

TOWN OF PORTSMOUTH, RHODE ISLAND

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGE(S)</u>
FINANCIAL SECTION:		
Independent Auditors' Report.....		1 – 2
Management's Discussion and Analysis		3 – 9
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position.....	A-1	10
Statement of Activities.....	A-2	11
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet and Reconciliation Schedule (A-1 to B-1)	B-1	12 – 13
Statement of Revenues, Other Financing Sources, Expenditures and Other Financing Uses, and Changes in Fund Balances	B-2	14
Reconciliation Schedule (A-2 to B-2)	B-3	15
Proprietary Funds:		
Statement of Net Position.....	C-1	16
Statement of Revenues, Expenses and Changes in Net Position	C-2	17
Statement of Cash Flows	C-3	18
Fiduciary Funds:		
Statement of Fiduciary Net Position	D-1	19
Statement of Changes in Fiduciary Net Position.....	D-2	20
Notes to Financial Statements		21 – 60
Required Supplementary Information:		
Budgetary Comparison Schedule for the General Fund	E-1	61 – 62
Budgetary Comparison Schedule for the School Unrestricted Fund.....	E-2	63
Budgetary to GAAP Basis Reconciliation	E-3	64-65
Schedule of Funding Progress for Pension Plan and for Other Post Employment Benefits	E-4	66
Schedule of Employer Contributions for Pension Plan and for Other Post Employment Benefits	E-5	67
Notes to Schedule of Employer Contributions for Pension Plan and for Other Post Employment Benefits	E-6	68-69

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGE(S)</u>
FINANCIAL SECTION (CONTINUED):		
Other Supplementary Information:		
Non-major Governmental Funds:		
Combining Balance sheet – Town General Fund and School General Fund	F - 1	70
Combining Statement of Revenues, Other Financing Sources, Expenditures and Other Financing Uses and Changes in Fund Balance – Town General Fund and School General Fund	F - 2	71
Combining Balance sheet – Non-Major Governmental Funds.....	G - 1	72
Combining Statement of Revenues, Other Financing Sources, Expenditures and Other Financing Uses and Changes in Fund Balance – Non-Major Governmental Funds	G - 2	73
Agency Funds:		
Combining Statement of Changes in Assets and Liabilities-Town Activities.....	H - 1	74
Combining Statement of Changes in Assets and Liabilities- School Activities	H - 2	75
General Fund:		
Schedule of Property Taxes Receivable	I - 1	76

(CONCLUDED)

FINANCIAL SECTION

This Section contains the Following Subsections:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Honorable Town Council
Town of Portsmouth, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter

As discussed in Note 17 to the financial statements, a prior period adjustment in the amount of \$1,000,075 was recorded to account for the cash on deposit with a service provider.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of Funding Progress and Schedule of Employer Contributions for Pension Plans, and the Schedule of Funding Progress and Schedule of Employer Contributions for OPEB Plans on Pages 3 through 11, Pages 62 through 66, and Pages 67 through 68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Portsmouth, Rhode Island's basic financial statements. The combining town and school general fund financials statements, the combining nonmajor fund financial statements, the combining agency fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining town and school general fund financials statements, the combining nonmajor fund financial statements, the combining agency fund financial statements and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, combining town and school general fund financials statements, the combining nonmajor fund financial statements, the combining agency fund financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Portsmouth, Rhode Island's internal control over financial reporting and compliance.

Providence, Rhode Island
April 10, 2014



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, 2013. 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 position for the fiscal year ended June 30, 2013 was \$21,352,098 which is an increase of \$1,904,568 over the fiscal year ended June 30, 2012. Net position at June 30, 2013 included \$13,920,078 of net investment in capital assets, an increase of \$240,562 over June 30, 2012; \$42,216 of restricted net position at June 30, 2013, an increase of \$75,436 over June 30, 2012 and \$7,389,804 of unrestricted net position that may be used to meet the government's ongoing obligations to citizens and creditors, an increase of \$1,921,303 over June 30, 2012.

- Total assets at June 30, 2013 were \$48,147,916, which is an increase of \$3,697,880 or 8.3% over June 30, 2012.
- Total liabilities at June 30, 2013 were \$26,795,818, which is an increase of \$793,237 or 1.2% over June 30, 2012.
- The government's total net position increased by \$1,940,866.
- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of \$12,431,354 which is an increase of \$1,491,997 over June 30, 2012. Approximately 71 percent of this total amount or \$9,378,327 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 (excluding the school general fund per schedule F-1 on page 70) was \$5,861,002 or 9.9 percent of the Fiscal Year 2013-14 Adopted Expenditure Budget of \$59,449,582. This represents an increase of \$706,365 over June 30, 2012.
- 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) decreased by \$1,964,309 (8.0 percent) during the current fiscal year. The key factors in this decrease were the issuance of \$1,739,000 in general obligation bonds and the retirement of \$3,442,071 in general obligation bonds.

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

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

Both of the government-wide financial statements distinguish functions of 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 four business-type activities. These include the School Lunch 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 10-11 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 one hundred and two 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 one hundred governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 12-15 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 major funds. The Town has no internal service funds. The Wind Turbine Generator enterprise fund has generated net income of approximately \$400,000 in its first three years of operation. However, in June 2012, the gearbox failed and the wind turbine has not been operational. The Town is exploring public/private partnerships to restore the wind turbine to an operational status and balance the risk associated with the operation.

The basic proprietary fund financial statements can be found on pages 16-18 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 19-20 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 21-60 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 61-69 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Portsmouth, assets exceeded liabilities by \$21,352,098 at the close of the most recent fiscal year, as compared to assets exceeding liabilities by \$19,447,530 at the close of the previous fiscal year.

A portion of the Town's net position 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 net investment in capital assets is \$13,920,078.

Town of Portsmouth Net Assets
June 30, 2013

	Governmental activities		Business-type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Current and other assets	\$ 17,301,119	\$ 13,983,318	\$ 287,992	\$ (10,623)	\$ 17,589,111	\$ 13,972,695	\$ (3,616,416)	-25.9%
Capital Assets	27,840,305	28,743,928	2,718,500	2,733,488	30,558,805	31,477,416	918,611	2.9%
Total Assets	45,141,424	42,727,246	3,006,492	2,722,865	48,147,916	45,450,111	(2,697,805)	-5.9%
Long-term liabilities outstanding	19,918,026	19,376,665	2,160,212	2,170,486	22,078,238	21,547,151	\$ (531,087)	-2.5%
Other Liabilities	4,071,833	4,139,882	645,747	315,548	4,717,580	4,455,430	(262,150)	-5.9%
Total Liabilities	23,989,859	23,516,547	2,805,959	2,486,034	26,795,818	26,002,581	(793,237)	-3.1%
Net assets:								
Invested in capital assets	13,361,790	13,342,227	558,288	337,289	13,920,078	13,679,516	(240,562)	-1.8%
Restricted	-	-	42,216	117,652	42,216	117,652	75,436	64.1%
Unrestricted	7,789,775	5,868,472	(399,971)	(218,110)	7,389,804	5,650,362	(1,739,442)	-30.8%
Total Net Position	21,151,565	\$19,210,699	\$200,533	\$236,831	\$21,352,098	\$19,447,530	(\$1,904,568)	-9.8%

Governmental activities: Governmental activities increased Portsmouth's net Position by \$1,904,568.

**Town of Portsmouth Changes in Net Position
June 30, 2013**

	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Revenues:								
Program revenues:								
Charges for services	\$3,934,831	\$3,125,255	\$1,064,338	\$1,381,447	\$4,999,169	\$4,506,702	\$492,467	10.9%
Operating grants and contributions	2,640,398	3,351,960	181,779	168,652	2,822,177	3,520,612	(698,435)	-19.8%
Capital grants and contributions	106,790	293,313			106,790	293,313	(186,523)	-63.6%
General revenues:								
Property taxes and payments in lieu of taxes	46,517,787	45,490,728			46,517,787	45,490,728	1,027,059	2.3%
State Aid, unrestricted	7,005,457	6,871,423			7,005,457	6,871,423	134,034	2.0%
Investment and interest income	(123,492)	11,855	15	24	(123,477)	11,879	(135,356)	-1139.5%
Other revenues	719,182	1,164,085			719,182	1,164,085	(444,903)	-38.2%
Transfers		(79,435)		79,435		-	-	
Total revenues	60,800,953	60,229,184	1,246,132	1,629,558	62,047,085	61,858,742	188,343	0.3%
Expenses:								
General government	5,022,256	4,607,181			5,022,256	4,607,181	415,075	9.0%
Public safety	9,606,117	9,185,098			9,606,117	9,185,098	421,019	4.6%
Public services	3,120,357	2,791,589			3,120,357	2,791,589	328,768	11.8%
Community services	1,045,438	1,346,146			1,045,438	1,346,146	(300,708)	-22.3%
Education	39,516,556	38,514,354			39,516,556	38,514,354	1,002,202	2.6%
Interest on long-term debt	392,363	524,720			392,363	524,720	(132,357)	-25.2%
Capital outlay	106,499	320,161			106,499	320,161	(213,662)	-66.7%
Amortization expense	50,501	47,885			50,501	47,885	2,616	5.5%
School lunch fund			649,650	628,779	649,650	628,779	20,871	3.3%
Transfer station fund			513,140	522,349	513,140	522,349	(9,209)	-1.8%
Wind turbine generator fund			99,702	310,035	99,702	310,035	(210,333)	-67.8%
Non-major funds			19,938	50,535	19,938	50,535	(30,597)	-60.5%
Total expenses	58,860,087	57,337,134	1,282,430	1,511,698	60,142,517	58,848,832	1,293,685	2.2%
Change in Net Position	1,940,866	2,892,050	(36,298)	117,860	1,904,568	3,009,910	(1,105,342)	-36.7%
Net Position - beginning of year , restated	19,210,699	15,318,574	236,831	118,971	19,447,530	15,437,545	4,009,985	26.0%
Net Position- end of year	\$21,151,565	\$18,210,624	\$200,533	\$236,831	\$21,352,098	\$18,447,455	\$2,904,643	15.7%

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 \$12,431,354, an increase of \$1,491,997 in comparison with the prior year's fund balance. Most of this total amount, \$9,378,327 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(excluding the school general fund per schedule F-1 on page 69) was \$5,861,002, while total fund balance reached \$5,861,002. 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 16.51 and 16.54 percent of total general fund budgeted expenditures, respectively, which includes funds transferred to the School Department.

The fund balance of Portsmouth's General Fund increased by \$706,365 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2013 were more than budgeted amounts by \$408,798. The principal reason for this was greater than anticipated tax collections, police detail and other revenue items. Earnings on investments also were below budget as the Town had losses on short term fixed income investments as a result of increases in market interest rates. This was \$128,740 under budget. Other revenues were also below budgeted amount, Intergovernmental Revenues due to cuts in funding from State Sources, and lower than budget building permits due to down turn in housing market.

Actual expenditures were more than budgeted amounts by \$77,421. The driving factor was overtime in public safety budgets and increased in debt service resulting from debt refunding.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2012-2013 fiscal year, School Department net revenues were less than budgeted amounts by \$22,516.

Actual expenditures were less than budgeted amounts by \$1,278,899. 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, 2013, amounts to \$27,840,305 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total decrease in the Town's investment in governmental activity capital assets for the current fiscal year was \$438,414.

Long-term Debt: At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of \$16,421,623, entirely backed by the full faith and credit of the Town. This includes \$1,739,000 incurred in Fiscal Year 2012-13.

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, 2013 the Town had a debt limit of \$97,264,797, 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 #7 on pages 39-40 of this report.

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 PORTSMOUTH, RHODE ISLANDStatement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,737,770	\$ 69,349	\$ 5,807,119
Cash on deposit at NCRSEP	505,551		505,551
Investments	7,375,934		7,375,934
Real estate and personal property tax receivable, net	1,465,746		1,465,746
Ambulance receivables	107,769		107,769
Due from federal and state governments	1,548,709	10,990	1,559,699
Internal balances	(88,140)	88,140	-
Inventories	17,450	18,109	35,559
Prepaid expenditures	968		968
Other receivables, net	214,654	77,701	292,355
Total Current Assets	16,886,411	264,289	17,150,700
Noncurrent Assets:			
Capital assets (non-depreciable)	5,609,258	37,251	5,646,509
Capital assets (net of depreciation)	22,231,047	2,681,249	24,912,296
Debt issuance costs, net	195,798	23,703	219,501
Deferred gain on refunding	218,910		218,910
Total Non-Current Assets	28,255,013	2,742,203	30,997,216
TOTAL ASSETS	45,141,424	3,006,492	48,147,916
LIABILITIES			
Current Liabilities:			
Accounts payable	830,791	143,802	974,593
Accrued interest payable	93,188	4,198	97,386
Accrued expenses	3,334,581		3,334,581
Current portion of long-term debt	2,365,362	233,886	2,599,248
Total Current Liabilities	6,623,922	381,886	7,005,808
Noncurrent Liabilities:			
Unearned revenue	305,570	5,450	311,020
Accrued compensated absences	1,535,184		1,535,184
Net OPEB obligation	3,904,327		3,904,327
Long-term advance	(492,297)	492,297	-
Long-term liabilities (net)	12,113,153	1,926,326	14,039,479
Total Noncurrent Liabilities	17,365,937	2,424,073	19,790,010
TOTAL LIABILITIES	23,989,859	2,805,959	26,795,818
NET POSITION			
Net investment in capital assets	13,361,790	558,288	13,920,078
Restricted for specific programs		42,216	42,216
Unrestricted	7,789,775	(399,971)	7,389,804
TOTAL NET POSITION	\$ 21,151,565	\$ 200,533	\$ 21,352,098

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

TOWN OF PORTSMOUTH, RHODE ISLAND

A-2

**Statement of Activities
For the year ended June 30, 2013**

<i>Functions/Programs</i>	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 5,022,256	\$ 325,937	\$ -	\$ -	\$ (4,696,319)		\$ (4,696,319)
Public safety	9,606,117	1,916,306	36,096		(7,653,715)		(7,653,715)
Public services	3,120,357		478	106,790	(3,013,089)		(3,013,089)
Education	39,516,556	1,095,603	2,507,053		(35,913,900)		(35,913,900)
Community service	1,045,438	596,985	96,771		(351,682)		(351,682)
Capital outlay	106,499				(106,499)		(106,499)
Interest on long-term debt	392,363				(392,363)		(392,363)
Amortization expense	50,501				(50,501)		(50,501)
Total governmental activities:	58,860,087	3,934,831	2,640,398	106,790	(52,178,068)		(52,178,068)
Business-type Activity:							
School lunch fund	649,650	439,792	181,779		\$ (28,079)		(28,079)
Transfer station	513,140	554,501			41,361		41,361
Wind turbine generator fund	99,702	55,120			(44,582)		(44,582)
Non-major funds	19,938	14,925			(5,013)		(5,013)
Total business type activity	1,282,430	1,064,338	181,779		(36,313)		(36,313)
Totals	\$ 60,142,517	\$ 4,999,169	\$ 2,822,177	\$ 106,790	(52,178,068)	(36,313)	(52,214,381)
General revenues:							
Property taxes and payments in lieu of taxes					46,517,787		46,517,787
State aid, unrestricted					7,005,457		7,005,457
Investment and interest income (loss)					(123,492)	15	(123,477)
Other revenues					719,182		719,182
					Total general revenues	15	54,118,949
					Change in Net Position	(36,298)	1,904,568
					Net Position - beginning of year, restated	236,831	19,447,530
					Net Position - ending of year	\$ 200,533	\$ 21,352,098

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

TOWN OF PORTSMOUTH, RHODE ISLAND

B-1

*Balance Sheet
Governmental Funds
June 30, 2013*

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 5,208,030	\$ 529,740	\$ 5,737,770
Cash on deposit at NCRSEP	505,551		505,551
Investments	7,375,934		7,375,934
Real estate and personal property tax receivable (net)	1,465,746		1,465,746
Due from federal and state governments	550,796	997,913	1,548,709
Due from other funds	1,564,755	3,378,297	4,943,052
Ambulance receivable	537,573		537,573
Other receivables	214,466	188	214,654
Advances to the Wind Turbine Generator fund	492,296		492,296
Inventory	17,450		17,450
Prepaid expenditures	968		968
TOTAL ASSETS	\$ 17,933,565	\$ 4,906,138	\$ 22,839,703
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 536,768	\$ 115,566	\$ 652,334
Accrued expenses	2,640,221	8,341	2,648,562
Due to other funds	3,144,146	1,887,046	5,031,192
Unavailable property tax revenue	1,054,662		1,054,662
Unearned revenue	537,573	305,570	843,143
Other liabilities	178,456		178,456
TOTAL LIABILITIES	8,091,826	2,316,523	10,408,349
FUND BALANCES:			
Non-spendable	510,714	140,468	651,182
Restricted		2,893,492	2,893,492
Committed	3,922,953	137,715	4,060,668
Assigned	309,378		309,378
Unassigned	5,098,694	(582,060)	4,516,634
TOTAL FUND BALANCES	9,841,739	2,589,615	12,431,354
TOTAL LIABILITIES AND FUND BALANCES	\$ 17,933,565	\$ 4,906,138	\$ 22,839,703

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

TOWN OF PORTSMOUTH, RHODE ISLAND

B-1(Continued)

**Reconciliation of the Governmental Funds Balance Sheet (B-1)
to the Government-Wide Statement of Net Assets (A-1)
June 30, 2013**

TOTAL FUND BALANCES - Total Governmental Funds (B-1)	\$ 12,431,354
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.	
Depreciable capital assets, net of accumulated depreciation	22,231,047
Nondepreciable capital assets	5,609,258
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 unearned revenue (a liability) in Governmental Fund financial statements.	
Unearned property tax revenue	1,054,662
Unearned ambulance revenue	537,573
Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund financial statements because they are offset by unearned revenue.	(429,804)
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.	(93,188)
Claims and judgments do not require current financial resources. Therefore, additional accrued expenses are not reported as a liability in Governmental Funds Balance Sheet.	(686,019)
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.	414,708
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.	(16,013,699)
OPEB liability is recorded in the governmental activities, but not recorded in the funds.	(3,904,327)
Net Position of Governmental Activities	<u>\$ 21,151,565</u>

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

TOWN OF PORTSMOUTH, RHODE ISLAND

B-2

**Statement of Revenues, Other Financing Sources
Expenditures, Other Financing Uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
General property taxes and payments in lieu of taxes	\$ 47,081,631		\$ 47,081,631
State aid and grants	7,005,457	\$ 1,403,214	8,408,671
Licenses, permits and fees	677,466		677,466
Charges for services	1,787,574	158,267	1,945,841
Melville Ponds Campgrounds	219,110		219,110
Glen Manor House	377,875		377,875
Rescue wagon income	470,966		470,966
Fines and forfeitures	387,891		387,891
Interest and investment income	(118,740)	(4,752)	(123,492)
Contributions and private grants		26,207	26,207
Other revenues	331,291		331,291
Intergovernmental pension contribution	1,317,767		1,317,767
Total revenues	<u>59,538,288</u>	<u>1,582,936</u>	<u>61,121,224</u>
Expenditures			
<i>Current:</i>			
General government	4,209,578	23,650	4,233,228
Public safety	9,426,650	144,162	9,570,812
Public works	2,281,996	1,315,595	3,597,591
Education	36,289,540	1,110,330	37,399,870
<i>Community services:</i>			
Public and social services	559,604	95,986	655,590
Park & recreation	461,804		461,804
Intergovernmental pension contribution	1,317,767		1,317,767
<i>Debt Service:</i>			
Principal payments	2,392,071		2,392,071
Interest	549,059		549,059
Bond issuance costs	33,936		33,936
<i>Capital:</i>			
Capital expenditures		106,499	106,499
Total expenditures	<u>57,522,005</u>	<u>2,796,222</u>	<u>60,318,227</u>
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	<u>2,016,283</u>	<u>(1,213,286)</u>	<u>802,997</u>
Other financing sources (uses)			
Transfers in	40,911	1,556,698	1,597,609
Transfers out	(1,556,698)	(40,911)	(1,597,609)
Bond proceeds	927,000	812,000	1,739,000
Payment to refunded bonds escrow agent	(1,050,000)		(1,050,000)
Net other financing sources (uses)	<u>(1,638,787)</u>	<u>2,327,787</u>	<u>689,000</u>
Net change in fund balances	<u>377,496</u>	<u>1,114,501</u>	<u>1,491,997</u>
Fund balances - beginning of the year, restated	<u>9,464,243</u>	<u>1,475,114</u>	<u>10,939,357</u>
Fund balances - ending of the year	<u>\$ 9,841,739</u>	<u>\$ 2,589,615</u>	<u>\$ 12,431,354</u>

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

**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, 2013**

Net change in fund balances - total governmental funds (B-2)	\$ 1,491,997
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets reported in the period.	1,430,422
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental fund statements.	(1,929,119)
Long-term compensated absences is reported in the Government-Wide Statement of Activities and Changes in Net Position, 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.	298,091
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.	3,471,122
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.	57,623
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.	(1,739,000)
Amortization of deferred debt issuance costs, premium on bonds and gains on advance refunding are not reflected in Governmental Fund financial statements.	(50,501)
Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental Fund financial statements.	(320,271)
Claims and judgments expense is reported in the Government-Wide Statement of Activities and Changes in Net Position, but not reported in the Governmental Fund financial statements.	(500,000)
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 Position	<u>(269,498)</u>
<i>Change in net assets of Governmental Activities</i>	<u>\$ 1,940,866</u>

Statement of Net Position
Proprietary Funds
June 30, 2013

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Summer School	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 69,349				\$ 69,349
Due from other governmental units	10,990				10,990
Due from other funds	209,835	\$ 81,033		\$ 333	291,201
Accounts receivable		23,025	\$ 54,676		77,701
Inventory	18,109				18,109
Debt issuance costs, net			23,703		23,703
Total current assets	<u>308,283</u>	<u>104,058</u>	<u>78,379</u>	<u>333</u>	<u>491,053</u>
Non-current assets:					
Capital assets:					
Nondepreciable assets		37,251			37,251
Depreciable assets - net	50,293	158,575	2,472,381		2,681,249
Total non-current assets	<u>50,293</u>	<u>195,826</u>	<u>2,472,381</u>	<u>-</u>	<u>2,718,500</u>
TOTAL ASSETS	<u>358,576</u>	<u>299,884</u>	<u>2,550,760</u>	<u>333</u>	<u>3,209,553</u>
LIABILITIES					
Current liabilities:					
Accounts payable	119,434	24,368			143,802
Current portion of long term debt		34,312	199,574		233,886
Accrued interest payable		112	4,086		4,198
Prepaid tuition				5,450	5,450
Due to other funds	203,061				203,061
Total current liabilities	<u>322,495</u>	<u>58,792</u>	<u>203,660</u>	<u>5,450</u>	<u>590,397</u>
Non-current liabilities:					
Bonds payable, net of current portion		102,376	1,823,950		1,926,326
Advance payable			492,297		492,297
Total non-current liabilities	<u>-</u>	<u>102,376</u>	<u>2,316,247</u>	<u>-</u>	<u>2,418,623</u>
TOTAL LIABILITIES	<u>322,495</u>	<u>161,168</u>	<u>2,519,907</u>	<u>5,450</u>	<u>3,009,020</u>
NET POSITION					
Net investment in capital assets	50,293	59,138	448,857		558,288
Restricted for recycling		42,216			42,216
Unrestricted	(14,212)	37,362	(418,004)	(5,117)	(399,971)
TOTAL NET POSITION	<u>\$ 36,081</u>	<u>\$ 138,716</u>	<u>\$ 30,853</u>	<u>\$ (5,117)</u>	<u>\$ 200,533</u>

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

TOWN OF PORTSMOUTH, RHODE ISLAND

C-2

**Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the year ended June 30, 2013**

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Summer School	Total
Operating Revenues:					
Intergovernmental	\$ 181,779				\$ 181,779
Other revenues	439,792		\$ 55,120		494,912
Charges for services		\$ 554,501		\$ 14,925	569,426
Total Operating Revenues	<u>621,571</u>	<u>554,501</u>	<u>55,120</u>	<u>14,925</u>	<u>1,246,117</u>
Operating Expenses:					
Cafeteria operations	645,145				645,145
Transfer Station operations		504,568			504,568
Wind Turbine Generator operations			71,358		71,358
Education				19,938	19,938
Depreciation and amortization	4,505	8,572			13,077
Total Operating Expenses	<u>649,650</u>	<u>513,140</u>	<u>71,358</u>	<u>19,938</u>	<u>1,254,086</u>
Income from operations	<u>(28,079)</u>	<u>41,361</u>	<u>(16,238)</u>	<u>(5,013)</u>	<u>(7,969)</u>
Non-operating Revenues (Expenses):					
Interest expense			(28,344)		(28,344)
Interest income	15				15
Net Non-operating Revenues (Expenses)	<u>15</u>	<u>-</u>	<u>(28,344)</u>	<u>-</u>	<u>(28,329)</u>
Change in net position	<u>(28,064)</u>	<u>41,361</u>	<u>(44,582)</u>	<u>(5,013)</u>	<u>(36,298)</u>
Net position - beginning of the year	<u>64,145</u>	<u>97,355</u>	<u>75,435</u>	<u>(104)</u>	<u>236,831</u>
Net position - ending of the year	<u>\$ 36,081</u>	<u>\$ 138,716</u>	<u>\$ 30,853</u>	<u>\$ (5,117)</u>	<u>\$ 200,533</u>

Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2013

	School Lunch Fund	Transfer Station	Wind Turbine Generator	Non-major Summer School	Total
Cash flows from operating activities:					
Cash received from customers	\$ 439,792	\$ 588,473	\$ 69,226	\$ 10,100	\$ 1,107,591
Intergovernmental	180,564				180,564
Cash payments to suppliers for goods and services	(534,204)	(550,359)	(78,523)	(10,100)	(1,173,186)
Net cash provided (used) by operating activities	<u>86,152</u>	<u>38,114</u>	<u>(9,297)</u>	<u>-</u>	<u>114,969</u>
Cash flows from non-capital financing activities:					
Interfund borrowings	-	(3,802)	237,355		233,553
Net cash provided by (used) in non-capital financing activities	<u>-</u>	<u>(3,802)</u>	<u>237,355</u>	<u>-</u>	<u>233,553</u>
Cash flows from capital-related financing activities:					
Acquisition and construction of capital assets	(21,792)				(21,792)
Interest income	15				15
Principal paid on bonds		(34,312)	(199,714)		(234,026)
Interest paid on bonds			(28,344)		(28,344)
Net cash used for capital-related financing activities	<u>(21,777)</u>	<u>(34,312)</u>	<u>(228,058)</u>		<u>(284,147)</u>
Net increase in cash	64,375	-	-	-	64,375
Cash and cash equivalents, beginning of the year	4,974	-	-	-	4,974
Cash and cash equivalents, end of the year	<u>\$ 69,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,349</u>
Reconciliation of net income to net cash provided by operating activities:					
Income (loss) from operations	\$ (28,079)	\$ 41,361	\$ (16,238)	\$ (5,013)	\$ (7,969)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	4,505	8,572			13,077
Changes in assets and liabilities:					
Increase in:					
Due from other governmental units	(1,215)				(1,215)
Due from other funds	(22,314)			9,838	(12,476)
Due to other funds	17,586				17,586
Inventory	(3,765)				(3,765)
Accounts payable	119,434				119,434
Decrease in:					
Accounts receivable		33,972	14,106		48,078
Accounts payable		(45,791)	(7,165)		(52,956)
Prepaid tuition				(4,825)	(4,825)
Total adjustments	<u>114,231</u>	<u>(3,247)</u>	<u>6,941</u>	<u>5,013</u>	<u>122,938</u>
Net cash provided by (used) by operating activities	<u>\$ 86,152</u>	<u>\$ 38,114</u>	<u>\$ (9,297)</u>	<u>\$ -</u>	<u>\$ 114,969</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

D-1

**Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013**

	Pension Trust Fund	OPEB Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents	\$ 580,984	\$ 409,435	\$ 513,088
Investments, at fair value	40,214,474		
Accounts Receivable		48,081	279,097
TOTAL ASSETS	40,795,458	457,516	792,185
LIABILITIES			
Deposits held in custody for others			792,185
TOTAL LIABILITIES	-	-	792,185
NET POSITION			
Held in trust for pension and OPEB benefits	40,795,458	457,516	
TOTAL NET POSITION	40,795,458	457,516	-
TOTAL LIABILITIES AND NET POSITION	\$ 40,795,458	\$ 457,516	\$ 792,185

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

TOWN OF PORTSMOUTH, RHODE ISLAND

D-2

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 2013**

	Pension Trust Fund	OPEB Trust Fund
	<u> </u>	<u> </u>
<i>Additions:</i>		
Contributions:		
Employer	\$ 2,782,947	\$ 724,032
Plan member	585,102	57,522
Total contributions	<u>3,368,049</u>	<u>781,554</u>
Investment income:		
Net gain (loss) on value of investments	5,165,954	815
Net investment income (loss)	<u>5,165,954</u>	<u>815</u>
Total additions	<u>8,534,003</u>	<u>782,369</u>
<i>Deductions:</i>		
Benefits paid	3,001,796	724,032
Administrative and other	141,314	3,000
Total deductions	<u>3,143,110</u>	<u>727,032</u>
<i>Changes in net position</i>	5,390,893	55,337
<i>Net position - beginning of year</i>	<u>35,404,565</u>	<u>402,179</u>
<i>Net position - ending of the year</i>	<u>\$ 40,795,458</u>	<u>\$ 457,516</u>

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

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Portsmouth was established in 1638 and incorporated as a Town in 1640. The Town of Portsmouth (the Town) 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.

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. 61. Under GASB Statement No. 61, a legally separate entity is required to be included as a component unit if it is fiscally dependent upon the primary government and there is a financial benefit or burden relationship present. The primary government is financially accountable if it appoints the voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A potential component unit has a financial benefit or burden relationship with the primary government if, for example, any one of the following conditions exists:

- a) The primary government is legally entitled to or can otherwise access the organization's resources.
- b) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- c) The primary government is obligated in some manner for the debt of the organization.

The following entities were considered for classification as component units for fiscal year 2013:

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

The Portsmouth School Department did not meet the criteria of to be classified as a Special Revenue Fund. Accordingly, the Town's unrestricted fund and the School Department's unrestricted fund have been combined and are reported as one called the General Fund.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

The Town has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Town’s fiscal year ending June 30, 2013. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ 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. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ 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. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ 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. The adoption of this Statement has no effect on the Town’s financial statements.

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

- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Town’s fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, effective for the Town’s fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, effective for the Town’s fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 68 – Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Town’s fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 69 – Government Combinations and Disposals of Government operations, effective for the Town’s fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the Town’s fiscal year ending June 30, 2014.

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

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accounting structure 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 position and statement of activities display information about the reporting government as a whole. The statements 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 Position. The Statement of Activities presents changes in net position. 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. The General Fund as the primary operating fund of the Town is always a major fund. Other funds are considered major if the fund 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.

The Town has the option to designate a fund as major if it desires to do so.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

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 statement 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.

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.

Major Proprietary Funds

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers and students for sales and services. Operating expenses for the enterprise funds include costs of operations, maintenance, sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town has three Major and one 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 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 Position and a Statement of Changes in Net Position. The Town's Fiduciary Funds include Pension Trust Funds, OPEB Trust Fund 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Fiduciary Funds of the Town are as follows:

Pension Trust Funds

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

OPEB Trust Fund

This fund accounts 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 non-major funds are the following:

For the Town:

CDBG, PPD Sex Offender grant, Bulletproof Vest Grant, EDC Workshop, Homeland Security Grant, EMA WMD, Commemorative Bench Program, Impact Fees, Jules Buella Grant, Click it or Ticket, Active Shooter Grant, Town Commons Grant, EMPG Shelter Generator, Alcohol Survey, FEMA Storm Grant, AIPC West Side Project, Explorer Program, Fire Alarm Maintenance, Fire Plan Review, Historic Records Fund, John Haskins Memorial Fund, Lower Glen Farm Preservation, Federal Equitable Sharing Drug, Melville Recreation Committee, NARC Forfeiture SEC, Blue Riptide Impaired/Drunk, Blue Riptide Speed Management, Substance Abuse, Technology Upgrade & Document Preservation, Tobacco Survey, Glen Farm Stable Donation, Fire Smoke Detector Inspection, EMA Meds Plan and Pods, Low Income Spay/Neuter, Shelter Spay/Neuter, Child Passenger Safety Grant, Conservation Commons and Grant, Trust Safety Grant and Friends of Glen Park

For the School:

VIS Grant, Gate Receipts, IDEA Part B, IDEA ARRA, IDEA Pre-School, Title I,II, III & IV, Race to the Top Grant, Perkins Grant, Literacy Set Aside, Technology, Substance Abuse Task Force, RISCA, Concord Consortium, Early Childhood, United Way Melville Playground, Van Beuren Grant, Feinstein Grant, Common Core Standards and the Champlin Foundation

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Non-Major Governmental Funds (Continued)

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:

For the Town:

Glen Manor, 2005-2006 Warrants, 2006-2007 Warrants, 2007-2008 Warrants, 2008-2009 Warrants, 2009-2010 Warrants, 2010-2011 Warrants, 2011-2012 Warrants, 2012-2013 Warrants, and Capital Fund.

For the School:

Gym Fundraising and Phase II Project.

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. The Town's permanent funds are the Sherman Trust Fund and the Cemetery Fund.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, time and demand deposits and all highly liquid investments with a maturity of three months or less when purchased. Under Rhode Island laws, depository institutions holding deposits of the State, its agencies or governmental subdivision of the State, must insure or pledge eligible collateral equal to 100% of the deposits maturing in greater than sixty days. Any institutions not meeting certain federally prescribed minimum capital standards must insure deposits or pledged collateral equal to 100% of the deposits, regardless of maturities. The Town complied with these requirements. The Town does not have a deposit policy for custodial credit risk or other risk.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair value, based on quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income. The State does not have pertinent laws regarding investments that apply to cities and towns. The Town does not have an investment policy for custodial credit risk or other risks other than those relating to its pension trust fund and OPEB trust fund (Managed Funds). The Town's Pension/OPEB Trust Fund Investment Advisory Committee (Committee) is responsible for the supervision of the investment of the Town's Managed Funds investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

Real estate and personal property tax

For the government-wide financial statements, property taxes are recognized as revenue in the fiscal year they are levied. For the fund financial statements, property taxes are recognized as revenue in the fiscal year they are levied and become available. To be considered available, property taxes must be due and collected during the year or within 60 days subsequent to year-end. Property taxes not considered available are reported as unearned revenues. Taxes are levied in July on (a) one hundred percent of the full and fair value of real and tangible personal property owned within the Town the previous December 31; and, (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the Town the previous calendar year, prorated for the actual number of days so registered.

Taxes levied in July are payable quarterly on September 1, December 1, March 1 and June 1. Failure to make payments on the prior year's assessment by mid-March will result in a lien on the taxpayer's property. Real estate and personal property tax are shown net of an allowance for uncollectible accounts. The allowance is calculated based on the age of the individual receivables and amounted to \$340,656 at June 30, 2013 in the governmental statement and statement of net position, respectively.

Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 4.00% over that of the preceding fiscal year.

Due from federal and state governments

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 uncollectible amounts.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory reported in the Town's general fund 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.

Capital Assets and Depreciation

Capital assets are reported in the statement of net position in the government-wide financial statements. Capital assets acquired by governmental funds are reported as capital outlay expenditures.

Capitalizable fixed assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at the fair market value as of the date received. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not incurred during fiscal 2013.

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 of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

The range of estimated useful life by type of asset is as follows:

	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Machinery & equipment	4-20
Construction equipment	10
Infrastructure	10-50
Motor vehicles	6-20

Bond Premiums and Issuance Costs

In the governmental funds, 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.

In the statement of net position, 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013.

The entire compensated absence liability is reported in the statement of net position. 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 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.

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.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Transactions (Continued)

Non-reciprocal interfund activities:

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.

Net Position and Fund Balance

Government-wide financial statements

The Town's net position has been segregated into the following three components:

- (a) Net investment in capital assets - represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to those assets, if any.
- (b) Restricted - 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. reduced by liabilities and deferred inflows of resources related to the restricted assets.
- (c) Unrestricted net position – a residual category for the balance of net position.

Fund Balance

Governmental fund balance 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.
- **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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

- **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 net position 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 unearned 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.

2. CASH DEPOSITS AND INVESTMENTS

The State of Rhode Island requires that certain uninsured deposits be collateralized. Section 35-10.1-7 of the General Laws of the State of Rhode Island, dealing with the collateralization of public deposits, requires that all time deposits with maturities of greater than 60 days and all deposits in institutions that do not meet the minimum capital requirements of its Federal regulator must be collateralized.

Deposits

At June 30, 2013, the carrying amount of the Town's cash and cash equivalents was \$2,180,086 (including Fiduciary Funds) while the bank balance was \$2,414,482. Of the bank balance, \$750,000 was covered by federal depository insurance and \$1,678,506 was uninsured. The Town has entered into collateralization agreements with various financial institutions and as a result, \$1,678,506 of the uninsured balance at June 30, 2013 was collateralized by securities held by the financial institutes and/or third parties in the name of the Town.

Reconciliation to Government-Wide Statement of Net Position:

Total cash deposits.....	\$ 2,180,086
Add: Petty Cash.....	1,323
Add: U. S. Government money market funds	5,129,217
Less: Fiduciary funds cash, including time deposits (not included in the Government-wide statement).....	<u>(1,503,507)</u>
Total cash and cash equivalents on A-1	<u>\$ 5,807,119</u>

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

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Concentration of Credit Risk

At June 30, 2013, the Town had a diversified portfolio in its General Fund and Pension Trust Funds were invested in various mutual funds. These investments, and their related underlying maturities, consisted of the following:

Type of Investment	Fair Value	N/A	0-3 Years	3-5 Years
Mutual Funds				
Domestic Equity	\$ 24,669,005	\$ 24,669,005	\$ -	\$ -
Domestic Real Estate	1,578,632	1,578,632	-	-
International Equity	5,135,274	5,135,274	-	-
Emerging Markets	2,228,032	2,228,032	-	-
International Real Estate	956,995	956,995	-	-
Fixed Income Securities	13,022,470		679,773	12,342,697
	<u>\$ 47,590,408</u>	<u>\$ 34,567,938</u>	<u>\$ 679,773</u>	<u>\$ 12,342,697</u>

Average ratings of the investments comprising the debt related securities above, as determined by Standards & Poor's are as follows:

	Fixed Income Securities
AAA	\$ 5,881,692
AA	7,017,337
A	123,441
	<u>\$ 13,022,470</u>

Interest Rate Risk

The Town's investments are held in mutual funds which do not bear specified interest rates. The rate of return on these investments is dependent on the operating results of the entities included in the portfolio of the mutual funds as well as overall economic conditions.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of financial institution failure, the Town's deposits and/or 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. Additionally, the Town deposit policy requires that deposits be placed in financial institutions that are FDIC insured. The Town deposits are maintained in high rated financial institutions and the ratings of these institutions is reviewed by management on a periodic basis.

As of June 30, 2013, the following pension investments represent 5% or more of the Town Plan's net position:

Dimensional Fund Advisors:

One Year Fixed income	\$6,538,805
Two Year Fixed income	\$2,614,302
Five Year Fixed income	\$3,869,363
Core Equity Portfolio	\$3,053,290
US Core Equity 2 Portfolio	\$7,889,050
US Large Cap Value	\$3,840,035
US Vector Equity Portfolio	\$5,563,986
Federated Ultrashort Class A	\$2,979,014

As of June 30, 2013, all of the funds in the OBEB Trust Fund were invested in a bank money market account.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

3. BUDGETARY AND LEGAL COMPLIANCE (Continued)

The following individual funds reported deficits in the unreserved fund balances in the fund financial statements at June 30, 2013.

Town:

Wind Turbine Generator Fund	\$418,00
PPD Sex Offender	\$89
EMA WMD	\$2,720
Click-it or Ticket	\$190
Active Shooter	\$2,088
EMPG	\$935
Blue Rip Tide Speed Management	\$147
Tobacco Survey	\$655
Child Passenger Safety Grant	\$397
Capital Projects:	
2008-2009 Warrants	\$18,884
2009-2010 Warrants	\$117,906
2012-2013 Warrants	\$437,716

School:

School Lunch Fund	\$14,212
Title II	\$51
Perkins Grant	\$180
Feinstein Grant	\$102
Summer School Remedial	\$5,117

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

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Nondepreciable assets:				
Land	\$ 4,037,922			\$ 4,037,922
Land easements	1,420,000			1,420,000
Construction in progress	65,803	\$ 151,336	\$ 65,803	151,336
Total Capital assets not being depreciated	<u>5,523,725</u>	<u>151,336</u>	<u>65,803</u>	<u>5,609,258</u>
Depreciable assets:				
Land improvements	637,848			637,848
Buildings	21,825,672			21,825,672
Buildings and improvements	6,577,076	228,697		6,805,773
Machinery and equipment	5,507,081	113,900		5,620,981
Construction equipment	396,909			396,909
Infrastructure	19,353,354	922,851		20,276,205
Vehicles	4,486,195	139,723	-	4,625,918
Total Capital assets being depreciated	<u>58,784,135</u>	<u>1,405,171</u>	<u>-</u>	<u>60,189,306</u>
Less accumulated depreciation for:				
Land improvements	284,110	28,888		312,998
Buildings	14,656,877	403,616		15,060,493
Buildings and improvements	1,314,617	289,962		1,604,579
Machinery and equipment	3,698,248	519,545		4,217,793
Construction equipment	325,837	11,130		336,967
Infrastructure	13,460,927	430,173		13,891,100
Vehicles	2,288,525	245,804		2,534,329
Total accumulated depreciation	<u>36,029,141</u>	<u>1,929,118</u>	<u>-</u>	<u>37,958,259</u>
Governmental Activities				
Capital assets, net	<u>\$ 28,278,719</u>	<u>\$ (372,611)</u>	<u>\$ 65,803</u>	<u>\$ 27,840,305</u>
Business-type activities				
Nondepreciable assets:				
Land	\$ 37,251			\$ 37,251
Total capital assets not being depreciated	<u>37,251</u>	<u>-</u>	<u>-</u>	<u>37,251</u>
Depreciable assets:				
Land improvements	8,879			8,879
Machinery and equipment	3,206,627	\$ 21,792		3,228,419
Total Capital assets being depreciated	<u>3,215,506</u>	<u>21,792</u>	<u>-</u>	<u>3,237,298</u>
Less accumulated depreciation for:				
Land improvements	222	-		222
Machinery and equipment	542,750	13,077		555,827
Total accumulated depreciation	<u>542,972</u>	<u>13,077</u>	<u>-</u>	<u>556,049</u>
Business-type Activities				
Capital assets, net	<u>\$ 2,709,785</u>	<u>\$ 8,715</u>	<u>\$ -</u>	<u>\$ 2,718,500</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

4. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 66,816
Public safety	280,244
Public works	526,558
Education	931,622
Community service	123,878
	<hr/>
Total depreciation expense	\$ 1,929,118

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

School Lunch	\$ 4,505
Transfer Station	8,572
	<hr/>
Total depreciation expense	\$ 13,077

5. LEASE REVENUE

The Town receives rental payments for a communication tower leased to several communication companies. Future minimum rental payments to be received for these leases are as follows:

	<u>Governmental Activities</u>
June 30, 2014	\$ 89,638
June 30, 2015	93,671
June 30, 2016	97,905
	<hr/>
Total	\$ 281,214

6. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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.

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 \$97,264,797. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. At June 30, 2013, bonds outstanding totaled \$16,421,623.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

7. LONG-TERM AND SHORT-TERM OBLIGATIONS

Governmental Activities

General Obligation Bonds, Revenue Bonds, Refunding Bonds and Loans:

The Following is a summary of changes in long-term debt for the year ended June 30, 2013:

Description of Purpose	Amount of Original Issue	Date of Issue	Interest Rate	Date of Maturity	Balance, June 30, 2012	New Issues	Retired	Balance, June 30, 2013
Tax settlement bond	\$ 2,200,000	2/17/2004	2.25%-4.75%	2/15/2019	\$ 1,050,000		\$ 1,050,000	\$ -
School gymnasium	\$ 3,500,000	6/27/2006	4.00-5.00%	4/1/2026	2,450,000		175,000	2,275,000
Portsmouth Middle School sprinklers	\$ 1,900,000	5/16/2007	4.00-5.50%	4/1/2022	1,250,000		125,000	1,125,000
School improvements - Computers	\$ 350,000	5/17/2008	3.98%	3/17/2013	70,000		70,000	-
School improvements	\$ 344,836	5/17/2008	3.98%	3/17/2013	68,000		68,000	-
Town Improvements	\$ 242,500	2/13/2009	3.51%	2/13/2014	96,000		48,000	48,000
General Obligation Refunding Bond - Series A								-
Open Space/Recreation Bond	\$ 250,000	5/23/2013	2.350%	2/15/2028		\$ 250,000		250,000
Town Improvements	\$ 562,000	5/23/2013	2.350%	2/15/2028		562,000		562,000
General Obligation Refunding Bond - Series B	\$ 927,000	5/23/2013	.53% -1.70%	2/15/2019		927,000		927,000
Student Information Technology	\$ 350,000	8/7/2008	3.75-4.00%	5/15/2014	140,000		70,000	70,000
School Building Repairs	\$ 350,000	8/7/2008	3.75-4.00%	5/15/2013	70,000		70,000	-
School Information Technology	\$ 350,000	2/13/2009	3.51%	2/13/2014	140,000		70,000	70,000
Portsmouth High School Sprinklers	\$ 1,100,000	8/7/2008	3.75-6.00%	5/15/2024	875,000		75,000	800,000
School Improvements	\$ 4,655,000	6/4/2009	2.00-5.00%	11/1/2020	4,460,000		535,000	3,925,000
Open Space/Recreation Bond	\$ 1,980,000	6/15/2010	2.00-4.00%	6/15/2025	1,680,000		150,000	1,530,000
Town Improvements	\$ 267,000	8/12/2009	4.10%	8/12/2014	133,500		53,400	80,100
School Information Technology	\$ 350,000	8/12/2009	4.10%	8/12/2014	175,000		70,000	105,000
Rhode Island Clean Water Agency Loan	\$ 150,000	10/20/2009	1.00%	9/1/2012	46,982		46,982	-
School Information Technology	\$ 350,000	11/4/2010	2-3%	6/30/2016	280,000		70,000	210,000
School Improvements	\$ 350,000	11/4/2010	2-3%	6/30/2016	280,000		70,000	210,000
Town Improvements	\$ 345,000	11/4/2010	2-3%	6/30/2016	275,000		70,000	205,000
Fire Engine Purchase	\$ 970,000	11/4/2010	2-3%	6/30/2016	775,000		195,000	580,000
Wastewater Plan	\$ 750,000	11/4/2010	2-3%	6/30/2016	600,000		150,000	450,000
Building Repairs	\$ 350,000	6/12/2012	1.326%	6/30/2017	350,000		70,230	279,770
Building Repairs	\$ 350,000	6/12/2012	1.326%	6/30/2017	350,000		70,230	279,770
School Information Technology	\$ 350,000	6/12/2012	1.326%	6/30/2017	350,000		70,229	279,771
					15,964,482	1,739,000	3,442,071	14,261,411
Deferred amount for issuance premiums					193,713		29,851	163,862
Compensated absences					1,833,275		298,091	1,535,184
Net OPEB Obligation					3,634,829	269,498		3,904,327
					21,626,299	2,008,498	3,770,013	19,864,784

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

7. LONG-TERM AND SHORT-TERM OBLIGATIONS (CONTINUED)

Business Activities

Description of Purpose	Amount of Original Issue	Date of Issue	Interest Rate	Date of Maturity	Balance, June 30, 2012	New Issues	Retired	Balance, June 30, 2013
Capital leases payable:								
Hewlett Packard equipment lease	\$41,111	1/31/2010	4.60%	1/31/2013	22,010		12,860	9,150
Dell equipment lease	\$60,283	5/8/2013				60,283	16,191	44,092
					<u>22,010</u>	<u>60,283</u>	<u>29,051</u>	<u>53,242</u>
Enterprise Funds								
General obligation bonds and loans:								
Transfer Station Construction Project	\$171,000	6/12/2012	1.326%	6/30/2017	171,000		34,312	136,688
Wind Turbine Construction Project	\$2,600,000	11/4/2008	1.15%	12/15/2022	1,906,667		173,333	1,733,334
Wind Turbine Construction Project	\$400,000	9/4/2008	2.00%	7/15/2023	316,571		26,381	290,190
Total enterprise fund long-term debt					<u>2,394,238</u>	<u>-</u>	<u>234,026</u>	<u>2,160,212</u>
Total long-term obligations					<u>\$ 24,042,547</u>	<u>\$ 2,068,781</u>	<u>\$ 4,033,090</u>	<u>\$ 22,078,238</u>

Scheduled annual debt service requirements

At June 30, 2013, scheduled annual debt service requirements for the general obligation bonds, revenue bonds, refunding bonds, loans and capital leases are as follows:

	Governmental Activities			Capital Leases			Enterprise Funds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
June 30, 2014	\$ 2,342,226	\$ 452,874	\$ 2,795,100	\$ 23,136	\$ 2,372	\$ 25,508	\$ 233,886	\$ 26,384	\$ 260,270
June 30, 2015	2,088,529	399,643	2,488,172	14,686	1,505	16,191	233,886	23,403	257,289
June 30, 2016	1,970,828	348,490	2,319,318	15,420	771	16,191	233,886	20,420	254,306
June 30, 2017	1,410,828	289,943	1,700,771				233,886	17,448	251,334
June 30, 2018	1,175,000	246,260	1,421,260				199,714	14,456	214,170
2019-2023	4,176,000	624,663	4,800,663				999,924	34,039	1,033,963
2024-2028	1,098,000	83,467	1,181,467				25,030	-	25,030
	<u>\$ 14,261,411</u>	<u>\$ 2,445,340</u>	<u>\$ 16,706,751</u>	<u>\$ 53,242</u>	<u>\$ 4,648</u>	<u>\$ 57,890</u>	<u>\$ 2,160,212</u>	<u>\$ 136,150</u>	<u>\$ 2,296,362</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

8. 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.

- a) 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, 2013.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

9. INTERFUND BALANCES

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

Interfund receivables and payables are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 1,564,755	\$ 3,144,146
Non-Major Governmental Funds	3,378,297	1,887,046
Proprietary School Lunch Fund	209,835	203,061
Proprietary Transfer Station Fund	81,033	-
Non-Major Proprietary Funds	333	-
Total	<u>\$ 5,234,253</u>	<u>\$ 5,234,253</u>

10. FUND BALANCES

The Town has classified governmental fund balances at June 30, 2013 as follows:

Nonspendable:

Permanent funds:

Perpetual care and endowment permanent funds \$ 140,468

General fund:

Advance to Wind Turbine Generator fund 492,296

Prepaid expenses 968

Inventory 17,450

Total nonspendable fund balance \$ 651,182

Restricted:

Town special revenue funds \$ 333,999

School special revenue funds 418,230

Town capital project funds 620,253

School capital project funds 1,521,010

Total restricted fund balance \$ 2,893,492

Committed:

Town capital project funds \$ 137,715

General fund:

Committed for education 3,922,953

\$ 4,060,668

Assigned:

Open space \$ 309,378

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11. POST EMPLOYMENT HEALTH CARE BENEFITS

Other Post-Employment Benefits (OPEB) – Town Employees

Plan Description

Through its single-employer defined benefit plan (OPEB Plan), the Town provides postretirement healthcare benefits to all Town employees who meet years of service and age requirements. For police and fire employees, upon death of the retiree, health care coverage continues to unmarried surviving spouse and dependent children up to age 10. For general employees, retiree health care coverage is discontinued upon death of the retiree. 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.

The most recent actuarial valuation for the OPEB Plan was performed as of June 30, 2013.

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. Benefits and employee contributions:

The Trust paid 100% of the amount for medical and dental costs incurred by eligible retirees, which totaled \$724,032 for the year ended June 30, 2013.

Public Works, Fire and Police contributed .25%, 1.5% and 1.0% of salary respectively, to the OPEB Trust which amounted to \$57,522 for the year ended June 30, 2013.

The Town pays 100% of the cost of the individual health care and dental insurance for all retired eligible employees until Medicare eligibility, except for Public Works employees who contribute 20% of the medical and dental premiums.

c. Covered participants

As of June 30, 2013, the membership census is as follows:

Active employees:	
Active with coverage	87
Active without coverage	14
Retirees and beneficiaries	<u>43</u>
Total	<u><u>144</u></u>

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

11. 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 to 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 as of June 30, 2013.

Annual Required Contribution	\$ 1,297,531
Interest on net OPEB obligation	147,380
Adjustment to annual required contribution	<u>(187,999)</u>
Annual OPEB cost	1,256,912
Implicit rate subsidy	(76,876)
Contributions made during the year	<u>(724,032)</u>
Increase in net OPEB obligation	456,004
Net OPEB obligation at beginning of year	<u>2,812,586</u>
Net OPEB obligation at end of year	<u><u>\$ 3,268,590</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2011, 2012 and 2013 are as follows:

Year ended June 30,	OPEB cost	Percentage of Annual OPEB cost contributed	Net OPEB Obligation
2011	\$1,315,857	60.2%	\$2,553,895
2012	\$1,212,030	78.7%	\$2,812,586
2013	\$1,256,912	63.7%	\$3,268,590

Funded status and funding progress:

As of June 30, 2013, the funded status and funding progress were as follows:

Funded ratio	3.1%
Actuarial accrued liability for benefits	\$ 12,688,743
Actuarial value of assets	\$402,179
Unfunded actuarial accrued liability (UAAL)	\$12,688,743
Covered payroll	\$5,407,210
UAAL to covered payroll	234.7%

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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

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

Actuarial Methods and Assumptions

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.

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. Some key assumptions are as follows:

Measurement date:	June 30, 2013, rolled back to July 1, 2012
Cost method:	Projected Unit Credit
Employer Funding Policy	Partially pre-funded by active employee's contributions
Discount rate:	5.24%, partially funded
Amortization:	Level dollar amount over 30 years based on an open group
Participation:	100% of active employees with current health coverage, 0% for employees with no health coverage
Amortization	Level dollar amount over 30 years based on an open group Health Care Cost
Trend Rates:	Medical pre-Medicare rate of 9.0% per year, decreasing to a rate of 6.5% per year after eight years; and post-Medicare rate of 6.5% per year, decreasing to a rate of 4.5% after eight years.
Dental	Increase by 5% annually, decreasing by 0.25% per year to an ultimate rate of 4.0% per year
Vision	Increase by 3.25% annually, decreasing by 0.25% per year to an ultimate rate of 3.0% per year

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. 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 School Department has not yet established a Trust to pre-fund OPEB liabilities. Accordingly, 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. Benefits and employee contributions:

For the year ended June 30, 2013 the School Department Trust paid 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 amounts due for these benefits are funded on an at-will basis. If a retiree chose not to participate in the medical plan, the retiree would 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.

In 2012, the School Department changed the retiree health benefits provisions. The School Department's explicit subsidy will be discontinued once the retiree becomes Medicare eligible, even if they are still within the first six years of retirement. Medicare eligible retirees may not be enrolled in the School Department's plan unless they are among the grandfathered current retirees who can remain in the School Department's Medicare Supplement plan. Premium reimbursement benefit for employees who decline health care at retirement will be discontinued once the retiree is eligible for Medicare, even if they are still within the first six years of retirement.

School Department funds post retirement benefits on a pay-as-you go basis, which totaled \$724,032 for the year ended June 30, 2013.

c. Covered participants

As of June 30, 2013, the membership census is as follows:

Active employees:	
With coverage	252
Without coverage	66
Retirees and beneficiaries	<u>89</u>
Total	<u><u>407</u></u>

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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

Annual OPEB Cost and Net OPEB Obligation

The School'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 to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School's net OPEB obligation as of June 30, 2013.

Annual Required Contribution	\$ 543,705
Interest on net OPEB obligation	32,890
Adjustment to annual required contribution	<u>(73,953)</u>
Annual OPEB cost	502,642
Implicit rate subsidy	(189,091)
Contributions made during the year	<u>(297,235)</u>
Increase in net OPEB obligation	16,316
Net OPEB obligation at beginning of year	<u>822,243</u>
Net OPEB obligation at end of year	<u><u>\$ 838,559</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for past three years, and the net OPEB obligation as of June 30, 2011, 2012 and 2013 are as follows:

<u>Year ended June 30,</u>	<u>OPEB cost</u>	<u>Percentage of Annual OPEB cost contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 1,064,164	61.4%	\$811,386
2012	\$ 577,942	98.1%	\$822,243
2013	\$502,642	96.8%	\$838,559

Funded status and funding progress:

As of June 30, 2013, the funded status and funding progress were as follows:

Funded ratio	0.0%
Actuarial accrued liability for benefits	\$ 4,717,025
Actuarial value of assets	\$0
Unfunded actuarial accrued liability (UAAL)	\$4,717,025
Covered payroll	\$18,612,603
UAAL to covered payroll	234.7%

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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

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

Actuarial Methods and Assumptions

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.

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. Some key assumptions are as follows:

Measurement date:	June 30, 2013, rolled back to July 1, 2012
Funding method:	Projected Unit Credit
Employer Funding Policy:	Pay-as-you-go
Discount rate:	4.0%, unfunded
Amortization:	Level dollar amount over 15 years based on an open group
Participation:	100% of active employees with current health coverage, 0% for employees with no health coverage
Health Care Cost Trend Rates:	Growth of 9% for 2014, declining by .5% per year 5% is reached

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS

All eligible employees of the Town are covered by one of six pension plans: the Town Retirement Plan, a single employer, plan with a defined contribution component for certain employees (Town Retirement Plan); the Employees' Retirement System of the State of Rhode Island (Teachers' Plan) and four distinct defined money purchase pension plans for: (1) full time National Association of Government Employees (NAGE) Local 280, Portsmouth Municipal Employees Association (PMEA) Local 871 and non-union employees (Defined Supplemental Plan), (2) full time police officers hired after July 1, 2010 (Police Plan), (3) NAGE Local 280 members hired after July 1, 2010 (DPW Plan), and (4) the Town Administrator's Plan.

The Town Plan covers all full-time Town employees except those eligible to participate in the Teacher's Plan, Police and Public Works employees hired after July 1, 2010. The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation.

In November 2011, the State enacted the Rhode Island Retirement Security Act of 2011 (RIRSA), which made broad changes to the Teachers' Plan effective July 1, 2012. The most significant changes include changing the structure of the retirement program from a traditional defined benefit plan to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan; changing the automatic cost of living adjustment (COLA) from a CPI-related formula to a formula contingent on the actual investment performance over time; suspension/reduction of the COLA during times when the funded ratio is lower than targeted 80% levels; and the re-amortization of the Unfunded Actuarial Accrued Liability (UAAL) to 25 years from the 19-year schedule as of June 30, 2010. For the Teachers' Plan, teachers not covered by Social Security will participate in additional defined contribution allocations equal to 2% member plus 2% employer. Included within these significant changes are certain rules for transitioning from the prior defined benefit structure to the smaller defined benefit plan going forward. The changes in the defined benefit plan instituted by RIRSA have been fully reflected in the actuarial valuation as of June 30, 2012.

Legal challenges to legislatively enacted pension reforms are proceeding through the courts and as of the date of this report are in court-ordered mediation.

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 and Police and Public Works employees hired on or after July 1, 2010. 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions

As of July 1, 2013 membership census is as follows:

Active members	165
Retired members	119
Terminated vested members	14
Disabled members	9
Beneficiaries of deceased members	9
	<hr/>
Total	316
	<hr/>

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

- Plan participation commences on the first day of month coinciding with or following the date of hire, if the employee chooses to participate in the Plan. Elected officials and certified employees of the School Department are not eligible to participate in the Plan.
- The normal retirement date for Police and Fire employees is upon completion of twenty years of credited service. The normal retirement date for Town Hall, School and Public Works employees is the later of age 60 or the completion of ten years of service.
- 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 prorata for service less than 20 years plus 2% for 5 additional years beyond 20 years to a maximum of 70%. Does not apply to Police employees hired after July 1, 2010.
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Fire Employees	60% of average monthly earnings reduced prorata for service less than 20 years plus 2% for 7 additional years beyond 20 years to a maximum of 74%. For service retirements and non-service disability on or after July 1, 2013, the automatic COLA changes from 3% starting on the January 1 st following retirement to 1.7% on the January 1 st following the 5 th anniversary of retirement.
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TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

Fire Employees (Continued)

Effective July 1, 2013, the service benefit accrual rate changes from 3% for the first 20 years plus 2% for the next 7 years to 1% for all future years. Benefit accruals through June 30, 2013 are grandfathered.

Employees hired on or after July 1, 2013 are covered by the 401(a) plan and are covered by the defined benefit plan only for disabilities. Employees hired on or after October 1, 2013 are covered by the 401(a) plan. In addition, the in-service disability benefit is offset by the annuity value of the 401(a) plan account value.

Town Hall Non-Management Employees

50% of average monthly earnings reduced prorata for service less than 20 years. Effective July 1, 1998. Members of PMEA: 2.5% of average monthly earnings times years of credited service services (maximum 27 years). For retirement on or after July 1, 2013, the automatic cost-of-living (COLA) changes from 2-3% starting on the 1st anniversary of retirement to 1.7% on the 5th anniversary of retirement.

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. Effective October 1, 2013, the service retirement benefit changes from 2.5% reduced pro rata for less than 20 years of service to 1% for all future years. Benefit accruals through September 30, 2013 are grandfathered.

Employees hired on or after July 1, 2012 are covered by the defined benefit plan through September 30, 2013 and then transfer to the 401(a) plan. Employees hired on or after October 1, 2013 are covered by the 401(a) plan.

Public Works Employees

50% of average monthly earnings reduced prorata for service less than 20 years plus 2.5% for each additional year of service beyond age 60 with 20 years of services subject to a maximum of 67.5%. Does not apply to Public Works employees hired after July 1, 2010.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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.

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	4% 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

School employees	Employees hired prior to July 1, 1991 contribute 4% of earnings. Employees hired between July 1, 1991 and July 1, 2012 contribute 4% of earnings.
Town Hall employees	Employees hired prior to July 1, 2012 contribute 5% of earnings. Employees hired after July 1, 2012 contribute 6% effective July 1, 2014.
Public Works employees	Union employees are not required to make contributions. Management and nonunion employees hired after July 1, 2004 contribute 5.5% 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.

Actuarial Methods and Significant Assumptions

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

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension costs	\$ 2,782,947	\$ 2,662,801	\$ 2,514,420
Actual contribution	\$ 2,782,947	\$ 2,662,801	\$ 2,514,420
Net pension obligation	NONE	NONE	NONE
% of annual pension costs contributed	100%	100%	100%

The annual required contribution was determined as part of an actuarial valuation as of July 1, 2011. Significant actuarial methods and assumptions are as follows:

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

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, 2013.

Assumptions

- | | | |
|----|----------------------------|--|
| 1. | Mortality | RP2000 Combined Healthy Table for males and females with generational mortality projection per Scale AA |
| 2. | Interest Rate | 6.75% per annum |
| 3. | Salary increases | Based on age. Increase ranges from 6.5% for 25 year olds to 3.5% for those 55+ |
| 4. | Disability rate | School, Public Works and Town: 50% of the 1985 Pension Disability Table (DP-85 Table) Class I
Fire and Police: 50% of the 1985 Pension Disability Table (DP-85 Table) Class 4 |
| 5. | Cost of Living Adjustments | Varies based on date of hire and length of service |

Funded Status of Plan

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 and decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress with an actuarial valuation date of July 1, 2013:

Actuarial Value of Asset	\$ 38,816,804
Actuarial Accrued Liability (AAL)	<u>74,524,823</u>
Unfunded AAL (UAAL)	<u>\$ (35,708,019)</u>
Funded Ratio	52.1%
Covered Payroll	\$ 7,744,997
UAAL as a percentage of covered payroll	461.0%

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Town Retirement Plan (Continued)

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.

Teachers' Plan - Employees' Retirement System of the State of Rhode Island ('ERS') – Defined Benefit Plan

Effective July 1, 2012, the State-administered retirement system which covers local teachers and certain municipal employees was modified to include both defined benefit and defined contribution plans.

Plan description:

All full-time teachers, principals, school nurses and certain other school officials (including the superintendent) in the Town's school system must participate in the Teachers' Plan (the Plan), a cost-sharing multiple employer defined benefit plan administered by the Employees' Retirement System of Rhode Island (the System). The Plan provides retirement, death and disability benefits (as well as annual cost of living allowances if certain conditions have been met) as outlined in Chapters 36-10 and 16-16 of the RIGL. The benefits may be amended by the Rhode Island General Assembly. The System issues an annual financial report that includes financial statements and required supplementary information for all of the plans it administers. The reports can be obtained at www.ersri.org.

Funding policy:

The funding policy is outlined in RIGL sections 16-16-22 and 36-10-2 (which can be amended by the Rhode Island General Assembly). Active plan members must contribute 3.75% of their compensation. The Town and the State are collectively required to contribute at an actuarially determined rate expressed as a percentage of total compensation paid to the active membership. The employer contribution is split and paid 40% by the State and 60% by the school district, with the exception of teachers who work in federally funded programs where 100% is paid by the school district and reimbursed by the federal government. For fiscal 2013, the total employer rate of 19.29% (7.88% State share and 11.41% local share). The State share of the employer contribution rate includes the total cost of prior contribution deferrals, which was .28% for fiscal 2013.

Teachers Survivor Benefits - the plan provides a survivor benefit to public school teachers in lieu of Social Security as outlined in sections 16-16-25 through 16-16-38 of the Rhode Island General Laws (RIGL). Spouse, parents, family or children's benefits are payable upon death of a member. In lieu of a survivor benefit, members may opt to receive a lump sum return of their contributions plus interest upon retirement. The benefits may be amended by the Rhode Island General Assembly.

The cost of the benefits provided by the plan are two percent (2%) of the member's annual salary up to but not exceeding an annual salary of \$9,600; one-half (1/2) of the cost is contributed by the member by deductions from his or her salary, and the other half (1/2) is contributed and paid by the school district. These contributions are in addition to the contributions required for regular pension benefits.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Teachers' Plan - Employees' Retirement System of the State of Rhode Island ('ERS') – Defined Benefit Plan (Continued)

Funding policy (Continued):

The Town contributed \$1,862,615, \$1,632,808 and \$1,378,156 during the fiscal years 2013, 2012, and 2011, respectively, equal to 100% of the actuarially required contributions for those respective years. For financial reporting purposes, the State's share of contributions is reflected as on behalf-payments and is included as both revenue and expenditures in the accompanying financial statements.

Defined Contribution Plan

Plan description

Employees participating in the Teachers' defined benefit plan, as previously described, also participate in a defined contribution plan of the System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under Internal Revenue Service (IRS) section 401(a) and is administered by TIAA-CREF and the System. Employees may choose among various investment options available to plan participants.

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with IRS guidelines for such plans.

The System issues an annual financial report that includes financial statements and required supplementary information for all of the plans it administers. The reports can be obtained at www.ersri.org.

Plan funding policy:

The funding policy is outlined in RIGL chapter 36-10.3 (which can be amended by the Rhode Island General Assembly). Active plan members must contribute 7% of their compensation and the Town is required to contribute 3%. For plan members who are part of the Teacher's Plan, the employer contribution is split and paid 40% by the State and 60% by the school district with the exception of teachers who work in federally funded programs where 100% is paid by the school district and reimbursed by the federal government.

The plan members and Town contributed \$1,134,857 and \$486,370, respectively, during the fiscal year ended June 30, 2013. For financial reporting purposes, the State's share of contributions, in the amount of \$1,317,767 for the year ended June 30, 2013, are reflected as on behalf-payments and included as both revenue and expenditures in the accompanying financial statements.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

12. PENSION PLANS (CONTINUED)

Teachers' Plan - Employees' Retirement System of the State of Rhode Island ('ERS') – Defined Benefit Plan (Continued)

Defined Contribution Pension Plans

In addition to the aforementioned pension plans, the Town has four defined contribution plans summarized as follows:

Plan Name	Participants	Contributions			
		Participants (Employees)		Employer (Town)	
		% of Earnings	2013 Dollars	% of Earnings	2013 Dollars
Defined Supplemental Plan	All full-time NAGE Local 280 & PMEA Local 871 members and non-union employees	3.0%	\$76,218	1.75%	\$27,648
Police Plan	All full-time police hired after July 1, 2010	8.0%	\$15,436	8.0%	\$15,436
DPW Plan	All NAGE Local 280 members hired after July 1, 2010	8.0%	\$ 3,611	8.0%	\$ 3,611
Town Administrator Plan	Town Administrator	33.84%	\$42,646	8.0%	\$10,080

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

14. CONTINGENT LIABILITIES AND COMMITMENTS

The government is a defendant in various lawsuits. Although the outcome of most of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters may have a material adverse effect on the financial condition of the government have been appropriately provided for.

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

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

The Town is a defendant in a suit related to a condemnation proceeding. The potential loss ranges from \$400,000 to \$600,000. The Town plans to vigorously contest the suit or seek an out-of-court settlement.

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 \$1,772,000 for the year ended June 30, 2013.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

15. SUBSEQUENT EVENTS:

Subsequent to year-end, the Town issued general obligation bonds in the amount of \$1,100,000 which bear interest at 3.06% per year. Except for the bond issuance, there were no other events requiring recognition or disclosure in the financial statements.

16. JOINT VENTURE

The Portsmouth School Department (PSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on the allocation formula approved by the NCRSEP Board of Directors. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program; such amounts are deducted from the gross annual assessment. PSD's net assessment for 2013 was \$1,621,039. The towns have no equity interest in the net assets of NCRSEP.

At June 30, 2013, a total of \$505,551 in Medicaid reimbursements due to PSD has been recorded as a liability of NCRSEP. This amount represents Medicaid reimbursements received by NCRSEP in excess of the budgeted receipts for Portsmouth. Separately audited financial statements of NCRSEP are available at Newport County Regional Special Education Program, Oliphant Lane, Middletown, RI 02842.

17. PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$1,000,075 is the cash on deposit with the NCRSEP for the Medicare reimbursements due to PSD at June 30, 2012. The \$1,000,075 represents Medicare revenue earned by the PSD in prior years.

Net position at June 30, 2012 have been restated as follows:

Government-wide Financial Statements - Governmental Activities

Net position at June 30, 2012, as originally stated	\$ 18,210,624
Understatement of cash on deposit at NCRSEP	1,000,075
Net position at June 30, 2012, as restated	\$ 19,210,699

Fund balance at June 30, 2012 have been restated as follows:

Governmental Fund Financial Statements - General Fund

Fund balance at June 30, 2012, as originally stated	\$ 8,464,168
Understatement of cash on deposit at NCRSEP	1,000,075
Fund balance at June 30, 2012, as restated	\$ 9,464,243

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

18. WIND TURBINE GENERATOR FUND

During fiscal year ended June 30, 2009, the Town completed the installation of a 336 foot-tall wind turbine at Portsmouth High School. The wind turbine operated successfully until June 2012, when the gearbox that operates the turbine failed. The Town was unable to seek remedies from the manufacturer as they were no longer in business. As the turbine did not generate sufficient revenue in the current year to service the debt, the Town general fund advanced \$228,058 to the Wind Turbine Generator Fund (WTGF) to pay its debt obligations as they became due. At June 30, 2013, the total amount advanced by the Town (\$434,513) and the School Department (\$57,784) have been reclassified and reported as a long-term advance payable in the WTGF and a long-term advance receivable in the Governmental Activities column in the statement of net position at June 30, 2013.

Management continues to evaluate various scenarios, including replacement of the turbine's broken gear box, replacement of the entire turbine with a new, more reliable model and the dismantling of the turbine, among others. The Town is currently exploring public/private partnerships to restore the wind turbine to an operational state and to balance the risk associated with its operations. At this time, management believes that their efforts will be successful and, accordingly, believes that the net book value of the turbine (\$2,472,381) has not been impaired.

Required Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

E-1

**Budgetary Comparison Schedule for the General Fund
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)
Budget and Actual
Year Ended June 30, 2013
(Unaudited)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 46,674,026	\$ 46,674,026	\$ 47,081,631	\$ 407,605
Intergovernmental revenue	1,035,283	1,035,283	887,670	(147,613)
Licenses, permits and fees	889,764	889,764	677,466	(212,298)
Fines & forfeitures	361,700	361,700	387,891	26,191
Earnings on investments	10,000	10,000	(118,740)	(128,740)
Other revenues	1,628,372	1,628,372	2,092,025	463,653
Total revenues	<u>50,599,145</u>	<u>50,599,145</u>	<u>51,007,943</u>	<u>408,798</u>
Expenditures				
Current:				
General government	4,196,788	4,196,788	4,209,578	(12,790)
Public safety	9,059,410	9,059,410	9,426,650	(367,240)
Public works	2,364,356	2,364,356	2,281,996	82,360
Community services:				
Public and social services	559,951	559,951	559,604	347
Recreation, parks and grounds	501,623	501,623	461,804	39,819
Debt Service	3,155,149	3,155,149	2,975,066	180,083
Total expenditures	<u>19,837,277</u>	<u>19,837,277</u>	<u>19,914,698</u>	<u>(77,421)</u>
Excess (deficiency) of revenues over expenditures	<u>30,761,868</u>	<u>30,761,868</u>	<u>31,093,245</u>	<u>331,377</u>

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

**Budgetary Comparison Schedule for the General Fund
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)
Budget and Actual
Year Ended June 30, 2013
(Unaudited)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<i>Other financing sources (uses) transfer between funds</i>				
Proceeds from Bond Issuance			927,000	927,000
Transfer from Special Revenue			40,911	40,911
Payment to refunded bonds escrow agent			(1,050,000)	(1,050,000)
Transfer from School	92,920	92,920		(92,920)
Transfer to other funds	(30,854,788)	(30,854,788)	(30,304,791)	549,997
<i>Total other financing sources (uses)</i>	<u>(30,761,868)</u>	<u>(30,761,868)</u>	<u>(30,386,880)</u>	<u>374,988</u>
<i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 706,365</u>	<u>\$ 706,365</u>

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-2

**Budgetary Comparison Schedule for the School General Fund
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)
Budget and Actual
Year Ended June 30, 2013
(Unaudited)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental revenue	\$ 6,160,094	\$ 6,160,094	\$ 6,117,787	\$ (42,307)
Other revenues	1,075,000	1,075,000	1,094,791	19,791
Total revenues	<u>7,235,094</u>	<u>7,235,094</u>	<u>7,212,578</u>	<u>(22,516)</u>
Expenditures				
Education	37,568,439	37,568,439	36,289,540	1,278,899
Total expenditures	<u>37,568,439</u>	<u>37,568,439</u>	<u>36,289,540</u>	<u>1,278,899</u>
Excess (deficiency) of revenues over expenditures	<u>(30,333,345)</u>	<u>(30,333,345)</u>	<u>(29,076,962)</u>	<u>1,256,383</u>
Other financing sources (uses):				
Transfer from General Fund	30,248,093	30,248,093	30,248,093	-
Other sources	35,252	35,252		(35,252)
Transfer to other funds			(1,500,000)	(1,500,000)
Use of accumulated fund balance	50,000	50,000	50,000	-
Total other financing sources (uses)	<u>30,333,345</u>	<u>30,333,345</u>	<u>28,798,093</u>	<u>(1,535,252)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (278,869)</u>	<u>\$ (278,869)</u>

**Notes to Required Supplementary Information
June 30, 2013**

BUDGETARY – GAAP REPORTING RECONCILIATION

(A) *Adoption*

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

Budgets are adopted for the General Fund and the School Department's unrestricted fund (a special revenue fund) on a legally enacted budgetary basis which differs from accounting principles generally accepted in the United States of America (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.

The General Government, Public Safety and Public works exceeded their appropriation by \$12,790 and \$367,240, respectively. There were no other municipal department expenditures that exceeded appropriations (after approved transfers) for the year ended June 30, 2013.

(B) *Budgetary to GAAP Basis Reconciliation*

The following reconciliation summarizes the difference for the School Unrestricted Fund between the budgetary and GAAP basis accounting principles for the year ended June 30, 2013:

<u>Revenue and Other Financing Sources</u>	<u>School Unrestricted Fund</u>
Actual Amounts(Budgetary basis)	\$ 7,262,578
The appropriated fund balance is a budgetary revenue but is not a current year revenue for financial reporting purposes	(50,000)
The pension contributions made to the Employees Retirement System by the State of Rhode Island on behalf of the Town of Portsmouth is not reported as budgetary revenue, but is a current year revenue for financial reporting purposes.	1,317,767
Total Revenues and other financing sources as reported in the Combining Statement of Revenues, Other Financing Sources, Expenditures, Other Financing Users, and Changes in Fund Balance - Governmental Funds (F-2)	<u>\$ 8,530,345</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

**Notes to Required Supplementary Information
June 30, 2013**

BUDGETARY – GAAP REPORTING RECONCILIATION (CONTINUED)

(B) *Budgetary to GAAP Basis Reconciliation (Continued)*

<u>Expenditures and Other Financing Sources</u>	<u>School Unrestricted Fund</u>
Actual Amounts(Budgetary basis)	\$ 36,289,540
The pension contributions made to the Employees Retirement System by the State of Rhode Island on behalf of the Town of Portsmouth is not reported as a budgetary expense, but is a current year expenditure for financial reporting purposes.	<u>1,317,767</u>
Total expenditures and other financing sources as reported in the Combining Statement of Revenues, Other Financing Sources, Expenditures, Other Financing Users, and Changes in Fund Balance - Governmental Funds (F-2)	<u><u>\$ 37,607,307</u></u>

(Concluded)

Required Supplementary Information

Schedule of Funding Progress
Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
Town Pension Plan:						
July 1, 2009	\$ 31,609,237	\$ 51,284,315	\$ 19,675,078	61.6%	\$ 8,596,994	228.9%
July 1, 2010	\$ 32,779,646	\$ 54,054,944	\$ 21,275,298	60.6%	\$ 8,507,853	250.1%
July 1, 2011	\$ 35,266,853	\$ 57,377,287	\$ 22,110,434	61.5%	\$ 8,781,718	251.8%
July 1, 2012	\$ 36,496,791	\$ 69,198,820	\$ 32,702,028	52.7%	\$ 8,388,446	389.8%
July 1, 2013	\$ 38,816,804	\$ 74,524,823	\$ 35,708,019	52.1%	\$ 7,744,997	461.0%
Other Post Employment Benefits:						
<i>Municipal employees:</i>						
July 1, 2008	N/A	\$ 13,026,759	\$ 13,026,759	N/A	\$ 5,510,188	236.4%
July 1, 2009	N/A	\$ 13,026,759	\$ 13,029,759	N/A	\$ 5,510,188	236.5%
July 1, 2010	\$ 153,249	\$ 13,248,340	\$ 13,095,091	1.2%	\$ 6,383,155	205.2%
July 1, 2011	\$ 203,392	\$ 12,527,599	\$ 12,324,207	1.6%	\$ 6,574,650	187.5%
July 1, 2012	\$ 402,179	\$ 13,090,922	\$ 12,688,743	3.1%	\$ 5,407,210	234.7%
<i>School employees:</i>						
July 1, 2008	\$ -	\$ 4,514,458	\$ 4,514,458	0.0%	N/A	N/A
July 1, 2009	\$ -	\$ 4,514,458	\$ 4,514,458	0.0%	N/A	N/A
July 1, 2010	\$ -	\$ 10,258,675	\$ 10,258,675	0.0%	\$ 18,890,918	54.3%
July 1, 2011	\$ -	\$ 7,207,872	\$ 7,207,872	0.0%	\$ 19,457,646	37.0%
July 1, 2012	\$ -	\$ 4,717,025	\$ 4,717,025	0.0%	\$ 18,612,603	25.3%

(Continued)

Required Supplementary Information

Schedule of Employer Contributions
Year Ended June 30, 2013

Town Pension Plan:

Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percent of ARC Contributed
June 30, 2009	\$ 2,346,316	\$ 2,346,316	100.0%
June 30, 2010	2,590,523	2,590,523	100.0%
June 30, 2011	2,514,420	2,514,420	100.0%
June 30, 2012	2,662,801	2,662,801	100.0%
June 30, 2013	2,782,947	2,782,947	100.0%

Other Post Employment Benefits:

Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percent of ARC Contributed
--------------------------	------------------------------------	------------------------	----------------------------------

Municipal employees:

June 30, 2009	\$ 1,569,039	\$ 462,590	29.5%
June 30, 2010	\$ 1,569,039	\$ 645,276	41.1%
June 30, 2011	\$ 1,345,177	\$ 792,174	58.9%
June 30, 2012	\$ 1,248,914	\$ 953,389	76.3%
June 30, 2013	\$ 1,297,531	\$ 800,908	61.7%

School employees:

June 30, 2009	\$ 511,670	\$ 299,602	58.6%
June 30, 2010	\$ 511,670	\$ 322,804	63.1%
June 30, 2011	\$ 1,071,313	\$ 653,712	61.0%
June 30, 2012	\$ 592,410	\$ 567,085	95.7%
June 30, 2013	\$ 543,705	\$ 483,326	88.9%

(Concluded)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-6

**Notes to Required Supplementary Information
Pension Plan
Schedule of Funding Progress
June 30, 2013**

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, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	26 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	6.75% per annum
Projected salary increase	Percentage based on age
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: Police, Fire, School, Public Works and Town – Rates based on length of service

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-6

**Notes to Required Supplementary Information
Other Post Employment Benefits
June 30, 2013**

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:

Town:

Valuation date	June 30, 2013, rolled back to July 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amount over 30 years
Employer funding policy	Partially pre-funded by active employees' contributions
Healthy mortality	RP-2000 Combined Mortality Table using Scale AA
Actuarial assumptions:	
Discount rate	5.24% partially funded
Projected salary increase	3.0%
Inflation rate	3.0%

School:

Valuation date	June 30, 2013, rolled back to July 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar amount over 15 years
Employer funding policy	Pay-as-you-go cash basis
Healthy mortality	RP-2000 Combined Mortality Table using Scale AA
Actuarial assumptions:	
Discount rate	4.0% unfunded
Projected salary increase	3.0%
Inflation rate	3.0%

(Concluded)

Other Supplementary Information

Combining Balance Sheet
Town General Fund and School Department Unrestricted Fund
June 30, 2013

	General Fund	School Unrestricted Fund	Eliminations	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 4,589,053	\$ 618,977		\$ 5,208,030
Cash on deposit at NCRSEP		505,551		505,551
Investments	7,375,934			7,375,934
Real estate and personal property tax receivable (net)	1,465,746			1,465,746
Due from federal and state governments	354,403	196,393		550,796
Due from other funds	-	7,760,979	\$ (6,196,224)	1,564,755
Ambulance receivable	537,573			537,573
Other receivables	214,466			214,466
Advances to the Wind Turbine Generator fund	434,512	57,784		492,296
Inventory	17,450			17,450
Prepaid expenditures	968			968
TOTAL ASSETS	\$ 14,990,105	\$ 9,139,684	\$ (6,196,224)	\$ 17,933,565
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 536,768			\$ 536,768
Accrued expenses	151,338	\$ 2,488,883		2,640,221
Due to other funds	6,670,306	2,670,064	\$ (6,196,224)	3,144,146
Unavailable property tax revenue	1,054,662			1,054,662
Unearned revenue	537,573			537,573
Other liabilities	178,456			178,456
TOTAL LIABILITIES	9,129,103	5,158,947	(6,196,224)	8,091,826
FUND BALANCES:				
Non-spendable	452,930	57,784		510,714
Restricted				-
Committed		3,922,953		3,922,953
Assigned	309,378			309,378
Unassigned	5,098,694			5,098,694
TOTAL FUND BALANCES	5,861,002	3,980,737		9,841,739
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,990,105	\$ 9,139,684	\$ (6,196,224)	\$ 17,933,565

TOWN OF PORTSMOUTH, RHODE ISLAND

F-2

**Combining Statement of Revenues, Other Financing Sources
Expenditures, Other Financing Uses, and Changes in Fund Balances
Town General Fund
For the year ended June 30, 2013**

	General Fund	School Unrestricted Fund	Eliminations	Town General Fund
Revenues				
General property taxes and payments in lieu of taxes	\$ 47,081,631			\$ 47,081,631
State aid and grants	887,670	\$ 6,117,787		7,005,457
Licenses, permits and fees	677,466			677,466
Charges for services	709,851	1,077,723		1,787,574
Melville Ponds Campgrounds	219,110			219,110
Glen Manor House	377,875			377,875
Rescue wagon income	470,966			470,966
Fines and forfeitures	387,891			387,891
Interest and investment income	(118,740)			(118,740)
Other revenues	314,223	17,068		331,291
Intergovernmental pension contribution		1,317,767		1,317,767
Total revenues	51,007,943	8,530,345	-	59,538,288
Expenditures				
<i>Current:</i>				
General government	4,209,578			4,209,578
Public safety	9,426,650			9,426,650
Public works	2,281,996			2,281,996
Education		36,289,540		36,289,540
<i>Community services:</i>				
Public and social services	559,604			559,604
Park & recreation	461,804			461,804
Intergovernmental pension contribution		1,317,767		1,317,767
<i>Debt Service:</i>				
Principal payments	2,392,071			2,392,071
Interest	549,059			549,059
Bond issuance costs	33,936			33,936
Total expenditures	19,914,698	37,607,307	-	57,522,005
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	31,093,245	(29,076,962)	-	2,016,283
Other financing sources (uses)				
Transfers in	40,911	30,248,093	\$ (30,248,093)	40,911
Transfers out	(30,304,791)	(1,500,000)	30,248,093	(1,556,698)
Bond proceeds	927,000			927,000
Payment to refunded bonds escrow agent	(1,050,000)			(1,050,000)
Net other financing sources (uses)	(30,386,880)	28,748,093	-	(1,638,787)
Net change in fund balances	706,365	(328,869)	-	377,496
Fund balances - beginning of the year, restated	5,154,637	4,309,606	-	9,464,243
Fund balances - ending of the year	\$ 5,861,002	\$ 3,980,737	\$ -	\$ 9,841,739

TOWN OF PORTSMOUTH, RHODE ISLAND

G-1

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2013**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Cash, cash equivalents and investments	\$ 277,389	\$ 111,883	\$ 140,468	\$ 529,740
Accounts receivable	188			188
Due from federal and state governments	997,913			997,913
Due from other funds	835,327	2,542,970		3,378,297
TOTAL ASSETS	<u>\$ 2,110,817</u>	<u>\$ 2,654,853</u>	<u>\$ 140,468</u>	<u>\$ 4,906,138</u>
LIABILITIES				
Accounts payable	\$ 95,461	\$ 20,105		\$ 115,566
Accrued expenses	8,341			8,341
Due to other funds	956,771	930,275		1,887,046
Advance funding	305,570			305,570
TOTAL LIABILITIES	<u>1,366,143</u>	<u>950,380</u>	<u>-</u>	<u>2,316,523</u>
FUND BALANCE				
Nonspendable			\$ 140,468	140,468
Restricted	752,228	2,141,264		2,893,492
Committed		137,715		137,715
Assigned				
Unassigned	(7,554)	(574,506)		(582,060)
TOTAL FUND BALANCE	<u>744,674</u>	<u>1,704,473</u>	<u>140,468</u>	<u>2,589,615</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,110,817</u>	<u>\$ 2,654,853</u>	<u>\$ 140,468</u>	<u>\$ 4,906,138</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

G-2

**Combining Statement of Revenues, Other Financing Sources
Expenditures, and Other Financing Uses, and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2013**

	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES:				
State aid and grants (Intergovernmental)	\$ 1,403,214			\$ 1,403,214
Charges for services	158,267			158,267
Investment and interest income		\$ 47	\$ (4,799)	(4,752)
Contributions and private grants	26,207			26,207
TOTAL REVENUES	<u>1,587,688</u>	<u>47</u>	<u>(4,799)</u>	<u>1,582,936</u>
EXPENDITURES:				
Current:				
General government	23,650			23,650
Public safety	144,162			144,162
Public works	65,879	1,249,716		1,315,595
Education	1,065,690	44,640		1,110,330
Community services	95,986			95,986
Capital expenditures		106,499		106,499
TOTAL EXPENDITURES	<u>1,395,367</u>	<u>1,400,855</u>	<u>-</u>	<u>2,796,222</u>
Excess of revenue over(under) expenditures before transfers	<u>192,321</u>	<u>(1,400,808)</u>	<u>(4,799)</u>	<u>(1,213,286)</u>
Other financing sources (uses):				
Transfers from other funds		1,556,698		1,556,698
Transfers to other funds	(40,911)			(40,911)
Bond Proceeds		812,000		812,000
Net other financing sources (uses)	<u>(40,911)</u>	<u>2,368,698</u>	<u>-</u>	<u>2,327,787</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>151,410</u>	<u>967,890</u>	<u>(4,799)</u>	<u>1,114,501</u>
FUND BALANCES, BEGINING OF YEAR:				
As previously reported	653,836	676,011	145,267	1,475,114
Reclassify Special Revenue Funds to Capital Projects	(60,572)	60,572		
FUND BALANCES, BEGINING OF YEAR, RESTATED	<u>593,264</u>	<u>736,583</u>	<u>145,267</u>	<u>1,475,114</u>
FUND BALANCES, ENDING OF YEAR	<u>\$ 744,674</u>	<u>\$ 1,704,473</u>	<u>\$ 140,468</u>	<u>\$ 2,589,615</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

H-1

**Combining Statement of Changes in Assets and Liabilities
Town Agency Funds
For the year ended June 30, 2013**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>SOIL AGENCY FUND</u>				
<u>Asset</u>				
Due from General Fund	\$ 176,627	\$ 75,350	\$ 34,497	\$ 217,480
Letters of Credit	9,100		9,100	-
	<u>\$ 185,727</u>	<u>\$ 75,350</u>	<u>\$ 43,597</u>	<u>\$ 217,480</u>
<u>Liability</u>				
Deposits Held in Custody for Others	<u>\$ 185,727</u>	<u>\$ 75,350</u>	<u>\$ 43,597</u>	<u>\$ 217,480</u>
<u>LIBRARY STATE AID</u>				
<u>Asset</u>				
Accounts Receivable	\$ -	\$ 102,367	\$ 102,367	\$ -
<u>Liability</u>				
Deposits Held in Custody for Others	\$ -	\$ 102,367	\$ 102,367	\$ -
<u>GMH DEPOSIT AGENCY FUND</u>				
<u>Asset</u>				
Due from General Fund	\$ 19,500	\$ 33,500	\$ 37,500	\$ 15,500
	<u>\$ 19,500</u>	<u>\$ 33,500</u>	<u>\$ 37,500</u>	<u>\$ 15,500</u>
<u>Liability</u>				
Deposits Held in Custody for Others	<u>\$ 19,500</u>	<u>\$ 33,500</u>	<u>\$ 37,500</u>	<u>\$ 15,500</u>
<u>PROBATE COURT AGENCY FUND</u>				
<u>Asset</u>				
Cash and cash equivalents	\$ 101,459	\$ 100,111	\$ -	\$ 201,570
<u>Liability</u>				
Deposits Held in Custody for Others	\$ 101,459	\$ 100,111	\$ -	\$ 201,570
<u>GLEN PARK DAMAGE DEPOSIT</u>				
<u>Asset</u>				
Accounts receivable	\$ 1,200	\$ 700	\$ 1,500	\$ 400
<u>Liability</u>				
Deposits Held in Custody for Others	\$ 1,200	\$ 700	\$ 1,500	\$ 400
<u>PRESCOTT POINT FUND</u>				
<u>Asset</u>				
Cash and cash equivalents	\$ 100,401	\$ 1,002	\$ 4,768	\$ 96,635
<u>Liability</u>				
Deposits Held in Custody for Others	\$ 100,401	\$ 1,002	\$ 4,768	\$ 96,635
<u>TOTAL TOWN ACTIVITY AGENCY FUNDS</u>				
<u>Assets</u>				
Cash	\$ 201,860	\$ 101,113	\$ 4,768	\$ 298,205
Due from General Fund	197,327	211,917	175,864	233,380
Letters of Credit	9,100	-	9,100	-
TOTAL ASSETS	<u>\$ 408,287</u>	<u>\$ 313,030</u>	<u>\$ 189,732</u>	<u>\$ 531,585</u>
<u>Liabilities</u>				
Deposits Held in Custody for Others	<u>\$ 408,287</u>	<u>\$ 313,030</u>	<u>\$ 189,732</u>	<u>\$ 531,585</u>

TOWN OF PORTSMOUTH, RHODE ISLAND

H-2

**Combining Statement of Changes in Assets and Liabilities
Agency Funds - School Activity Funds
For the year ended June 30, 2013**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>HATHAWAY</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 5,045	\$ 7,072	\$ 8,146	\$ 3,971
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 5,045	\$ 7,072	\$ 8,146	\$ 3,971
<u>MELVILLE</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 13,560	\$ 25,587	\$ 13,997	\$ 25,150
Citizens Bank Savings	2,687			2,687
	<u>\$ 16,247</u>	<u>\$ 25,587</u>	<u>\$ 13,997</u>	<u>\$ 27,837</u>
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 16,247	\$ 25,587	\$ 13,997	\$ 27,837
<u>PORTSMOUTH MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Citizens Bank Checking	\$ 27,032	\$ 132,312	\$ 123,958	\$ 35,386
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 27,032	\$ 132,312	\$ 123,958	\$ 35,386
<u>PORTSMOUTH HIGH SCHOOL</u>				
<u>ASSETS</u>				
Portsmouth High School CD	\$ 50,000			\$ 50,000
Citizens Bank Checking	143,622	\$ 350,106	\$ 400,009	93,719
Citizens Bank Savings	3,970			3,970
	<u>\$ 197,592</u>	<u>\$ 350,106</u>	<u>\$ 400,009</u>	<u>\$ 147,689</u>
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 197,592	\$ 350,106	\$ 400,009	\$ 147,689
<u>INTERSCHOOL ACTIVITIES</u>				
<u>ASSETS</u>				
Accounts Receivable	\$ 45,717	\$ -	\$ -	\$ 45,717
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 45,717	\$ -	\$ -	\$ 45,717
<u>TOTAL SCHOOL ACTIVITY AGENCY FUNDS</u>				
<u>ASSET</u>				
Cash	\$ 245,916	\$ 515,077	\$ 546,110	\$ 214,883
Accounts Receivable	45,717	-	-	45,717
TOTAL ASSETS	<u>\$ 291,633</u>	<u>\$ 515,077</u>	<u>\$ 546,110</u>	<u>\$ 260,600</u>
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 291,633	\$ 515,077	\$ 546,110	\$ 260,600
TOTAL LIABILITIES	<u>\$ 291,633</u>	<u>\$ 515,077</u>	<u>\$ 546,110</u>	<u>\$ 260,600</u>

TOWN OF PORTSMOUTH, RHODE ISLAND
SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2013

Tax Roll Year	Balance	2011 Assessment	Additions	Abatements & Adjustments	Amount to be Collected	Current Year Collections	Refunds	Balance
	Uncollected July 1, 2012							June 30, 2013
2012		\$ 46,892,536	\$ 25,907	\$ 25,180	\$ 46,893,263	\$ 45,485,323	\$ 26,226	\$ 1,434,166
2011	\$ 1,744,183		3,678	40	1,747,821	1,615,991	26	131,856
2010	131,352		1,805		133,157	70,816		62,341
2009	43,937		1,706		45,643	7,930		37,713
2008	38,456		2,391	767	40,080	6,414		33,666
2007	28,484		3,231	1,041	30,674	6,693		23,981
2006	18,278		3,039	1,002	20,315	3,432		16,883
2005	16,901		2,917	947	18,871	2,917		15,954
2004	13,390			712	12,678			12,678
2003	14,590			723	13,867			13,867
2002	13,269			709	12,560			12,560
2001	49,722			49,722	-			
Total	2,112,562	\$ 46,892,536	\$ 44,674	\$ 80,843	\$ 48,968,929	\$ 47,199,516	\$ 26,252	1,795,665
Less: Allowance for Uncollectible accounts	<u>(340,656)</u>							<u>(340,656)</u>
	\$ 1,771,906							\$ 1,455,009

Schedule of property valuation assessed as of December 31, 2011:

	Valuation	Levy
Real property	\$3,183,478,400	\$ 45,326,700
Motor vehicles	174,418,799	3,924,423
Tangible personal property	55,679,640	792,767
Total	3,413,576,839	50,043,890
Less: Exemptions and motor vehicle phase out		
Real property	(85,391,998)	(1,215,811)
Motor vehicles	(86,022,718)	(1,935,511)
Tangible personal property	(2,216)	(32)
Total	\$3,242,159,907	\$ 46,892,536