THE TOWN OF PORTSMOUTH, RHODE ISLAND

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2011

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FINANCIAL SECTION

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Braver PC
Accountants & Advisors

REPORT OF INDEPENDENT AUDITORS

To the Honorable Members of the Town Council
Town of Portsmouth, Rhode Island

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of the Town of Portsmouth, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and supplementary pension and other post-employment benefits information on pages 3 through 11 and 62 through 69 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 historic 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 principally of inquiries of management regarding 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 Town of Portsmouth, Rhode Island's financial statements as a whole. The combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining agency fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining fiduciary fund financial statements, other supplementary information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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.

Braver, PC

Providence, Rhode Island
December 19, 2011

Management's Discussion and Analysis

As management of the Town of Portsmouth, Rhode Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements that follow this section.

Financial Highlights

The Town of Portsmouth's total net assets for the fiscal year ended June 30, 2011 were $15,437,546 which is an increase of $1,098,219 over the fiscal year ended June 30, 2010. Net assets at June 30, 2011 included $13,395,638 invested in capital assets, net of related debt, an increase of $1,249,457 over June 30, 2010; $61,272 of restricted net assets at June 30, 2011, a decrease of $3,101,796 from June 30, 2010 and $1,980,636 of unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors, an increase of $2,950,558 over June 30, 2010.

- Total assets at June 30, 2011 were $43,448,645, which is an increase of $3,535,932 or 8.9% over June 30, 2010.

- Total liabilities at June 30, 2011 were $28,011,099, which is an increase of $2,437,713 or 9.5% over June 30, 2010.

- The government's total net assets increased by $1,098,219.

- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of $6,200,067 which is a decrease of $354,139 from June 30, 2010. Approximately 76 percent of this total amount or $4,734,803 is available for spending at the government's discretion (committed, assigned or unassigned fund balance).

- At the end of the current fiscal year, fund balance for the general fund was $2,563,838 or 4.7 percent of the Fiscal Year 2010-11 Adopted Expenditure Budget of $54,926,589. This represents a decrease of $548,454 from June 30, 2010.

- The Town of Portsmouth's total long-term and short-term obligations (i.e., general obligation bonds, capital leases, notes payable, compensated absences, and OPEB liabilities) increased by $1,257,084 (5.2 percent) during the current fiscal year. The key factors in this increase were the issuance of $2,765,000 in general obligation bonds, the retirement of $2,193,300 in general obligation bonds and an increase of $934,135 in the net OPEB obligation.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of a government that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, education and community services. The Town has five business-type activities. These include the School Lunch Fund, Summer School Enrichment Fund, Summer School Remedial Fund, Wind Turbine Generator Fund and the Transfer Station Fund.

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

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

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

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

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

The Town of Portsmouth maintains ninety nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the school unrestricted funds, which are considered to be major funds. Data from the other ninety seven governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary funds Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The proprietary funds of the Town are considered non-major funds. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

The basic fiduciary fund financial statements can be found on pages 21-22 of this report.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-61 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. It presents schedules detailing certain pension and OPEB information, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 62-69 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Portsmouth, assets exceeded liabilities by $15,437,546 at the close of the most recent fiscal year, as compared to assets exceeding liabilities by $14,339,327 at the close of the previous fiscal year.

A portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire these assets that is still outstanding. The current year's figure for invested in capital assets, net of related debt is $13,395,638.

An additional portion of Portsmouth's net assets (.4%) represents resources that are subject to external restrictions on how they may be used. The remaining surplus in the unrestricted net assets, $1,980,636, is primarily the result of the School Department's special education tuition costs and salary/benefit costs being less than anticipated.

Town of Portsmouth, Rhode Island
Net Assets
June 30, 2011

	Governmental activities		Business-type Activities		Total			
	2011	2010	2011	2010	2011	2010	$ Change	% Change
Current and other assets	$ 11,066,146	$ 9,206,669	$ (72,941)	$ (107,764)	$ 10,993,205	$ 9,098,905	$ 1,894,300	20.6%
Capital Assets	29,742,882	27,946,374	2,712,558	2,867,434	32,455,440	30,813,808	1,641,632	5.9%
Total Assets	40,809,028	37,153,043	2,639,617	2,759,670	43,448,645	39,912,713	3,535,932	9.5%
Long-term liabilities outstanding	20,642,750	19,328,515	2,223,238	2,422,952	22,865,988	21,751,467	$ 1,114,521	5.8%
Other Liabilities	4,847,703	3,583,887	297,408	238,032	5,145,111	3,821,919	1,323,192	36.9%
Total Liabilities	25,490,453	22,912,402	2,520,646	2,660,984	28,011,099	25,573,386	2,437,713	10.6%
Net assets:								
Invested in capital assets, net of related debt	13,131,880	11,929,405	263,758	216,776	13,395,638	12,146,181	1,249,457	10.5%
Restricted	-	3,111,864	61,272	51,204	61,272	3,163,068	(3,101,796)	-99.7%
Unrestricted	2,186,695	(800,628)	(206,059)	(169,294)	1,980,636	(969,922)	2,950,558	-368.5%
Total net assets	$ 15,318,575	$ 14,240,641	$ 118,971	$ 98,686	$ 15,437,546	$ 14,339,327	$ 1,098,219	7.7%

Governmental activities Governmental activities increased Portsmouth's net assets by $1,077,934.

Town of Portsmouth, Rhode Island
Changes in Net Assets
June 30, 2011

	Governmental Activities		Business-type Activities		Total			
	2011	2010	2011	2010	2011	2010	$ Change	% Change
Revenues:								
Program revenues:								
Charges for services	$2,954,145	$2,762,753	$1,422,034	$1,577,377	$4,376,179	$4,340,130	$36,049	0.8%
Operating grants and contributions	3,582,471	3,231,539	183,077	147,946	3,765,548	3,379,485	386,063	11.4%
Capital grants and contributions	441,054	355,810			441,054	355,810	85,244	24.0%
General revenues:								
Property taxes and payments in lieu of taxe	44,388,491	43,728,918			44,388,491	43,728,918	659,573	1.5%
State Aid, unrestricted	6,937,773	6,947,321			6,937,773	6,947,321	(9,548)	-0.1%
Investment and interest income	10,392	11,798			10,392	11,798	(1,406)	-11.9%
Other revenues	884,770	1,042,461			884,770	1,042,461	(157,691)	-15.1%
Transfers	(21,240)	(96,875)	21,240	96,875	-	-	-	
Total revenues	59,177,856	57,983,725	1,626,351	1,822,198	60,804,207	59,805,923	998,284	1.7%
Expenses:								
General government	5,024,199	4,930,847			5,024,199	4,930,847	93,352	1.9%
Public safety	8,810,077	8,529,945			8,810,077	8,529,945	280,132	3.3%
Public works	3,557,560	2,657,651			3,557,560	2,657,651	899,909	33.9%
Community services	1,274,895	37,942,790			1,274,895	37,942,790	(36,667,895)	-96.6%
Education	38,798,267	1,556,963			38,798,267	1,556,963	37,241,304	2391.9%
Interest on long-term debt	525,631	143,750			525,631	143,750	381,881	265.7%
Capital outlay	39,727	632,034			39,727	632,034	(592,307)	-93.7%
Amortization expense	69,566	91,050			69,566	91,050	(21,484)	-23.6%
School lunch fund			641,843	557,748	641,843	557,748	84,095	15.1%
Transfer station fund			639,453	673,097	639,453	673,097	(33,644)	-5.0%
Wind turbine generator fund			310,526	462,739	310,526	462,739	(152,213)	-32.9%
Non-major funds			14,244	60,647	14,244	60,647	(46,403)	-76.5%
Total expenses	58,099,922	56,485,030	1,606,066	1,754,231	59,705,988	58,239,261	1,466,727	2.5%
Increase (decrease) in net assets	1,077,934	1,498,695	20,285	67,967	1,098,219	1,566,662	(468,443)	-29.9%
Net assets - beginning of year, as restated	14,240,641	12,741,946	98,686	30,719	14,339,327	12,772,665	1,566,662	12.3%
Net assets - ending	$15,318,575	$14,240,641	$118,971	$98,686	$15,437,546	$14,339,327	$1,098,219	7.7%

Financial Analysis of the Government's Funds

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

Governmental funds The focus of Portsmouth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Portsmouth's financing requirements. In particular, 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, Portsmouth's governmental funds reported a combined ending fund balance of $6,200,067, a decrease of $354,139 in comparison with the prior year's fund balance. Most of this total amount, $4,734,803 constitutes committed, assigned or unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable or restricted to indicate that it is not available for new spending because it is not in spendable form or it is subject to external restrictions.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, committed, assigned and unassigned fund balance of the General Fund was $2,468,669, while total fund balance reached $2,563,838. As a measure of the General Fund's liquidity, it may be useful to compare committed, assigned and unassigned fund balances and total fund balance to total fund expenditures. Committed, assigned and unassigned fund balances and total fund balance represent 4.5 and 4.7 percent of total budgeted expenditures, respectively, which includes funds transferred to the School Department.

The fund balance of Portsmouth's General Fund decreased by $548,454 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2011 were less than budgeted amounts by $774,471. The principal reason for this was less than anticipated tax collections.

Actual expenditures were less than budgeted amounts by $338,074. The primary reasons for this result were spending and hiring freezes in anticipation of over-expenditures for public safety overtime.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2010-2011 fiscal year, School Department net revenues were less than budgeted amounts by $386,418. The primary reason for this shortfall was not transferring revenue into the school fund from other sources due to less than anticipated school fund expenditures. These revenues will continue to be available for use in subsequent fiscal years.

Actual expenditures were less than budgeted amounts by $1,678,382. The principal reasons for this were special education tuition costs and salaries/benefits being less than anticipated.

Capital Asset and Debt Administration

Capital Assets The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2011, amounts to $31,937,148 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total increase in the Town's investment in governmental activity capital assets for the current fiscal year was $1,700,218.

Long-term Debt At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of $17,332,800, entirely backed by the full faith and credit of the Town. This includes $2,765,000 incurred in Fiscal Year 2010-11.

State statutes limit the amount of general obligation bonded debt a town can issue to 3 percent of the net assessed property values. However, all bonds approved through State enabling legislation and voter referendums are exempt from the limit. At June 30, 2011 the Town had a debt limit of $114,891,769, which significantly exceeds the Town's outstanding general debt.

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

Additional information on the Town of Portsmouth's long-term debt can be found in Note #5 on pages 39-43 of this report.

Economic Activities and Factors Impacting Budgets and Rates

Economic development planned for Portsmouth will be through growth of existing local businesses which may stimulate additional new development. Current initiatives provide for a variety of new development possibilities.

Portsmouth continues to be a leader in the marine trades industry. Having three top of the line yacht companies in Portsmouth has attracted a large community of smaller marine support businesses that handle a wide range of specialized services for the boating industry and individual customers.

Early 2012 may finally see the transfer of 30 acres of excess Navy land to stimulate expansion by a select marine partnership. The Town, existing marine businesses, the Rhode Island Economic Development Corporation and the federal government have been working on the transfer of the valuable, prime waterfront land for nine years. The land in the Melville section of Portsmouth will go to a partnership of existing marine businesses. When the transfer is completed, Portsmouth Marine Partners is poised for expansion. The expansion will accommodate much needed space for the boat builders and create new facilities for smaller marine support contractors. The transfer of the 30 acres will serve as a model for the future transfer of other larger parcels that the Navy has designated for disposal.

A survey of the 43 marine companies located in Portsmouth shows that employment continues to be down from 2007 levels. In spite of the very poor employment picture for the State, principals at the companies indicate that the worst is over and that many eliminated positions will be reactivated.

Marine companies and associated marine trades have long been a significant contributor to the RI economy. The marine industry is recognized as a key growth sector for the State. The announcement that the America's Cup trial races will be held in Newport was met with great excitement by the marine industry as well as related tourism and hospitality businesses. The races will attract participants, observers and media from around the world. It is projected to have a significant economic impact on our area during the June – July, 2012 period.

In the early '90s, forward looking citizens and local governments saw the need to plan ahead. Years of planning and recognizing shared community needs led to the creation of the Aquidneck Island Planning Commission (AIPC). From this grassroots initiative came the West Side Master Plan (WSMP). The WSMP is the result of ten years of regional planning efforts across the community lines of Aquidneck Island. All three communities on Aquidneck Island adopted this unified plan in 2005. In Portsmouth, the focus for much of this plan is the reuse of 146 acres of former Navy petroleum tank farms along the Eastern shore of Narragansett Bay. In the spring of 2008, the Navy officially announced that the former tank farms will be made available. The land is ideally situated along the West coast of Aquidneck Island, adjacent to Rt. 114, the existing cluster of Melville marine businesses and the large Raytheon Company campus.

To facilitate the transfer of the land, the Portsmouth Town Council created the Portsmouth Redevelopment Agency (PRA). The PRA is empowered with creating a formal plan for the reuse of the excess federal land and to manage and control redevelopment projects. With this formal body in position, the Town is following the federally approved mechanism for the transfer of the unused land to the Town. In keeping with set procedures for disposing of the excess Navy land, the Aquidneck Island Reuse Planning Authority was established with representation from each of the three Aquidneck Island municipalities. The Navy has also put in place a Re-Use Coordinator to facilitate the transfer process.

The local PRA is empowered to own, sell and lease land on behalf of the Town. Initial ideas for reuse of the Navy land include a business park for an expanded marine trades industry and defense/homeland security businesses, municipal facilities, improved transportation facilities and open space.

Creating a business park for marine trades and defense work will complement the existing concentration of similar businesses. The marine trades in the Melville area are in need of expansion space. Inquiries have been received from marine ventures outside the area who desire to re-locate there. A similar, symbiotic attraction is possible with smaller defense contractors desiring to be located near Raytheon and the Naval Undersea Warfare Center. Marine trades and defense/homeland security are two of the key economic growth clusters identified by the State. These industries receive very active support from State agencies to attract new and grow existing businesses.

The Town has received endorsement to set aside four acres of the excess Navy land for multi-modal transportation activity. The site could serve as a parking area for a future rail shuttle between Portsmouth and Newport. The existing Newport Dinner train has secured passenger rail cars that can make the service a reality. The Newport Dinner Train has received grant funding for the upgrade of the existing rail line located along the West Side shoreline. The line currently is used for tourist sight-seeing and a dinner train. Tourist visits and special corporate event traffic continue to grow.

Additional future economic activity is possible on the shores of Narragansett Bay adjacent to the focus area of the WSMP. Just south of a cluster of 23 marine businesses in the Melville area is the site for the new Weaver Cove marina. DEM and CRMC permits have been approved for a 1,495 slip marina and related facilities. Commencement of on shore construction has been slowed due to portions of the land being contaminated from prior government uses. The potential for this marina is drawing much attention, as it will ease a scarcity of boat slips in Rhode Island and act as a potential business growth generator. The developer also plans to include facilities for on-shore support services and housing units in a village setting. By including significant public access to the shoreline, the planned project is gaining wide support. The completion of all phases of the project will cost over $100 million.

The Town adopted changes to the Zoning Ordinance for the creation of Planned Marina Village Developments and Planned Resort Developments. The zoning ordinances fully support the incorporation of "smart growth" principles. The zoning ordinances include enforceable performance and preservation standards that will ensure site development of benefit to the Town. The Planning Department is reviewing the existing zoning process to identify changes that can expedite permitting procedures.

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

Vacant parcels in the Town Center area are attracting developer interest for a mixed use project. Changes to East Main Road to create a pedestrian friendly corridor are progressing. The Rhode Island Department of Transportation has fully endorsed the conversion of the road from four narrow lanes to a series of three roundabouts. Feedback at public hearings is very positive. A new medical diagnostic services building was opened in the Town center adjacent to a new medical office building. The new facilities eliminate the need to travel to Newport and Fall River for medical attention. A new 12,000 sq. ft office building opened in 2007 and is now 100% leased.

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

Occupancy in the Portsmouth Business Park is holding steady at approximately 90% with only one lot unsold. The Park has 21 companies employing 165.

Following on the success of the wind generator at the Portsmouth Abbey School, a second wind generator in Portsmouth became a reality in March, 2009. The 1.5 Mw wind generator, valued at $3 million, is located at Portsmouth High School and has decreased the electricity costs for the Town and School Department. Hodges Badge Company is constructing a third wind generator in Portsmouth. The new machine will supply 100% of the electrical needs of the 100 employee manufacturing company and will send excess generated power to the grid when the business is not open.

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

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

The unemployment rate as of June 30, 2011 is 9.0% (not seasonally adjusted). This compares favorably with an unemployment rate of 10.3% for the State of Rhode Island and the national unemployment rate of 9.3%.

All of these factors were considered in preparing the Town of Portsmouth's budget for the Fiscal Year 2011-12.

Requests for Information

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

TOWN OF PORTMOUTH, RHODE ISLAND

Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 5,528,886	$ 5,074	$ 5,533,960
Real estate and personal property tax receivable, net	2,886,896		2,886,896
Ambulance receivables	402,486		402,486
Due from federal and state governments	607,425	11,706	619,131
Internal balances	239,983	(239,983)	0
Inventories	58,646	14,344	72,990
Other receivables, net	1,341,824	135,918	1,477,742
Total Current Assets	11,066,146	(72,941)	10,993,205
Noncurrent Assets:			
Capital assets (non-depreciable)	5,516,891		5,516,891
Capital assets (net of depreciation)	23,733,547	2,686,710	26,420,257
Debt issuance costs, net	213,832	25,848	239,680
Deferred gain on refunding	278,612		278,612
Total Non-Current Assets	29,742,882	2,712,558	32,455,440
TOTAL ASSETS	40,809,028	2,639,617	43,448,645
LIABILITIES			
Current Liabilities:			
Accounts payable	1,332,880	93,665	1,426,545
Accrued interest payable	163,950	4,029	167,979
Accrued expenses	788,792		788,792
Current portion of long-term debt	2,562,081	199,714	2,761,795
Total Current Liabilities	4,847,703	297,408	5,145,111
Noncurrent Liabilities:			
Unearned revenue	162,934		162,934
Accrued compensated absences	1,969,954		1,969,954
Net OPEB obligation	3,365,331		3,365,331
Long-term liabilities (net)	15,144,531	2,223,238	17,367,769
Total Noncurrent Liabilities	20,642,750	2,223,238	22,865,988
TOTAL LIABILITIES	25,490,453	2,520,646	28,011,099
NET ASSETS			
Invested in capital assets, net of related debt	13,131,880	263,758	13,395,638
Restricted for specific programs	-	61,272	61,272
Unrestricted	2,186,695	(206,059)	1,980,636
TOTAL NET ASSETS	$ 15,318,575	$ 118,971	$ 15,437,546

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Activities
For the year ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$ 5,024,199	$ 1,390,030	$ 375	$ 125,000	$ (3,508,794)		$ (3,508,794)
Public safety	8,810,077	561,940	56,466	74,936	(8,116,735)		(8,116,735)
Public services	3,557,560	38,239	-	175,813	(3,343,508)		(3,343,508)
Education	38,798,267	963,936	3,459,422	65,305	(34,309,604)		(34,309,604)
Community service	1,274,895		66,208	-	(1,208,687)		(1,208,687)
Capital outlay	39,727				(39,727)		(39,727)
Interest on long-term debt	525,631				(525,631)		(525,631)
Amortization expense	69,566				(69,566)		(69,566)
Total governmental activities	58,099,922	2,954,145	3,582,471	441,054	(51,122,252)		(51,122,252)
Business-type Activity:							
School lunch fund	641,843	468,778	183,077			$ 10,012	10,012
Transfer station	639,453	618,213				(21,240)	(21,240)
Wind turbine generator fund	310,526	320,594				10,068	10,068
Non-major funds	14,244	14,449				205	205
Total business type activity	1,606,066	1,422,034	183,077			(955)	(955)
Totals	$ 59,705,988	$ 4,376,179	$ 3,765,548	$ 441,054	(51,122,252)	(955)	(51,123,207)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Taxes:			
Property taxes and payments in lieu of taxes	44,388,491		44,388,491
State aid, unrestricted	6,937,773		6,937,773
Investment and interest income	10,392		10,392
Other revenues	884,770		884,770
Transfers	(21,240)	21,240	0
Total general revenues	52,200,186	21,240	52,221,426
Change in Net Assets	1,077,934	20,285	1,098,219
Net Assets - beginning of year	14,240,641	98,686	14,339,327
Net Assets - ending of year	$ 15,318,575	$ 118,971	$ 15,437,546

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds			
	General Fund	School Unrestricted Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 4,044,275	$ 1,117,217	$ 367,394	$ 5,528,886
Real estate and personal property tax receivable (net)	2,886,896			2,886,896
Due from federal and state governments	-	504,006	103,419	607,425
Due from other funds	153,518	3,195,808	1,721,131	5,070,457
Ambulance receivable	516,360			516,360
Other receivables	331,571		1,010,253	1,341,824
Inventory	58,646			58,646
TOTAL ASSETS	$ 7,991,266	$ 4,817,031	$ 3,202,197	$ 16,010,494
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 227,022	$ 484,491	$ 100,529	$ 812,042
Accrued expenses	300,534	302,239		602,773
Due to other funds	1,497,668	1,463,633	1,869,173	4,830,474
Deferred revenue	2,881,366	77,532	85,402	3,044,300
Other liabilities	520,838			520,838
TOTAL LIABILITIES	5,427,428	2,327,895	2,055,104	9,810,427
FUND BALANCES:				
Non-spendable	58,646		4,821	63,467
Restricted	36,523		1,365,274	1,401,797
Committed	3,190	2,489,136	127,769	2,620,095
Assigned	309,379		-	309,379
Unassigned	2,156,100		(350,771)	1,805,329
TOTAL FUND BALANCES	2,563,838	2,489,136	1,147,093	6,200,067
TOTAL LIABILITIES AND FUND BALANCES	$ 7,991,266	$ 4,817,031	$ 3,202,197	$ 16,010,494

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

Reconciliation of the Governmental Funds Balance Sheet (B-1)
to the Government-Wide Statement of Net Assets (A-1)
June 30, 2011

TOTAL FUND BALANCES - Total Governmental Funds (B-1)	$ 6,200,067
Amounts reported for governmental activities in the statement of net assets differ because:	
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	29,250,438
Other long-term assets are recognized as revenue in the period for which they are billed in the Government-Wide financial statements, but are reported as deferred revenue (a liability) in Governmental Fund financial statements.	2,881,366
Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund financial statements because they are offset by deferred revenue.	(113,874)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(163,950)
Claims and judgments do not require current financial resources. Therefore, additional accrued expenses are not reported as a liability in Governmental Funds Balance Sheet.	(186,019)
Debt issuance costs, deferred gain on refunding and premium on bonds are deferred and amortized over the life of the related debt in the Government-Wide Financial Statements, but are reported as an expenditure and other financing source in the year of issuance in the Governmental Fund financial statements.	492,444
Long-term liabilities (including bonds payable, compensated absences and leases payable) are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.	(19,676,566)
OPEB liability is recorded in the governmental activities, but not recorded in the funds.	(3,365,331)
Net Assets of Governmental Activities	$ 15,318,575

(CONCLUDED)

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Revenues, Other Financing Sources Expenditures, Other Financing Uses and Changes in Fund Balances Governmental Funds For the year ended June 30, 2011

	Major Funds			
	General Fund	School Unrestricted Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
General property taxes and payments in lieu of taxes	$ 43,001,417			$ 43,001,417
State aid and grants	865,808	$ 5,652,571	$ 2,468,322	8,986,701
State Fiscal Stabilization Funds	-	419,394		419,394
Licenses, permits and fees	242,417			242,417
Charges for services	547,384	914,020	129,593	1,590,997
Melville Ponds Campgrounds	216,783			216,783
Glen Manor House	396,950			396,950
Rescue wagon income	506,998			506,998
Fines and forfeitures	384,197			384,197
Interest and investment income	9,498		892	10,390
Contributions and private grants	-		176,115	176,115
Other revenues	435,129	65,444	932	501,505
Intergovernmental pension contribution	-	1,378,156		1,378,156
Total revenues	46,606,581	8,429,585	2,775,854	57,812,020
Expenditures				
Current:				
General government	4,153,553		43,818	4,197,371
Public safety	8,602,939		71,425	8,674,364
Public works	2,239,023		902,438	3,141,461
Education		34,147,669	2,030,286	36,177,955
Community services:				
Public and social services	619,635		88,254	707,889
Park & recreation	465,179		2,262	467,441
Intergovernmental pension contribution		1,378,156		1,378,156
Debt Service:				
Principal payments	2,228,800			2,228,800
Interest	631,066			631,066
Bond issuance costs	26,670		13,124	39,794
Capital:				
Capital expenditures			3,361,112	3,361,112
Total expenditures	18,966,865	35,525,825	6,512,719	61,005,409
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	27,639,716	(27,096,240)	(3,736,865)	(3,193,389)
Other financing sources (uses)				
Transfers in	96,101	28,203,873	59,159	28,359,133
Transfers out	(28,284,271)	-	(96,101)	(28,380,372)
Bond proceeds			2,765,000	2,765,000
Bond premiums			95,488	95,488
Net other financing sources (uses)	(28,188,170)	28,203,873	2,823,546	2,839,249
Net change in fund balances	(548,454)	1,107,633	(913,319)	(354,140)
Fund balances - beginning of the year	3,112,292	1,381,503	2,060,412	6,554,207
Fund balances - ending of the year	$ 2,563,838	$ 2,489,136	$ 1,147,093	$ 6,200,067

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2)
For the year ended June 30, 2011

Net change in fund balances - total governmental funds (B-2)	$	(354,140)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets reported in the period.		3,660,713
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental fund statements.		(1,848,874)
Long-term compensated absences is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. Therefore, compensated absences is not reported as expenditures in Governmental fund financial statements. This is the change in long-term compensated absences for the year.		58,520
Repayment of bonds and capital leases is an expenditure in the Governmental Fund financial statements, but the payments reduce long-term liabilities in the Government-Wide financial statements.		2,233,575
Accrued interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in the Governmental Fund financial statements. This is the change in accrued interest for the year.		(18,578)
Bond proceeds are reported as other financing sources in the Governmental Fund financial statements. However, the proceeds are recorded as long-term liabilities in the Government-Wide financial statements		(2,860,488)
Bond issuance costs are reported as an expenditure in the Governmental Fund financial statements.		13,124
Amortization of deferred debt issuance costs, premium on bonds and gains on advance refunding are not reflected in Governmental Fund financial statements.		(52,017)
Bad debt expense is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but not reported in the Governmental Fund financial statements.		(20,822)
Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental Fund financial statements.		1,387,075
Claims and judgments expense is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but not reported in the Governmental Fund financial statements.		(186,019)
The increase in OPEB liability is not recorded in the Governmental Fund. The change from prior year is reflected in the Statement of Activities and Changes in Net Assets.		(934,135)
Change in net assets of Governmental Activities	$	1,077,934

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Net Assets
Proprietary Funds
June 30, 2011

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 5,074				$ 5,074
Due from other governmental units	11,706				11,706
Due from other funds	187,521	$ 37,731		$ 35,403	260,655
Accounts receivable		55,473	$ 80,445		135,918
Inventory	14,344				14,344
Debt issuance costs, net			25,848		25,848
Total current assets	218,645	93,204	106,293	35,403	453,545
Non-current assets:					
Capital assets:					
Depreciable assets - net	36,421	37,250	2,613,039		2,686,710
Total non-current assets	36,421	37,250	2,613,039		2,686,710
TOTAL ASSETS	255,066	130,454	2,719,332	35,403	3,140,255
LIABILITIES					
Current liabilities:					
Bonds payable			199,714		199,714
Accrued interest payable			4,029		4,029
Due to other funds	189,706		230,617	80,315	500,638
Accounts payable		93,204	461		93,665
Total current liabilities	189,706	93,204	434,821	80,315	798,046
Non-current liabilities:					
Bonds payable, net of current portion			2,223,238		2,223,238
Total non-current liabilities			2,223,238		2,223,238
TOTAL LIABILITIES	189,706	93,204	2,658,059	80,315	3,021,284
NET ASSETS					
Invested in capital assets, net of related debt	36,421	37,250	190,087		263,758
Reserve for contingencies			40,848		40,848
Reserve for repairs			20,424		20,424
Unrestricted	28,939		(190,086)	(44,912)	(206,059)
TOTAL NET ASSETS	$ 65,360	$ 37,250	$ 61,273	$ (44,912)	$ 118,971

See Notes to Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2011

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
Operating Revenues:					
Intergovernmental	$ 183,077				$ 183,077
Other revenues	468,778		$ 320,594		789,372
Charges for services		$ 618,213		$ 14,449	632,662
Total Operating Revenues	651,855	618,213	320,594	14,449	1,605,111
Operating Expenses:					
Cafeteria operations	638,428				638,428
Transfer Station operations		639,453			639,453
Wind Turbine Generator operations			70,172		70,172
Education				14,244	14,244
Depreciation and amortization	3,415		151,461		154,876
Total Operating Expenses	641,843	639,453	221,633	14,244	1,517,173
Income from operations	10,012	(21,240)	98,961	205	87,938
Non-operating Revenues (Expenses):					
Interest expense			(31,838)		(31,838)
Distribution to Town General Fund			(17,687)		(17,687)
Distribution to School General Fund			(39,368)		(39,368)
Net Non-operating Revenues	0	0	(88,893)	0	(88,893)
Net income (loss) before transfers	10,012	(21,240)	10,068	205	(955)
Transfers in (out)		21,240			21,240
Change in net assets	10,012	0	10,068	205	20,285
Net assets - beginning of the year	55,348	37,250	51,205	(45,117)	98,686
Net assets - ending of the year	$ 65,360	$ 37,250	$ 61,273	$ (44,912)	$ 118,971

See Notes To Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2011

	School Lunch Fund	Transfer Station	Wind Turbine Generator	Non-major Funds	Total
Cash flows from operating activities:					
Cash received from customers	$ 468,778	$ 578,105	$ 345,239	$ 14,449	$ 1,406,571
Intergovernmental	182,412				182,412
Cash payments to suppliers for goods and services	(638,568)	(567,915)	(68,553)	(14,244)	(1,289,280)
Cash paid to employees		(12,307)	(1,158)		(13,465)
Net cash provided (used) by operating activities	12,622	(2,117)	275,528	205	286,238
Cash flows from non-capital financing activities:					
Operating transfers (to) from other funds		21,240	(57,055)		(35,815)
Interfund borrowings	(78,962)	(19,123)	13,395	(205)	(84,895)
Net cash provided (used) by non-capital financing activities	(78,962)	2,117	(43,660)	(205)	(120,710)
Cash flows from capital-related financing activities:					
Principal paid on bonds			(199,714)		(199,714)
Interest paid on bonds			(32,154)		(32,154)
Net cash used for capital-related financing activities	-		(231,868)		(231,868)
Net decrease in cash	(66,340)	0	0	0	(66,340)
Cash and cash equivalents, beginning of the year	71,414	0	0	0	71,414
Cash and cash equivalents, end of the year	$ 5,074	$ -	$ -	$ -	$ 5,074
Reconciliation of net income to net cash provided by operating activities:					
Income (loss) from operations	$ 10,012	$ (21,240)	$ 98,961	$ 205	$ 87,938
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,415		151,461		154,876
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(665)	(40,108)	24,645		(16,128)
(Increase) decrease in inventory	(140)				(140)
Increase (decrease) in accounts payable		59,231	461	-	59,692
Total adjustments	2,610	19,123	176,567	-	198,300
Net cash provided by (used) by operating activities	$ 12,622	$ (2,117)	$ 275,528	$ 205	$ 286,238

See Notes to Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Funds	Defined Contribution Pension Plan	OPEB Trust Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 509,736		$ 203,392	$ 346,055
Investments, at fair value	34,998,900	$ 2,304,380		
Accounts Receivable				285,894
Prepaid expenses	172,316			
Letter of credit				9,100
TOTAL ASSETS	35,680,952	2,304,380	203,392	641,049
LIABILITIES				
Other Liabilities			-	
Deposits held in custody for others				639,549
Total liabilities			-	639,549
NET ASSETS				
Held in trust for pension and OPEB benefits	35,680,952	2,304,380	203,392	
Total net assets	35,680,952	2,304,380	203,392	
Total liabilities and net assets	$ 35,680,952	$ 2,304,380	$ 203,392	$ 639,549

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Changes in Net Assets
Fiduciary Funds
For the year ended June 30, 2011

	Pension Trust Fund	Defined Contribution Pension Plan	OPEB Trust Fund
Additions:			
Contributions:			
Employer	$ 2,514,483	$ 35,584	
Plan member	599,081	99,401	$ 60,666
Total contributions	3,113,564	134,985	60,666
Investment income:			
Net gain on value of investments	6,362,903	108,933	508
Net investment income	6,362,903	108,933	508
Total additions	9,476,467	243,918	61,174
Deductions:			
Benefits paid	2,085,284	245,374	
Administrative and other	113,777	63	4,705
Total deductions	2,199,061	245,437	4,705
Changes in net assets	7,277,406	(1,519)	56,469
Net assets - beginning of year	28,403,546	2,305,899	146,923
Net assets - ending of the year	$ 35,680,952	$ 2,304,380	$ 203,392

See Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Town complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

As a general rule, the effect of inter-fund activity has been eliminated from the Government-Wide financial statements.

Reporting Entity

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

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

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

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

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

The following entities were considered for classification as component units for fiscal year 2011:

* Portsmouth School Department
* Portsmouth Water and Fire District
* Portsmouth Redevelopment Agency

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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

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

The Portsmouth Redevelopment Agency is a Town committee budgeted in the Town's general fund and does not meet the definition of a separate legal entity. As a result, the Portsmouth Redevelopment Agency has not been included as a component unit.

The Town of Portsmouth does not have any component units.

Recently Issued Accounting Standards

The Town has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, effective for the Town's fiscal year ending June 30, 2011. The adoption of this Statement required the reclassification of fund balance reporting on the Town's financial position for governmental funds.

- ✓ GASB Statement No. 59 – Financial Instruments Omnibus, effective for the Town's fiscal year ending June 30, 2011. The adoption of this Statement did not have an impact on the Town's financial position or results in operation.

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

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Town's fiscal year ending June 30, 2013.

- ✓ GASB Statement No. 61 – The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Town's fiscal year ending June 30, 2013.

- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Town's fiscal year ending June 30, 2013.

- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Town's fiscal year ending June 30, 2013.

- ✓ GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, effective for the Town's fiscal year ending June 30, 2012.

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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

The funds of the financial reporting entity are described below:

Major Governmental Funds

General Fund

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

School Unrestricted Fund

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

Proprietary Fund Financial Statements

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

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

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

Wind Turbine Generator Fund- Major

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

Transfer Station Fund- Major

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

School Lunch Fund- Major

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

Summer School Enrichment Fund- Non-Major

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

Summer School Remedial Fund- Non-Major

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

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

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

Pension Trust Funds

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

OPEB Trust Funds

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

Agency Funds

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

Non-Major Governmental Funds

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The Town's only major special revenue fund is the School Unrestricted Fund, which provides education to the Town's children. The non-major funds include the following: CDBG, AIPC/Shoreline Gateway, PPD Sex Offender grant, Illicit Discharge Detection, Bulletproof Vest Grant, EDC Workshop, PPD Homeland, PPD/PFD Homeland, Commemorative Bench Program, Island Park Skate Park, Sandy Point Trail Grant, Click it or Ticket, Tobacco Control Program, Town Center Grant, Town Commons Grant, EMPG Shelter Generator, Alcohol Survey, Cops Care Bike, CPR Certification Program, Dare Program, EMA Mitigation Planning, EMA OPS Plan, Explorer Program, Fire Alarm Maintenance, Fire Plan Review, Historic Records Fund, John Haskins Memorial Fund, Lower Glen Farm Preservation, Fed Equitable Sharing Drug, Melville Recreation Committee, NARC Forfeiture SEC, Pollution Abatement Waste, Pollution Abatement Storm, Proud Grant, Blue Riptide Impaired/Drunk, Blue Riptide Speed Management, Ruth Earle Memorial Fund, Senior Center Grant, State Fire Incentive, State Police Incentive, Substance Abuse, Tech Upgrade & Doc Preservation, Tobacco Survey, Miscellaneous Grant/Donation, Fire Smoke Detector Inspection, Waste Water Facilities Plan, Byrne Grant, EMA Meds Pods, Low Income Spay/Neuter, Shelter Spay/Neuter, Child Passenger Safety Grant, EECBG ARRA, Conservation Commons, Mobil Data Printer Project, Mobil Data Computer Terminal, Friends of Glen Park, VIS Grant, Gate Receipts, IDEA & IDEA ARRA, Title I,II & III, Prior AP, Perkins, Misc Transfer, Insurance Vandalism, Literacy Dropout, RI NET, Technology, E2T2 MCI ARRA, Technology, Substance Abuse Task Force, RISCA, Parent Study Task Force, Summer School, Interschool Athletics, Professional Development, Student Equity Investment, Gym Fundraising, RITTI, Concord Consortium, Early Childhood, United Way Melville Playground Building Use Utilities, Benefit Appropriation Fund, Restricted Donation, Restricted Hathaway, Stimulus ARRA, Uniform Chart of Accounts, Van Beuren Grant, Achieve Algebra, Champlin Foundation, DANA Science, and Feinstein Grant.

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition or construction of specific capital projects or items: Glen Manor, 05-06 Warrants, 06-07 Warrants, 07-08 Warrants, 08-09 Warrants, 09-10 Warrants, 10-11 Warrants, Various Equipment and Capital Fund.

Permanent Funds

These funds are used to account for assets held by the Town where the principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund: Sherman Trust Fund and Cemetery Fund.

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable and Taxes Receivable

Accounts receivable and taxes receivable are shown net of an allowance for uncollectible accounts. The allowances are calculated based on the age of the individual receivables. The allowance for uncollectible property taxes in the governmental and government wide statements amounted to $517,057 at June 30, 2011. Property taxes which were levied on July 1 of the current year and other delinquent balances are recorded as receivables.

Short-Term Interfund Receivables/Payables

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

Inventory

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Revenues

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

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Capital Assets and Depreciation

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

All capital assets are capitalized at historical cost or estimated historical cost. Donated capital assets are recorded at the fair market value as of the date received. The Town follows the policy of not capitalizing assets with a cost of less than $5,000 and a useful life of less than 1 year. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not incurred during fiscal 2011.

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

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

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

Deferred Revenue

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Property Taxes

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

The Town is permitted by State Law to levy property taxes. Current tax collections for the Town were approximately 93.25% of the total 2010 levy.

The Town's fiscal 2010-2011 property taxes were levied on July 1, 2010 on assessed valuations as of December 31, 2009. Upon levy, taxes are due September 1 or may be paid quarterly by September 1, December 1, March 1, and June 1. Failure to make payments by due dates will result in a lien on the taxpayer's property.

Rhode Island general laws restricts the Town's ability to increase either its total tax levy or its tax rates by more than 4.50% over those of the preceding year. Total taxes of $44,174,990 resulting from tax rates of $22.50, and $11.30 per $1,000 of assessed valuation for motor vehicles, real estate and tangible property, and business inventory, respectively, were levied on July 1, 2010.

Intergovernmental

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

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

Interfund Transactions

Transactions between funds have been eliminated in the government-wide financial statements but fully presented within the governmental fund financial statements with no elimination made between or within funds.

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

Reciprocal interfund activities:

> Interfund loans are reported as interfund receivables in the lending fund and interfund payables in borrower funds.
>
> Interfund services are reported as revenues in the seller fund and as expenditures or expenses in the purchasing fund.

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Interfund Transactions (Continued)

Non-reciprocal interfund activities:

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

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

Compensated Absences

Under the terms of various contracts and agreements, Town employees are granted vacation and sick leave in varying amounts based on length of service. Vacation benefits are accrued as a liability based on the accumulated benefits earned at June 30. Sick leave benefits are based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The liability is calculated at the rate of pay in effect at June 30, 2011.

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

Accrued Liabilities and Long-Term Debt

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

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

Bond Premiums and Issuance Costs

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Bond Premiums and Issuance Costs (Continued)

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of applicable appropriations, is employed in the governmental funds.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

(a) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(b) Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

(c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned as described below:

- Non-Spendable – the amount of fund balance that cannot be spent because it is either not in spendable form or there is a legal or contractual requirement for the funds to remain intact. At the end of each fiscal year, the Town's Finance Director and School Department's Director of Finance and Administration will report the portion of the fund balance that is not in spendable form as Non-Spendable on the annual financial statements.

- Restricted – the amount of fund balance that can only be spent on specific expenses due to constraints on the spending because of legal restrictions, outside party creditors, and grantor/donor requirements. The Town's restricted fund balance amounts are considered to have been spent when an expenditure has been incurred satisfying such restriction. At the end of each fiscal year, the Town's Finance Director and School Department's Director of Finance and Administration will report restricted fund balance amounts that have applicable legal restrictions per GASB 54.

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Equity Classifications (Continued)

- Committed – the amount of fund balance that includes the portion of the spendable fund balance but has constraints on the spending that the Town Council has imposed upon itself by a formal action by vote. This constraint must be imposed prior to the fiscal year end, but the specific amount may be determined at a later date.

- Assigned – the amount of fund balance that includes the portion of the spendable fund balance that reflects funds intended to be used by the government for specific purposes assigned by information operational planning. The assigned fund balance represents a "plan" for spending the amount, but it is not restricted or committed. The authority to "assign" fund balance has not been delegated by the Town Council.

- Unassigned – the amount of fund balance that is in the General Fund and includes all spendable amounts that are not otherwise contained in the classifications listed above, and therefore, not subject to any constraints or intended use. Unassigned amounts are available for any purpose. These are current resources available for which there are no external or self-imposed limitations or set spending plan. Although there is generally no set spending plan for the unassigned portion, there is a need to maintain a certain funding level. Unassigned fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as unassigned can be used to cover expenditures for revenues not yet received. At the end of each fiscal year, the Town's Finance Director will report the portion of the unassigned fund balance and will maintain an unassigned fund balance of no less than 8% and no more than 16% of total General Fund Budgeted Operating Expenditures in order to accommodate immediate cash flow and needs for unanticipated expenditures and/or emergencies.

The Town maintains a spending policy in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This policy states the Town shall, when possible, expend funds beginning with those funds that have the highest level of restriction first, and will spend those funds with the lowest level of restriction last. It shall be the Town's Finance Director's and School Department's Director of Finance and Administration's responsibility to ensure the Town's expenditures are appropriately classified based on the restrictions (both external and internal) of the revenue and fund balance(s) in accordance with the above policy. See Note 9 for current year classification of fund balance.

Proprietary fund equity is classified the same as in the Government-Wide financial statements.

Claims and Judgments

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

(CONTINUED)

2. CAPITAL ASSETS

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

Governmental Activities:	BEGINNING BALANCE	ADDITIONS	RETIREMENTS AND TRANSFERS	ENDING BALANCE at 6/30/11
Nondepreciable assets:				
Land	$ 4,037,922			$ 4,037,922
Land easements		1,420,000		1,420,000
Construction in Progress	152,622	58,969	152,622	58,969
Total Capital assets not being depreciated	4,190,544	1,478,969	152,622	5,516,891
Depreciable assets:				
Land improvements	637,848			637,848
Buildings	21,825,672			21,825,672
Buildings and improvements	5,745,582	302,520		6,048,102
Machinery & equipment	4,456,171	623,633		5,079,804
Construction equipment	396,909			396,909
Infrastructure	18,923,519	374,548		19,298,067
Vehicles	3,829,237	1,085,194	156,268	4,758,163
Total Capital assets being depreciated	55,814,938	2,385,895	156,268	58,044,565
Less: accumulated depreciation for:				
Land improvements	226,334	28,888		255,222
Buildings	13,834,344	411,266	-	14,245,610
Buildings and improvements	794,712	250,290		1,045,002
Machinery and equipment	2,750,750	468,924		3,219,674
Construction equipment	303,577	11,130		314,707
Infrastructure	12,638,674	414,859		13,053,533
Vehicles	2,059,603	263,517	145,850	2,177,270
Total accumulated depreciation	32,607,994	1,848,874	145,850	34,311,018
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 27,397,488	$ 2,015,990	$ 163,040	$ 29,250,438

Business-type activities	BEGINNING BALANCE	ADDITIONS	RETIREMENTS AND TRANSFERS	ENDING BALANCE at 6/30/11
Nondepreciable assets:				
Land	$ 37,251		$ -	$ 37,251
Total Capital assets not being depreciated	37,251	-	-	37,251
Depreciable assets:				
Machinery, equipment & vehicles	3,035,193		-	3,035,193
TOTAL CAPITAL ASSETS	3,035,193	-	-	3,035,193
Less accumulated depreciation for:				
Machinery, equipment & vehicles	233,002	152,732	-	385,734
Total accumulated depreciation	233,002	152,732	-	385,734
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 2,839,442	$ (152,732)	$ -	$ 2,686,710

(CONTINUED)

2. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	$ 58,113
Public safety	275,967
Public works	538,445
Education	867,838
Community service	108,511
Total depreciation expense	$1,848,874

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

School lunch	$ 3,415
Wind Turbine Generator	149,317
Total depreciation expense	$152,732

3. BUDGETARY AND LEGAL COMPLIANCE

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

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

The following individual funds reported deficits in the unreserved fund balances in the fund financial statements at June 30, 2011.

Wastewater Facility Plan	$ (58,889)
Illicit Discharge Detection	(18,553)
Active Shooter	(1,668)
Portsmouth Tree Commission	(1,991)
08-09 Warrants	(11,522)
09-10 Warrants	(379,459)
IDEA Part B	(2,777)
IDEA ARRA	(10,092)
Title II	(1,473)
Perkins	(191)
E2T2 Training Consortium	(3,429)
Feinstein Grant	(46)

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

(CONTINUED)

3. BUDGETARY AND LEGAL COMPLIANCE (Continued)

Legal Debt Margin

The Town's legal debt margin as set forth by State statute is limited to three percent of the total taxable assessed value which approximates $114,891,769. As of June 30, 2011, the Town was in compliance with this State statute. The debt subject to the debt limitation is based on the type of debt that is used.

4. CASH DEPOSITS and INVESTMENTS

Deposits

Deposits are in various financial institutions and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and included $1,450 of petty cash.

At year-end, the Town's carrying amount of cash deposits was $2,830,693 and the bank balance was $3,214,239. Of the bank balance, the entire amount was covered by Federal Depository Insurance.

Total cash deposits	$2,830,693
Add: Petty Cash	1,450
Add: U. S. Government money market funds	3,761,000
Less: Fiduciary funds cash, including time deposits (not included in the Government-wide statement)	(1,059,183)
Total cash and cash equivalents reported in the financial statements	$5,533,960

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

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

Investments

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

Concentration of Credit Risk

At June 30, 2011, the Town had a diversified portfolio in its Pension Trust Funds and was not deemed to be concentrated in any one investment category. Although all the investments were held in mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

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4. DEPOSITS and INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Concentration of Credit Risk

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

Pension Funds

Investment	Percentage	Fair Value	Rating (Moody/S&P)
Mutual Funds			
DFA Emerging Markets – Core	3.87%	$1,444,755	N/A
DFA Emerging Markets – Value	2.27%	845,748	N/A
DFA 5 Year Global-Fixed Income	9.69%	3,613,084	N/A
DFA International-Equity	7.47%	2,788,128	N/A
DFA International RE - Securities	2.46%	916,488	N/A
DFA International Small Cap - Portfolio	3.74%	1,393,681	N/A
DFA International Small Com - Portfolio	1.24%	464,145	N/A
DFA 1 Year Fixed-Income Portfolio	16.20%	6,043,822	N/A
DFA RE – Securities	3.66%	1,365,470	N/A
DFA 2 Year Global-Fixed Income Portfolio	6.48%	2,417,529	N/A
DFA US Core Equity 2-Portfolio	16.86%	6,289,300	N/A
DFA US Large Cap Value-Portfolio	8.12%	3,028,124	N/A
DFA US Vector Equity-Portfolio	11.76%	4,388,628	N/A
Stable Value/Money Market Funds	5.42%	2,021,176	N/A
Bond Funds	0.07%	27,600	N/A
Balanced/Asset Allocation Funds	0.39%	144,425	N/A
U.S. Stock Funds	0.20%	74,910	N/A
International Stock Funds	0.10%	36,267	N/A
Pension Funds Total	100%	$ 37,303,280	

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5. LONG-TERM AND SHORT-TERM OBLIGATIONS

The Town issues general obligation bonds to provide funds for the acquisition of equipment, as well as construction and improvements to capital facilities. General obligation bonds have been issued for both general governmental and school department activities. In addition, general obligation bonds have been issued to refund previously outstanding general obligation bonds.

Rhode Island general laws cap the amount of each municipality's general bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from nontax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2009 was $3,829,725,643, limiting the amount of nonexcepted general obligation bonds outstanding to $114,891,769. At June 30, 2011, bonds outstanding totaled $19,867,235.

During 2009, the Town issued $4,665,000 of general obligation refunding bonds to provide resources that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on $4,275,000 of refunded debt. The in-substance defeased bonds, were paid off during fiscal year ending June 30, 2011.

(CONTINUED)

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

The following is a summary of changes in long-term debt for the year ended June, 30, 2011:

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2010	Additions	Retirements	Balance, 6/30/2011	Interest Paid	Amounts Due Within One Year
General Long-Term Debt										
Governmental Activity										
General obligation,revenue bonds, and loans:										
School improvements	9,240,000	12/7/2000	5.00-5.40%	11/1/2020	$ 950,000		$ 475,000	$ 475,000	$ 35,625	$ 475,000
Tax settlement bond	2,200,000	2/17/2004	2.25%-4.75%	2/15/2019	1,350,000		150,000	1,200,000	47,213	150,000
Library land	450,000	9/27/2005	4.35%	9/15/2010	90,000		90,000	-	3,915	-
School computers	350,000	6/1/2006	4.35%	6/15/2011	70,000		70,000	-	2,336	-
Fire alarm system & dump trucks	124,000	6/1/2006	4.35%	6/15/2011	24,000		24,000	-	801	-
School improvements	350,000	6/27/2006	4.00-5.00%	4/1/2011	70,000		70,000	-	2,800	-
School gymnasium	3,500,000	6/27/2006	4.00-5.00%	4/1/2026	2,800,000		175,000	2,625,000	127,750	175,000
Road resurfacing	227,261	1/24/2007	4.40%	1/15/2012	90,800		45,400	45,400	3,575	45,400
School information technology	350,000	1/24/2007	4.50%	1/15/2012	140,000		70,000	70,000	5,513	70,000
Portsmouth Middle School sprinklers	1,900,000	5/16/2007	4.00-5.50%	4/1/2022	1,510,000		130,000	1,380,000	68,675	130,000
School improvements	350,000	5/16/2007	4.00-5.50%	4/1/2012	140,000		70,000	70,000	5,600	70,000
School improvements	350,000	5/17/2008	3.98%	3/17/2013	210,000		70,000	140,000	8,050	70,000
School improvements	344,836	5/17/2008	3.98%	3/17/2013	204,000		68,000	136,000	7,443	68,000
Town Improvements	242,500	2/13/2009	3.51%	2/13/2014	192,000		48,000	144,000	6,318	48,000
Student Information Technology	350,000	8/7/2008	3.75-4.00%	5/15/2014	280,000		70,000	210,000	10,850	70,000
School Building Repairs	350,000	8/7/2008	3.75-4.00%	5/15/2013	210,000		70,000	140,000	7,662	70,000
School Information Technology	350,000	2/13/2009	3.51%	2/13/2014	280,000		70,000	210,000	9,214	70,000
Portsmouth High School Sprinklers	1,100,000	8/7/2008	3.75-6.00%	5/15/2024	1,025,000		75,000	950,000	47,400	75,000
School Improvements	4,655,000	6/4/2009	2.00-5.00%	11/1/2020	4,590,000		65,000	4,525,000	138,563	65,000
Open Space/Recreation Bond	1,980,000	6/15/2010	2.00-4.00%	6/15/2025	1,980,000		150,000	1,830,000	63,075	150,000
Town Improvements	267,000	8/12/2009	4.10%	8/12/2014	240,300		53,400	186,900	9,305	53,400
School Information Technology	350,000	8/12/2009	4.10%	8/12/2014	315,000		70,000	245,000	12,198	70,000
Rhode Island Clean Water Agency Loan	150,000	10/20/2009	1.00%	9/1/2012	146,982		50,000	96,982	1,220	50,000
School Information Technology	350,000	11/4/2010	2-3%	6/30/2016	-	$ 350,000	-	350,000	-	70,000
School Improvements	350,000	11/4/2010	2-3%	6/30/2016	-	350,000	-	350,000	-	70,000
Town Improvements	345,000	11/4/2010	2-3%	6/30/2016	-	345,000	-	345,000	-	70,000
Fire Engine Purchase	970,000	11/4/2010	2-3%	6/30/2016	-	970,000	-	970,000	-	195,000
Wastewater Plan	750,000	11/4/2010	2-3%	6/30/2016	-	750,000	-	750,000	-	150,000
Total general obligation, revenue, and loans:					16,908,082	2,765,000	2,228,800	17,444,282	625,098	2,529,800
Deferred amount for issuance premiums					148,054	95,488	17,548	225,994	-	32,281
Compensated absences					2,028,474	34,820	93,340	1,969,954	-	-
Net OPEB Obligation					2,431,196	934,135		3,365,331		
Total general long-term debt					21,515,806	3,829,443	2,339,688	23,005,561	625,098	2,562,081

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

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2010	Additions	Retirements	Balance, 6/30/2011	Interest Paid	Amounts Due Within One Year
Capital lease payable:										
Hewlett Packard equipment lease	41,111	1/31/2010	4.60%	1/31/2013	-	41,111	4,775	36,336	605	13,281
					-	41,111	4,775	36,336	605	13,281
Total enterprise fund long-term debt										

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2010	Additions	Retirements	Balance, 6/30/2011	Interest Paid	Amounts Due Within One Year
Enterprise Funds Long-Term Debt										
General obligation bonds:										
Wind Turbine Construction Project	2,600,000	11/4/2008	1.15%	12/15/2022	2,253,334		173,334	2,080,000	24,917	173,333
Wind Turbine Construction Project	400,000	9/4/2008	2.00%	7/15/2023	369,333		26,381	342,952	7,236	26,381
Total enterprise fund long-term debt					2,622,667	-	199,715	2,422,952	32,153	199,714
Total long-term obligations					$ 24,138,473	$ 3,870,554	$ 2,544,178	$ 25,464,849	$ 657,856	$ 2,775,076

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

At June 30, 2011 the annual debt service requirements to maturity for general obligation, revenue bonds and loans for general long-term debt are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION AND LOANS		
	PRINCIPAL	INTEREST	TOTAL
2012	$2,529,800	$611,055	$3,140,855
2013	2,331,382	520,864	2,852,246
2014	2,066,400	454,243	2,520,643
2015	1,801,700	393,052	2,194,752
2016	1,700,000	341,763	2,041,763
2017	1,145,000	283,288	1,428,288
2018	1,135,000	239,656	1,374,656
2019	1,125,000	192,963	1,317,963
2020	965,000	147,238	1,112,238
2021	955,000	107,813	1,062,813
2022-2026	1,690,000	193,200	1,883,200
	$17,444,282	$3,485,135	$20,929,417

At June 30, 2011 the future minimum lease payments to be paid on the lease are as follows:

FISCAL YEAR ENDING June 30,	CAPITAL LEASE PAYABLE		
	PRINCIPAL	INTEREST	TOTAL
2012	$13,281	$1,415	$14,696
2013	13,905	790	14,695
2014	9,150	167	9,317
	$36,336	$2,372	$38,708

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

At June 30, 2011 the annual debt service requirements to maturity for general obligation and revenue bonds for enterprise fund long-term debt are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION PRINCIPAL	INTEREST	TOTAL
2012	$199,714	$29,625	$229,339
2013	199,714	27,114	226,828
2014	199,714	24,567	224,281
2015	199,714	22,040	221,754
2016	199,714	19,511	219,225
2017	199,714	16,994	216,708
2018	199,714	14,456	214,170
2019	199,714	11,927	211,641
2020	200,164	9,398	209,562
2021	200,164	6,817	206,981
2022-2024	424,912	5,897	430,809
	$2,422,952	$188,346	$2,611,298

6. LEASE REVENUE

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

Fiscal Year Ending June 30,	Governmental Activities
2012	$ 81,788
2013	85,643
2014	89,638
2015	93,671
2016	97,905
Total	$448,645

7. RISK MANAGEMENT

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

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7. RISK MANAGEMENT (Continued)

The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust (the Trust), a nonprofit public entity risk pool which provides insurance coverage to participants in exchange for an annual premium and a pro-rata share of certain administrative expenses. Coverage is provided in accordance with each member's policy, subject to maximum insurable limits and deductibles, through a pooling of risks among participants, supplemented by commercial reinsurance for excess losses. Management believes the Trust's reserves to be adequate to meet all reported claims, as well as an estimate of potential claims for losses incurred but not reported. Accordingly, no accrual has been made for potential liabilities arising from risks once they have been transferred to the Trust. The Town and the School Department are members of the Trust, a joint purchasing group which provides health and dental insurance coverage to participants in exchange for a premium. There have been no significant reductions in insurance coverage during the year ended June 30, 2011.

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

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

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

8. INTERFUND BALANCES

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

Interfund receivables and payables are as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	$ 153,518	$ 1,497,668
School Unrestricted Fund	3,195,808	1,463,633
Non-Major Governmental Funds	1,721,131	1,869,173
Proprietary School Lunch Fund	187,521	189,706
Proprietary Transfer Station Fund	37,731	-
Proprietary Wind Turbine Generator Fund		230,617
Non-Major Proprietary Funds	35,403	80,315
Total	$ 5,331,112	$ 5,331,112

(CONTINUED)

9. *FUND BALANCES*

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the District has classified governmental fund balances at June 30, 2011 as follows:

At June 30, 2011 Non-Spendable Fund Balance consisted of the following:

Inventory	$	58,646
Funds held by contractual requirements		4,821
Total Non-spendable Fund Balance	**$**	**63,467**

At June 30, 2011 Restricted Fund Balance consisted of the following:

Melville land acquisition	$	36,523
Parks and recreation		6,533
Public services		104,747
Law enforcement and fire prevention		110,063
Education		391,783
Various future capital project operations		752,148
Total Restricted Fund Balance	**$**	**1,401,797**

At June 30, 2011 Committed Fund Balance consisted of the following:

Committed for various capital projects	$	130,959
Committed for Education		2,489,136
Total Committed Fund Balance	**$**	**2,620,095**

At June 30, 2011 Assigned Fund Balance consisted of the following:

Open Space projects	$	309,379
Total Assigned Fund Balance	**$**	**309,379**

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10. POST EMPLOYMENT HEALTH CARE BENEFITS

Other Post-Employment Benefits (OPEB) – Town Employees

Plan Description

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

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

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

b. Classes of Employees Covered

As of July 1, 2010 (date of the last actuarial valuation) membership data was as follows:

Active employees	106
Inactive employees:	
Retirees	36
Total plan members	142

The Town established a Trust Agreement (OPEB Trust) effective March 8, 2010, and has started to pre-fund OPEB liabilities as well as funding on a pay-as-you-go basis. The employees of Public Works, Fire and Police contributed .25%, 1.5% and 1.0% of salaries respectively to the OPEB Trust for the year ended June 30, 2011. The total employee contributions to the OPEB trust was $60,666 for the year ended June 30, 2011. The Town pays 100% of the cost of the individual health care and dental insurance for all retired eligible employees except for Public Works employees who contribute 20% of the medical and dental premiums. The Town pays the cost of the health care and dental insurance until the retired employee is eligible for Medicare benefits. Expenditures for the benefits described above for the year ended June 30, 2011 were $638,328.

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 1,345,177
Interest on net OPEB obligation	106,383
Adjustment to annual required contribution	(135,703)
Annual OPEB cost (expense)	1,315,857
Implicit rate subsidy	(153,846)
Contributions made	(638,328)
Increase in net OPEB obligation	523,683
Net OPEB obligation - July 1, 2010	2,030,262
Net OPEB obligation - June 30, 2011	$ 2,553,945

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset/(Obligation)
6/30/2009	$1,569,039	30%	$(1,106,449)
6/30/2010	$1,569,039	41%	$(2,030,262)
6/30/2011	$1,315,857	59%	$(2,553,895)

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements, presents multi-trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB – Town Employees with a valuation date of July 1, 2010, which is the most recent report available.

Actuarial accrued liability (AAL)	$ 13,248,340
Actuarial value of plan assets (AVA)	(153,249)
Unfunded actuarial accrued liability (UAAL)	13,095,091
Funded ratio (actuarial value of plan assets/AAL)	1.2%
Covered payroll (active plan members)	6,383,155
UAAL as a percentage of covered payroll	205.2%

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

Actuarial Methods and Assumptions

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

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

The projected unit credit cost method was used in the July 1, 2010 actuarial valuation. Actuarial assumptions included a 5.24% investment rate of return (net of administrative expenses). Only assets that have been contributed are considered available for liabilities for purposes of the valuation. The Town does use other assets to pay the liabilities on a pay-as-you-go basis at the present time. The actuarial assumptions for healthcare cost trend is growth of 10% for 2011 and declining by .5% per year until 5% is reached for health care, 5% for 2011 and declining by .25% per year until 4% is reached for dental and 4% for 2011 and declining by .25% per year until 3% is reached for vision. The 5% and 4% growth is used on a go-forward basis. The UAAL will be amortized over a closed thirty year period.

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Plan Description

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

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

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

b. Classes of Employees Covered

As of July 1, 2010 (date of the last actuarial valuation) membership data was as follows:

Active Employees	327
Inactive employees:	
Retirees	93
Total plan members	420

Funding Policy

The School Department has not yet established a Trust to pre-fund OPEB liabilities. The amounts due for these benefits are funded on an at-will basis. The School Department pays 100% of the cost of individual health care insurance and dental insurance benefits for all retired eligible employees, AFSCME and At Will employees for six years, NEA (Teachers) and Administrators for nine years, capped at the premium cost at the time of retirement.

The School Department funds post retirement benefits on a pay-as-you go basis. Expenditures for the benefits described above for the year ended June 30, 2011 were $388,188.

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

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 1,071,313
Interest on net OPEB obligation	16,037
Adjustment to annual required contribution	(23,186)
Annual OPEB cost (expense)	1,064,164
Implicit rate subsidy	(265,524)
Contributions made	(388,188)
Increase in net OPEB obligation	410,452
Net OPEB obligation - July 1, 2010	400,934
Net OPEB obligation - June 30, 2011	$ 811,386

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset/(Obligation)
6/30/2009	$511,670	59%	$(212,068)
6/30/2010	511,670	63%	$(400,934)
6/30/2011	1,064,164	61%	$(811,386)

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB with a valuation date of July 1, 2010, which is the most recent report available.

Actuarial accrued liability (AAL)	$ 10,258,675
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	10,258,675
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$18,890,918
UAAL as a percentage of covered payroll	54.3%

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

Actuarial Methods and Assumptions

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

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

The projected unit credit cost method was used in the July 1, 2010 actuarial valuation. Actuarial assumptions include a 4.0% investment rate of return (net of administrative expenses). Only assets that have been contributed are considered available for liabilities for purposes of the valuation. The School does use other assets to pay the liabilities on a pay-as-you-go basis at the present time. The actuarial assumptions for healthcare cost trend is growth of 10.0% for 2011 and declining by .5% per year until 5% is reached for health care costs. The 5% growth is used on a go-forward basis. The UAAL will be amortized over a closed thirty year period.

(CONTINUED)

11. CONTINGENT LIABILITIES AND COMMITTMENTS

Pending or threatened lawsuits against municipal governments arise in the ordinary course of operations. Generally, in the opinion of the administration, the ultimate resolution of any legal actions will not result in a material loss to the Town. However, at June 30, 2011, there are several claims against the Town for which the Town's legal counsel is unable to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

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

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

On September 15, 2010, the Department of Environmental Management issued a notice of violation (NOV) to the Town for failure to prevent or mitigate the discharge of sewage from storm water drainage pipes and other sources in the Island Park and Portsmouth Park neighborhoods into the Cove and Sakonnet River. The NOV ordered the Town to complete a facilities plan and initiate construction of a wastewater treatment system. The NOV assessed a penalty of $186,019 to the Town. After consulting with professional engineers, the Town is not in agreement with the Department of Environmental Management's position in this matter. The Town has not initiated construction of a wastewater treatment system and has not paid the penalty. The Town is currently working with legal counsel to formulate a response to the NOV and a hearing date has not been scheduled.

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

The School Department has a five year agreement, through June 30, 2015, with First Student to provide busing for the School Department based on the rate schedule specified in the agreement. Busing costs associated with this agreement totaled approximately $1,613,522 for the year ended June 30, 2011.

As of June 30, 2011, the School Department has encumbrances of $131,669 which is reported as committed fund balance in the School Unrestricted Fund.

12. PENSION PLANS

Town Retirement Plan

Plan Description

The Town Retirement Plan is a single employer, contributory defined benefit pension plan which provides retirement, disability and death benefits to all full-time employees of the Town except School Department personnel certified by the Rhode Island Department of Education (Certified Employees) who are eligible to participate in the Employees' Retirements System of the State of Rhode Island. Police and Public Works employees hired on or after July 1, 2010 are not entitled to receive normal benefits. The Plan was established in accordance with the Town Charter and State statutes. The plan is reported as a Pension Trust Fund in the Town's financial statements. As of July 1, 2011, employee membership data for the Town Retirement Plan is as follows:

Active members	189
Retired members	92
Terminated with vesting	14
Disabled members	10
Beneficiaries of deceased members	7
Total	312

Benefit Provisions and Contributions

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

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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

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

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

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

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

The pre-retirement death benefits are as follows:

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

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

Employees are required to contribute to the Plan as follows:

Fire employees	10% of gross pay; Exception-the Fire Chiefs and the two Deputy Fire Chiefs contribute 6.5% of earnings.
Police employees	8% of earnings. No contributions for employees hired on or after July 1, 2010.
School employees	Employees hired on or after July 1, 1991 contribute 6% of earnings. Employees hired prior to July 1, 1991 contribute 2% of earnings.
Town Hall employees	No contributions required from employees hired prior to July 1, 1991. Employees hired on or after July 1, 1991 contribute 5% of earnings.
Public Works employees	Union employees are not required to make contributions. Management and nonunion employees contribute 5% of earnings. No contributions for employees hired on or after July 1, 2010.
Town Hall management	For employees hired on or after July 1, 2004 the 5.5% contributions will cease once the employee earns the maximum benefit.

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Actuarial methods and significant assumptions

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

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

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

	2010	2010	2009
Annual pension costs	$ 2,514,420	$ 2,590,523	$ 2,346,316
Actual contribution	2,514,420	2,590,523	2,346,316
Net pension obligation	NONE	NONE	NONE
% of annual pensions costs contributed	100%	100%	100%

The annual required contribution was determined as part of an actuarial valuation as of July 1, 2009. Significant actuarial methods and assumptions are as follows:

Actuarial Cost Method

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

Asset Valuation Method

Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets and annual requirement contributions for the Plan were performed annually through June 30, 2011.

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Assumptions

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

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing and decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of with a valuation dated of July 1, 2011 which is the most recent report available from the State who administers this plan:

Actuarial Value of Asset	$	35,266,853
Actuarial Accrued Liability (AAL)	$	57,377,287
Unfunded AAL (UAAL)	$	(22,110,434)
Funded Ratio		61.5%
Covered Payroll	$	8,781,718
UAAL as a percentage of covered payroll		251.8%

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

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12. PENSION PLANS (Continued)

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

Plan Description

All full-time teachers, including superintendents, principals, school nurses and certain other school officials in the School Department are considered Certified Employees and are eligible to participate in the ERS, a cost-sharing multiple-employer public retirement system. ERS provides retirement, death and disability and health care benefits, all of which are established by State statue. The payroll for employees covered by the System for the year ended June 30, 2011 was $17,530,593. The School Department's total payroll for the year ended June 30, 2011 was $27,821,873. ERS issues a publicly available financial statement that includes the financial statements and required supplementary information for ERS. That report may be obtained from the Employees' Retirement System of Rhode Island, 40 Fountain Street, Providence, RI 02903, or by accessing their website at www.ersri.org.

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

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

Schedule B Benefits: Classified employees who were hired after July 1, 2005, or current employees with less than 10 years of contributory services on or before July 1, 2005, who attain at least 10 years of credited service, will become entitled to a retirement benefit payable monthly for life. The retirement benefit is a percentage of the final average salary per year of credited service with a maximum benefit of 75% of "final average" salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pays. The unreduced retirement benefit becomes available at age 65 and 10 years of service; actuarially reduced retirement benefits become available at age 55 and 20 years of service. The retirement benefit is equal to 1.6 percent of their final average salary for each year of credited service up to 10 years, plus 1.8 percent of their final average salary in excess of 10 years through 20 years, plus 2.0 percent of their final average salary in excess of 20 years through 25 year of service, plus 2.25 percent of their final average salary in excess of 26 years through 30 years of service, plus 2.5% of their final average salary of 31 years of service through the 37th year. The ERS plan also provides a survivor benefit to public school teachers via a "Teachers Survivor Benefits Fund" in lieu of Social Security. The details of the survivor death benefit and other death benefits are provided in the financial section of the Annual Financial Report of the Employees' Retirement System of Rhode Island for the fiscal year ending June 30, 2011 which can be found at www.ersri.org.

(CONTINUED)

12. PENSION PLANS (Continued)

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

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

The amortized rate is the contribution required to amortize the unfunded actuarial liability over 21 years as a level percent of pay. For the Teachers, the State of Rhode Island pay 40% of the rate, adjusted so that the State pays the entire amortization charge for the 1990/91 and 1991/92 deferrals, and the town employing the Teacher pays the balance. The School Department was required to contribute 11.25%, 14.86% and 13.04% for all full-time employees for the fiscal years 2011, 2010 and 2009, respectively. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability.

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

A. Mortality - 1994 Group Annuity Mortality Table with mortality for disabled persons set equal to the age 65 under the PBGC Table.

B. Investment return - 8.25%, compounded annually.

C. Salary increase – Salaries will increase at a rate of 4.50% – 13.25%, compounded annually

D. Retirement age - Teachers are assumed to retire at the later of age 61 or completion of the service requirements. Article 7 establishes a minimum retirement age of 62 for all future hires, but this age must not be less than under prior law.

E. Cost of living adjustments – 3.0% compounded annually beginning on the January 1st following a participant's third anniversary of retirement.

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years plus 40% of contributions assessed to employers on payroll not reimbursable through Federal programs. For fiscal year 2011, actuarial required contributions were 19.01% of the participant's salary. This resulted in contribution rates paid by the State on behalf of the School Department of 7.76% of non-federally reimbursable payrolls totaling $1,378,156 for the year ended June 30, 2011, which has been included as revenues and expenditures in the School Department's unrestricted fund. The School Department contributed the remaining 11.25% of the required 19.01%.

(CONTINUED)

12. PENSION PLANS (Continued)

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

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

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

Contributions

The School Department's required contributions and actual contributions made for the years ended June 30, 2011, 2010, and 2009 were as follows:

FISCAL YEAR ENDED	ANNUAL REQUIRED CONTRIBUTION	ACTUAL CONTRIBUTION	PERCENTAGE CONTRIBUTION
6/30/2009	$ 1,707,253	$ 1,707,253	100%
6/30/2010	1,981,787	1,981,787	100%
6/30/2011	1,378,156	1,378,156	100%

Defined Contribution Pension Plan

The Town of Portsmouth has adopted a defined contribution money purchase plan for all full time NAGE local 280, PMEA local 871 members and non-union employees. The required contribution for the Town and participants are 1.75% earnings and 3.00% earnings, respectively. During fiscal year 2011, contributions made under this plan by participants and employer were $99,401 and $35,584, respectively.

Plan Description

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

A. Plan Administrator – The ICMA Retirement Corporation

B. Plan Year- The twelve consecutive month period designated by the Town

C. Trust- The Trust created under Article VI of the Plan which shall consist of all of the assets of the Plan derived from Employer and Participant contributions under the Plan, plus any income and gains thereon, less any losses, expenses and distribution to Participants and Beneficiaries.

(CONTINUED)

13. DEFERRED COMPENSATION PLAN

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

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

(CONCLUDED)

Required Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2011

	Original Budget	Appropriation Transfers and Additions	Final Budget	Actual	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues						
Property taxes	$ 43,811,676	$ -	$ 43,811,676	$ 42,895,872	$ -	$ (915,804)
Intergovernmental revenue	1,090,802	(77,804)	1,012,998	971,353	-	(41,645)
Licenses, permits and fees	887,100	-	887,100	789,801	-	(97,299)
Fines & forfeitures	216,400	22,804	239,204	384,197	-	144,993
Earnings on investments	30,000	-	30,000	9,498	-	(20,502)
Other revenues	1,400,074	-	1,400,074	1,555,860	-	155,786
Total revenues	47,436,052	(55,000)	47,381,052	46,606,581	-	(774,471)
Expenditures						
Current:						
General government	4,477,631	(165,577)	4,312,054	4,153,553		158,501
Public safety	8,462,720	181,824	8,644,544	8,602,939		41,605
Public works	2,328,839	(10,850)	2,317,989	2,239,023		78,966
Community services:						
Recreation, parks and grounds	513,076	8,043	521,119	465,179	3,190	52,750
Public and social services	594,852	24,783	619,635	619,635		-
Debt Service	2,971,556	(78,768)	2,892,788	2,886,536		6,252
Total expenditures	19,348,674	(40,545)	19,308,129	18,966,865	3,190	338,074
Excess (deficiency) of revenues over expenditures	28,087,378	(14,455)	28,072,923	27,639,716	(3,190)	(436,397)
Other financing sources (uses) transfer between funds	(28,087,378)	14,455	(28,072,923)	(28,188,170)		(115,247)
Total other financing sources (uses)	(28,087,378)	14,455	(28,072,923)	(28,188,170)	-	(115,247)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ -	$ (548,454)	$ (3,190)	$ (551,644)

TOWN OF PORTSMOUTH, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues					
Intergovernmental revenue	$ 5,339,352	$ 5,339,352	$ 5,652,571	$ -	$ 313,219
State Fiscal Stabilization Funds	349,295	349,295	419,394		70,099
Other revenues	1,749,200	1,749,200	979,464		(769,736)
Total revenues	7,437,847	7,437,847	7,051,429	-	(386,418)
Expenditures					
Education	35,957,720	35,957,720	34,147,669	131,669	1,678,382
Total expenditures	35,957,720	35,957,720	34,147,669	131,669	1,678,382
Excess (deficiency) of revenues over expenditures	(28,519,873)	(28,519,873)	(27,096,240)	(131,669)	1,291,964
Other financing sources (uses):					
Transfer from General Fund	28,203,873	28,203,873	28,203,873		-
Use of accumulated fund balance	316,000	316,000	-		(316,000)
Total other financing sources (uses)	28,519,873	28,519,873	28,203,873	-	(316,000)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ 1,107,633	$ (131,669)	$ 975,964

Budgetary-GAAP Reporting Reconciliation

In accordance with Town's Home Rule Charter, the Town Administrator must present to the Town Council a recommended annual budget for the operations of all municipal departments no later than 90 days prior to the commencement of each fiscal year. The recommended budget must include the School Department's annual budget as approved by the School Committee. A final budget must be adopted by the Town Council by June 30^{th}.

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

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

Budgetary Compliance:

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

There were no municipal department expenditures that exceeded appropriations (after approved transfers) for the year ended June 30, 2011.

(CONCLUDED)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
1/1/1999	$ 11,604,444	$ 14,874,442	$ 3,269,998	78.0%	$ 5,431,775	60.2%
1/1/2000	13,366,941	16,682,652	3,315,711	80.1%	5,656,718	58.6%
1/1/2001	14,764,504	20,772,711	6,008,207	71.1%	6,121,015	98.2%
1/1/2002	15,775,149	22,798,424	7,023,275	69.2%	6,347,972	110.6%
1/1/2003	15,770,989	24,582,923	8,811,934	64.2%	6,619,388	133.1%
1/1/2004	19,407,779	28,684,523	9,276,744	67.7%	6,696,215	138.5%
1/1/2005	22,451,034	33,089,944	10,638,910	67.8%	6,732,372	158.0%
7/1/2006	25,129,703	38,459,122	13,329,419	65.3%	7,767,018	171.6%
7/1/2007	27,628,308	43,087,640	15,459,332	64.1%	7,958,303	194.3%
7/1/2008	30,441,304	47,736,361	17,295,057	63.8%	8,221,692	210.36%
7/1/2009	31,609,237	51,284,315	19,675,078	61.6%	8,596,994	228.86%
7/1/2010	32,779,646	54,054,944	21,275,298	60.6%	8,507,853	250.07%
7/1/2011	35,266,853	57,377,287	22,110,434	61.5%	8,781,718	251.78%

(CONTINUED)

Schedule of Employer Contribution

Actuarial Valuation Date	Required Contibution	Actual Contribution	Percent of ARC Contributed
1/1/1999	$ 802,090	$ 831,195	103.63%
1/1/2000	799,190	811,401	101.53%
1/1/2001	1,088,547	1,088,547	100.00%
1/1/2002	1,162,063	1,162,063	100.00%
1/1/2003	1,292,432	1,292,432	100.00%
1/1/2004	1,370,682	1,370,682	100.00%
1/1/2005	1,552,168	1,552,168	100.00%
7/1/2006	1,671,713	1,671,713	100.00%
7/1/2007	2,088,317	2,088,317	100.00%
7/1/2008	2,346,316	2,346,316	100.00%
7/1/2009	2,590,523	2,590,523	100.00%
7/1/2010	2,514,420	2,514,420	100.00%

(CONTINUED)

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

Valuation date	July 1, 2009
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	30 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	8.0% per annum
Projected salary increase	4.0% per annum
Cost-of- living adjustments	Public works employees -2.0% Fire employees (retired before 6/30/2007) - 2.0% Fire employees (retired after 6/30/2007) - 3.0% Police employees - 3.0% Town hall employees - 2.0% School management and Non-Certified employees - 1.7 % Town management (retired before 7/1/2004) - 2.0% Town management (retired after 7/1/2004) - 3.0%
Assumed Retirement Age	Employees are assumed to retire as follows: Fire - 100% at 27 years of service Police - 50% at 25 years of service and the remainder at 27 years of service Town and Public Works - 100% at the later of age 60 or 10 years of service School (Council #94) - 50% on completion of age 55 and 20 years of services, 100% at age 60 with 10 years and 5% between age 56-59 School (Non-Council #94) - 100% on completion of age 60 with 10 years of services Any employee who has already passed the Assumed Retirement Age is assumed to retire immediately

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
Municipal employees						
7/1/2008	N/A	$13,026,759	$13,026,759	N/A	$5,510,188	236.4%
7/1/2009	N/A	$13,026,759	$13,026,759	N/A	$5,510,188	236.4%
7/1/2010	$153,249	$13,248,340	$13,095,091	1.2%	$6,383,155	205.2%
School employees						
7/1/2008	0	$4,514,458	$4,514,458	N/A	N/A	N/A
7/1/2009	0	$4,514,458	$4,514,458	N/A	N/A	N/A
7/1/2010	0	$10,258,675	$10,258,675	N/A	$18,890,918	54.3%

(CONTINUED)

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2011

Actuarial Valuation Date	Required Contribution	Actual Contribution	Percent of ARC Contributed
Municipal employees			
6/30/2009	$1,569,039	$462,590	29.5%
6/30/2010	$1,569,039	$645,276	41.1%
6/30/2011	$1,345,177	$792,174*	58.9%
School employees			
6/30/2009	$511,670	$299,602	58.5%
6/30/2010	$511,670	$322,804	63.1%
6/30/2011	$1,071,313	$653,712**	61.1%

*The total employer contribution for pay as you go costs is the sum of $638,328 in actual premium payments and $153,846 for the implicit portion of the pay-as-you-go costs.

**The total employer contribution for pay-as-you-go costs is the sum of $388,188 in actual premium payments and $265,524 for the implicit portion of the pay-as-you-go costs.

(CONTINUED)

Other Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

ASSETS	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
Cash, cash equivalents and investments	$ -	$ 223,274	$ 144,120	$ 367,394
Accounts receivable	1,010,253	-	-	1,010,253
Cash payroll clearing	-	-	-	-
Other receivables	-	-	-	-
Due from federal and state governments	103,419	-	-	103,419
Due from other funds	1,013,490	707,641	-	1,721,131
Other assets	-	-	-	-
TOTAL ASSETS	$ 2,127,162	$ 930,915	$ 144,120	$ 3,202,197
LIABILITIES				
Accounts payable	$ 49,573	$ 50,956	$ -	$ 100,529
Accrued expenses	-	-	-	-
Accrued payroll	-	-	-	-
Due to other funds	1,478,150	391,023	-	1,869,173
Deferred revenue	85,402	-	-	85,402
Due to State	-	-	-	-
Due to Town	-	-	-	-
TOTAL LIABILITIES	1,613,125	441,979	-	2,055,104
FUND BALANCE				
Nonspendable	-	-	4,821	4,821
Restricted	613,126	752,148	-	1,365,274
Committed	-	127,769	-	127,769
Assigned	-	-	-	-
Unassigned	(99,089)	(390,981)	139,299	(350,771)
TOTAL FUND BALANCE	514,037	488,936	144,120	1,147,093
TOTAL LIABILITIES AND FUND BALANCE	$ 2,127,162	$ 930,915	$ 144,120	$ 3,202,197

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Revenues Other Financing Sources, Expenditures and Other Financing Uses, and Changes in Fund Balance

Non-Major Governmental Funds

June 30, 2011

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES:				
State aid and grants (Intergovernmental)	$ 2,468,322	$ -	$ -	$ 2,468,322
Charges for services	129,593	-	-	129,593
Impact aid	-	-	-	-
Investment and interest income	-	97	795	892
Contributions and private grants	51,115	125,000	-	176,115
Other revenue	932	-	-	932
TOTAL REVENUES	2,649,962	125,097	795	2,775,854
EXPENDITURES:				
Current:				
General government	43,818	-	-	43,818
Public safety	71,425	-	-	71,425
Public works	902,438	-	-	902,438
Education	2,030,286	-	-	2,030,286
Community services	88,254	-	-	88,254
Capital expenditures	57,421	3,303,691	-	3,361,112
Debt issuance costs	3,544	9,580	-	13,124
Park & recreation	2,262	-	-	2,262
TOTAL EXPENDITURES	3,199,448	3,313,271	-	6,512,719
Excess of revenue over(under) expenditures before transfers	(549,486)	(3,188,174)	795	(3,736,865)
Other financing sources (uses):				
Transfers from other funds	-	59,159	-	59,159
Transfers to other funds	(76,618)	(19,483)	-	(96,101)
Note Proceeds	-	0		-
Bond Proceeds	750,000	2,015,000	-	2,765,000
Bond premiums	25,782	69,706	-	95,488
Net other financing sources (uses)	699,164	2,124,382	-	2,823,546
Excess of revenues and other sources over (under) expenditures and other uses	149,678	(1,063,792)	795	(913,319)
FUND BALANCES, BEGINING OF YEAR	364,359	1,552,728	143,325	2,060,412
FUND BALANCES, ENDING OF YEAR	$ 514,037	$ 488,936	$ 144,120	$ 1,147,093

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Net Assets
Non-Major Proprietary Funds
June 30, 2011

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
ASSETS			
Current assets:			
Due from other funds		$ 35,403	$ 35,403
Total current assets	-	35,403	35,403
TOTAL ASSETS	-	35,403	35,403
LIABILITIES			
Current liabilities:			
Due to other funds	$ 27,895	52,420	80,315
Total current liabilities	27,895	52,420	80,315
TOTAL LIABILITIES	27,895	52,420	80,315
NET ASSETS			
Unrestricted	(27,895)	(17,017)	(44,912)
TOTAL NET ASSETS	$ (27,895)	$ (17,017)	$ (44,912)

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Revenues, Expenses and Changes in Net Assets
Non-Major Proprietary Funds
For the year ended June 30, 2011

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
Operating Revenues:			
Charges for services	$ -	$ 14,449	$ 14,449
Total Operating Revenues	-	14,449	14,449
Operating Expenses:			
Education	-	14,244	14,244
Total Operating Expenses	-	14,244	14,244
Income from operations	-	205	205
Net assets - beginning of the year	(27,895)	(17,222)	(45,117)
Net assets - ending of the year	$ (27,895)	$ (17,017)	$ (44,912)

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Cash Flows
Non-Major Proprietary Funds
For the year ended June 30, 2011

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
Cash flows from operating activities:			
Cash received from customers	$ -	$ 14,449	$ 14,449
Intergovernmental			-
Cash payments to suppliers for goods and services	-	(14,244)	(14,244)
Net cash provided by operating activities	-	205	205
Cash flows from non-capital financing activities:			
Operating transfers (to) from other funds			-
Interfund borrowings	-	(205)	(205)
Net cash provided (used) by non-capital financing activities	-	(205)	(205)
Net increase in cash	0	0	0
Cash and cash equivalents, beginning of the year	0	0	0
Cash and cash equivalents, end of the year	$ -	$ -	$ -
Reconciliation of net income to net cash provided by operating activities:			
Income from operations	-	205	205
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	-	-	-
Total adjustments	-	-	-
Net cash provided by operating activities	$ -	$ 205	$ 205

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2011

Town Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
Soil Agency Fund				
ASSETS				
Account Receivable	180,922	86,200	46,045	221,077
Letters of Credit	9,100			9,100
TOTAL ASSETS	$ 190,022	$ 86,200	$ 46,045	$ 230,177
LIABILITY				
Deposits Held in Custody for Others	$ 190,022	$ 86,200	$ 46,045	$ 230,177
Library State Aid				
ASSET				
Account Receivable	$ -	$ 99,917	$ 99,917	$ -
LIABILITY				
Deposits Held in Custody for Others	$ -	$ 99,917	$ 99,917	$ -
GMH Deposit Agency Fund				
ASSET				
Account receivable	$ 16,000	$ 38,500	$ 36,000	$ 18,500
TOTAL ASSETS	$ 16,000	$ 38,500	$ 36,000	$ 18,500
LIABILITIES				
Account payable	$ -	$ 1,500	$ -	$ 1,500
Deposits Held in Custody for Others	16,000	37,000	36,000	17,000
TOTAL LIABILITIES	$ 16,000	$ 38,500	$ 36,000	$ 18,500
Drago Road Bond Agency Fund				
ASSET				
Cash and cash equivalents	$ 3,605	$ 1	$ 3,606	$ -
LIABILITY				
Deposits Held in Custody for Others	$ 3,605	$ 1	$ 3,606	$ -
Glen Park Damage Deposit				
ASSET				
Account receivable	$ 650	$ 1,725	$ 1,775	$ 600
LIABILITY				
Deposits Held in Custody for Others	$ 650	$ 1,725	$ 1,775	$ 600
Prescott Point Fund				
ASSET				
Cash and cash equivalents	$ 100,000	$ 139	$ -	$ 100,139
LIABILITY				
Deposits Held in Custody for Others	$ 100,000	$ 139	$ -	$ 100,139
TOTAL TOWN ACTIVITY AGENCY FUNDS				
ASSET				
Cash	$ 103,605	$ 140	$ 3,606	$ 100,139
Account receivables	197,572	226,342	183,737	240,177
Letters of Credit	9,100	-	-	9,100
TOTAL ASSETS	$ 310,277	$ 226,482	$ 187,343	$ 349,416
LIABILITY				
Accounts Payable	$ -	$ 1,500	$ -	$ 1,500
Deposits Held in Custody for Others	310,277	224,982	187,343	347,916
TOTAL LIABILITIES	$ 310,277	$ 226,482	$ 187,343	$ 349,416

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2011

School Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
Elmhurst				
ASSETS				
Citizens Bank Checking	$ 9,613	$ 22	$ 9,635	$ -
LIABILITIES				
Deposits Held in Custody for Others	$ 9,613	$ 22	$ 9,635	$ -
Hathaway				
ASSETS				
Citizens Bank Checking	$ 810	$ 4,235	$ -	$ 5,045
LIABILITIES				
Deposits Held in Custody for Others	$ 810	$ 4,235	$ -	$ 5,045
Melville				
ASSETS				
Citizens Bank Checking	$ 10,922	$ 6,114	$ 3,476	$ 13,560
Citizens Bank Savings	2,689	-	2	2,687
	$ 13,611	$ 6,114	$ 3,478	$ 16,247
LIABILITIES				
Deposits Held in Custody for Others	$ 13,611	$ 6,114	$ 3,478	$ 16,247
PMS				
ASSETS				
Citizens Bank Checking	$ 15,437	$ 35,150	$ 23,555	$ 27,032
LIABILITIES				
Deposits Held in Custody for Others	$ 15,437	$ 35,150	$ 23,555	$ 27,032
PHS				
ASSETS				
PHS CD	$ 50,000			$ 50,000
Citizens Bank Checking	162,322	134,678	$ 153,378	143,622
Citizens Bank Savings	3,970		-	3,970
	$ 216,292	$ 134,678	$ 153,378	$ 197,592
LIABILITIES				
Deposits Held in Custody for Others	$ 216,292	$ 134,678	$ 153,378	$ 197,592

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2011

School Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
INTERSCHOOL ATHLETICS				
ASSETS				
Accounts Receivable	$ 45,717	$ -	$ -	$ 45,717
LIABILITIES				
Deposits Held in Custody for Others	$ 45,717	$ -	$ -	$ 45,717
TOTAL SCHOOL ACTIVITY AGENCY FUNDS				
ASSET				
Cash	$ 255,763	$ 180,199	$ 190,046	$ 245,916
Accounts Receivable	45,717	-	-	45,717
TOTAL ASSETS	$ 301,480	$ 180,199	$ 190,046	$ 291,633
LIABILITIES				
Deposits Held in Custody for Others	$ 301,480	$ 180,199	$ 190,046	$ 291,633
TOTAL LIABILITIES	$ 301,480	$ 180,199	$ 190,046	$ 291,633

Town of Portsmouth

SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2011

Tax Roll Year	Balance Uncollected July 1, 2010	2010 Assessment	Additions	Abatements & Adjustments	Amount to be Collected	Current Year Collections	Refunds	Balance June 30, 2011
2010		$ 44,174,990	$ 32,687	$ 31,737	$ 44,175,940	$ 41,191,864	$ 17,616	$ 3,001,692
2009	$ 1,705,155		2,272	1,434	1,705,993	1,578,981	911	127,923
2008	132,978	-		1,891	131,087	88,251	877	43,713
2007	38,091	-		3,980	34,111	2,378		31,733
2006	24,096	-		3,704	20,392	1,577		18,815
2005	21,324	-		3,546	17,778	877		16,901
2004	14,287	-		462	13,825	432		13,393
2003	16,067	-		469	15,598	734		14,864
2002	14,352	-	-	459	13,893	624		13,269
2001	50,490	-	-	406	50,084	249		49,835
2000	38,121	-	-	389	37,732	-		37,732
1999	29,149	-	-	29,149	-	-		-
Total	2,084,110	$ 44,174,990	$ 34,959	$ 77,626	$ 46,216,433	$ 42,865,967	$ 19,404	$ 3,369,870
Less: Allowance for Uncollectible accounts	(499,657)							(517,057)
Net	$ 1,584,453							$ 2,852,813

Schedule of property valuation assessed as of December 31, 2009:

	Valuation	Levy
Real property	$ 3,815,491,200	$ 41,611,005
Motor vehicles	161,943,404	1,798,278
Tangible personal property	67,737,408	765,707
Total	4,045,172,012	44,174,990
Less: Exemptions and motor vehicle phase out		
Real property	(133,429,357)	-
Motor vehicles	(82,014,635)	-
Tangible personal property	(2,376)	-
Total	$ 3,829,725,644	$ 44,174,990

Single Audit Section

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor Pass-Through Grantor Program title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Direct Programs:			
Impact Aid	84.041		$ 329,924
Passed through State of RI Department of Education			
PL 94-142 IDEA Part B	84.027A	1430-50500-601	541,287
IDEA ARRA	84.391		391,596
IDEA Section 619 Preschool	87.173A		217
Title I	84.010A	1420-51600-601	62,160
Title IV	84.186A	1420-52900-601	-
Perkins	84.048A		14,965
Title II	84.367S	1420-54000-601	84,178
ARRA State Fiscal Stabilization Grant	84.394		496,926
E2T2 Training Consortium	84.318		3,429
ARRA E2T2 MCI	84.318		7,993
Total U.S. Department of Education			1,932,675
U.S. Department of Housing and Urban Development			
Passed through the Rhode Island Department of Administration Office of Municipal Affairs:			
Community Development Block Grants- SMALL Cities Program:			
2009	14.228	09/27/22	17,338
2010	14.228	10/27/2023	35,640
Total U.S. Department of Housing and Urban Development			52,978
U.S. Department of Justice			
Direct Programs:			
U.S. Marshalls SOLEMIN Program	20.XXX		2,481
Passed through the RI Public Safety Grant Administration:			
Byrne Formula Grant Program 2009	16.738	09-126-JAG	12,740
Byrne Formula Grant Program 2008	16.738	08-126-JAG	4,775
Total U.S. Department of Justice			19,996
U.S. Department of Transportation			
Passed through Rhode Island Governor's Justice Commission:			
Blue Riptide Speed Management	20.600	11/03/10 - 9/30/11	2,072
Blue Riptide Speed Management	20.600	11/03/09 - 9/30/10	3,000
Blue Riptide Alcohol	20.601	11/03/10 - 9/30/11	8,115
Blue Riptide Alcohol	20.601	11/03/09 - 9/30/10	3,536
Click It or Ticket	20.602	NHTSA 402 OP 2 2011	1,675
Seat Belt Child Safety Grant	20.613	11/03/10 - 9/30/11	536
Total U.S. Department of Justice			18,934
U.S. Department of Agriculture			
Passed through the State of RI Department of Education			
National School Lunch Program	10.555	N/A	134,151
National School Breakfast Program	10.553		16,833
National School Special Milk Program	10.556		2,035
Total U.S. Department of Agriculture			153,019
U.S. Department of Homeland Security			
Passed through RI Emergency Management Agency			
FEMA Disaster Grants - Public Assistance	97.036		167,638
State Homeland Security Grant Program - Active Shooter 2010	97.067	27-104-FY2010 HSGP	3,610
State Homeland Security Grant Program - Active Shooter 2009	97.067	27-104-FY09SHSPI	2,843
State Homeland Security Grant Program	97.067	27-51-FY07MCI	385
Total U.S. Department of Homeland Security			174,476
U.S. Department of Energy			
Passed through RI Office of Economic Recovery and Reinvestment:			
Energy Efficiency and Conservation Block grant	81.128		57,421
Total U.S. Department of Defense			57,421
Total Federal Awards			$ 2,409,499

(CONTINUED)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Town of Portsmouth. All federal awards received from federal agencies are included on the Schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. DETERMINATION OF MAJOR PROGRAMS

The determination of major awards programs was based upon the overall level of expenditures for all federal programs for the Town of Portsmouth. As such, the threshold for determining Type A and Type B programs is defined as those with program expenditures greater than $300,000 or 3 percent of total expenditures when the total expenditures are over $10,000,000. For the fiscal year ended June 30, 2011, the following program was considered to be major programs:

ARRA State Fiscal Stabilization Grant	84.394
IDEA Part B	84.027
ARRA IDEA	84.391
FEMA Disaster Grant	97.036

Braver PC
Accountants & Advisors

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Town Council
Town of Portsmouth
Portsmouth, Rhode Island

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island as of and for the year ended June 30, 2011, which collectively comprise the Town of Portsmouth's basic financial statements and have issued our report thereon dated December 19, 2011. 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.

Internal Control Over Financial Reporting

Management of the Town of Portsmouth, Rhode Island is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Portsmouth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Portsmouth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Portsmouth's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Portsmouth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information of the Town Council, management, others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Braver PC

Providence, Rhode Island
December 19, 2011

Braver PC
Accountants & Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Town Council
Town of Portsmouth
Portsmouth, Rhode Island

Compliance

We have audited the Town of Portsmouth, Rhode Island's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Portsmouth's major federal programs for the year ended June 30, 2011. The Town of Portsmouth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Portsmouth's management. Our responsibility is to express an opinion on the Town of Portsmouth's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Portsmouth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Portsmouth's compliance with those requirements.

In our opinion, the Town of Portsmouth complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

Management of the Town of Portsmouth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Portsmouth's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Portsmouth's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Town of Portsmouth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Portsmouth's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information of the Town Council, management, others within the Town of Portsmouth and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Braver, PC

Providence, Rhode Island
December 19, 2011

TOWN OF PORTSMOUTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expressed an unqualified opinion on the financial statements of the Town of Portsmouth.

2. No significant deficiencies in internal control over financial reporting were identified.

3. No instances of noncompliance material to the financial statements of the Town of Portsmouth were disclosed during the audit.

4. No significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified.

5. The auditor's report on compliance for the major federal award programs for the Town of Portsmouth expresses an unqualified opinion.

6. Audit findings relative to the major federal award programs for the Town of Portsmouth are reported in Part C of this Schedule.

7. The programs tested as major programs include:

ARRA State Fiscal Stabilization Grant	84.394
IDEA Part B	84.027
ARRA IDEA	84.391
FEMA Disaster Grant	97.036

8. The threshold for distinguishing Type A and B programs is described in Note 3 to the Schedule of Expenditures of Federal Awards.

9. The Town of Portsmouth does not qualify as a low risk auditee.

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

None noted.

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2011-1: Payroll Certifications

ARRA IDEA (CFDA # 84.391)

Criteria: The Portsmouth School Department may receive direct federal funding as well as federal funding passed through the State of Rhode Island. During our audit we noted instances where payroll records (time and effort reports and/or certifications) supporting cost allocations to federal programs were not being maintained in accordance with the requirements of OMB Circular A-87. The circular requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

Questioned costs: The results of our testing identified known questioned costs of approximately $30,906 for CFDA #84.391.

Condition: The Portsmouth School Department did not have an adequate policy or procedure requiring employees charged to federally funded programs to maintain time records or complete certifications in accordance with the requirements of OMB Circular A-87. The School Department did not complete the required certifications for those employees working 100% of their time on the ARRA IDEA program.

Current Year Findings: (Continued)

2011-1: Payroll Certifications

ARRA IDEA (CFDA # 84.391)

Recommendation: We recommend that the management of the Portsmouth School Department develop and enforce a policy requiring all federally funded employees to maintain time records and certifications in accordance with the provisions of OMB Circular A-87 and that policy include an internal audit function requiring someone independent of the federal program to review time records on a periodic basis for compliance.

Corrective Action: The Portsmouth School Department's Human Resource staff will review the placement of all staff that have federally fund payroll to determine if the employees are fully or partially funded by federal programs. The appropriate certification forms will be sent to the employee in accordance with their funding status. All completed forms will be maintained in the Director of Finance and Administrative Service's office. On a monthly basis, the Director of Finance and Administrative Services will review payroll files to determine which employees are either fully or partially funded by Federal programs. The Director of Finance and Administrative Services will compare the list to the certification forms to ensure the department is in compliance with Federal time keeping requirements.

Prior year findings: 2010-1:

Payroll Certifications

IDEA Part B (CFDA # 84.027) & ARRA IDEA (CFDA # 84.391)

Criteria: The Portsmouth School Department may receive direct federal funding as well as federal funding passed through the State of Rhode Island. During our audit we noted instances where payroll records (time and effort reports and/or certifications) supporting cost allocations to federal programs were not being maintained in accordance with the requirements of OMB Circular A-87. The circular requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

Effect of Condition: The results of our testing identified known questioned costs of approximately $22,750 for CFDA #84.027 and CFDA #84.391.

Condition: The Portsmouth School Department did not have an adequate policy or procedure requiring employees charged to federally funded programs to maintain time records or complete certifications in accordance with the requirements of OMB Circular A-87. The School Department did not complete the required certifications for those employees working 100% of their time on the IDEA program.

Recommendation: We recommended that the management of the Portsmouth School Department develop and enforce a policy requiring all federally funded employees to maintain time records and certifications in accordance with the provisions of OMB Circular A-87 and that policy include an internal audit function requiring someone independent of the federal program to review time records on a periodic basis for compliance.

Status: The Portsmouth School Department has not corrected the finding as of June 30, 2011.