING</u> | <u>MONEY MARKET MUTUAL FUND</u> |
|-----------------------|---|
| AA | <u>\$ 27,730</u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Cash and Investments (Continued)

Component Unit (Continued)

Investments (Continued)

Library (Continued)

Custodial Credit Risk - The Library does not have a formal policy with respect to custodial credit risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The following Library investments are held by the counterparty's trust department or agent but not in the Library's name and therefore are subject to custodial credit risk.

| | Total | Less Insured Amounts | Subject To Custodial Credit Risk |
|-------------------------|------------|----------------------------|--|
| Certificates of Deposit | \$ 291,724 | \$ - | \$ 291,724 |

B. Receivables

At June 30, 2011, receivables, including the applicable allowances for doubtful accounts, are as follows:

Governmental Activities

| | General Fund | School Unrestricted Fund | CDBG Fund | Capital Projects Fund | Other Govern- mental Funds | Total |
|---|------------------|--------------------------------|-------------------|-----------------------------|-------------------------------------|-------------------|
| Taxes | \$ 3,522,498 | \$ - | \$ - | \$ - | \$ - | \$ 3,522,498 |
| Intergovernmental | - | 10,879 | 92,953 | 1,320,857 | 1,874,112 | 3,298,801 |
| Interest | 3,482,396 | - | 459,444 | - | 109,306 | 4,051,146 |
| Other | 933,283 | 378,115 | - | 44,657 | 106,185 | 1,462,240 |
| Notes/loans | - | - | 2,590,088 | - | 308,630 | 2,898,718 |
| | <u>7,938,177</u> | <u>388,994</u> | <u>3,142,485</u> | <u>1,365,514</u> | <u>2,398,233</u> | <u>15,233,403</u> |
| Less allowance for doubtful accounts | (4,805,780) | - | (2,044,958) | - | (680) | (6,851,418) |
| | <u>3,132,397</u> | <u>388,994</u> | <u>1,097,527</u> | <u>1,365,514</u> | <u>2,397,553</u> | <u>8,381,985</u> |
| Less current portion | <u>3,132,397</u> | <u>388,994</u> | <u>647,629</u> | <u>1,365,514</u> | <u>2,278,315</u> | <u>7,812,849</u> |
| Net long-term portion | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 449,898</u> | <u>\$ -</u> | <u>\$ 119,238</u> | <u>\$ 569,136</u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Receivables (Continued)

Business-type Activities

| | Water Fund | W.P.C. Fund | Other Enterprise Funds | Total |
|--------------------------------------|---------------|----------------|------------------------------|--------------|
| User fees | \$ 1,362,815 | \$ 1,659,040 | \$ 58,776 | \$ 3,080,631 |
| Less allowance for doubtful accounts | (225,000) | (150,000) | - | (375,000) |
| Net receivables | 1,137,815 | 1,509,040 | 58,776 | 2,705,631 |
| Intergovernmental | - | - | 84,270 | 84,270 |
| Net receivables | \$ 1,137,815 | \$ 1,509,040 | \$ 143,046 | \$ 2,789,901 |

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

DEFERRED REVENUE:

| | |
|--|--------------|
| Delinquent property taxes receivable (general fund) | \$ 2,361,422 |
| Loan receivable not yet earned (special revenue fund) | 3,374,139 |
| Grant receivable not yet collected (special revenue fund) | 334,985 |
| Grant receivable not yet collected (capital projects fund) | 637,120 |

TOTAL UNEARNED/DEFERRED REVENUE FOR GOVERNMENTAL FUNDS \$ 6,707,666

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| | BALANCE JULY 1, 2010 | INCREASES | DECREASES | BALANCE JUNE 30, 2011 |
|---|-------------------------|--------------|-----------|--------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,920,148 | \$ - | \$ - | \$ 4,920,148 |
| Construction in progress | 224,335 | 1,180,365 | - | 1,404,700 |
| Total capital assets not being depreciated | 5,144,483 | 1,180,365 | - | 6,324,848 |
| Capital assets being depreciated: | | | | |
| Buildings and structures | 43,554,071 | 2,371,034 | 15,735 | 45,909,370 |
| Machinery and equipment | 6,602,719 | 515,089 | - | 7,117,808 |
| Vehicles | 7,447,788 | 394,854 | - | 7,842,642 |
| Infrastructure | 46,490,521 | 2,218,155 | (15,735) | 48,724,411 |
| Total capital assets being depreciated | 104,095,099 | 5,499,132 | - | 109,594,231 |
| Total capital assets | 109,239,582 | 6,679,497 | - | 115,919,079 |
| Less accumulated depreciation: | | | | |
| Buildings and structures | 11,710,390 | 854,568 | - | 12,564,958 |
| Machinery and equipment | 3,315,317 | 402,138 | - | 3,717,455 |
| Vehicles | 4,938,546 | 175,182 | - | 5,113,728 |
| Infrastructure | 10,345,401 | 855,578 | - | 11,200,979 |
| Total accumulated depreciation | 30,309,654 | 2,287,466 | - | 32,597,120 |
| Total capital assets being depreciated, net | 73,785,445 | 3,211,666 | - | 76,997,111 |
| Governmental activities capital assets, net | \$ 78,929,928 | \$ 4,392,031 | \$ - | \$ 83,321,959 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of governmental activities as follows:

Governmental Activities:

| | |
|--|--------------|
| General government | \$ 313,575 |
| General education | 425,608 |
| Public safety | 296,571 |
| Public health | 1,121,387 |
| Planning, zoning and development | 112,958 |
| Human services | 1,674 |
| Recreation | 14,060 |
| Capital assets held by the City's internal service fund are charged to various functions based on usage of the assets | 1,633 |
| | \$ 2,287,466 |

| | BALANCE JULY 1, 2010 | Reclass | INCREASES | DECREASES | BALANCE JUNE 30, 2011 |
|--|-------------------------|--------------|---------------|------------|--------------------------|
| <u>Business-type Activities</u> | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land and land improvements | \$ 6,492,359 | \$ - | \$ - | \$ - | \$ 6,492,359 |
| Construction in progress | 15,863,299 | (13,738,898) | 2,009,002 | - | 4,133,403 |
| Total capital assets not being depreciated | 22,355,658 | (13,738,898) | 2,009,002 | - | 10,625,762 |
| Capital assets being depreciated: | | | | | |
| Buildings and systems | 175,031,860 | 13,738,898 | 19,342,422 | 3,791,184 | 204,321,996 |
| Machinery and equipment | 4,888,552 | - | 9,999 | 191,754 | 4,706,797 |
| Vehicles | 715,928 | - | 197,011 | - | 912,939 |
| Total capital assets being depreciated | 180,636,340 | 13,738,898 | 19,549,432 | 3,982,938 | 209,941,732 |
| Total capital assets | 202,991,998 | - | 21,558,434 | 3,982,938 | 220,567,494 |
| Less accumulated depreciation: | | | | | |
| Buildings and systems | 75,081,713 | - | 3,783,667 | 2,866,610 | 75,996,771 |
| Machinery and equipment | 3,933,029 | - | 218,392 | 191,754 | 3,959,667 |
| Vehicles | 314,006 | - | 46,961 | - | 360,967 |
| Total accumulated depreciation | 79,328,748 | - | 4,049,020 | 3,058,364 | 80,317,405 |
| Total capital assets being depreciated, net | 101,307,592 | 13,738,898 | 15,500,412 | 924,574 | 129,624,327 |
| Net capital assets, business-type activities | \$ 123,663,250 | \$ - | \$ 17,509,414 | \$ 924,574 | \$ 140,250,089 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the business-type activities as follows:

| | |
|-------------------------|---------------------|
| Water | \$ 1,365,831 |
| Water Pollution Control | 2,368,599 |
| Maritime | 62,830 |
| Easton's Beach | 130,047 |
| Parking | 121,713 |
| | <u>\$ 4,049,020</u> |

Discretely Presented Component Units

Activity for the Newport Public Library for the year ended June 30, 2011 was as follows:

| | BALANCE JULY 1, 2010 | INCREASES | DECREASES | BALANCE JUNE 30, 2011 |
|--|-------------------------|---------------------|-------------|--------------------------|
| Capital assets being depreciated: | | | | |
| Buildings | \$ 7,908,639 | \$ 17,321 | \$ - | \$ 7,925,960 |
| Improvements other than buildings | 400,590 | 46,481 | - | 447,071 |
| Furniture, fixtures and equipment | 923,369 | - | - | 923,369 |
| Total capital assets being depreciated | <u>9,232,598</u> | <u>63,802</u> | <u>-</u> | <u>9,296,400</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 3,098,746 | 298,849 | - | 3,397,595 |
| Improvements other than buildings | 182,132 | 20,029 | - | 202,161 |
| Furniture, fixtures and equipment | 822,857 | 40,280 | - | 863,137 |
| Total accumulated depreciation | <u>4,103,735</u> | <u>359,158</u> | <u>-</u> | <u>4,462,893</u> |
| Net capital assets, library | <u>\$ 5,128,863</u> | <u>\$ (295,356)</u> | <u>\$ -</u> | <u>\$ 4,833,507</u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Accounts

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2011 is as follows:

| | Corresponding Fund | Due From | Due To | Description |
|------------------------------------|---------------------------------|---------------------|---------------------|--------------------------------|
| Major Governmental Funds | | | | |
| General Fund | | | | |
| | Water Fund | \$ 704,129 | \$ - | Payroll, benefits and overhead |
| | WPC Fund | 54,500 | - | Project police details |
| | Nonmajor Governmental Fund | - | 87,500 | Library parking lot |
| | Total | 758,629 | 87,500 | |
| Nonmajor Governmental Funds | | | | |
| UDAG Fund | | | | |
| | General Fund | 87,500 | - | Library parking lot |
| | Total Governmental Funds | \$ 846,129 | \$ 87,500 | |
| Major Enterprise Funds | | | | |
| Water Fund | | | | |
| | Water Pollution Control Fund | \$ - | \$ 410,578 | Sludge charges |
| | General Fund | - | 704,129 | Payroll, benefits and overhead |
| | Internal Service Fund | - | 111,829 | Maintenance charges |
| | Total | - | 1,226,536 | |
| Water Pollution Control Fund | | | | |
| | Water Fund | 410,578 | - | Sludge charges |
| | General Fund | - | 54,500 | Project police details |
| | Total | 410,578 | 54,500 | |
| | Total Enterprise Funds | \$ 410,578 | \$ 1,281,036 | |
| Internal Service Fund | | | | |
| | Water Funds | \$ 111,829 | \$ - | Maintenance charges |
| | Total All Funds | \$ 1,368,536 | \$ 1,368,536 | |

All interfund balances resulted from the time lag between the dates payments occurred between funds and services or short-term internal financing were provided.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Accounts (Continued)

2. Advances

| Advance From | Corresponding Fund | Amount | Description |
|-------------------------------|-----------------------|--------------------------|------------------------------------|
| <u>Nonmajor Funds</u> | | | |
| Urban Development | Maritime Fund | \$ 267,459 | Loans related to armory building |
| Parking Fund | Easton's Beach Fund | 188,380 | Loan for beach equipment |
| Urban Development | Easton's Beach Fund | <u>32,962</u> | Loans for beach repairs/activities |
| Total advances to other funds | | <u><u>\$ 488,801</u></u> | |

The Urban Development Grant Fund (UDAG) loaned the City of Newport \$51,876 to remove seaweed from Easton's Beach. The note is a 15-year note bearing interest at 1.0%. The balance due at June 30, 2011 is \$32,962. The Parking Fund loaned the Easton's Beach Fund \$320,000 for the purchase of a seaweed harvester. A contribution was received in fiscal year 2009 that reduced the amount of the note by \$49,800. The note is a 10-year note bearing interest at 1.0%. The balance due at June 30, 2011 is \$188,380.

The following schedule details amounts to be paid per year on the notes:

| Year ending June 30, | Beach Seaweed Principal | Beach Equipment Principal | Combined Principal | Interest |
|----------------------|-------------------------------|---------------------------------|--------------------------|------------------------|
| 2012 | \$ 3,517 | \$ 26,125 | \$ 29,642 | \$ 2,215 |
| 2013 | 3,553 | 26,387 | 29,940 | 1,919 |
| 2014 | 3,589 | 26,651 | 30,240 | 1,619 |
| 2015 | 3,625 | 26,917 | 30,542 | 1,316 |
| 2016 | 3,661 | 27,186 | 30,847 | 1,011 |
| 2017-2020 | <u>15,017</u> | <u>55,114</u> | <u>70,131</u> | <u>1,169</u> |
| | <u><u>\$ 32,962</u></u> | <u><u>\$ 188,380</u></u> | <u><u>\$ 221,342</u></u> | <u><u>\$ 9,249</u></u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Interfund Accounts (Continued)

2. Advances (Continued)

The Newport Redevelopment Authority transferred the armory building and related debt to the City of Newport Maritime Fund in April 2010. The related debt includes two loans from City of Newport urban development and economic development special revenue funds. The City repaid the entire amount due of \$55,243 to the economic development fund in September 2010. The remaining advance of \$267,459 is due to the urban development grant fund only upon sale of the armory building. No interest accrues on the advance.

3. Transfers

A summary of interfund transfers for the year ended June 30, 2011 is as follows:

| <u>Transfers To:</u> | | <u>Transfers From:</u> |
|--------------------------|----------------------|------------------------|
| Governmental Funds: | | |
| Capital Projects Fund | \$ 1,173,116 | General Fund |
| School Unrestricted Fund | 22,564,157 | General Fund |
| School Unrestricted Fund | 306,353 | School Restricted Fund |
| General Fund | 341,085 | Capital Projects Fund |
| Debt Service Fund | 133,110 | General Fund |
| | <u>24,517,821</u> | |
| Business-type Funds: | | |
| Water Pollution Control | 1,500,000 | Parking Fund |
| | <u>1,500,000</u> | |
| Total | <u>\$ 26,017,821</u> | |

| | |
|---|---------------|
| Summary: | |
| General Fund Transfers Out | \$ 23,870,383 |
| General Fund Transfers In | 341,085 |
| Capital Projects Transfers In | 1,173,116 |
| Capital Projects Transfers Out | 341,085 |
| School Unrestricted Transfers In | 22,870,510 |
| Water Pollution Control Transfers In | 1,500,000 |
| Non Major Business-Type Funds Transfers Out | 1,500,000 |
| Non Major Governmental Fund Transfers In | 133,110 |
| Non Major Governmental Fund Transfers In | 306,353 |

Transfers are generally programmed amounts used to finance capital assets or for other required activities in other funds.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Changes in Long-Term Obligations

The City issues general obligation, Qualified Zone Academy Bonds (QZAB) and revenue bonds to provide funds for the acquisition and construction of major capital facilities. Bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are generally issued as 20-year serial bonds. Revenue bonds are obligations that pledge the revenues derived from the use of services in that particular fund. These are issued for business-type activities and are generally collateralized by the asset under construction or renovation. The bonds are usually issued as 20-year bonds. The QZAB bond is a 12-year bond, which is supported by annual sinking fund payments to a third-party escrow agent. Changes in bonded debt outstanding during fiscal year 2011 are summarized on the next page as follows:

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Changes in Long-Term Obligations (Continued)

| | Date Issued | Maturity Date | Interest Rate (%) | Outstanding July 1, 2010 | Additions | Retired | Outstanding June 30, 2011 | Interest Expense |
|------------------------------------|-------------|---------------|-------------------|--------------------------|---------------|--------------|---------------------------|------------------|
| Governmental Activities: | | | | | | | | |
| Thompson School QZAB | 2001 | 2013 | N/A | \$ 1,863,536 | \$ - | \$ - | \$ 1,863,536 | \$ - |
| Thompson School Refunding | 2010 | 2021 | 1.50 to 5.0 | 13,285,000 | - | 270,000 | 13,015,000 | 503,648 |
| Roadway Improvements | 2009 | 2023 | 2.50 to 5.0 | 5,000,000 | - | 500,000 | 4,500,000 | 156,250 |
| Series A Refunding Bonds | 2004 | 2011 | 2.00 to 4.00 | 16,118 | - | 16,118 | - | 753 |
| Series B Refunding Bonds | 2004 | 2012 | 2.00 to 3.50 | 650,354 | - | 247,318 | 403,036 | 17,427 |
| Total Governmental Activities | | | | \$ 20,815,008 | \$ - | \$ 1,033,436 | \$ 19,781,572 | \$ 678,078 |
| Business-type Activities: | | | | | | | | |
| Sewer Improvements - SRF | 2002 | 2023 | 1.90 | \$ 9,359,509 | \$ - | \$ 589,906 | \$ 8,769,603 | \$ 166,407 |
| Series A Refunding Bonds | 2004 | 2011 | 2.00 to 4.00 | 52,831 | - | 52,831 | - | 1,502 |
| Sewer Improvements - SRF | 2009 | 2029 | 0.84 to 3.16 | 1,277,577 | 4,693,948 | 258,000 | 5,713,525 | 161,863 |
| Sewer Improvements - SRF | 2010 | 2030 | 0.55 to 3.25 | 743,745 | 6,138,641 | 1,000 | 6,881,386 | 150,413 |
| Sewer Improvements - SRF | 2011 | 2031 | 0.73 to 3.81 | - | 2,995,989 | - | 2,995,989 | 30,253 |
| Sewer Improvements | 2011 | 2026 | 4.30 | - | 10,345,000 | - | 10,345,000 | 128,005 |
| Total Water Pollution Control Fund | | | | 11,433,662 | 24,173,578 | 901,737 | 34,705,503 | 638,443 |
| Series A Refunding Bonds | 2004 | 2011 | 2.00 to 4.00 | 38,997 | - | 38,997 | - | 1,109 |
| Series B Refunding Bonds | 2004 | 2012 | 2.00 to 3.50 | 1,493,540 | - | 562,682 | 930,858 | 37,538 |
| Water Improvements - SRF | 2007 | 2027 | 3.28 - 3.72 | 2,783,872 | 128 | 114,000 | 2,670,000 | 96,580 |
| Water Improvements - SRF | 2008 | 2029 | 2.08 - 3.63 | 3,997,583 | 854,348 | 211,000 | 4,640,931 | 202,912 |
| Water Improvements - SRF | 2009 | 2030 | 0.65 to 3.54 | 490,219 | 1,763,839 | 1,000 | 2,253,058 | 78,313 |
| Total Water Fund | | | | 8,804,211 | 2,618,315 | 927,679 | 10,494,847 | 416,452 |
| Total Business-type Activities | | | | \$ 20,237,873 | \$ 26,791,893 | \$ 1,829,416 | \$ 45,200,350 | \$ 1,054,895 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Changes in Long-Term Obligations (Continued)

All long-term liabilities listed under Governmental activities are generally liquidated by the General Fund.

The Water Pollution Control Fund borrowed \$6,595,532 in FY2009 from the state revolving loan fund. Of that, \$995,579 of American Reinvestment and Recovery Act (ARRA) funds will be applied against principal over the life of the 20-year bond. The Water Fund borrowed \$3,300,000 in FY2009 from the state revolving loan fund. \$765,452 of ARRA funds will be applied against principal over the 20-year life of the bond. The annual ARRA offset will be taken into revenue each year the bonds are outstanding.

The City of Newport Water and Water Pollution Control Funds have the following outstanding State Revolving Fund (SRF) revenue bonds and non-SRF revenue bonds all issued through the Rhode Island Clean Water Finance Agency (RICWFA). The bond proceeds are held by RICWFA or their escrow agent. Bonds are issued for a specific purpose and for a total approved amount. The revenue bonds are drawdown bonds whereby the City sends vendor invoices to RICWFA for payment and the City's outstanding bond amounts equal the total of the drawdowns less principal payments per a set amortization schedule. The following schedule shows the amounts of the bonds and the purpose for which it was issued. Each revenue bond issue requires a debt service reserve to be held by the City's escrow agent.

| Description | Fund | Year Issued | Total Bond | Amount Drawdown To Date | Debt Service Reserve | ARRA Funding |
|---|-------|-------------|--------------|-------------------------|----------------------|--------------|
| Radio read meter system and improvements to plants | Water | 2008 | \$ 5,900,000 | \$ 4,852,931 | \$ 433,173 | na |
| St. Mary's Raw Water Main Project | Water | 2007 | 3,000,000 | 3,000,000 | 212,633 | na |
| Distribution improvements | Water | 2009 | 3,300,000 | 2,254,058 | 181,313 | \$ 765,452 |
| Sewer Improvements | WPC | 2002 | 13,000,000 | 13,000,000 | 894,371 | na |
| Easton Pond ultraviolet disinfection system; railroad interceptor replacement; combined sewer overflow projects | WPC | 2009 | 6,595,532 | 5,971,525 | 384,978 | \$ 995,579 |
| Thames Street and Wellington Avenue interceptor repairs and replacement; and Long Wharf force main repairs | WPC | 2010 | 9,327,000 | 6,882,386 | 650,475 | na |
| Long Wharf force main repairs | WPC | 2011 | 3,095,505 | 2,995,989 | 224,754 | na |
| Long Wharf force main repairs | WPC | 2011 | 10,345,000 | 10,345,000 | 544,095 | na |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Changes in Long-Term Obligations (Continued)

The City has a \$2,337,000 General Obligation Qualified Zone Academy Bond, Series 2001 dated December 14, 2001, due December 14, 2015, which was used to help finance the construction of Thompson Middle School. The bond may not be prepaid prior to the maturity date. The City is required to make annual sinking fund installments of \$133,110 with the trustee, which will be invested with the bank (purchaser of the bond). The total amount to be deposited into the sinking fund is \$1,863,536. The City is responsible for ensuring that the entire \$2,337,000 is repaid. Therefore, if the sinking fund payments plus investment earnings are insufficient to cover the \$2,337,000, the City will be responsible for the balance due. Current fair market value of the sinking fund is \$1,400,360 which amount is reported in the debt service fund, a nonmajor governmental fund.

Bonded indebtedness on June 30, 2011 matures over fiscal years through 2032 as follows:

| Year ending June 30, | Governmental Activities | | Business-type Activities | |
|-----------------------|-------------------------|---------------------|--------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 1,756,211 | \$ 634,866 | \$ 2,239,885 | \$ 1,550,622 |
| 2013 | 1,726,825 | 577,733 | 2,712,978 | 1,537,466 |
| 2014 | 1,580,000 | 528,944 | 2,406,368 | 1,470,596 |
| 2015 | 1,610,000 | 484,744 | 2,483,492 | 1,405,605 |
| 2016 | 3,263,536 | 412,181 | 2,557,303 | 1,335,890 |
| 2017-2021 | 7,440,000 | 1,227,205 | 14,160,338 | 5,465,464 |
| 2022-2026 | 2,405,000 | 96,514 | 14,176,097 | 3,075,334 |
| 2027-2032 | - | - | 9,723,532 | 796,819 |
| Amounts Not Yet Drawn | - | - | (5,259,643) | - |
| | <u>\$ 19,781,572</u> | <u>\$ 3,962,187</u> | <u>\$ 45,200,350</u> | <u>\$ 16,637,796</u> |

Debt authorized by the City Council and voters, where applicable, and not yet issued at June 30, 2011 is as follows:

| | |
|--|---|
| New Elementary School | \$ 30,000,000 |
| Road Improvement Bonds Capital Projects Fund | 7,000,000 |
| Easton's Moat and Dam Repairs – Water Fund | 6,650,000 (issued in September 2011) |
| Water System Improvements | 7,100,000 (\$3,537,000 BAN has been issued) |
| Sewer System Improvements | 10,673,000 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Notes Payable

1. Business-type Activities

The Water Fund has borrowed \$500,000 as a short-term note due to Rhode Island Clean Water Finance Agency (RICWFA) for Easton's Pond Dam and Moat Repairs. The Water Fund has also borrowed \$3,537,000 as a short-term note due to RICWFA for City Advisor services for the long-term improvements to the Newport Station 1 Treatment Plant and the replacement of the Lawton Valley Treatment Plant. All notes will be replaced with long-term revenue bonds. The City issued bonds of \$6,640,000 in September 2011 to redeem the \$500,000 note and provide construction financing for Easton's Pond Dam and Moat Repairs.

The following table details water and sewer notes outstanding at June 30, 2011:

| Purpose of Note | Date Issued | Interest Rate | Amount Authorized | Amount Drawn Down to Date |
|---------------------------------------|-------------|---------------|-------------------|---------------------------|
| Easton's Pond Dam and Moat Repairs | 10/15/2010 | 1.98% | \$ 500,000 | \$ 301,226 |
| City Advisor - Water Treatment Plants | 10/15/2010 | 1.98% | 3,537,000 | 3,033,844 |
| Total Outstanding Revenue Notes | | | | <u>\$ 3,335,070</u> |

In 1984, the Redevelopment Agency of Newport, a component unit, purchased a vacant building in an area of the City designed for redevelopment. As part of the financing for this purchase, the State of Rhode Island loaned the Redevelopment Agency \$200,000. The underlying note bears no stated interest rate or maturity and is secured with a mortgage on the building. The Redevelopment Agency turned over the building to the City of Newport Maritime Fund in April, 2010. As of June 30, 2011, \$200,000 was payable. The note is required to be paid only upon the sale of the building.

2. Component Unit

Library

In 2001, the Library Association received a \$175,000 interest-free loan from the City of Newport for parking lot renovations. The loan is payable in annual installments of \$8,750 through 2021. The following is a summary of changes in long term debt of the Library Association.

Business-type activities:

| | Balance | | | Balance | | Due Within |
|----------------------|-------------------|-------------|------------------|-------------------|-------------------|------------|
| | July 1, 2010 | Additions | Reductions | June 30, 2011 | One Year | |
| Notes Payable | \$ 96,250 | \$ - | \$ 8,750 | \$ 87,500 | \$ 8,750 | |
| Compensated Absences | 153,092 | - | 18,699 | 134,393 | 134,393 | |
| | <u>\$ 249,342</u> | <u>\$ -</u> | <u>\$ 27,449</u> | <u>\$ 221,893</u> | <u>\$ 143,143</u> | |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Changes in Long-Term Liabilities:

Long-term liability activity for the year ended June 30, 2011 was as follows:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 | Due Within One Year |
|----------------------------------|-------------------------|----------------------|----------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| Bonds payable | \$ 20,815,008 | \$ - | \$ 1,033,436 | \$ 19,781,572 | \$ 1,756,211 |
| Bond premium | 1,056,735 | - | 92,543 | 964,192 | 92,543 |
| Leases payable | - | 1,239,457 | - | 1,239,457 | 134,177 |
| Claims and judgments | 330,760 | 90,492 | - | 421,252 | 174,752 |
| Compensated absences | 8,115,194 | 2,188,754 | 2,699,083 | 7,604,865 | 2,300,000 |
| Net pension obligation | 4,771,174 | 11,664 | - | 4,782,838 | - |
| Net OPEB obligation | 6,416,145 | 1,222,036 | - | 7,638,181 | - |
| TOTAL | \$ 41,505,016 | \$ 4,752,403 | \$ 3,825,062 | \$ 42,432,357 | \$ 4,457,683 |
| Business-type activities: | | | | | |
| Bonds payable | \$ 20,237,873 | \$ 26,791,893 | \$ 1,829,416 | \$ 45,200,350 | \$ 2,239,885 |
| Notes payable | 212,923 | - | 12,923 | 200,000 | - |
| Revenue notes payable | 15,292,838 | 1,363,359 | 13,321,127 | 3,335,070 | 3,335,070 |
| Net OPEB obligation | 623,372 | 158,940 | - | 782,312 | - |
| TOTAL | \$ 36,367,006 | \$ 28,314,192 | \$ 15,163,466 | \$ 49,517,732 | \$ 5,574,955 |

H. Operating Leases

The City leases certain office equipment under multi-year agreements that are subject to annual appropriation. Additionally, the Water Fund assesses the General Fund an annual lease charge of \$536,188 for providing a public fire protection system owned by the Water Fund pursuant to tariffs mandated by the Rhode Island Public Utilities Commission. For the year ended June 30, 2011, the General Fund incurred expenditures of \$536,188 associated with these agreements. The minimum annual lease obligations of the General Fund related to these agreements are \$536,188 until such time as the Rhode Island Public Utilities Commission approves a rate change.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

I. Capital Leases

The City entered into an agreement to lease purchase a new HVAC system for the School Department in the principal amount of \$1,062,226 at an interest rate of 3.07%. Payments of principal and interest will be made over the next ten years as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|---------------------|-------------------|
| 2012 | \$ 92,360 | \$ 32,610 |
| 2013 | 95,196 | 29,775 |
| 2014 | 98,118 | 26,852 |
| 2015 | 101,130 | 23,840 |
| 2016 | 104,235 | 20,735 |
| 2017 - 2021 | 571,187 | 53,667 |
| | <u>\$ 1,062,226</u> | <u>\$ 187,479</u> |

J. Statutory Debt Limitations

Rhode Island General Laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of Newport properties at December 31, 2009 was \$5,724,320,438, limiting the amount of non-excepted general obligation bonds outstanding to \$171,729,613. Bonds of \$19,763,292 outstanding at June 30, 2011 are general obligations and subject to the statutory limitation.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

K. Fund Balances

The following table details the purposes for which fund balances may be nonspendable, restricted, committed or assigned.

| | General Fund | School Unrestricted Fund | Community Development Block Grant | Permanent Fund | Capital Projects Fund | Other Governmental Funds | Total |
|---|-----------------|--------------------------------|---|-------------------|-----------------------------|--------------------------------|---------------|
| Nonspendable: | | | | | | | |
| Endowments | \$ - | \$ - | \$ - | \$ 2,181,651 | \$ - | \$ - | \$ 2,181,651 |
| Restricted: | | | | | | | |
| Trust purposes | - | - | - | 5,955,530 | - | - | 5,955,530 |
| Education | - | - | - | - | - | 510,970 | 510,970 |
| Planning, urban and economic development | - | - | - | - | - | 1,446,394 | 1,446,394 |
| Public safety | - | - | - | - | - | 190,820 | 190,820 |
| Community and social services | - | - | 482,401 | - | - | - | 482,401 |
| Debt service | - | - | - | - | - | 1,400,360 | 1,400,360 |
| Total Restricted | - | - | 482,401 | 5,955,530 | - | 3,548,544 | 9,986,475 |
| Committed: | | | | | | | |
| General government | 688,926 | - | - | - | - | - | 688,926 |
| Capital improvements | - | - | - | - | 3,052,879 | - | 3,052,879 |
| Public safety | 694 | - | - | - | - | - | 694 |
| Public services | 468,219 | - | - | - | - | - | 468,219 |
| Total Committed | 1,157,839 | - | - | - | 3,052,879 | - | 4,210,718 |
| Assigned: | | | | | | | |
| Education | - | 1,370,211 | - | - | - | - | 1,370,211 |
| Public improvements | 864,852 | - | - | - | - | - | 864,852 |
| Total Assigned | 864,852 | 1,370,211 | - | - | - | - | 2,235,063 |
| Unassigned | 7,646,392 | 202,464 | - | - | - | (71,296) | 7,777,560 |
| Totals | \$ 9,669,083 | \$ 1,572,675 | \$ 482,401 | \$ 8,137,181 | \$ 3,052,879 | \$ 3,477,248 | \$ 26,391,467 |

The restricted amounts consist of state and federal grants as well as the expendable portion of the trust funds. Funds cannot be spent for any purpose other than that specified by the grantor, trust donor or law.

The committed amounts in the general fund are encumbrances wherein the amounts or service has been ordered but not yet delivered.

The assigned amount in the unrestricted school fund is appropriated fund balance for the subsequent year's budget. The assigned amount in the general fund is the balance of proceeds from the sale of Lenthal School. The Council has assigned those amounts by resolution.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION

A. Risk Management

Through its operations, the City is exposed to various risks of loss related to torts, general liability, errors and omissions, and property losses due to theft, damage, or destruction, each of which is insured through a public entity risk pool; and to employee injuries and claims for unemployment, for which the City retains the risk of loss. Terms of collective bargaining agreements also require the City to assume risks of employee financial losses resulting from health and dental catastrophes and death, each of which the City has transferred to commercial insurers.

The City is a member of the Rhode Island Inter-local Risk Management Trust (the "Trust"), a non-profit 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 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 City maintains \$2,000,000 of liability insurance per incident and insures property for replacement cost. Settled claims have not exceeded coverage through the Trust in any of the past three years.

The City self insures certain properties for all or a portion of flood insurance. The following list details the replacement cost of the building and/or contents:

Fully Self-insured:

| <u>Property</u> | <u>Building Value</u> | <u>Contents/Other Value</u> | <u>Total Value</u> |
|----------------------------------|---------------------------|---------------------------------|----------------------|
| America's Cup Parking Garage | \$ 3,344,926 | \$ - | \$ 3,344,926 |
| Cardine's Field Restrooms | 191,086 | - | 191,086 |
| Cardine's Field Storage Building | 15,988 | - | 15,988 |
| Easton's Beach Storage Building | 81,541 | - | 81,541 |
| Eisenhower Park Structures | - | 53,800 | 53,800 |
| King's Park Restrooms | 109,494 | - | 109,494 |
| Long Wharf Harbormaster Shed | 34,239 | 4,051 | 38,290 |
| Easton's Beach Rotunda/Carousel | 2,648,690 | 461,426 | 3,110,116 |
| Gateway Center | 3,164,657 | - | 3,164,657 |
| Convention Center Canopies | 951,489 | - | 951,489 |
| | <u>\$ 10,542,110</u> | <u>\$ 519,277</u> | <u>\$ 11,061,387</u> |

Remaining properties are fully or partially insured through the National Flood Insurance Program or through the Trust. Deductibles for the National Flood Insurance Program are either \$2,000 or \$50,000. The exposure of partially insured properties is \$11,061,387 less \$10,000,000 per member annual aggregate. The City has not established reserves and believes that the risk of flood damage to all of the self-insured or partially insured properties at any one time is minimal.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans

All eligible employees of the City are covered by one of four pension plans, the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), the Firemen's Pension Plan and the Policemen's Pension Plan. The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all employees not covered under the Teachers' Plan. However, fire employees and police officers have elected to participate in a single-employer pension plan administered by the City. The Firemen's Pension Plan and Policemen's Pension Plan cover all employees covered under a collective bargaining agreement either with the International Association of Firefighters, Local 1080 or the Fraternal Order of Police, Lodge Number 8. Total covered payroll under all plans during 2011 was \$39,965,314. Total City payroll was \$47,173,367 for the same period.

1. Teachers' Plan

a. Plan Description

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained by writing to Employees' Retirement System of Rhode Island, 40 Fountain Street, Providence, Rhode Island, 02903 or by calling (401) 457-3900. Total covered payroll under the plan during 2011 was \$16,422,729, including \$1,356,509 of federally reimbursed payroll.

b. Plan Provisions

Participants' rights to pension benefits become fully vested after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 62, except that certain "Schedule B" participants cannot retire until age 65 if they have less than 29 years of service. The law provides a proportional downward adjustment of the minimum retirement age based on the years of service credited to a participant's account as of September 30, 2009. Benefits for those vested by July 1, 2005, are equal to 1.7% of final average salary for each of the first 10 years of service, 1.9% for each of the next 10 years, 3% for each of the next 14 years thereafter, and 2% for the 35th year, resulting in a maximum benefit of 80% of final average salary. All service credit accrual rates have been frozen as of September 30, 2009. Benefits for all future service credit will be calculated using the same multipliers as for participants vested after July 1, 2005. Benefits for those vested after July 1, 2005, are equal to 1.6% of final average salary for each of the first 10 years of service, 1.8% for each of the next ten years, 2% for each of the next 5 years and 2.25% of the next 5 years and 2.5% for years 31-37, resulting in a maximum benefit of 75% of the final average salary. Final average salary for participants eligible to retire as of September 30, 2009 is computed using the highest three consecutive years of base earnings. Final average salary for all others is computed using the highest five consecutive years of base earnings. Retirees receive an annual cost of living increase, which is the lesser of 3%, or the Consumer Price Index for all Urban Consumers as of September 30 of the prior calendar year, effective as of the month after the third anniversary of the retirement date. The plan also provides pre-retirement benefits at a minimum of 17% of salary for non-occupational disabilities after 5 years of service, and at 66 2/3% of salary for permanent and total disability. The benefit is limited to 50% of salary for members with a partial disability who can work in other jobs. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

1. Teachers' Plan (Continued)

c. Funding Policy

Rhode Island general laws set the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of July 1, 1985 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The City participates in the optional Teachers Survivor Benefits Fund whereby both the employer and the employee contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits.

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2011, actuarial required contributions were 20.07% of participants' salary (also 20.07% for federally reimbursed salary). This resulted in a contribution rate paid by the State on-behalf of City teachers of 8.18%. In accordance with the provisions of GASB Statement No. 24, the City has recorded "on-behalf" payments of \$1,343,379 for amounts paid by the State on-behalf of City teachers. The City's contribution rate was 11.89%. The City's required and actual contributions to the Teachers' Plan for fiscal years 2011, 2010, and 2009 were \$1,952,662, \$2,040,145, and \$1,730,441, respectively.

d. Other

The State of Rhode Island General Assembly has convened a special legislative session for hearings and potential adoption of significant changes to the Teachers' Plan and the Municipal Plan (below). The proposed changes include changing the vesting schedule to 5 years; reducing the defined benefit plan to 1% of the final average five years highest salary; enacting a defined contribution plan for all participants; changing the eligible age of retirement to match that of Federal Social Security ages; and significantly changing cost of living adjustments for retirees' pensions. It is anticipated that these changes will be adopted.

2. Municipal Plan

a. Plan Description

The Municipal Plan is an agent multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, Rhode Island, 02903-1854 or by calling (401) 457-3900. For fiscal year 2011, payroll for employees covered under the plan totaled \$11,267,887.

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 or after 30 years of service regardless of age. Benefits are equal to 2% of final average salary for each year of service, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3% compounded to allow for cost of living increases under an optional benefit provision adopted by the City.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

2. Municipal Plan (Continued)

a. Plan Description (Continued)

The plan also provides pre-retirement benefits at a minimum of 20% of salary for non-occupational disabilities after 5 years of service, and 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2011, 270 active employees were members of the Municipal Plan.

b. Funding Policy

Rhode Island general laws set contributions of participating employees at 6% of salary. An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability (UAAL) as of June 30, 1999, over a closed period of 30 years. There are 18 years remaining as of June 30, 2011. The amortization contribution rate is level percentage of payroll required to reduce the UAAL to zero over the remaining amortization period. Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the City, nor does it assume any liability for funding pension benefits for the City's participants.

c. Annual Employer Pension Costs and Net Pension Obligations

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

| | 2011 | 2010 | 2009 |
|---|--------------|--------------|--------------|
| Annual Pension Costs | \$ 1,556,090 | \$ 1,685,903 | \$ 1,807,463 |
| Actual Employer Contributions | 1,556,090 | 1,685,903 | 1,807,463 |
| Percent of annual pension costs contributed | 100% | 100% | 100% |

d. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 was as follows:

| Actuarial Valuation Date | (A) Actuarial Value of Assets | (B) Actuarially Accrued Liability (AAL) Projected Unit Credit | (A - B) Under Funded AAL | (A/B) Funded AAL Ratio | (C) Covered Payroll | [(A-B)/C] Underfunded AAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---|--------------------------|------------------------|---------------------|--|
| June 30, 2010 | \$ 45,258,714 | \$ 75,087,374 | \$ 29,828,660 | 60.3% | \$ 11,778,197 | 253.3% |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

2. Municipal Plan (Continued)

d. Funded Status and Funding Progress (Continued)

Actuarial valuations involve the estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, immediately following the notes to the financial statements (RSI) presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

e. Actuarial Methods and Significant Assumptions

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

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

| | |
|--|--|
| Asset appreciation: | 7.50% annually |
| Salary increases: | 4.00% annually, plus a service component |
| Payroll growth rate (for amortization) | 3.75% annually |
| Cost of living adjustments: | 3.00%, not compounded |
| Inflation rate | 3.00% annually |
| Retirement probability | 100% at age 75 or upon eligibility |

Mortality:

Healthy members – Males: pre-retirement 75% and post retirement 115% of RP2000 Combined Healthy with White Collar Adjustments Mortality Table; Females pre-retirement 75% and postretirement 95% of RP2000 Combined Healthy with White Collar Adjustments Table;

Disabled members – 60% of the PBGC Table Va for disabled male members eligible for Social Security disability benefits and 60% of the PBGC Table Via for disabled female members eligible for Social Security

Disability: Probabilities ranging from .06% at age 25 to .98% at age 60

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

3. Firemen's Pension Plan and Policemen's Pension Plan

The City has separately established and administers two defined benefit pension plans; the Firemen's Pension Plan (Fire Plan) and the Policemen's Pension Plan (Police Plan). Each plan is reported as a pension trust fund in the City's fiduciary fund net assets. A separate report on these pension plans is not available; they are audited as part of the City's audit.

a. Summary of Significant Accounting Policies and Plan Asset Matters

1. Basis of Accounting

The pension trust fund financial statements are prepared on the accrual basis of accounting. Revenues (contributions and investment income) are recognized when they are earned and expenses (benefits and administration) are recognized when they are due and payable in accordance with the terms of the plan.

2. Valuation of Investments

Investments are valued at fair value. Securities traded on national exchanges are valued at the last reported sales price. There are no investments of 5% or greater in any one organization.

b. Plan Descriptions and Contribution Information

As of June 30, 2011, membership in each plan was as follows:

| | <u>Fire Plan</u> | <u>Police Plan</u> |
|---|------------------|--------------------|
| Active employees hired before July 1, 1984 | 4 | 6 |
| Active employees hired on or after July 1, 1984 | <u>78</u> | <u>70</u> |
| Total active employees | 82 | 76 |
| | | |
| Inactive employees with vested rights | 1 | 1 |
| Pensioners and beneficiaries | <u>116</u> | <u>118</u> |
| Total plan members | <u>199</u> | <u>195</u> |

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

3. Firemen's Pension Plan and Policemen's Pension Plan (Continued)

b. Plan Descriptions and Contribution Information (Continued)

Each plan is a single-employer defined benefit pension plan which provides retirement, disability and death benefits to its participants. For fiscal year 2011, covered payroll under the plans was \$5,069,386 and \$4,892,567 for the fire and police plans, respectively. Rights to pension benefits become fully vested for fire and police participants after 10 years of service. Police are eligible to retire after 20 years of service, and firemen are eligible to retire after 25 years of service. Police benefits are equal to 50% of salary with an additional 2.5% for each year of service after 20 years and up to 25 years of service, with the total benefit not to exceed 62.5% of salary. Police retirees who work more than 25 years are entitled to an additional 1.5%, with the total benefit not to exceed 70% of salary. The fire pension plan entitles retirees to benefits equal to 65% of salary for those who retire at 25 years. The percentage increases by 1% per year until the maximum of 70% of salary is attained. Fire employees hired after July 1, 2011 cannot receive pension benefits until they reach the age of 58. An additional \$100 per year can be earned for each year of service in excess of 25, to a maximum of \$1,000 per year.

Pre-retirement benefits at a minimum of 25% and 50% of salary are provided to disabled fire and police participants, respectively. However, fire employees are eligible for an additional 2.5% of salary for each year of service in excess of 10 years until a maximum benefit of 62.5% of salary is attained. Surviving spouses under both plans are also eligible for pre-retirement death benefits of 67.5% of salary, subject to a pro-rata reduction for participants having fewer than 20 years of service.

Contributions and Funding Policy – Under terms of their collective bargaining agreements, firefighters and policemen are required to contribute 8% of salary to their respective pension plans (9% for firefighters as of July 1, 2011). The City policy is to fund a minimum of 100% of the annual required contribution as determined by an independent actuary. Rhode Island general laws, city ordinances and collective bargaining agreements establish minimum employer funding. However, the City's policy results in required contributions in excess of the statutory and contractual minimum levels. The City is amortizing the unfunded accrued liability over a closed 30 year period, of which 21 years remain.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

3. Firemen's Pension Plan and Policemen's Pension Plan (Continued)

c. Financial Information

STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2011

| | POLICE PENSION FUND | FIRE PENSION FUND |
|---|------------------------|----------------------|
| ASSETS | | |
| Cash and investments | \$ 43,894,268 | \$ 33,109,671 |
| LIABILITIES | | |
| Accounts payable | 26,126 | 19,903 |
| NET ASSETS | | |
| Net assets held in trust for pension benefits | \$ 43,868,142 | \$ 33,089,768 |

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

| | POLICE PENSION FUND | FIRE PENSION FUND |
|---|------------------------|----------------------|
| ADDITIONS | | |
| Contributions and other income | \$ 3,511,262 | \$ 4,762,657 |
| Investment income, net of investment expenses | 9,671,075 | 7,260,893 |
| TOTAL ADDITIONS | 13,182,337 | 12,023,550 |
| DEDUCTIONS | | |
| Benefits | 3,862,416 | 4,497,413 |
| Administration | 48,690 | 39,691 |
| TOTAL DEDUCTIONS | 3,911,106 | 4,537,104 |
| CHANGES IN NET ASSETS | 9,271,231 | 7,486,446 |
| NET ASSETS - JULY 1, 2010 | 34,596,911 | 25,603,322 |
| NET ASSETS - JUNE 30, 2011 | \$ 43,868,142 | \$ 33,089,768 |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

3. Firemen's Pension Plan and Policemen's Pension Plan (Continued)

d. Funded Status and Funding Progress

The funded status of the plans as of July 1, 2011 (the date of the most recent actuarial valuation) was as follows:

| Actuarial Valuation Date | (A) Actuarial Value of Assets | (B) Actuarially Accrued Liability (AAL) Projected Unit Credit | (A - B) Under Funded AAL | (A/B) Funded AAL Ratio | (C) Covered Payroll | [(A-B)/C] Underfunded AAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|-----------------------------------|---------------------------------|---------------------------|---|
| <u>FIRE PLAN</u> | | | | | | |
| July 1, 2011 | \$ 32,832,334 | \$ 82,907,130 | \$ 50,074,796 | 39.6% | \$ 4,891,283 | 1023.8% |
| <u>POLICE PLAN</u> | | | | | | |
| July 1, 2011 | \$ 43,693,248 | \$ 76,570,775 | \$ 32,877,527 | 57.1% | \$ 5,048,815 | 651.2% |

Actuarial valuations involve the estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, immediately following the notes to the financial statements (RSI) presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

e. Annual Pension Costs and Net Pension Obligations

Separate actuarial valuations for each plan were performed as of July 1, 2011. The following table summarizes annual pension costs for both the Police Plan and Fire Plan:

| | <u>Fire Plan</u> | <u>Police Plan</u> |
|-------------------------------------|---------------------|---------------------|
| Annual required contribution (ARC) | \$ 4,359,109 | \$ 3,116,642 |
| Amount representing interest on NPO | 357,838 | (470,383) |
| Adjustment to ARC | (346,174) | 443,401 |
| Total annual pension costs | <u>\$ 4,370,773</u> | <u>\$ 3,089,660</u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

B. Pension Plans (Continued)

3. Firemen's Pension Plan and Policemen's Pension Plan (Continued)

e. Annual Pension Costs and Net Pension Obligations (Continued)

A summary of annual pension costs, contributions, and net pension obligations (NPO) and net pension asset (NPA) of each plan over the preceding three years is as follows:

| | Fire Plan | | |
|---|--------------------|----------------|----------------|
| | 2011 | 2010 | 2009 |
| Annual pension costs | \$ 4,370,773 | \$ 3,830,457 | \$ 3,369,867 |
| Actual contributions | 4,359,109 | 3,981,258 | 3,491,226 |
| Increase (decrease) in net pension obligation | 11,664 | (150,801) | (121,359) |
| Net pension obligation, July 1 | 4,771,174 | 4,921,975 | 5,043,334 |
| Net pension obligation, June 30 | \$ 4,782,838 | \$ 4,771,174 | \$ 4,921,975 |
| % of annual pension costs contributed | 99.7% | 103.9% | 103.6% |
| | Police Plan | | |
| | 2011 | 2010 | 2009 |
| Annual pension costs | \$ 3,089,660 | \$ 2,399,432 | \$ 2,325,982 |
| Actual contributions | 3,116,642 | 2,670,822 | 2,472,177 |
| Increase in NPA | (26,982) | (271,390) | (146,195) |
| Net pension asset, July 1 | (6,271,777) | (6,000,387) | (5,854,192) |
| Net pension asset, June 30 | \$ (6,298,759) | \$ (6,271,777) | \$ (6,000,387) |
| % of annual pension costs contributed | 100.9% | 111.3% | 106.3% |

f. Actuarial Methods and Significant Assumptions

Actuarial valuations utilize the projected unit credit method to determine both the actuarial accrued liabilities and annual required contributions to each plan. Pension assets are valued at their fair market value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for both plans are performed annually as of July 1.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. **OTHER INFORMATION (CONTINUED)**

B. **Pension Plans (Continued)**

3. **Firemen's Pension Plan and Policemen's Pension Plan (Continued)**

f. **Actuarial Methods and Significant Assumptions (Continued)**

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

| | <u>Fire</u> | <u>Police</u> |
|--|--|----------------------|
| Valuation Date | July 1, 2011 | July 1, 2011 |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |
| Amortization Method | Level Dollar Closed | Level Dollar Closed |
| Remaining Amortization Period | 20 Years | 20 Years |
| Asset appreciation | 7.50% annually | 7.50% annually |
| Salary increases | 3.20% annually | 3.50% annually |
| Cost of living increase: | | 3.00% |
| Members retired prior to August 26, 2011 | 3.00% | |
| Members retiring after August 26, 2011 | Bureau of Labor CPI for Northeast Urban Wage Earners, not exceeding 3.00% or less than .05% | |
| Inflation | 3.00% | 3.00% |
| Mortality: | | |
| Healthy Members (both police and fire) | Mortality tables prescribed by the IRS for non- governmental plans, as specified in IRS Regulation 1.430(h)(3)-1, applied on a fully generational basis | |
| Disabled Members (both police and fire) | 1985 Wyatt Pension Disability Table | |

Concentrations - As of June 30, 2011, and during the year then ended, no pension assets were invested in any organization which collectively held 5% or more of the total assets of either plan.

C. **Other Post-Employment Benefits (OPEB)**

1. **Plan Description**

The City of Newport offers family or individual health insurance to retirees and life insurance to police retirees. Employees vest for OPEB when they vest for pension benefits. Retired police employees receive \$25,000 in retiree life insurance. Employees can choose individual or family coverage when active, which is paid by the City. All employees contribute towards the cost of their health insurance, while active and after retirement. If an employee retires prior to age 65, the employee remains in their pre-retirement medical plan from the date of their retirement until age 65. At age 65, non-teachers enter Plan65 unless they are grandfathered in under another medical plan or are Medicare ineligible. AFSCME and NEA employees, and police employees hired after July 1, 2009, and fire employees hired after July 1, 2011 are not entitled to Plan65. Medicare ineligible participants remain in the medical plan they chose as active employees. Teachers who are in the "Extended Benefit Plan" contribute 5% of their salary in order to receive Plan65 when eligible. The "Extended Benefit Plan" has been closed to new participants and teachers can opt-out of the "Extended Benefit Plan". New teachers and teachers who opt-out of the "Extended Benefits Plan" do not receive any City funded benefits once they reach age 65.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

C. Other Post-Employment Benefits (OPEB) (Continued)

2. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The OPEB trust fund financial statements are prepared 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.

b. Valuation of Investments

Investments are valued at fair value. Securities traded on national exchanges are valued at the last reported sales price. There are no investments of 5% or greater in any one organization.

c. Classes of Employees Covered

As of July 1, 2011 membership data was as follows:

| | |
|--------------------|--------------|
| Active employees | 642 |
| Retirees | <u>719</u> |
| Total plan members | <u>1,361</u> |

3. Benefit Provisions and Contributions

A portion of health insurance premiums is borne by the City, dependent upon each retiree's covered group, date of retirement and credited service. For members covered under the Police Pension Plan retiring after June 30, 1987, the City pays 50% of premiums plus an additional 5% of premiums for each year of service between 11 and 20 years, until 100% is paid. Retirees prior to that date are responsible for premiums for each year between 11 and 25 years, until 100% is paid. Employees hired after July 1, 2009 are not eligible for Plan65. For members covered under the Fire Pension Plan that retired prior to September 12, 2007, the City pays 100% of health insurance premiums for members, provided that the retiree was eligible for retirement (25 years of service) at the date of separation from service. Members that retire after September 12, 2007 contribute 1% of their pension benefit towards the cost of retiree health insurance. For retirees with less than 25 years of service, the City contribution is reduced 4% per year of service less than 25. Members hired after July 1, 2011 are not eligible for Plan65. Premiums for retirees of both the Teachers' Plan and the Municipal Plan are fully paid by the City (less a retiree premium share) until age 65, provided the retiree was eligible for retirement at the time of separation from service. The City pays for a \$25,000 life insurance policy for retired police with at least 10 years of service, and for a temporary (until age 65) \$50,000 life insurance policy for retired teachers. Members of each group may elect dental and life insurance coverage at their expense.

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

C. Other Post-Employment Benefits (OPEB) (Continued)

4. Summary Financial Information

The Other Post Employment Benefits Trust summary financial information reported in the financial statements is as follows:

STATEMENT OF FIDUCIARY NET ASSETS
 OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
 JUNE 30, 2011

| | |
|--|-----------------------------|
| ASSETS | |
| Cash and investments | \$ 20,126,917 |
| LIABILITIES | |
| Accounts payable | <u>8,045</u> |
| NET ASSETS | |
| Net assets held in trust for OPEB benefits | <u><u>\$ 20,118,872</u></u> |

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2011

| | |
|---|-----------------------------|
| ADDITIONS | |
| Contributions and other income | \$ 2,200,137 |
| Investment income, net of investment expenses | <u>3,991,922</u> |
| TOTAL ADDITIONS | 6,192,059 |
| DEDUCTIONS | |
| Administration | <u>25,853</u> |
| TOTAL DEDUCTIONS | 25,853 |
| CHANGES IN NET ASSETS | 6,166,206 |
| NET ASSETS - JULY 1, 2010 | <u>13,952,666</u> |
| NET ASSETS - JUNE 30, 2011 | <u><u>\$ 20,118,872</u></u> |

CITY OF NEWPORT, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. **OTHER INFORMATION (CONTINUED)**

C. **Other Post-Employment Benefits (OPEB) (Continued)**

5. **Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (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 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 City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

| | |
|--|---------------------|
| Annual required contribution | \$ 10,751,437 |
| Interest on net OPEB obligation | 557,188 |
| Adjustment to annual required contribution | <u>(117,120)</u> |
| Annual OPEB cost (expense) | 11,191,505 |
| Contributions made | <u>9,810,529</u> |
| Increase (decrease) in net OPEB obligation | 1,380,976 |
| Net OPEB obligation - July 1, 2010 | <u>7,039,517</u> |
| Net OPEB obligation - June 30, 2011 | <u>\$ 8,420,493</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the previous four years is as follows:

| Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | OPEB Obligation |
|---------------|---------------------|---------------------------------|--------------------|
| June 30, 2006 | \$ 9,706,604 | 53.9% | \$ 4,466,938 |
| June 30, 2007 | 9,282,550 | 75.0% | 6,756,362 |
| June 30, 2008 | 9,997,870 | 72.3% | 9,521,806 |
| June 30, 2009 | 10,615,386 | 104.6% | 9,037,637 |
| June 30, 2010 | 9,243,181 | 121.6% | 7,429,179 |
| June 30, 2011 | 11,191,505 | 90.0% | 8,420,493 |

6. **Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2010 (the date of the most recent actuarial valuation) was as follows:

| Actuarial Valuation Date | (A) Actuarial Value of Assets | (B) Actuarially Accrued Liability (AAL) Projected Unit Credit | (A-B) Unde- Funded AAL | (A/B) Funded AAL Ratio | (C) Covered Payroll | [(A-B)/C] Under Funded AAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|---------------------------------|---------------------------|--|
| July 1, 2010 | \$ 13,952,666 | \$ 150,082,585 | \$ 136,129,919 | 9.3% | \$ 38,198,664 | 356.4% |

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. **OTHER INFORMATION (CONTINUED)**

C. **Other Post-Employment Benefits (OPEB) (Continued)**

6. **Funded Status and Funding Progress (Continued)**

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.

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

The projected unit credit cost method was used in the July 1, 2010 actuarial valuation. Actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses). Only assets that have been contributed to the OPEB Trust are considered available for liabilities for purposes of the valuation. Assets are valued at Fair Market Value. The actuarial assumptions for healthcare cost trend is growth of 8% for 2011 and declining by 1% per year until 5% is reached. The 5% growth is used on a go-forward basis. The UAAL is being amortized over a closed thirty year period. The City is in year 26 of the amortization schedule.

D. **Contingencies**

The City is involved in several lawsuits and claims. Both City officials and their legal counsel are unable to express an opinion as to the ultimate outcome of the cases, and no provision for loss has been made in the accompanying financial statements. It is the opinion of both the City officials and their legal counsel that the results of the cases would have no materially adverse effect on the City's financial position except as noted below.

CITY OF NEWPORT, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

V. OTHER INFORMATION (CONTINUED)

E. Restatements

In February 2009, the Governmental Accounting Standard Board (“GASB”) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (“Statement No. 54”). Statement No. 54 clarified the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type. The application of Statement No. 54 was effective for the City as of July 1, 2010. Based on the interpretations of certain terms within the definition of special revenue fund type provided for in Statement No. 54, the City has determined that certain activities previously reported in special revenue funds are required to be reported in other fund types. Accordingly, fund balance reclassifications made by the City have resulted in an increase in the beginning fund balance of the General Fund in the amount of \$1,064,817 and a corresponding decrease in the beginning fund balance of the City’s Other Governmental Funds in order to conform to the provisions of Statement No. 54.

**Required
Supplementary
Information**

CITY OF NEWPORT, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 JUNE 30, 2011

| Fire Pension Plan | | | | | | | |
|--|--------------------------------------|--|---|-----------------|------------------------------|--|--|
| Actuarial Valuation Date July 1 | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets as % of AAL | Unfunded AAL | Annual Covered Payroll | Unfunded AAL as % of Covered Payroll | |
| 2006 | \$ 27,413,402 | \$ 68,671,042 | 39.9% | \$ 41,257,640 | \$ 4,827,849 | 854.6% | |
| 2007 | 31,256,401 | 72,036,981 | 43.4% | 40,780,580 | 4,960,132 | 822.2% | |
| 2008 | 29,605,715 | 74,885,370 | 39.5% | 45,279,655 | 5,294,240 | 855.3% | |
| 2009 | 27,980,459 | 78,870,565 | 35.5% | 50,890,106 | 5,047,963 | 1008.1% | |
| 2010 | 30,820,663 | 82,030,956 | 37.6% | 51,210,293 | 5,526,615 | 926.6% | |
| 2011 | 32,832,334 | 82,907,130 | 39.6% | 50,074,796 | 4,891,283 | 1023.8% | |

| Police Pension Plan | | | | | | | |
|--|--------------------------------------|-------------------------------|---|-----------------|------------------------------|--|--|
| Actuarial Valuation Date July 1 | Actuarial Value of Plan Assets | Accrued Liability (AAL) | Actuarial Value of Assets as % of AAL | Unfunded AAL | Annual Covered Payroll | Unfunded AAL as % of Covered Payroll | |
| 2006 | \$ 39,118,117 | \$ 62,635,048 | 62.5% | \$ 23,516,931 | \$ 4,757,611 | 494.3% | |
| 2007 | 44,288,895 | 70,038,232 | 63.2% | 25,749,337 | 5,047,477 | 510.1% | |
| 2008 | 41,952,553 | 68,177,847 | 61.5% | 26,225,294 | 4,979,082 | 526.7% | |
| 2009 | 37,852,800 | 73,443,988 | 51.5% | 35,591,188 | 5,064,850 | 702.7% | |
| 2010 | 42,240,992 | 74,866,848 | 56.4% | 32,625,856 | 5,023,341 | 649.5% | |
| 2011 | 43,693,248 | 76,570,775 | 57.1% | 32,877,527 | 5,048,815 | 651.2% | |

(Continued)

CITY OF NEWPORT, RHODE ISLANDREQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (CONTINUED)

JUNE 30, 2011

| Municipal Employees Retirement System | | | | | | | |
|---|--------------------------------------|--|---|-----------------|------------------------------|--|--|
| Actuarial Valuation Date June 30 | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets as % of AAL | Unfunded AAL | Annual Covered Payroll | Unfunded (Excess) AAL as % of Covered Payroll | |
| 2005 | \$ 37,380,423 | \$ 50,823,220 | 73.5% | \$ 13,442,797 | \$ 10,671,442 | 126.0% | |
| 2006 | 39,035,659 | 53,590,210 | 72.8% | 14,554,551 | 10,671,570 | 136.4% | |
| 2007 | 42,883,619 | 57,719,476 | 74.3% | 14,835,857 | 10,913,761 | 135.9% | |
| 2008 | 46,324,266 | 60,565,718 | 76.5% | 14,241,452 | 11,396,167 | 125.0% | |
| 2009 | 46,291,715 | 65,391,781 | 70.8% | 19,100,066 | 11,855,170 | 161.1% | |
| 2010 | 45,258,714 | 75,087,374 | 60.3% | 29,828,660 | 11,778,197 | 253.3% | |

| OPEB Trust Plan | | | | | | | |
|--|--------------------------------------|-------------------------------|---|-----------------|------------------------------|--|--|
| Actuarial Valuation Date July 1 | Actuarial Value of Plan Assets | Accrued Liability (AAL) | Actuarial Value of Assets as % of AAL | Unfunded AAL | Annual Covered Payroll | Unfunded AAL as % of Covered Payroll | |
| 2005 | \$ - | \$ 123,721,034 | 0.0% | \$ 123,721,034 | \$ 44,500,000 | 278.0% | |
| 2006 | 1,413,713 | 132,314,905 | 1.1% | 130,901,192 | 33,519,292 | 390.5% | |
| 2007 | 2,184,740 | 131,650,381 | 1.7% | 129,465,641 | 36,112,767 | 358.5% | |
| 2008 | 4,476,103 | 142,838,552 | 3.1% | 138,362,449 | 38,914,022 | 355.6% | |
| 2009 | 8,486,653 | 125,947,132 | 6.7% | 117,460,479 | 38,541,599 | 304.8% | |
| 2010 | 13,952,666 | 150,082,585 | 9.3% | 136,129,919 | 38,198,664 | 356.4% | |

(Concluded)

CITY OF NEWPORT, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2011

Fire Pension Plan

| Actuarial Valuation Date July 1 | Annual Required Contribution (ARC) | Actual Contribution | % of ARC Contributed |
|--|---|------------------------|----------------------------|
| 2006 | \$ 3,543,234 | \$ 3,543,235 | 100.0% |
| 2007 | 3,352,662 | 3,543,235 | 105.7% |
| 2008 | 3,291,226 | 3,291,234 | 100.0% |
| 2009 | 3,310,557 | 3,491,226 | 105.5% |
| 2010 | 3,781,258 | 3,981,258 | 105.3% |
| 2011 | 4,359,109 | 4,359,109 | 100.0% |

Police Pension Plan

| Actuarial Valuation Date July 1 | Annual Required Contribution (ARC) | Actual Contribution | % of ARC Contributed |
|--|---|------------------------|----------------------------|
| 2006 | \$ 2,440,649 | \$ 2,440,649 | 100.0% |
| 2007 | 2,385,996 | 2,440,649 | 102.3% |
| 2008 | 2,272,177 | 2,272,049 | 100.0% |
| 2009 | 2,406,091 | 2,472,177 | 102.7% |
| 2010 | 2,470,822 | 2,670,822 | 108.1% |
| 2011 | 3,116,642 | 3,116,642 | 100.0% |

Other Post-Employment Benefits Plan

| Actuarial Valuation Date July 1 | Annual Required Contribution (ARC) | Actual Contribution | % of ARC Contributed |
|--|---|------------------------|----------------------------|
| 2005 | \$ 9,706,604 | \$ 5,239,666 | 54.0% |
| 2006 | 9,282,550 | 6,993,126 | 75.3% |
| 2007 | 9,997,870 | 7,232,426 | 72.3% |
| 2008 | 10,238,391 | 11,099,555 | 108.4% |
| 2009 | 9,050,275 | 11,241,301 | 124.2% |
| 2010 | 10,751,437 | 9,810,529 | 91.2% |

Supplemental Schedules

General Fund

The General Fund is the principal fund of the City and is used to account for all activities of the City, except those required to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the City (i.e., general government, public safety, public works, health, social services, recreation, etc.). These activities are funded principally by property taxes, user fees and grants from other governmental units.

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE WITH FINAL BUDGET |
|---|----------------------|----------------------|--------------------------------|-------------------------------------|
| PROPERTY TAXES: | | | | |
| Current taxes - Real Estate | \$ 59,425,524 | \$ 59,425,524 | \$ 57,575,631 | \$ (1,849,893) |
| Current taxes - MV | 1,700,000 | 1,700,000 | 1,688,282 | (11,718) |
| Delinquent - Real Estate | 1,100,000 | 1,100,000 | 1,435,232 | 335,232 |
| Delinquent taxes - MV | 110,000 | 110,000 | 86,458 | (23,542) |
| Penalties | 335,000 | 335,000 | 369,316 | 34,316 |
| Tax lien fees | 25,000 | 25,000 | 23,812 | (1,188) |
| Tax Abatements | (1,000,000) | (1,000,000) | - | 1,000,000 |
| Meals and beverage tax | 1,475,000 | 1,575,000 | 1,665,241 | 90,241 |
| Hotel occupancy tax | 1,525,000 | 1,675,000 | 1,567,820 | (107,180) |
| TOTAL PROPERTY TAXES | 64,695,524 | 64,945,524 | 64,411,792 | (533,732) |
| INTERGOVERNMENTAL REVENUES: | | | | |
| Telephone company tax | 250,000 | 250,000 | 286,651 | 36,651 |
| Miscellaneous state and federal aid | - | - | 4,421 | 4,421 |
| MV tax phase out | - | 70,500 | 137,291 | 66,791 |
| School housing aid | 277,809 | 277,809 | 537,430 | 259,621 |
| PILOT | 755,000 | 833,200 | 833,229 | 29 |
| State aid - library construction | 215,000 | 215,000 | 225,853 | 10,853 |
| TOTAL INTERGOVERNMENTAL REVENUES | 1,497,809 | 1,646,509 | 2,024,875 | 378,366 |
| CHARGES FOR SERVICES: | | | | |
| GMH service fees | 369,000 | 369,000 | 156,907 | (212,093) |
| Hope IV Project service fees | 130,000 | 130,000 | 157,883 | 27,883 |
| Salve Regina service charges | 6,902 | 6,902 | 6,902 | - |
| Convention and Visitor's Bureau | 10,000 | 10,000 | - | (10,000) |
| Police special detail | 1,780,000 | 1,780,000 | 1,696,051 | (83,949) |
| Document prep and handling | 75,000 | 75,000 | 72,687 | (2,313) |
| Planning Services | - | - | 365 | 365 |
| Solid waste hauler fees | 2,700 | 2,700 | 7,500 | 4,800 |
| Community development services | 59,629 | 59,629 | 59,629 | - |
| Computer processing fees | 322,072 | 322,072 | 327,679 | 5,607 |
| Management services | 940,547 | 940,547 | 924,620 | (15,927) |
| Fire alarm assessments | 141,000 | 141,000 | 147,900 | 6,900 |
| Recycling bins | 2,500 | 2,500 | 4,302 | 1,802 |
| HR regional testing | 2,000 | 2,000 | 4,825 | 2,825 |
| Recreation activity fees | 85,000 | 85,000 | 92,415 | 7,415 |
| Ballfield rentals | 28,000 | 28,000 | 21,245 | (6,755) |
| Parking tickets | 900,000 | 900,000 | 858,570 | (41,430) |
| Recording fees | 340,000 | 340,000 | 298,481 | (41,519) |
| Conveyance tax | 450,000 | 450,000 | 381,436 | (68,564) |
| Probate fees | 50,000 | 50,000 | 42,706 | (7,294) |
| Rescue fees | 550,000 | 550,000 | 712,695 | 162,695 |
| General business | 50,000 | 50,000 | 77,578 | 27,578 |
| Hotel registration fees | 7,000 | 7,000 | 6,850 | (150) |
| Entertainment | 19,000 | 19,000 | 26,670 | 7,670 |
| Liquor | 189,000 | 189,000 | 188,690 | (310) |
| Mech amusement | 15,000 | 15,000 | 13,850 | (1,150) |
| Sunday selling | 25,000 | 25,000 | 24,250 | (750) |
| Taxi | 1,000 | 1,000 | 1,575 | 575 |
| Victualing | 55,000 | 55,000 | 53,750 | (1,250) |
| Animal | 4,400 | 4,400 | 5,287 | 887 |
| Marriage | 5,000 | 5,000 | 5,538 | 538 |
| Building | 700,000 | 700,000 | 530,273 | (169,727) |
| Plumbing | 30,000 | 30,000 | 53,172 | 23,172 |
| Mechanical | 100,000 | 100,000 | 112,902 | 12,902 |
| Electrical | 140,000 | 140,000 | 113,711 | (26,289) |
| Board of Appeals | 12,000 | 12,000 | 21,310 | 9,310 |
| HDC application fee | 16,000 | 16,000 | 17,500 | 1,500 |
| Road opening | 50,000 | 50,000 | 94,893 | 44,893 |
| Fire inspection fees | 65,000 | 65,000 | 45,869 | (19,131) |
| Fire - sundry | 12,000 | 12,000 | 15,386 | 3,386 |
| Police - sundry | 10,000 | 10,000 | 8,286 | (1,714) |
| Municipal court cost assessment | 220,000 | 220,000 | 202,423 | (17,577) |
| Payphone commissions | 1,000 | 1,000 | 335 | (665) |
| Vendor rights | 8,800 | 8,800 | 11,597 | 2,797 |
| Newport Grand Slot Machines | 620,000 | 620,000 | 507,123 | (112,877) |
| Other miscellaneous | 50,000 | 50,000 | 246,317 | 196,317 |
| Rental of property | 120,000 | 120,000 | 87,488 | (32,512) |
| TOTAL CHARGES FOR SERVICES | 8,769,550 | 8,769,550 | 8,447,421 | (322,129) |
| USE OF MONEY AND PROPERTY: | | | | |
| Investment interest | 500,000 | 300,000 | 154,807 | (145,193) |
| INCOME FROM INVESTMENTS | 500,000 | 300,000 | 154,807 | (145,193) |
| OTHER REVENUES: | | | | |
| Public donations | 161,950 | 161,950 | 194,289 | 32,339 |
| TOTAL OTHER REVENUES | 161,950 | 161,950 | 194,289 | 32,339 |
| TOTAL REVENUES | 75,624,833 | 75,823,533 | 75,233,184 | (590,349) |
| OTHER FINANCING SOURCES: | | | | |
| Transfers in | - | - | 341,085 | 341,085 |
| TOTAL OTHER FINANCING SOURCES: | - | - | 341,085 | 341,085 |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | \$ 75,624,833 | \$ 75,823,533 | \$ 75,574,269 | \$ (249,264) |

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL (BUDGETARY BASIS) | VARIANCE WITH FINAL BUDGET |
|--|----------------------|----------------------|--------------------------------|-------------------------------------|
| EXPENDITURES: | | | | |
| General Government: | | | | |
| Mayor and City Council | \$ 113,501 | \$ 113,501 | \$ 89,007 | \$ 24,494 |
| City Manager | 733,128 | 733,128 | 730,296 | 2,832 |
| City Solicitor | 413,401 | 413,401 | 389,343 | 24,058 |
| Canvassing | 223,877 | 223,877 | 210,489 | 13,388 |
| City Clerk | 529,399 | 709,292 | 487,274 | 222,018 |
| Finance | 2,828,659 | 2,860,690 | 2,757,565 | 103,125 |
| Reserve Accounts | 420,959 | 814,659 | 1,263,553 | (448,894) |
| Public Safety: | | | | |
| Police Department | 15,393,813 | 15,424,613 | 15,219,723 | 204,890 |
| Fire Department | 15,482,879 | 15,722,879 | 17,224,494 | (1,501,615) |
| Public Health | 8,098,287 | 8,625,291 | 7,149,699 | 1,475,592 |
| Planning, Zoning, and Development | 1,249,180 | 1,249,180 | 1,203,781 | 45,399 |
| Recreation | 593,036 | 593,036 | 551,867 | 41,169 |
| Human services: | | | | |
| Donations | 83,150 | 83,150 | 64,150 | 19,000 |
| Public Library | 1,671,719 | 1,671,719 | 1,671,719 | - |
| Pension expenditures | 3,152,061 | 2,635,761 | 2,722,514 | (86,753) |
| Debt service | 1,853,177 | 1,853,177 | 1,733,884 | 119,293 |
| TOTAL EXPENDITURES | 52,840,226 | 53,727,354 | 53,469,358 | 257,996 |
| OTHER FINANCING USES: | | | | |
| Transfers out | 23,584,607 | 23,684,144 | 23,833,096 | (148,952) |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | \$ 76,424,833 | \$ 77,411,498 | \$ 77,302,454 | \$ 109,044 |

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting City's programs.

CITY OF NEWPORT, RHODE ISLAND

COMBINING BALANCE SHEET
PERMANENT TRUST FUNDS
JUNE 30, 2011

| | CASH AND INVESTMENTS NET OF LIABILITIES | RESERVED FOR ENDOWMENTS | UNRESERVED FUND BALANCE |
|--|---|----------------------------|----------------------------|
| David Sears Trusts 1 - 9 (City Portion) | \$ 2,587,257 | \$ 450,000 | \$ 2,137,257 |
| David Sears Trust - Heirs of David Sears | 1,039,382 | 1,039,382 | - |
| David Sears Trust - Public Improvements | 90,512 | - | 90,512 |
| Joseph Hammett Fund (1892) | 33,033 | 1,500 | 31,533 |
| Henderson Home Fund (1980) | 981,183 | 139,781 | 841,402 |
| Freebody Fund | 103,282 | 97,000 | 6,282 |
| EV Coles Fund (1899) | 321,187 | 61,321 | 259,866 |
| Hunter Industrial Fund (1942) | 105,655 | 25,000 | 80,655 |
| King School Fund (1864) | 218,390 | 8,914 | 209,476 |
| City Burial Lots | 365,474 | - | 365,474 |
| Private Burial Lots | 6,797 | - | 6,797 |
| Belmont Memorial Fund (1950) | 31,635 | 2,000 | 29,635 |
| Judah Touro M & C Fund (1879) | 162,922 | 10,000 | 152,922 |
| Touro Street Fund (1823) | 63,879 | 5,000 | 58,879 |
| Derby Fuel Fund (1849) | 18,140 | 500 | 17,640 |
| Fry Orphan Fund (1859) | 24,785 | 5,131 | 19,654 |
| R & E Bullock Fund (1944) | 69,781 | 1,000 | 68,781 |
| Poor and Aged Fund (1863) | 1,171,763 | 100,000 | 1,071,763 |
| Alexander Agassiz Fund (1901) | 165,705 | 31,087 | 134,618 |
| George H Norman Foundation Fund (1901) | 56,799 | 6,899 | 49,900 |
| Barbara Chapman Fund (1990) | 4,048 | 2,000 | 2,048 |
| E Townsend Fund (1889) | 202,149 | 155,137 | 47,012 |
| George N Buckout Fund (1955) | 97,000 | 15,000 | 82,000 |
| Edward Newton Fund (1959) | 33,777 | - | 33,777 |
| Braman Cemetery | 157,261 | - | 157,261 |
| Louis H Hobbs Fund (1988) | 42,500 | 25,000 | 17,500 |
| RIICAN Fund | 7,653 | - | 7,653 |
| Unallocated Expense | (24,768) | - | (24,768) |
| Total Permanent Trust Funds | \$ 8,137,181 | \$ 2,181,652 | \$ 5,955,529 |

CITY OF NEWPORT, RHODE ISLAND

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
PERMANENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | FUND BALANCE JULY 1, 2010 | REVENUES Use of Money & Property and Investment Losses | EXPENDITURES Human Services | FUND BALANCE JUNE 30, 2011 |
|--|---------------------------------|--|-----------------------------------|----------------------------------|
| David Sears Trusts 1 - 9 (City Portion) | \$ 2,064,172 | \$ 523,085 | \$ - | \$ 2,587,257 |
| David Sears Trust - Heirs of David Sears | 829,243 | 210,139 | - | 1,039,382 |
| David Sears Trust - Public Improvements | 153,274 | 20,388 | (83,150) | 90,512 |
| Joseph Hammett Fund (1892) | 26,910 | 6,693 | (570) | 33,033 |
| Henderson Home Fund (1980) | 818,596 | 203,682 | (41,095) | 981,183 |
| Freebody Fund | 85,596 | 21,716 | (4,030) | 103,282 |
| EV Coles Fund (1899) | 266,239 | 67,468 | (12,520) | 321,187 |
| Hunter Industrial Fund (1942) | 87,581 | 22,194 | (4,120) | 105,655 |
| King School Fund (1864) | 181,034 | 45,876 | (8,520) | 218,390 |
| City Burial Lots | 291,633 | 73,841 | - | 365,474 |
| Private Burial Lots | 5,597 | 1,480 | (280) | 6,797 |
| Belmont Memorial Fund (1950) | 25,240 | 6,395 | - | 31,635 |
| Judah Touro M & C Fund (1879) | 135,048 | 34,224 | (6,350) | 162,922 |
| Touro Street Fund (1823) | 50,964 | 12,915 | - | 63,879 |
| Derby Fuel Fund (1849) | 14,774 | 3,676 | (310) | 18,140 |
| Fry Orphan Fund (1859) | 20,708 | 5,247 | (1,170) | 24,785 |
| R & E Bullock Fund (1944) | 56,818 | 14,138 | (1,175) | 69,781 |
| Poor and Aged Fund (1863) | 983,607 | 241,756 | (53,600) | 1,171,763 |
| Alexander Agassiz Fund (1901) | 137,358 | 34,807 | (6,460) | 165,705 |
| George H Norman Foundation Fund (1901) | 47,087 | 11,932 | (2,220) | 56,799 |
| Barbara Chapman Fund (1990) | 3,229 | 819 | - | 4,048 |
| E Townsend Fund (1889) | 161,279 | 40,870 | - | 202,149 |
| George N Buckout Fund (1955) | 77,389 | 19,611 | - | 97,000 |
| Edward Newton Fund (1959) | 26,949 | 6,828 | - | 33,777 |
| Braman Cemetery | 125,466 | 31,795 | - | 157,261 |
| Louis H Hobbs Fund (1988) | 48,530 | 8,970 | (15,000) | 42,500 |
| RIICAN Fund | 6,106 | 1,547 | - | 7,653 |
| Unallocated Investment Expense | - | - | (24,768) | (24,768) |
| Total Permanent Trust Funds | \$ 6,730,427 | \$ 1,672,092 | \$ (265,338) | \$ 8,137,181 |

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

School Restricted Fund

This fund is used to account for educational grants that are restricted by the federal government or the State of Rhode Island for specific programs.

UDAG Fund

This fund is used to account for urban development grant activities.

State Grants Fund

This fund is used to account for grants received from the State of Rhode Island that are restricted for specific programs or purposes.

EDA Revolving Fund

This fund is used to account for economic development activities funded by the Federal Government and restricted for specific purposes.

Bramley Bill Fund

This fund is used to account for activities funded by grants and private donations for specific purposes.

Office of Economic Adjustment (OEA) Grant Fund

This fund is used to account for activities funded by the OEA grant and in-kind services for specific purposes.

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

CITY OF NEWPORT, RHODE ISLAND

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

| | SPECIAL REVENUE | | | | | | | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--|-------------------------------|---------------------|-------------------------|--------------------------|---------------------------------|-------------------------|-------------------------|--|
| | SCHOOL RESTRICTED FUNDS | UDAG FUND | STATE GRANTS FUND | EDA REVOLVING FUND | ECONOMIC ADJUSTMENT GRANT | BRAMLEY BILL FUND | DEBT SERVICE FUND | |
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ 1,446,394 | \$ 277,487 | \$ - | \$ - | \$ 28,454 | \$ 1,400,360 | \$ 3,152,695 |
| Receivables: | | | | | | | | |
| Intergovernmental | 1,744,704 | - | 58,112 | - | 71,296 | - | - | 1,874,112 |
| Loan | - | 308,630 | - | - | - | - | - | 308,630 |
| Other | - | 87,500 | - | - | - | 500 | - | 88,000 |
| Due from other funds | - | 87,500 | - | - | - | - | - | 87,500 |
| Advances to other funds | - | 300,421 | - | - | - | - | - | 300,421 |
| TOTAL ASSETS | \$ 1,744,704 | \$ 2,230,445 | \$ 335,599 | \$ - | \$ 71,296 | \$ 28,954 | \$ 1,400,360 | \$ 5,811,358 |
| LIABILITIES AND FUND BALANCE | | | | | | | | |
| LIABILITIES: | | | | | | | | |
| Cash overdraft | \$ 1,088,564 | \$ - | \$ - | \$ - | \$ 51,119 | \$ - | \$ - | \$ 1,139,683 |
| Accounts payable | 145,170 | - | - | - | 20,177 | 2,997 | - | 168,344 |
| Unearned/deferred revenue | - | 784,051 | 170,736 | - | 71,296 | - | - | 1,026,083 |
| TOTAL LIABILITIES | 1,233,734 | 784,051 | 170,736 | - | 142,592 | 2,997 | - | 2,334,110 |
| FUND BALANCES (DEFICIT): | | | | | | | | |
| Restricted | 510,970 | 1,446,394 | 164,863 | - | - | 25,957 | 1,400,360 | 3,548,544 |
| Unassigned | - | - | - | - | (71,296) | - | - | (71,296) |
| TOTAL FUND BALANCES (DEFICIT) | 510,970 | 1,446,394 | 164,863 | - | (71,296) | 25,957 | 1,400,360 | 3,477,248 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,744,704 | \$ 2,230,445 | \$ 335,599 | \$ - | \$ 71,296 | \$ 28,954 | \$ 1,400,360 | \$ 5,811,358 |

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | SPECIAL REVENUE FUNDS | | | | | | DEBT SERVICE FUND | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--|-------------------------------|---------------------|-------------------------|--------------------------|---------------------------------|-------------------------|-------------------------|--|
| | SCHOOL RESTRICTED FUNDS | UDAG FUND | STATE GRANTS FUND | EDA REVOLVING FUND | ECONOMIC ADJUSTMENT GRANT | BRAMLEY BILL FUND | | |
| REVENUES: | | | | | | | | |
| Intergovernmental | \$ 4,311,023 | \$ - | \$ 657,647 | \$ - | \$ 275,086 | \$ 29,927 | \$ - | \$ 5,273,683 |
| Charges for services | 543,184 | 45,983 | - | 81,432 | - | - | - | 670,599 |
| Use of money and property | - | 96,637 | - | 1,657 | - | - | 38,474 | 136,768 |
| Contributions | 42,820 | - | 6,888 | - | 45,142 | 2,000 | - | 96,850 |
| TOTAL REVENUES | 4,897,027 | 142,620 | 664,535 | 83,089 | 320,228 | 31,927 | 38,474 | 6,177,900 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General education | 4,893,970 | - | - | - | - | - | - | 4,893,970 |
| Public safety | - | - | 229,562 | - | - | - | - | 229,562 |
| Public health | - | - | 8,130 | - | - | - | - | 8,130 |
| Planning, zoning and development | - | - | 6,249 | - | 391,524 | - | - | 397,773 |
| Recreation | - | - | 300 | - | - | - | - | 300 |
| Human services | - | - | 364,637 | 267,963 | - | 26,152 | - | 658,752 |
| TOTAL EXPENDITURES | 4,893,970 | - | 608,878 | 267,963 | 391,524 | 26,152 | - | 6,188,487 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 3,057 | 142,620 | 55,657 | (184,874) | (71,296) | 5,775 | 38,474 | (10,587) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (306,353) | - | - | - | - | - | - | (306,353) |
| Transfers in | - | - | - | - | - | - | 133,110 | 133,110 |
| NET CHANGE IN FUND BALANCES | (303,296) | 142,620 | 55,657 | (184,874) | (71,296) | 5,775 | 171,584 | (183,830) |
| FUND BALANCES (DEFICIT), JULY 1, 2010, AS RESTATEI | 814,266 | 1,303,774 | 109,206 | 184,874 | - | 20,182 | 1,228,776 | 3,661,078 |
| FUND BALANCES (DEFICIT), JUNE 30, 2011 | \$ 510,970 | \$ 1,446,394 | \$ 164,863 | \$ - | \$ (71,296) | \$ 25,957 | \$ 1,400,360 | \$ 3,477,248 |

Nonmajor Proprietary Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City’s Council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the City’s Council has decided that periodic determination of net income is appropriate for accountability purposes.

Maritime Fund

This fund is used to account for the activity associated with the City’s harbor operations.

Easton’s Beach Fund

This fund is used to account for the activity associated with the City’s beach operations.

Parking Operations Fund

This fund is used to account for the activity associated with the City’s parking operations.

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2011

| | MARITIME FUND | EASTON'S BEACH FUND | PARKING OPERATIONS FUND | TOTALS |
|--|---------------------|---------------------------|-------------------------------|---------------------|
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,460,851 | \$ 277,314 | \$ 1,574,966 | \$ 3,313,131 |
| Investments | - | - | 1,134,311 | 1,134,311 |
| Accounts receivable: | | | | |
| User fees (net of allowances) | 38,812 | 11,214 | 8,750 | 58,776 |
| Due from other governments | 84,270 | - | - | 84,270 |
| Advances to other funds | - | - | 188,380 | 188,380 |
| Total current assets | 1,583,933 | 288,528 | 2,906,407 | 4,778,868 |
| Noncurrent assets: | | | | |
| Capital assets | 1,972,097 | 3,467,585 | 3,101,554 | 8,541,236 |
| Less accumulated depreciation | (182,326) | (1,300,632) | (1,584,572) | (3,067,530) |
| Total noncurrent assets | 1,789,771 | 2,166,953 | 1,516,982 | 5,473,706 |
| TOTAL ASSETS | 3,373,704 | 2,455,481 | 4,423,389 | 10,252,574 |
| LIABILITIES: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 82,274 | 25,773 | 24,348 | 132,395 |
| Accrued expenses | 36,267 | 62,830 | 18,728 | 117,825 |
| Current portion advances | - | 29,642 | - | 29,642 |
| Total current liabilities | 118,541 | 118,245 | 43,076 | 279,862 |
| Long-term liabilities: | | | | |
| Notes payable | 200,000 | - | - | 200,000 |
| Advances from other funds | 267,459 | 191,698 | - | 459,157 |
| TOTAL LIABILITIES | 586,000 | 309,943 | 43,076 | 939,019 |
| NET ASSETS: | | | | |
| Invested in capital assets (net of related debt) | 1,589,771 | 2,166,953 | 1,516,982 | 5,273,706 |
| Unrestricted | 1,197,933 | (21,415) | 2,863,331 | 4,039,849 |
| TOTAL NET ASSETS | \$ 2,787,704 | \$ 2,145,538 | \$ 4,380,313 | \$ 9,313,555 |

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSET
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | MARITIME FUND | EASTON'S BEACH FUND | PARKING OPERATIONS FUND | TOTALS |
|--|---------------------|---------------------------|-------------------------------|---------------------|
| OPERATING REVENUES | | | | |
| User fees | \$ 1,047,501 | \$ 869,557 | \$ 1,405,415 | \$ 3,322,473 |
| Other revenues | 78,856 | - | - | 78,856 |
| TOTAL OPERATING REVENUES | 1,126,357 | 869,557 | 1,405,415 | 3,401,329 |
| OPERATING EXPENSES | | | | |
| Salaries and benefits | 259,460 | 475,916 | 350,385 | 1,085,761 |
| Materials and supplies | 53,727 | 81,005 | 46,813 | 181,545 |
| Repairs and maintenance | 71,343 | 35,390 | 23,745 | 130,478 |
| Support services | 16,642 | 67,311 | 430,597 | 514,550 |
| Utilities | 6,545 | 24,951 | 21,252 | 52,748 |
| Administrative and other | 99,908 | 111,653 | 219,593 | 431,154 |
| Depreciation | 62,830 | 130,047 | 121,713 | 314,590 |
| TOTAL OPERATING EXPENSES | 570,455 | 926,273 | 1,214,098 | 2,710,826 |
| OPERATING INCOME (LOSS) | 555,902 | (56,716) | 191,317 | 690,503 |
| NONOPERATING REVENUES AND (EXPENSES): | | | | |
| Investment income | - | - | 34,010 | 34,010 |
| Interest expense | - | (7,754) | - | (7,754) |
| NET NONOPERATING REVENUES AND (EXPENSES) | - | (7,754) | 34,010 | 26,256 |
| INCOME BEFORE TRANSFERS AND CONTRIBUTED CAPITAL | 555,902 | (64,470) | 225,327 | 716,759 |
| Transfers out | - | - | (1,500,000) | (1,500,000) |
| NET TRANSFERS | - | - | (1,500,000) | (1,500,000) |
| NET INCOME (LOSS) | 555,902 | (64,470) | (1,274,673) | (783,241) |
| TOTAL NET ASSETS - JULY 1, 2010 | 2,231,802 | 2,210,008 | 5,654,986 | 10,096,796 |
| TOTAL NET ASSETS - JUNE 30, 2011 | \$ 2,787,704 | \$ 2,145,538 | \$ 4,380,313 | \$ 9,313,555 |

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | MARITIME FUND | EASTON'S BEACH FUND | PARKING OPERATIONS FUND | TOTALS |
|--|---------------------|---------------------------|-------------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 1,034,616 | \$ 871,095 | \$ 1,417,583 | \$ 3,323,294 |
| Cash payments to suppliers for goods and services | (77,969) | (203,756) | (530,655) | (812,380) |
| Cash payments to employees for services | (274,239) | (465,649) | (348,861) | (1,088,749) |
| Payment of administrative expense | (99,908) | (111,653) | (219,593) | (431,154) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 582,500 | 90,037 | 318,474 | 991,011 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Interfund loans and transfers | - | - | (1,500,000) | (1,500,000) |
| Principal paid on interfund loans and transfers | (55,243) | (29,351) | 25,866 | (58,728) |
| NET CASH (USED IN) NONCAPITAL FINANCING ACTIVITIES | (55,243) | (29,351) | (1,474,134) | (1,558,728) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition and construction of capital assets | (166,334) | (48,768) | (73,899) | (289,001) |
| Interest paid on bonds, notes and loans | - | (7,754) | - | (7,754) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (166,334) | (56,522) | (73,899) | (296,755) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Investment income | - | - | 2,376 | 2,376 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | - | - | 2,376 | 2,376 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 360,923 | 4,164 | (1,227,183) | (862,096) |
| CASH AND CASH EQUIVALENTS - JULY 1, 2010 | 1,099,928 | 273,150 | 2,802,149 | 4,175,227 |
| CASH AND CASH EQUIVALENTS- JUNE 30, 2011 | \$ 1,460,851 | \$ 277,314 | \$ 1,574,966 | \$ 3,313,131 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | \$ 555,902 | \$ (56,716) | \$ 191,317 | 690,503 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 62,830 | 130,047 | 121,713 | 314,590 |
| Changes in assets and liabilities: | | | | |
| Decrease (Increase) in accounts receivable | (91,741) | 1,538 | 12,168 | (78,035) |
| (Decrease) Increase in accounts payable | 70,288 | 4,901 | (8,248) | 66,941 |
| (Decrease) Increase in accrued liabilities | (14,779) | 10,267 | 1,524 | (2,988) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 582,500 | \$ 90,037 | \$ 318,474 | \$ 991,011 |
| NON CASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS: | | | | |
| Increase in fair value of investments | - | - | 31,635 | 31,635 |
| TOTAL NON CASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS | \$ - | \$ - | \$ 31,635 | \$ 31,635 |

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations or other governments.

Pension Trust Funds

A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans.

The City has two pension plans covering police and fire department employees. Substantially all of its other employees, except teachers, are covered by the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan). Teachers are covered by the Employees' Retirement System of the State of Rhode Island (Teachers' Plan). The Firemen's Pension Plan and the Policemen's Pension Plan are contributory defined benefit plans.

Other Post-Employment Benefit Trust Fund

This fund is used to account for post-employment benefits provided to eligible retirees of the City.

Private Purpose Trust Funds

These funds are used to account for and report all trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Student Activity Funds

These funds are used to account for expenditures for educational extracurricular activities at various schools. Financing is provided by individual fundraising projects and private donations.

Newport Municipal Charitable Improvement Fund, Inc.

These funds are used to account for expenditures for municipal improvement projects. Financing is provided by fundraising and private donations.

Newport Film Commission Fund

These funds are used to account for expenditures by the Newport Film Commission. Financing is provided by fundraising and private donations.

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF PENSION AND OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS
JUNE 30, 2011

| | PENSION TRUST FUNDS | | | OTHER POST- EMPLOYMENT BENEFITS TRUST FUND | TOTAL PENSION AND OTHER POST- EMPLOYMENT BENEFITS TRUST FUNDS |
|---|---------------------------|-------------------------|------------------------------------|--|---|
| | POLICE PENSION FUND | FIRE PENSION FUND | TOTAL PENSION TRUST FUNDS | | |
| ASSETS | | | | | |
| Cash | \$ 121,942 | \$ 217,025 | \$ 338,967 | \$ 1,503,433 | \$ 1,842,400 |
| Investments, at fair value: | | | | | |
| Fixed Income Mutual Funds | 10,712,499 | 8,049,890 | 18,762,389 | 5,146,059 | 23,908,448 |
| Domestic Equity Mutual Funds | 26,449,695 | 19,875,582 | 46,325,277 | 11,761,376 | 58,086,653 |
| International Equity Mutual Funds | 6,610,132 | 4,967,174 | 11,577,306 | 1,716,049 | 13,293,355 |
| TOTAL ASSETS | 43,894,268 | 33,109,671 | 77,003,939 | 20,126,917 | 97,130,856 |
| LIABILITIES | | | | | |
| Accounts payable | 26,126 | 19,903 | 46,029 | 8,045 | 54,074 |
| TOTAL LIABILITIES | 26,126 | 19,903 | 46,029 | 8,045 | 54,074 |
| NET ASSETS | | | | | |
| Net assets held in trust for pension benefits | 43,868,142 | 33,089,768 | 76,957,910 | - | 76,957,910 |
| Net assets held in trust for other post-employment benefits | - | - | - | 20,118,872 | 20,118,872 |
| TOTAL NET ASSETS | \$ 43,868,142 | \$ 33,089,768 | \$ 76,957,910 | \$ 20,118,872 | \$ 97,076,782 |

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF NET ASSETS OF PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2011

| | PRIVATE PURPOSE TRUST FUNDS | | |
|---------------------------------------|------------------------------------|--|--|
| | EXPENDABLE SCHOLARSHIP FUNDS | NONEXPENDABLE SCHOLARSHIP TRUSTS | TOTAL PRIVATE PURPOSE TRUST FUNDS |
| ASSETS | | | |
| Cash | \$ 21,581 | \$ - | \$ 21,581 |
| Investments, at fair value: | | | |
| Fixed Income Mutual Funds | - | 503,254 | 503,254 |
| Domestic Equity Mutual Funds | - | 813,002 | 813,002 |
| TOTAL ASSETS | 21,581 | 1,316,256 | 1,337,837 |
| LIABILITIES | | | |
| Cash overdraft | - | 47,124 | 47,124 |
| Accounts payable | - | 960 | 960 |
| TOTAL LIABILITIES | - | 48,084 | 48,084 |
| NET ASSETS | | | |
| Net assets held in trust for purposes | 21,581 | 1,268,172 | 1,289,753 |
| TOTAL NET ASSETS | \$ 21,581 | \$ 1,268,172 | \$ 1,289,753 |

CITY OF NEWPORT, RHODE ISLAND

AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2011

| | BALANCE JULY 1, 2010 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2011 |
|--|-------------------------|-------------------|-------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| CASH: | | | | |
| Student activity funds | \$ 201,200 | \$ 385,966 | \$ 344,703 | \$ 242,463 |
| Newport Film Commission | 2,600 | 500 | - | 3,100 |
| Newport Municipal Charitable Improvement Fund, Inc | 28,811 | - | - | 28,811 |
| TOTAL ASSETS | <u>\$ 232,611</u> | <u>\$ 386,466</u> | <u>\$ 344,703</u> | <u>\$ 274,374</u> |
| <u>LIABILITIES</u> | | | | |
| AMOUNTS HELD IN ESCROW: | | | | |
| Student activity funds | \$ 201,200 | \$ 385,966 | \$ 344,703 | \$ 242,463 |
| Newport Film Commission | 2,600 | 500 | - | 3,100 |
| Newport Municipal Charitable Improvement Fund, Inc | 28,811 | - | - | 28,811 |
| TOTAL LIABILITIES | <u>\$ 232,611</u> | <u>\$ 386,466</u> | <u>\$ 344,703</u> | <u>\$ 274,374</u> |

CITY OF NEWPORT, RHODE ISLANDCOMBINING STATEMENT OF CHANGES IN NET ASSETS OF PENSION AND OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | PENSION TRUST FUNDS | | | OTHER POST- EMPLOYMENT BENEFITS TRUST FUND | TOTAL PENSION AND OTHER POST- EMPLOYMENT BENEFITS TRUST FUNDS |
|---|---------------------------|-------------------------|------------------------------------|--|---|
| | POLICE PENSION FUND | FIRE PENSION FUND | TOTAL PENSION TRUST FUNDS | | |
| ADDITIONS: | | | | | |
| Employees | \$ 394,620 | \$ 403,548 | \$ 798,168 | \$ 440,068 | \$ 1,238,236 |
| Employer | 3,116,642 | 4,359,109 | 7,475,751 | 1,760,069 | 9,235,820 |
| Total contributions and other income | 3,511,262 | 4,762,657 | 8,273,919 | 2,200,137 | 10,474,056 |
| Investment income: | | | | | |
| Net appreciation in fair value of investments | 9,499,883 | 7,130,645 | 16,630,528 | 3,736,593 | 20,367,121 |
| Interest and dividends | 256,276 | 195,073 | 451,349 | 277,656 | 729,005 |
| Total investment income | 9,756,159 | 7,325,718 | 17,081,877 | 4,014,249 | 21,096,126 |
| Less investment expenses | 85,084 | 64,825 | 149,909 | 22,327 | 172,236 |
| Net investment income | 9,671,075 | 7,260,893 | 16,931,968 | 3,991,922 | 20,923,890 |
| TOTAL ADDITIONS | 13,182,337 | 12,023,550 | 25,205,887 | 6,192,059 | 31,397,946 |
| DEDUCTIONS: | | | | | |
| Benefits | 3,862,416 | 4,497,413 | 8,359,829 | - | 8,359,829 |
| Administration | 48,690 | 39,691 | 88,381 | 25,853 | 114,234 |
| TOTAL DEDUCTIONS | 3,911,106 | 4,537,104 | 8,448,210 | 25,853 | 8,474,063 |
| CHANGES IN NET ASSETS | 9,271,231 | 7,486,446 | 16,757,677 | 6,166,206 | 22,923,883 |
| NET ASSETS - JULY 1, 2010 | 34,596,911 | 25,603,322 | 60,200,233 | 13,952,666 | 74,152,899 |
| NET ASSETS - JUNE 30, 2011 | \$ 43,868,142 | \$ 33,089,768 | \$ 76,957,910 | \$ 20,118,872 | \$ 97,076,782 |

CITY OF NEWPORT, RHODE ISLANDCOMBINING STATEMENT OF CHANGES IN NET ASSETS OF PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

| | PRIVATE PURPOSE TRUST FUNDS | | |
|---|------------------------------------|---|--|
| | EXPENDABLE SCHOLARSHIP FUNDS | NON- EXPENDABLE SCHOLARSHIP TRUSTS | TOTAL PRIVATE PURPOSE TRUST FUNDS |
| ADDITIONS: | | | |
| Contributions | \$ 10,000 | \$ 700 | \$ 10,700 |
| Investment income: | | | |
| Net appreciation in fair value of investments | - | 245,478 | 245,478 |
| Interest and dividends | - | 20,695 | 20,695 |
| Total investment income | - | 266,173 | 266,173 |
| Less investment expenses | - | 2,065 | 2,065 |
| Net investment income | - | 264,108 | 264,108 |
| TOTAL ADDITIONS | 10,000 | 264,808 | 274,808 |
| DEDUCTIONS: | | | |
| Awards | 5,500 | 43,665 | 49,165 |
| Administration | - | 2,138 | 2,138 |
| TOTAL DEDUCTIONS | 5,500 | 45,803 | 51,303 |
| CHANGES IN NET ASSETS | 4,500 | 219,005 | 223,505 |
| NET ASSETS - JULY 1, 2010 | 17,081 | 1,049,167 | 1,066,248 |
| NET ASSETS - JUNE 30, 2011 | \$ 21,581 | \$ 1,268,172 | \$ 1,289,753 |

CITY OF NEWPORT, RHODE ISLANDCOMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
NONEXPENDABLE SCHOLARSHIP TRUSTS
FOR THE YEAR ENDED JUNE 30, 2011

| | Net Assets Held In Trust For Purposes July 1, 2010 | ADDITIONS: Donations | Investment Income (Loss) | DEDUCTIONS: Awards and Investment Expense | Net Assets Held In Trust For Purposes June 30, 2011 |
|---|---|-------------------------|-----------------------------|--|--|
| Peter P Integlia Physical Education Scholarship | \$ 11,897 | \$ 560 | \$ 3,145 | \$ (500) | \$ 15,102 |
| American Culinary Federation Award | 22,125 | - | 5,606 | (500) | 27,231 |
| Eileen Jeanes Jachna Award | 23,126 | - | 5,859 | - | 28,985 |
| William T Bull Award | 26,870 | - | 6,808 | (1,360) | 32,318 |
| Mercedes S Coulombe Award | 64,515 | - | 16,345 | (3,060) | 77,800 |
| Carol Ann Page Award | 5,267 | - | 1,334 | (100) | 6,501 |
| Avis G Marden Award | 3,757 | - | 953 | - | 4,710 |
| Class of 41 American Government Award | 3,809 | - | 964 | - | 4,773 |
| PF Carroll Scholarship | 21,006 | - | 5,322 | - | 26,328 |
| J Fitzgerald Scholarship | 2,001 | - | 507 | (50) | 2,458 |
| Smales Scholarship | 11,174 | - | 2,831 | - | 14,005 |
| Henry Vaughn Memorial Award | 3,844 | - | 974 | - | 4,818 |
| Adelson Biology Award | 2,995 | - | 759 | - | 3,754 |
| Leavitt Trust Award | 14,689 | - | 3,721 | (740) | 17,670 |
| Alliance Francaise Award | 1,527 | - | 387 | (45) | 1,869 |
| Lalli Trust Award | 4,490 | - | 1,137 | - | 5,627 |
| Goldstein Music Award | 4,667 | - | 1,183 | (230) | 5,620 |
| MB Howard Award | 13,471 | - | 3,412 | (660) | 16,223 |
| Newport School Book Award | 258 | - | 66 | - | 324 |
| Edward King Medal Award | 62,601 | - | 15,861 | (4,320) | 74,142 |
| Koehne Latin Award | 3,243 | - | 822 | (120) | 3,945 |
| Mirman Math Award | 2,701 | - | 685 | (130) | 3,256 |
| GH Norman Award | 6,502 | - | 1,647 | - | 8,149 |
| Peckham Award | 75,363 | - | 19,093 | (3,740) | 90,716 |
| Pell Medal | 1,944 | - | 492 | - | 2,436 |
| Read Medal #1 | 653 | - | 166 | - | 819 |
| Read Medal #2 | 724 | - | 183 | - | 907 |
| Charles B King Award | 16,610 | - | 4,208 | (810) | 20,008 |
| Rogers High School Centennial Award | 38,532 | - | 9,763 | (2,000) | 46,295 |
| Almira Coffin Award | 4,190 | - | 1,062 | (210) | 5,042 |
| HH Toole Scholarship | 13,550 | - | 3,433 | (710) | 16,273 |
| Henry Heffernan Award | 64,098 | - | 16,239 | (3,300) | 77,037 |
| Bruen Scholarship | 21,216 | - | 5,374 | (1,000) | 25,590 |
| Sullivan Scholarship | 34,994 | - | 8,866 | (1,760) | 42,100 |
| Joseph P Cotton Memorial Award | 19,982 | - | 5,064 | (1,000) | 24,046 |
| Rufus E Darrah Memorial Award | 6,759 | - | 1,711 | (340) | 8,130 |
| Margaret P Stevens Award | 600 | - | 152 | - | 752 |
| Christine Meek Sullivan/Marx Award | 13,796 | 140 | 3,533 | (680) | 16,789 |
| Zelda Mirman Music/Drama Award | 26,505 | - | 6,715 | (680) | 32,540 |
| Wosencroft Scholarship | 5,962 | - | 1,511 | (300) | 7,173 |
| M/M Thomas Archambault Award | 13,502 | - | 3,421 | (700) | 16,223 |
| Class of 46 Rogers High School DLS Award | 14,527 | - | 3,680 | (750) | 17,457 |
| General Contractors Association Award | 21,283 | - | 5,392 | (1,100) | 25,575 |
| Cohen Scholarship | 5,000 | - | 1,267 | - | 6,267 |
| Townsend Scholarship | 6,714 | - | 1,701 | (350) | 8,065 |
| Dorothy Drinkwater Lecraw Award | 44,781 | - | 11,346 | (2,340) | 53,787 |
| Nicholas Logothets Award | 3,760 | - | 953 | (170) | 4,543 |
| Helene Lewis Memorial Scholarship | 70,133 | - | 17,769 | (3,400) | 84,502 |
| Kristen Jorge Memorial Scholarship | 15,333 | - | 3,884 | (760) | 18,457 |
| James Colton Crowley Award | 75,891 | - | 19,228 | (3,800) | 91,319 |
| Florence J Alofsin English Award | 4,880 | - | 1,237 | - | 6,117 |
| Sandra Clooney Memorial Scholarship | 22,999 | - | 5,826 | (1,200) | 27,625 |
| Allan Family Scholarship | 80,188 | - | 20,316 | - | 100,504 |
| Loeb/George Washington Essay Award | 8,163 | - | 2,260 | (750) | 9,673 |
| Unallocated Expense | - | - | - | (4,203) | (4,203) |
| Total Permanent Trust Funds | \$ 1,049,167 | \$ 700 | \$ 266,173 | \$ (47,868) | \$ 1,268,172 |

Statistical Section

This part of the City of Newport, Rhode Island’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

| Contents | <u>Page</u> |
|--|--------------------|
| <u>Financial Trends</u> (Tables 1-4) | 102 |
| These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time. | |
| <u>Revenue Capacity</u> (Tables 5-7) | 107 |
| These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax. | |
| <u>Debt Capacity</u> (Tables 8-11) | 110 |
| These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future. | |
| <u>Demographic and Economic Information</u> (Tables 12-13) | 114 |
| These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place. | |
| <u>Operating Information</u> (Tables 14-16) | 116 |
| These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs. | |

CITY OF NEWPORT, RHODE ISLAND

NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(UNAUDITED)

| | Fiscal Year | | | | | | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Governmental activities: | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 33,319,657 | \$ 36,213,472 | \$ 39,024,214 | \$ 43,072,452 | \$ 47,999,443 | \$ 52,461,114 | \$ 59,259,977 | 58,114,920 | 62,576,195 |
| Restricted for: | | | | | | | | | |
| Human services | 4,138,028 | 3,854,910 | 3,633,092 | - | - | - | - | - | - |
| Permanent Funds: | | | | | | | | | |
| Expendable | 5,315,880 | 6,145,004 | 6,677,139 | 7,255,682 | 7,148,999 | 6,281,490 | 4,356,646 | 4,753,846 | 5,955,530 |
| Nonexpendable | 1,142,270 | 1,142,270 | 1,142,270 | 1,142,270 | 1,889,512 | 1,937,467 | 1,890,210 | 1,976,581 | 2,181,651 |
| Debt service | - | - | 396,470 | 511,451 | 676,668 | 878,998 | 1,065,923 | 1,228,776 | 1,400,360 |
| Education | 441,806 | 675,734 | 815,092 | 1,081,801 | 953,325 | - | - | - | - |
| Unrestricted | 7,874,791 | 2,831,871 | (1,722,023) | 5,401,520 | 6,484,503 | 8,364,508 | 5,807,577 | 9,706,280 | 4,508,285 |
| Total governmental activities net assets | <u>52,232,432</u> | <u>50,863,261</u> | <u>49,966,254</u> | <u>58,465,176</u> | <u>65,152,450</u> | <u>69,923,577</u> | <u>72,380,333</u> | <u>75,780,403</u> | <u>76,622,021</u> |
| Business-type activities: | | | | | | | | | |
| Invested in capital assets, net of related debt | 86,599,396 | 87,497,297 | 85,773,241 | 84,210,144 | 86,137,192 | 87,063,157 | 90,719,216 | 87,919,616 | 91,514,668 |
| Held in trust | - | - | - | - | - | - | - | 99,000 | 99,000 |
| Restricted - Other purposes | 6,385,522 | 6,612,069 | 3,624,058 | 4,401,342 | 3,054,328 | 4,749,967 | 3,900,192 | 8,825,854 | 9,074,231 |
| Unrestricted | (4,355,744) | (4,072,754) | 171,705 | 3,719,540 | 4,222,057 | 2,365,226 | 1,207,853 | 2,214,069 | (749,281) |
| Total business-type activities net assets | <u>88,629,174</u> | <u>90,036,612</u> | <u>89,569,004</u> | <u>92,331,026</u> | <u>93,413,577</u> | <u>94,178,350</u> | <u>95,827,261</u> | <u>99,058,539</u> | <u>99,938,618</u> |
| Primary government: | | | | | | | | | |
| Invested in capital assets, net of related debt | 119,919,053 | 123,710,769 | 124,797,467 | 127,282,596 | 134,136,635 | 139,524,271 | 149,979,193 | 146,034,536 | 154,090,863 |
| Restricted for: | | | | | | | | | |
| Human services | 4,138,028 | 3,854,910 | 3,633,092 | - | - | - | - | - | - |
| Permanent Funds: | | | | | | | | | |
| Expendable | 5,315,880 | 6,145,004 | 6,677,139 | 7,255,682 | 7,148,999 | 6,281,490 | 4,356,646 | 4,753,846 | 5,955,530 |
| Nonexpendable | 1,142,270 | 1,142,270 | 1,142,270 | 1,142,270 | 1,889,512 | 1,937,467 | 1,890,210 | 1,976,581 | 2,181,651 |
| Held in trust | - | - | - | - | - | - | - | 99,000 | 99,000 |
| Debt service | - | - | - | 4,912,793 | 3,730,996 | 5,628,965 | 4,966,115 | 10,054,630 | 10,474,591 |
| Education | 6,827,328 | 7,287,803 | 4,835,620 | 1,081,801 | 953,325 | - | - | - | - |
| Unrestricted | 3,519,047 | (1,240,883) | (1,550,318) | 9,121,060 | 10,706,560 | 10,729,734 | 7,015,430 | 11,920,349 | 3,759,004 |
| Total primary government net assets | <u>\$ 140,861,606</u> | <u>\$ 140,899,873</u> | <u>\$ 139,535,270</u> | <u>\$ 150,796,202</u> | <u>\$ 158,566,027</u> | <u>\$ 164,101,927</u> | <u>\$ 168,207,594</u> | <u>\$ 174,838,942</u> | <u>\$ 176,560,639</u> |

NOTE: GASB 34 was applied as of Fiscal Year 2003. Information is not available prior to FY2003.

TABLE 2

(1 of 2)

CITY OF NEWPORT, RHODE ISLAND

CHANGES IN NET ASSETS, LAST NINE FISCAL YEARS
GOVERNMENTAL ACTIVITIES
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

| | Fiscal Year | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Expenses: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | \$ 5,261,563 | \$ 5,459,387 | \$ 8,638,364 | \$ 4,201,754 (2) | \$ 6,904,515 | \$ 5,664,619 | \$ 5,638,586 | \$ 6,782,232 | \$ 6,197,935 |
| General education | 39,039,945 | 42,168,056 | 42,003,803 | 42,119,068 | 44,860,182 | 45,420,073 | 45,273,034 | 43,071,429 | 43,124,023 |
| Public safety | 23,098,422 | 25,954,534 | 27,848,257 | 27,932,352 | 29,620,705 | 30,005,098 | 30,380,376 | 31,829,739 | 35,191,714 |
| Public health | 3,649,735 | 4,403,093 | 4,664,543 | 4,564,130 | 5,179,345 | 7,000,668 | 8,396,219 | 8,023,199 | 8,240,164 |
| Planning, zoning and development | 855,293 | 1,028,852 | 1,681,628 | 1,994,692 | 1,440,553 | 1,604,671 | 1,829,568 | 1,363,899 | 1,744,516 |
| Recreation | 1,868,074 | 2,189,095 | 1,773,421 | 2,121,346 | 2,415,401 | 622,368 | 1,092,871 | 769,888 | 753,272 |
| Human services | 2,475,041 | 2,573,601 | 2,615,412 | 2,720,900 | 3,256,251 | 3,248,665 | 3,361,996 | 3,241,886 | 3,207,552 |
| Interest expense | 1,166,764 | 1,062,259 | 889,584 | 867,107 | 841,520 | 782,723 | 682,805 | 863,546 | 626,020 |
| Total governmental activities | <u>77,414,837</u> | <u>84,838,877</u> | <u>90,115,012</u> | <u>86,521,349</u> | <u>94,518,472</u> | <u>94,348,885</u> | <u>96,655,455</u> | <u>95,945,818</u> | <u>99,085,196</u> |
| Business-type activities: | | | | | | | | | |
| Water | 6,726,482 | 6,830,398 | 7,135,764 | 6,994,360 | 7,809,046 | 7,719,962 | 9,003,205 | 8,982,066 | 10,528,183 |
| Water Pollution Control | 5,806,015 | 6,432,891 | 7,050,859 | 6,781,706 | 7,051,852 | 7,559,615 | 7,428,839 | 8,108,213 | 10,114,458 |
| Nonmajor | 974,819 | 1,109,229 | 1,577,702 | 1,767,218 | 2,159,568 | 2,568,503 | 2,662,517 | 2,914,382 | 2,718,580 |
| Total business-type activities | <u>13,507,316</u> | <u>14,372,518</u> | <u>15,764,325</u> | <u>15,543,284</u> | <u>17,020,466</u> | <u>17,848,080</u> | <u>19,094,561</u> | <u>20,004,661</u> | <u>23,361,221</u> |
| Total primary government expenses | <u>90,922,153</u> | <u>99,211,395</u> | <u>105,879,337</u> | <u>102,064,633</u> | <u>111,538,938</u> | <u>112,196,965</u> | <u>115,750,016</u> | <u>115,950,479</u> | <u>122,446,417</u> |
| Program Revenues: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| General government | 2,354,118 | 3,865,133 | 4,989,700 (1) | 4,592,923 | 5,871,413 | 5,508,299 | 4,395,451 | 4,207,690 | 4,343,388 |
| General education | 79,913 | 735,868 | 940,091 | 1,538,629 | 1,856,459 | 1,356,264 | 1,782,477 | 1,790,646 | 1,440,324 |
| Public safety | 2,339,389 | 1,828,283 | 2,003,497 | 2,679,694 | 3,087,659 | 3,056,098 | 3,574,759 | 3,874,660 | 3,484,757 |
| Public health | 44,819 | 44,435 | 44,111 | 31,560 | 26,990 | 85,761 | 94,164 | 57,937 | 99,195 |
| Planning, zoning and development | 286,715 | 327,609 | 720,141 | 1,184,118 | 1,168,204 | 1,601,347 | 947,823 | 868,638 | 908,497 |
| Recreation | 686,522 | 741,853 | 288,077 | 96,764 | 99,126 | 105,010 | 129,025 | 117,510 | 113,660 |
| Human services | 744,901 | 333,733 | 154,514 | 150,622 | 297,236 | 439,667 | 238,794 | (22,957) | (262,752) |
| Operating grants and contributions | 21,279,957 | 21,000,389 | 21,236,496 | 20,380,130 | 21,272,720 | 20,851,435 | 20,403,551 | 20,039,597 | 21,164,485 |
| Capital grants and contributions | 1,683,441 | 818,007 | 846,754 | 1,170,076 | 786,166 | 469,484 | 2,981,072 | 1,773,730 | 551,913 |
| Total governmental activities program revenues | <u>29,499,775</u> | <u>29,695,310</u> | <u>31,223,381</u> | <u>31,824,516</u> | <u>34,465,973</u> | <u>33,473,365</u> | <u>34,547,116</u> | <u>32,707,451</u> | <u>31,843,467</u> |
| Business-type activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| Water | 7,778,407 | 7,795,582 | 7,100,096 | 9,514,397 (3) | 8,506,460 | 9,025,966 | 9,614,675 | 10,466,106 | 10,270,053 |
| Water Pollution Control | 5,796,526 | 6,049,193 | 5,885,602 | 6,462,089 | 6,181,907 | 7,337,836 | 7,865,579 | 7,951,054 | 10,530,416 |
| Nonmajor | 1,441,015 | 1,407,977 | 1,972,189 | 2,572,591 | 2,345,366 | 2,833,916 | 2,922,394 | 3,068,368 | 3,322,473 |
| Capital grants and contributions | | | | 673,500 | 305,849 | 305,849 | 154,107 | 154,107 | 78,856 |
| Total business-type activities | <u>15,015,948</u> | <u>15,252,752</u> | <u>14,957,887</u> | <u>18,549,077</u> | <u>17,707,233</u> | <u>19,503,567</u> | <u>20,556,755</u> | <u>21,639,635</u> | <u>24,201,798</u> |
| Total primary government program revenues | <u>44,515,723</u> | <u>44,948,062</u> | <u>46,181,268</u> | <u>50,373,593</u> | <u>52,173,206</u> | <u>52,976,932</u> | <u>55,103,871</u> | <u>54,347,086</u> | <u>56,045,265</u> |
| Net (Expense)/Revenue: | | | | | | | | | |
| Governmental activities | (47,915,062) | (55,143,567) | (58,891,631) | (54,696,833) | (60,052,499) | (60,875,520) | (62,108,339) | (63,238,367) | (67,241,729) |
| Business-type activities | 1,508,632 | 880,234 | (806,438) | 3,005,793 | 686,767 | 1,655,487 | 1,462,194 | 1,634,974 | 840,577 |
| Total primary government net expense | <u>(46,406,430)</u> | <u>(54,263,333)</u> | <u>(59,698,069)</u> | <u>(51,691,040)</u> | <u>(59,365,732)</u> | <u>(59,220,033)</u> | <u>(60,646,145)</u> | <u>(61,603,393)</u> | <u>(66,401,152)</u> |

(Continued)

CITY OF NEWPORT, RHODE ISLAND

CHANGES IN NET ASSETS, LAST NINE FISCAL YEARS
GOVERNMENTAL ACTIVITIES
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

| | Fiscal Year | | | | | | | | |
|--|---------------------|-------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| General Revenues and Other Changes in Net Assets: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Property taxes | \$ 49,281,985 | \$ 48,820,256 | \$ 52,857,093 | \$ 54,833,897 | \$ 57,736,458 | \$ 60,005,572 | \$ 62,169,011 | \$ 63,583,199 | \$ 64,518,899 |
| Unrestricted grants and contributions | 4,155,936 | 4,097,271 | 4,059,353 | 4,614,794 | 4,642,114 | 4,330,807 | 3,506,886 | 2,540,966 | 1,257,171 |
| Investment income | 693,902 | 1,177,711 | 1,133,676 | 1,425,620 | 2,368,396 | 641,453 | (1,008,699) | 1,257,806 (4) | 2,014,016 |
| Miscellaneous | 107,862 | 116,126 | 135,206 | 133,494 | - | - | - | - | - |
| Transfers | - | (436,968) | (190,692) | - | (175,500) | 1,053,250 | (102,103) | (743,534) | - |
| Total governmental activities | <u>54,239,685</u> | <u>53,774,396</u> | <u>57,994,636</u> | <u>61,007,805</u> | <u>64,571,468</u> | <u>66,031,082</u> | <u>64,565,095</u> | <u>66,638,437</u> | <u>67,790,086</u> |
| Business-type activities: | | | | | | | | | |
| Investment income | 79,810 | 90,236 | 98,797 | 175,220 | 220,284 | 162,538 | 84,612 | 78,285 | 39,502 |
| Capital contributions | - | - | 200,863 | - | - | - | - | 320,000 | - |
| Transfer from primary government | - | 436,968 | (10,171) | - | 175,500 | (1,053,250) | 102,103 | 743,534 | - |
| Total business-type activities | <u>79,810</u> | <u>527,204</u> | <u>289,489</u> | <u>175,220</u> | <u>395,784</u> | <u>(890,712)</u> | <u>186,715</u> | <u>1,141,819</u> | <u>39,502</u> |
| Special Item - Sale of School Building | - | - | - | - | 2,168,305 | - | - | - | - |
| Special Item - Forgiveness of debt | - | - | - | - | - | - | - | 454,485 | - |
| Total primary government | <u>54,319,495</u> | <u>54,301,600</u> | <u>58,284,125</u> | <u>61,183,025</u> | <u>67,135,557</u> | <u>65,140,370</u> | <u>64,751,810</u> | <u>68,234,741</u> | <u>67,829,588</u> |
| Change in Net Assets | | | | | | | | | |
| Governmental activities | 6,324,623 | (1,369,171) | (896,995) | 6,310,972 | 6,687,274 | 5,155,562 | 2,456,756 | 3,400,070 | 548,357 |
| Business-type activities | 1,588,442 | 1,407,438 | (516,949) | 3,181,013 | 1,082,551 | 764,775 | 1,648,909 | 3,231,278 | 880,079 |
| Total primary government | <u>\$ 7,913,065</u> | <u>\$ 38,267</u> | <u>\$ (1,413,944)</u> | <u>\$ 9,491,985</u> | <u>\$ 7,769,825</u> | <u>\$ 5,920,337</u> | <u>\$ 4,105,665</u> | <u>\$ 6,631,348</u> | <u>\$ 1,428,436</u> |

(Concluded)

- (1) - General government service charges increased significantly in FY 2005 in the following categories:
 - Management and Computer Processing Charges increased by \$277,000
 - Fees and charges associated with the sale of residential and commercial property in the City increased by \$340,000
 - Fees for the use of vehicles increased in the capital fund by \$285,000
- (2) - Reduction in claims and judgments; reduction in the use of salary reserves as a result of open contracts
- (3) - Increase in water rates of 20%
- (4) - Realized and unrealized losses in permanent fund due to significant market declines

NOTE: GASB 34 was applied as of Fiscal Year 2003. Information is not available prior to FY2003.

CITY OF NEWPORT, RHODE ISLAND

FUND BALANCES, GOVERNMENTAL FUNDS, LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

| | Fiscal Year | | | | | | | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| General Fund: | | | | | | | | | | |
| Committed | \$ 1,276,106 | \$ 1,229,965 | \$ 2,077,766 | \$ 1,159,119 | \$ 1,256,428 | \$ 983,669 | \$ 860,549 | \$ 773,846 | \$ 838,101 | \$ 1,157,839 |
| Assigned | - | - | - | - | - | - | - | - | - | 864,852 |
| Unassigned | 10,307,069 | 11,311,680 | 6,059,277 | 3,885,886 | 4,098,720 | 4,114,666 | 5,974,689 | 8,011,145 | 9,175,856 | 7,646,392 |
| Total general fund | <u>\$ 11,583,175</u> | <u>\$ 12,541,645</u> | <u>\$ 8,137,043</u> | <u>\$ 5,045,005</u> | <u>\$ 5,355,148</u> | <u>\$ 5,098,335</u> | <u>\$ 6,835,238</u> | <u>\$ 8,784,991</u> | <u>\$ 10,013,957</u> | <u>\$ 9,669,083</u> |
| All Other Governmental Funds: | | | | | | | | | | |
| Nonspendable | \$ - | \$ 1,142,270 | \$ 1,142,270 | \$ 1,142,270 | \$ 1,142,270 | \$ 1,889,512 | \$ 1,937,467 | \$ 1,890,210 | \$ 1,976,581 | \$ 2,181,651 |
| Restricted for Trusts | - | 5,315,880 | 6,145,004 | 6,677,139 | 7,230,632 | 7,148,999 | 6,281,490 | 4,356,646 | 4,753,846 | 5,955,530 |
| Restricted for Debt Service | - | 124,922 | 227,798 | 396,470 | 511,451 | 676,668 | 878,998 | 1,065,923 | 1,228,776 | 1,400,360 |
| Restricted by Grants | 4,404,409 | 4,454,912 | 4,472,155 | 4,448,184 | 3,101,992 | 2,058,684 | 2,442,682 | 3,358,230 | 3,131,649 | 2,630,585 |
| Committed for Capital Projects | 3,948,343 | - | 2,109,836 | 1,578,848 | 4,432,555 | 6,374,040 | 7,017,849 | 885,671 | 4,994,692 | 3,052,879 |
| Committed for Encumbrances | - | 886,814 | 1,735,562 | 2,691,401 | 60,503 | - | - | - | - | - |
| Assigned by City Council | 2,619,473 | 1,361,118 | 1,080,991 | 683,319 | 286,332 | 2,462,183 | 2,518,604 | 1,816,113 | 863,630 | - |
| Assigned by School Committee | - | - | - | - | 960,489 | 800,000 | 800,000 | 1,200,000 | 1,153,152 | 1,370,211 |
| Unassigned | - | (600,158) | (183,339) | - | - | - | - | - | - | (71,296) |
| School Unassigned | 207,804 | 410,396 | (1,100,081) | 394,880 | 693,632 | 1,940,267 | 2,838,529 | 1,785,759 | 292,259 | 202,464 |
| Total all other governmental funds | <u>\$ 11,180,029</u> | <u>\$ 13,096,154</u> | <u>\$ 15,630,196</u> | <u>\$ 18,012,511</u> | <u>\$ 18,419,856</u> | <u>\$ 23,350,353</u> | <u>\$ 24,715,619</u> | <u>\$ 16,358,552</u> | <u>\$ 18,394,585</u> | <u>\$ 16,722,384</u> |
| Grand Total | <u>\$ 22,763,204</u> | <u>\$ 25,637,799</u> | <u>\$ 23,767,239</u> | <u>\$ 23,057,516</u> | <u>\$ 23,775,004</u> | <u>\$ 28,448,688</u> | <u>\$ 31,550,857</u> | <u>\$ 25,143,543</u> | <u>\$ 28,408,542</u> | <u>\$ 26,391,467</u> |

Notes:
 Capital project fund balance depends on timing of state and federal reimbursements and type of temporary or permanent debt that may exist. These items cause the fund balance to fluctuate from year to year.
 Permanent funds were reported as trust and agency funds prior to FY 2003.
 The reduction of general fund balance in FY 2004 was due to the use of appropriated fund balance for capital improvements.
 The reduction of general fund balance in FY 2005 was due to the use of appropriated fund balance for capital improvements and a projected school deficit.

TABLE 4

CITY OF NEWPORT, RHODE ISLAND

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS, LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

| | 2001 | 2002 | 2003 | 2004 | 2005 | Fiscal Year 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|-----------------------|----------------------|-----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|-----------------------|
| Revenues: | | | | | | | | | | | |
| Taxes | \$ 46,206,830 | \$ 47,160,364 | \$ 48,164,505 | \$ 51,117,203 | \$ 53,081,970 | \$ 54,767,961 | \$ 57,519,657 | \$ 60,115,303 | \$ 62,081,094 | \$ 63,485,526 | \$ 64,411,792 |
| Intergovernmental revenues | 17,986,128 | 21,066,569 | 25,506,817 | 25,013,440 | 25,590,182 | 25,499,996 | 27,080,891 | 25,587,672 | 25,556,603 | 25,058,739 | 23,285,265 |
| Charges for services | 5,241,294 | 4,629,532 | 6,528,107 | 7,803,657 | 9,736,504 | 8,829,175 | 10,827,781 | 10,924,457 | 10,258,966 | 9,975,467 | 9,541,761 |
| Use of money and property | 1,457,595 | 912,779 | 693,902 | 1,177,711 | 1,133,676 | 1,425,620 | 2,368,397 | 641,456 | (1,008,699) | 1,257,726 | 2,014,016 |
| Donations | 12,455 | 77,476 | 1,425,623 *** | 770,880 | 892,441 | 29,347 (1) | 179,343 | 198,608 | 95,493 | 52,253 | 161,507 |
| Other revenues | 4,516,662 | 4,171,226 | 107,862 | 115,992 | 135,205 | 1,672,123 (1) | 1,582,706 | 1,144,697 | 1,194,553 | 1,273,953 | 1,128,835 |
| Total revenues | <u>75,420,964</u> | <u>78,017,946</u> | <u>82,426,816</u> | <u>85,998,883</u> | <u>90,569,978</u> | <u>92,224,222</u> | <u>99,558,775</u> | <u>98,612,193</u> | <u>98,178,010</u> | <u>101,103,664</u> | <u>100,543,176</u> |
| Expenditures: | | | | | | | | | | | |
| Current: | | | | | | | | | | | |
| General government | 4,140,436 | 5,141,663 | 4,919,181 | 5,192,168 | 6,346,749 | 5,248,504 | 5,757,907 | 5,459,164 | 5,558,102 | 5,931,444 | 5,435,280 |
| General education | 35,337,981 | 36,442,150 | 38,551,595 | 42,680,573 | 41,354,602 | 41,206,309 | 43,164,937 | 42,382,522 | 43,227,289 | 44,349,792 | 42,740,185 |
| Public safety | 14,986,866 | 15,099,678 | 16,122,841 | 16,122,841 ^ | 25,302,125 | 27,344,804 | 26,806,416 | 27,463,039 | 28,267,498 | 30,194,522 | 32,635,798 |
| Public health | 4,007,800 | 3,776,096 | 3,243,475 | 3,655,093 | 3,914,446 | 3,710,241 | 4,048,493 | 6,428,621 (3) | 6,963,674 | 6,767,348 | 7,331,032 |
| Planning, zoning and development | 1,211,114 | 1,587,070 | 826,369 | 1,313,138 | 968,008 | 1,909,891 (2) | 1,244,576 | 1,229,936 | 1,271,653 | 1,187,737 | 1,601,554 |
| Recreation | 1,965,201 | 1,726,323 | 1,692,203 | 2,236,838 | 1,588,267 | 1,729,893 | 1,727,212 | 558,059 (3) | 653,419 | 600,505 | 590,817 |
| Human services | 8,780,684 | 14,483,725 | 2,466,177 | 2,534,733 | 2,510,411 | 2,630,902 | 3,228,649 | 3,163,997 | 3,358,488 | 3,087,205 | 3,033,732 |
| Pension expenses | 7,682,350 | 6,741,096 | 7,279,340 | 436,421 | 899,423 | 1,136,621 | 1,607,335 | 2,453,316 | 5,206,245 | 3,247,795 | 2,722,514 |
| Debt service: | | | | | | | | | | | |
| Debt issuance | - | - | - | - | 51,929 | - | - | - | - | - | - |
| Principal | 586,011 | 566,484 | 1,041,361 | 1,386,069 | 1,337,106 | 1,192,470 | 1,204,311 | 1,187,425 | 1,224,266 | 1,237,114 | 1,040,489 |
| Interest | 285,206 | 256,268 | 1,463,856 | 1,033,255 | 830,345 | 838,757 | 803,651 | 755,657 | 712,750 | 896,577 | 693,395 |
| Capital outlay | - | 446,539 | 6,808,830 | 2,689,063 | 4,258,485 | 5,096,730 | 6,381,011 | 5,097,103 | 8,039,837 | 5,231,327 | 5,974,911 |
| Total expenditures | <u>78,983,649</u> | <u>86,267,092</u> | <u>84,415,228</u> | <u>88,459,476</u> | <u>91,404,575</u> | <u>91,506,734</u> | <u>96,877,895</u> | <u>96,178,839</u> | <u>104,483,221</u> | <u>102,731,366</u> | <u>103,799,707</u> |
| Excess (deficiency) of revenues over expenditures | <u>(3,562,685)</u> | <u>(8,249,146)</u> | <u>(1,988,412)</u> | <u>(2,460,593)</u> | <u>(834,597)</u> | <u>717,488</u> | <u>2,680,880</u> | <u>2,433,354</u> | <u>(6,305,211)</u> | <u>(1,627,702)</u> | <u>(3,256,531)</u> |
| Other Financing Sources (Uses): | | | | | | | | | | | |
| Proceeds from borrowing | - | 21,037,000 | - | - | 3,124,702 | - | - | - | - | 18,285,000 | - |
| Bond premium | - | - | - | - | - | - | - | - | - | 1,149,278 | - |
| Payment to refunding escrow agent | - | - | - | - | (3,010,000) | - | - | - | - | (14,091,304) | - |
| Sale of property | - | - | - | 1,027,000 | - | - | 2,168,305 | - | - | - | - |
| Lease proceeds | - | - | - | - | - | - | - | - | - | - | 1,239,457 |
| Transfers in | 19,958,668 | 20,609,955 | 22,034,907 | 27,129,054 | 27,575,078 | 27,695,528 | 28,310,752 | 28,427,088 | 25,924,266 | 24,606,361 | 24,517,821 |
| Transfers out | (19,958,668) | (20,609,955) | (22,034,907) | (27,566,022) | (27,564,906) | (27,695,528) | (28,486,252) | (27,373,838) | (26,026,369) | (25,349,895) | (24,517,821) |
| Total other financing sources (uses) | <u>-</u> | <u>21,037,000</u> | <u>-</u> | <u>590,032</u> | <u>124,874</u> | <u>-</u> | <u>1,992,805</u> | <u>1,053,250</u> | <u>(102,103)</u> | <u>4,599,440</u> | <u>1,239,457</u> |
| Net change in fund balances | <u>\$ (3,562,685)</u> | <u>\$ 12,787,854</u> | <u>\$ (1,988,412)</u> | <u>\$ (1,870,561)</u> | <u>\$ (709,723)</u> | <u>\$ 717,488</u> | <u>\$ 4,673,685</u> | <u>\$ 3,486,604</u> | <u>\$ (6,407,314)</u> | <u>\$ 2,971,738</u> | <u>\$ (2,017,074)</u> |
| Debt service as a percentage of noncapital expenditures | <u>1.10%</u> | <u>0.96%</u> | <u>3.23%</u> | <u>2.82%</u> | <u>2.55%</u> | <u>2.35%</u> | <u>2.22%</u> | <u>2.13%</u> | <u>2.01%</u> | <u>2.19%</u> | <u>1.77%</u> |

Notes:

* Contributions were for renovations to the Thompson Middle School in FY 2000

** Federal and state grants to the schools were significantly higher

*** Local donations and grants to the schools vary from year to year

^ Public Safety expenses were significantly higher in FY 2004 because pension expenses related to public safety were reclassified to here from pension expenses

(1) Reclassified school restricted revenues from donations to other revenues

(2) Increase in loans and grants made from UDAG monies for Ranger Road Infrastructure and The Opera House

(3) Reorganization that moved parks and grounds into public services

CITY OF NEWPORT, RHODE ISLAND

ASSESSED VALUES AND ACTUAL VALUES OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(UNAUDITED)

| Fiscal Year Ended June 30 | Assessed Value | | | | | | Total Taxable Assessed Value | Total Direct Tax Rate Residential | Total Direct Tax Rate Commercial | Estimated Actual Taxable Value | Assessed Value as a Percentage of Actual Value |
|---------------------------|----------------------|---------------------|-------------------|------------|----------------|-----------------|------------------------------|-----------------------------------|----------------------------------|--------------------------------|--|
| | Residential Property | Commercial Property | Personal Property | Inventory | Motor Vehicles | Less Exemptions | | | | | |
| 2002 | 1,712,348,318 | - | 96,595,767 | - | 127,579,988 | 20,580,640 | 1,915,943,433 | 25.10 | - | 2,174,244,906 | 88.12% |
| 2003 | 1,719,510,154 | - | 82,688,796 | - | 117,766,454 | 52,413,176 | 1,867,552,228 | 12.85 | 15.27 | 2,597,800,538 | 71.89% |
| 2004 | 2,287,770,460 | 1,048,703,200 | 82,740,975 | 22,684,956 | 120,829,611 | 69,118,210 | 3,493,610,992 | 13.43 | 15.96 | 3,493,610,992 | 100.00% |
| 2005 | 2,471,644,000 | 837,597,500 | 80,834,657 | 24,128,568 | 126,420,029 | 76,353,633 | 3,464,271,121 | 13.72 | 16.30 | 4,016,247,021 | 86.26% |
| 2006 | 2,470,649,500 | 854,054,700 | 81,894,726 | 23,351,240 | 125,903,945 | 76,973,716 | 3,478,880,395 | 14.29 | 17.00 | 5,287,898,200 | 65.79% |
| 2007 | 2,510,163,253 | 834,407,847 | 86,997,316 | 22,949,498 | 138,954,444 | 81,242,277 | 3,512,230,081 | 8.02 | 11.96 | 5,169,960,239 | 67.94% |
| 2008 | 4,659,124,549 | 1,245,531,051 | 87,315,021 | 23,293,927 | 149,567,988 | 113,777,545 | 6,051,054,991 | 8.34 | 12.44 | 5,937,277,446 | 101.92% |
| 2009 | 4,709,562,778 | 1,201,925,122 | 88,011,158 | 26,281,325 | 147,144,534 | 120,615,344 | 6,052,309,573 | 8.67 | 12.93 | 6,172,924,917 | 98.05% |
| 2010 | 4,408,295,797 | 1,241,526,100 | 114,604,821 | - | 131,104,659 | 118,475,513 | 5,777,055,864 | 9.52 | 13.20 | 5,777,055,864 | 100.00% |
| 2011 | 4,403,658,951 | 1,212,935,549 | 108,725,938 | - | 152,504,333 | 120,086,201 | 5,757,738,570 | 9.56 | 13.25 | 5,117,478,041 | 112.51% |

Source: City of Newport, Rhode Island Assessor

Notes:

The City's tax rate increase cannot exceed 5.00% of the prior year's rate and/or the total levy cannot exceed 5.00% of the prior year's total levy unless the State of Rhode Island approves such increase.

The City of Newport has no overlapping debt nor does it collect taxes for any other entity.

The City switched to a two-tiered tax in FY2002

The City had a full revaluation of real property in 2001 (effective 2002). The full revaluation is required by state law every 9 years. Statistical updates are required every 3 years.

TABLE 6

CITY OF NEWPORT, RHODE ISLAND
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND TEN YEARS AGO
(UNAUDITED)

| | 2011 | | | 2002 | | |
|---|-------------------------------|-------------|---|-------------------------------|-------------|---|
| | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percent of Total City Taxable Assessed Value |
| Mass Mutual Life | \$ 44,738,801 | 1 | 0.78% | \$ 41,328,100 | 1 | 2.19% |
| LHO Viking Hotel, LLC | 40,449,579 | 2 | 0.70% | 27,932,700 | 3 | 1.48% |
| Narraganset Electric | 39,743,805 | 3 | 0.69% | 11,649,900 | 8 | 0.62% |
| Newport Restoration Foundation Historic Homes own/rent | 34,723,800 | 4 | 0.60% | 26,378,200 | 4 | 1.40% |
| One Goat Island | 31,405,807 | 5 | 0.55% | | | |
| Eastern Resorts Company | 20,655,814 | 6 | 0.36% | 20,330,600 | 5 | 1.08% |
| RK Newport, LLC | 17,296,800 | 7 | 0.30% | 13,675,200 | 7 | 0.72% |
| Newport Jai Alai, LLC | 16,777,900 | 8 | 0.29% | 7,298,600 | 10 | 0.39% |
| Shaner Hotel Group | 12,390,279 | 9 | 0.22% | 15,493,027 | 6 | 0.82% |
| Oklahoma Newport Limited | 10,035,300 | 10 | 0.17% | | | |
| H E Newport, LLC | | | | 34,259,865 | 2 | 1.82% |
| Vanderbilt Hall LP | | | | 8,246,800 | 9 | 0.44% |
| Total | \$ 268,217,885 | | 4.66% | \$ 206,592,992 | | 10.95% |

Source: City of Newport Assessor

TABLE 7**CITY OF NEWPORT, RHODE ISLAND****PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year (net abatements) | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|--|--|---|-------------------------------|--|----------------------------------|-------------------------------|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2002 | \$ 47,052,966 | \$ 45,377,615 | 96.4% | \$ 1,573,978 | \$ 46,951,593 | 99.8% |
| 2003 | 47,892,028 | 45,366,713 | 94.7% | 1,563,350 | 46,930,063 | 98.0% |
| 2004 | 49,028,731 | 47,848,444 | 97.6% | 1,079,236 | 48,927,680 | 99.8% |
| 2005 | 50,838,373 | 48,961,086 | 96.3% | 1,223,015 | 50,144,380 | 98.6% |
| 2006 | 52,053,701 | 50,818,303 | 97.6% | 1,092,419 | 51,910,722 | 99.7% |
| 2007 | 54,164,573 | 52,784,152 | 97.5% | 1,292,492 | 54,076,644 | 99.8% |
| 2008 | 56,325,863 | 55,036,635 | 97.7% | 1,213,218 | 56,249,853 | 99.9% |
| 2009 | 58,617,626 | 57,082,656 | 97.4% | 1,479,079 | 58,561,735 | 99.9% |
| 2010 | 60,163,158 | 58,578,657 | 97.4% | 1,404,963 | 59,983,620 | 99.7% |
| 2011 | 60,831,265 | 59,194,513 | 97.3% | - | 59,194,513 | 97.3% |

Source: City of Newport Tax Collector

CITY OF NEWPORT, RHODE ISLAND

**LAST TEN FISCAL YEARS
(UNAUDITED)**

| Fiscal Year June 30, | Governmental Activities | | Business-Type Activities | | | Percentage of Personal Income * | Net Bonded Debt per Capita | Taxable Assessed Value | Net Bonded Debt as % of Taxable Assessed Value |
|-------------------------|--------------------------------|-----------|--------------------------|-------------------|---------------|---------------------------------------|----------------------------------|------------------------------|--|
| | General Obligation Bonds | QZAB (1) | Water | Water | | | | | |
| | | | Bonds | Pollution Control | Bonds | | | | |
| 2001 | \$ 4,948,033 | \$ - | \$ 11,035,648 | \$ 5,331,321 | \$ 21,315,002 | 0.1700% | \$ 809 | \$ 1,859,509,767 | 1.15% |
| 2002 | 23,081,549 | - | 9,617,022 | 10,228,198 | 42,926,769 | 0.0868% | 1,634 | 1,915,943,433 | 2.24% |
| 2003 | 22,195,538 | 1,863,536 | 8,260,140 | 15,112,707 | 47,431,921 | 0.0823% | 1,820 | 1,867,552,228 | 2.54% |
| 2004 | 20,980,000 | 1,863,536 | 6,960,000 | 14,771,329 | 44,574,865 | 0.0921% | 1,722 | 3,493,610,992 | 1.28% |
| 2005 | 19,950,218 | 1,863,536 | 6,104,687 | 14,161,797 | 42,080,238 | 0.1026% | 1,661 | 3,464,271,121 | 1.21% |
| 2006 | 18,757,747 | 1,863,536 | 5,109,518 | 13,176,781 | 38,907,582 | 0.1180% | 1,594 | 3,478,880,395 | 1.12% |
| 2007 | 17,565,277 | 1,863,536 | 5,371,324 | 12,191,492 | 36,991,629 | 0.1414% | 1,515 | 3,512,230,080 | 1.05% |
| 2008 | 16,377,852 | 1,863,536 | 7,098,563 | 11,267,416 | 36,607,367 | 0.1399% | 1,500 | 6,051,054,991 | 0.60% |
| 2009 | 15,153,587 | 1,863,536 | 7,909,210 | 10,341,988 | 35,268,321 | 0.1426% | 1,445 | 6,015,352,876 | 0.59% |
| 2010 | 18,951,472 | 1,863,536 | 8,768,464 | 11,433,662 | 41,017,134 | Not available | 1,680 | 5,777,055,863 | 0.71% |
| 2011 | 17,918,036 | 1,863,536 | 10,494,847 | 34,705,503 | 64,981,922 | Not available | 2,634 | 5,757,738,570 | 1.13% |

Notes:

Details regarding the City's outstanding debt can be found in the Notes to Financial Statements.

* See Schedule 12 for personal income and population data used to calculate these ratios.

(1) The City of Newport is paying annual sinking fund payments of \$133,110 to a bank for repayment of the QZAB bond. Please see the Notes to Financial Statements for additional information.

CITY OF NEWPORT, RHODE ISLAND

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)**

| Fiscal Year June 30, | Governmental Activities | | | Percentage of Actual Taxable Value of Property * | Percentage of Personal Income | U.S. Census Estimated Population | Per Capita ** |
|-------------------------|--------------------------------|-----------|---------------|--|-------------------------------------|--|------------------|
| | General Obligation Bonds | QZAB | Total | | | | |
| 2002 | \$ 23,081,549 | \$ - | \$ 23,081,549 | 1.06% | 0.72% | 26,269 | \$ 878.66 |
| 2003 | 22,195,538 | 1,863,536 | 24,059,074 | 0.93% | 0.72% | 26,059 | 878.66 |
| 2004 | 20,980,000 | 1,863,536 | 22,843,536 | 0.65% | 0.65% | 25,879 | 878.66 |
| 2005 | 19,950,218 | 1,863,536 | 21,813,754 | 0.54% | 0.59% | 25,340 | 923.25 |
| 2006 | 18,757,747 | 1,863,536 | 20,621,283 | 0.39% | 0.54% | 24,409 | 882.71 |
| 2007 | 17,565,277 | 1,863,536 | 19,428,813 | 0.38% | 0.47% | 24,409 | 860.84 |
| 2008 | 16,377,852 | 1,863,536 | 18,241,388 | 0.31% | 0.44% | 24,409 | 844.82 |
| 2009 | 15,153,587 | 1,863,536 | 17,017,123 | 0.28% | 0.42% | 24,409 | 795.97 |
| 2010 | 18,951,472 | 1,863,536 | 20,815,008 | 0.36% | Not Available | 24,409 | 747.32 |
| 2011 | 17,899,756 | 1,863,536 | 19,763,292 | 0.35% | Not Available | 24,672 | 697.17 |

Notes:

Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

The City of Newport has no overlapping debt nor does it collect taxes for any other entity.

* See Schedule 5 for property value data.

** Population data can be found in Schedule 12.

CITY OF NEWPORT, RHODE ISLAND

LEGAL DEBT MARGIN INFORMATION

(UNAUDITED)

| | Fiscal Year | | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Total assessed value | \$ 1,876,786,530 | \$ 1,886,642,052 | \$ 3,562,729,202 | \$ 3,464,271,121 | \$ 3,555,854,111 | \$ 3,593,472,358 | \$ 6,164,832,536 | \$ 6,134,949,078 | \$ 6,172,924,917 | \$ 5,895,531,377 | \$ 5,724,320,438 |
| Rhode Island General Law debt limitation as % of assessed value | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Debt limit | <u>56,303,596</u> | <u>56,599,262</u> | <u>106,881,876</u> | <u>103,928,134</u> | <u>106,675,623</u> | <u>107,804,171</u> | <u>184,944,976</u> | <u>184,048,472</u> | <u>185,187,748</u> | <u>176,865,941</u> | <u>171,729,613</u> |
| Debt applicable to limit: | | | | | | | | | | | |
| General obligation bonds | <u>4,948,033</u> | <u>23,081,549</u> | <u>24,059,074</u> | <u>22,843,536</u> | <u>21,813,754</u> | <u>20,621,283</u> | <u>19,428,813</u> | <u>18,241,388</u> | <u>17,017,123</u> | <u>20,815,008</u> | <u>19,763,292</u> |
| Legal debt limit | 56,303,596 | 56,599,262 | 106,881,876 | 103,928,134 | 106,675,623 | 107,804,171 | 184,944,976 | 184,048,472 | 185,187,748 | 176,865,941 | 171,729,613 |
| Total net debt applicable to the limit | <u>4,948,033</u> | <u>23,081,549</u> | <u>24,059,074</u> | <u>22,843,536</u> | <u>21,813,754</u> | <u>20,621,283</u> | <u>19,428,813</u> | <u>18,241,388</u> | <u>17,017,123</u> | <u>20,815,008</u> | <u>19,763,292</u> |
| Legal debt margin | <u>\$ 51,355,563</u> | <u>\$ 33,517,713</u> | <u>\$ 82,822,802</u> | <u>\$ 81,084,598</u> | <u>\$ 84,861,869</u> | <u>\$ 87,182,888</u> | <u>\$ 165,516,163</u> | <u>\$ 165,807,084</u> | <u>\$ 168,170,625</u> | <u>\$ 156,050,933</u> | <u>\$ 151,966,321</u> |
| Total net debt applicable to the limit as a percentage of debt limit | <u>9.63%</u> | <u>68.86%</u> | <u>29.05%</u> | <u>28.17%</u> | <u>25.71%</u> | <u>23.65%</u> | <u>11.74%</u> | <u>11.00%</u> | <u>10.12%</u> | <u>13.34%</u> | <u>13.01%</u> |

CITY OF NEWPORT, RHODE ISLAND

PLEGDED REVENUE COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)

| Fiscal Year June 30, | Water Revenue Bonds | | | | | | Water Pollution Control Revenue Bonds | | | | | |
|-------------------------|-------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|---------------------------------------|--------------------------------|-----------------------------|--------------|----------|----------|
| | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage |
| | | | | Principal | Interest | | | | | Principal | Interest | |
| 2002 | 7,058,277 | 4,486,057 | 2,572,220 | 1,418,626 | 545,590 | 1.31 | 5,912,202 | 3,628,010 | 2,284,192 | 924,891 | 426,846 | 1.69 |
| 2003 | 7,693,021 | 5,187,938 | 2,505,083 | 1,356,882 | 477,487 | 1.37 | 5,796,526 | 3,821,404 | 1,975,122 | 907,107 | 434,383 | 1.47 |
| 2004 | 7,666,798 | 5,223,972 | 2,442,826 | 1,300,140 | 396,557 | 1.44 | 6,049,193 | 4,233,667 | 1,815,526 | 1,721,182 | 224,795 | 0.93 |
| 2005 | 7,100,096 | 5,489,324 | 1,610,772 | 855,313 | 171,496 | 1.57 | 5,885,602 | 4,553,443 | 1,332,159 | 921,723 | 323,326 | 1.07 |
| 2006 | 9,514,397 | 5,603,064 | 3,911,333 | 995,169 | 389,981 | 2.82 | 6,462,089 | 4,430,338 | 2,031,751 | 985,016 | 615,547 | 1.27 |
| 2007 | 9,179,960 | 6,428,093 | 2,751,867 | 969,405 | 134,631 | 2.49 | 6,181,907 | 4,741,389 | 1,440,518 | 985,289 | 275,922 | 1.14 |
| 2008 | 9,025,966 | 6,673,460 | 2,352,506 | 894,389 | 197,959 | 2.15 | 7,337,836 | 4,986,402 | 2,351,434 | 924,076 | 230,054 | 2.04 |
| 2009 | 9,614,675 | 7,351,579 | 2,263,096 | 974,627 | 280,770 | 1.80 | 7,865,579 | 5,167,234 | 2,698,345 | 925,429 | 209,504 | 2.38 |
| 2010 | 10,466,106 | 7,241,885 | 3,224,221 | 1,362,914 | 368,855 | 1.86 | 7,951,054 | 5,507,303 | 2,443,751 | 977,313 | 567,363 | 1.58 |
| 2011 | 10,270,053 | 7,570,428 | 2,699,625 | 927,679 | 416,452 | 2.01 | 10,530,416 | 6,854,557 | 3,675,859 | 901,737 | 638,443 | 2.39 |

Notes:

Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.

Operating expenses do not include interest or depreciation expense.

* Net of refunding

TABLE 12**CITY OF NEWPORT, RHODE ISLAND****DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

| Fiscal Year June 30, | Population | | Per Capita Personal Income > | Total County Personal Income > (thousands) | Total State Personal Income > (thousands) | School Enrollment ^ | Unemployment Rate < |
|---------------------------------|-------------------|---------------|--|--|---|--------------------------------|-----------------------------------|
| 2002 | 26,269 ** | \$ | 37,268 | \$ 3,191,241 | \$ 33,635,436 | 2,917 | 3.0% |
| 2003 | 26,059 ** | | 39,018 | 3,331,937 | 35,071,523 | 2,890 | 4.1% |
| 2004 | 25,879 ** | | 41,044 | 3,539,984 | 36,818,389 | 2,796 | 4.6% |
| 2005 | 25,340 ** | | 43,168 | 3,688,006 | 37,876,045 | 2,524 | 4.4% |
| 2006 | 24,409 ** | | 45,894 | 3,824,537 | 39,911,244 | 2,386 | 4.5% |
| 2007 | 24,409 * | | 52,311 | 4,118,890 | 42,008,417 | 2,380 | 4.0% |
| 2008 | 24,409 * | | 51,224 | 4,133,741 | 43,468,678 | 2,208 | 6.2% |
| 2009 | 24,409 * | | 50,290 | 4,038,311 | 43,594,132 | 2,134 | 9.9% |
| 2010 | 24,409 * | Not Available | Not Available | Not Available | Not Available | 2,132 | 9.7% |
| 2011 | 24,672 *** | Not Available | Not Available | Not Available | Not Available | 2,119 | 8.6% |

* Source: Rhode Island Department of Planning.

** Source: U.S. Bureau of the Census.

*** Source: 2010 US Census

> Source: U.S. Bureau of Economic Analysis, Regional Economic Information System.

The City's population is 31.0% of the County.

^ Source: City School Department.

< Source: RI Department of Labor & Training.

CITY OF NEWPORT, RHODE ISLAND

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND TEN YEARS AGO
(UNAUDITED)**

| 2011 | | | | 2002 | | | |
|--|------------------|-------------|--|--|------------------|-------------|--|
| Employer | Employees | Rank | Percentage of Total City Employment | Employees | Employees | Rank | Percentage of Total City Employment |
| Naval Undersea Warfare Center | 3,000 | 1 | 26.6% | Naval Undersea Warfare Center | 2,939 | 1 | 21.7% |
| Naval Education and Training Center (NETC) | 950 | 2 | 8.4% | Newport Hospital | 933 | 2 | 6.9% |
| Newport Hospital | 700 | 3 | 6.2% | Naval Education and Training Center (NETC) | 771 | 3 | 5.7% |
| City of Newport | 675 | 4 | 6.0% | City of Newport | 765 | 4 | 5.6% |
| James L. Maher Center | 435 | 5 | 3.9% | Salve Regina University | 500 | 5 | 3.7% |
| Salve Regina University | 450 | 6 | 4.0% | Newport Islander Doubletree Hotel | 330 | 6 | 2.4% |
| Preservation Society of Newport County | 300 | 7 | 2.7% | Newport Marriott Hotel | 300 | 7 | 2.2% |
| Marriott International Inc. | 300 | 8 | 2.7% | Child & Family Services of Newport County | 260 | 8 | 1.9% |
| Child & Family Srvs of Newport County | 290 | 9 | 2.6% | Naval War College | 250 | 9 | 1.8% |
| Navy Exchange Service Command | 270 | 10 | 2.4% | The Stop & Shop Co., Inc. | 225 | 10 | 1.7% |
| Total | 7,370 | | 68.1% | Total | 7,273 | | 53.7% |

Note: No reductions in the Naval Undersee Warfare Center or Naval Education and Training Center are recommended by the Base Realignment & Closing Commission (BRAC).

Source: Rhode Island Economic Development Corporation

TABLE 14

CITY OF NEWPORT, RHODE ISLAND

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
(UNAUDITED)**

| | Fiscal Year | | | | | | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| General government: | | | | | | | | | | |
| Mayor and Council | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| City Manager | 3 | 5 | 5 | 5 | 5 | 6 | 6 | 5.5 | 5.5 | 5.5 |
| City Solicitor | 3 | 3 | 3 | 3 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Canvassing | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Finance | 29 | 22 | 22 | 22 | 21 | 21 | 23 | 22 | 22 | 22 |
| City Clerk | | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Administrative services | | 17 | 17 | 17 | 17 | 18 | n/a | n/a | n/a | n/a |
| Planning | 16 | 12 | 12 | 12.5 | 13.5 | 13 | 13 | 13 | 13 | 13 |
| Total General Government | 60 | 74 | 74 | 74.5 | 75 | 76.5 | 60.5 | 59 | 59 | 59 |
| Public safety: | | | | | | | | | | |
| Police | 111 | 114.5 | 114.5 | 114.5 | 114.5 | 111.5 | 111.5 | 111.5 | 104.5 | 104.5 |
| Fire | 98 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 |
| | 209 | 213.5 | 213.5 | 213.5 | 213.5 | 210.5 | 210.5 | 210.5 | 203.5 | 203.5 |
| Public health: | | | | | | | | | | |
| Public works | 24 | 18.6 | 18.6 | 18.6 | 18.6 | 18.6 | 39 | 40 | 40 | 40 |
| Water | 44 | 46 | 45.7 | 45.7 | 46.3 | 46.3 | 46.4 | 46.4 | 46.4 | 46.4 |
| Wastewater | 0.7 | 0.7 | 0.7 | 0.7 | 1.1 | 1.1 | 1.6 | 1.6 | 1.6 | 1.6 |
| | 68.7 | 65.3 | 65 | 65 | 66 | 66 | 87 | 88 | 88 | 88 |
| Public welfare: | | | | | | | | | | |
| Recreation and parks | 19 | 19 | 19 | 19 | 19 | 16.28 | 4 | 4 | 4 | 4 |
| Public education: | | | | | | | | | | |
| Teachers | 213 | 228 | 227 | 219 | 219 | 219 | 210 | 201 | 197.5 | 211.5 |
| Pupil support | 74 | 73 | 75 | 64 | 64 | 64 | 62 | 60 | 58.5 | 45.5 |
| Executive and administrative | 88 | 90 | 90 | 90 | 90 | 90 | 76 | 74 | 69 | 63 |
| | 375 | 391 | 392 | 373 | 373 | 373 | 348 | 335 | 325 | 320 |
| Total | 731.7 | 762.8 | 763.5 | 745 | 746.5 | 742.28 | 710 | 696.5 | 679.5 | 674.5 |

Source: City budgets and School Business Manager

CITY OF NEWPORT, RHODE ISLAND

OPERATING INDICATORS BY FUNCTION/PROGRAM
(UNAUDITED)

| | 2004* | 2005 | Fiscal Year 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|---------|-----------|---------------------|---------|---------|---------|---------------|---------------|
| Function/Program | | | | | | | | |
| Police: | | | | | | | | |
| Arrests | 1,649 | 1,837 | 1,789 | 1,599 | 1,943 | 1,777 | 1,723 | 1,827 |
| Parking violations | 38,273 | 34,775 | 50,623 | 39,423 | 39,968 | 40,962 | 35,535 | 31,679 |
| Calls for Service | 39,186 | 38,310 | 36,465 | 33,597 | 34,015 | 35,677 | 30,058 | 29,220 |
| Fire: | | | | | | | | |
| Emergency responses | 3,838 | 3,653 | 3,959 | 5,079 | 5,625 | 5,891 | 3,675 | 3,719 |
| Fires extinguished | 144 | 107 | 95 | 102 | 116 | 78 | 109 | 78 |
| Inspections | 250 | 385 | 1,338 | 1,681 | 1,151 | 948 | 1,414 | 1,136 |
| Refuse collection: | | | | | | | | |
| Refuse collected (tons/day, average) | 21.71 | 30.92 | 33.17 | 30.99 | 29.66 | 29.30 | 28.22 | 27.57 |
| Recyclables collected (tons/day, average) | 6.43 | 8.31 | 9.32 | 8.63 | 8.91 | 8.94 | 8.66 | 8.64 |
| Other public works: | | | | | | | | |
| Street resurfacing (miles) | 4.4 | 2.9 | 0.9 | 1.4 | 1.92 | 1.90 | 4.2 | 9.43 |
| Parks and recreation: | | | | | | | | |
| Athletic field rentals | 47 | 25 | 22 | 38 | 87 | 309 | 325 *** | 331 |
| Library: | | | | | | | | |
| Volumes in collections | 143,965 | 186,605 | 189,727 | 189,405 | 205,914 | 211,767 | 167,209 ***** | 183,506 ***** |
| Water: | | | | | | | | |
| New connections | 91 | 96 | 69 | 148 | 57 | 35 | 30 | 30 |
| Water mains breaks | 20 | 16 | 23 | 32 | 31 | 25 | 35 | 24 |
| Average daily production (available for sale) (million gallons per day) | 7.54 | 7.11 | 6.99 | 6.69 | 6.87 | 6.93 | 6.65 | 6 |
| Wastewater: | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 9,700 | 10,900 ** | 9,872 | 9,800 | 7,820 | 10,000 | 11,100 | 8,550 |

Note:

* First year information is available; information was not tracked in the same manner prior to FY2004.

** Capacity exceeded in an effort to reduce CSO's. A CSO abatement program under RIDEM approval is currently underway.

*** In addition to tracking Salve Regina University and the Gulls' renters, this information now includes newly tracked use of Cardine's Field by sunset league and also 2-hr field use rentals for various practices/functions.

**** The bulk of the difference is back issues of periodicals that were discarded

***** Includes 11,180 electronic holdings

Sources: Various city departments

CITY OF NEWPORT, RHODE ISLAND

**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
(UNAUDITED)**

| <u>Function/Program</u> | <u>Fiscal Year 2004*</u> | <u>Fiscal Year 2005</u> | <u>Fiscal Year 2006</u> | <u>Fiscal Year 2007</u> | <u>Fiscal Year 2008</u> | <u>Fiscal Year 2009</u> | <u>Fiscal Year 2010</u> | <u>Fiscal Year 2011</u> |
|---|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Police: | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 86 | 86 | 86 | 86 | 86 | 86 | 79 | 79 |
| Fire stations | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Public works: | | | | | | | | |
| Streets (miles) | 94 | 94 | 94 | 94 | 94 | 94 | 94 | 94 |
| Streetlights | 1,976 | 1,976 | 1,976 | 1,976 | 1,976 | 1,974 | 1,974 | 1,918 |
| Traffic signals | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Parks and recreation: | | | | | | | | |
| Acreage | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Playgrounds | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| Multi purpose playing fields | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Tennis courts | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Water: | | | | | | | | |
| Water mains (miles) | 162 | 162 | 162 | 163 | 163 | 163 | 163 | 163 |
| Fire hydrants | 975 | 983 | 987 | 996 | 999 | 999 | 1,034 | 1,034 |
| Storage capacity (thousands of gallons-treated) | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 |
| Wastewater: | | | | | | | | |
| Sanitary sewers (miles) | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 |
| Storm sewers (miles) | 46 | 46 | 46 | 46 | 46 | 46.5 | 46.5 | 46.5 |
| Treatment capacity (thousands of gallons) (daily) | 10,700 | 10,700 | 10,700 | 10,700 | 10,700 | 10,700 | 10,700 | 10,700 |

Note:

* First year information is available; information was not tracked in the same manner prior to FY2004.

Source: Various city departments