

In the opinion of Moses Afonso Ryan Ltd., Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the \$4,445,000 General Obligation Bonds, Series 2015 A (Tax-Exempt) (the “Series A Bonds”) is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986 and interest on the Series A Bonds is not an item of tax preference for the purpose of calculating the alternative minimum tax imposed on individuals and corporations. Interest on the Series A Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the \$415,000 General Obligation Bonds, Series 2015 B (Federally Taxable) (the “Series B Bonds”) and \$1,615,000 General Obligation Bond Anticipation Notes (Federally Taxable) (the “Notes”) is fully includable in gross income for federal income tax purposes. The Series B Bonds collectively with the Series A Bonds, are referred to herein as the “Bonds”. Under existing law, income from the Bonds and the Notes is free from taxation by the State of Rhode Island (the “State”), its political subdivisions and instrumentalities, although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island corporate and business taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Bonds. See “TAX MATTERS—The Series A Bonds”, “TAX MATTERS—The Series B Bonds and the Notes”, and “APPENDIX C” herein.



TOWN OF PORTSMOUTH, RHODE ISLAND

Relating to

\$4,445,000 GENERAL OBLIGATION BONDS, SERIES 2015 A (Tax-Exempt)

Dated: Date of Delivery

Due: As shown on the inside front cover

\$415,000 GENERAL OBLIGATION BONDS, SERIES 2015 B (Federally Taxable)

Dated: Date of Delivery

Due: As shown on the inside front cover

\$1,615,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES, 2015 SERIES 1 (Federally Taxable)

Dated: Date of Delivery

Due: November 17, 2016

| <u>Amount</u> | <u>Interest Rate</u> | <u>Reoffering Yield</u> | <u>CUSIP No. †</u> |
|---------------|----------------------|-------------------------|--------------------|
| \$1,615,000 | 1.250% | 0.750% | 737186 PZ3 |

The Bonds are issuable only as fully registered Bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. So long as DTC, or its nominee Cede & Co., is the Bondholder, principal and semiannual interest payments will be made directly to such Bondholder. Principal of and interest on the Bonds will be payable to DTC by U.S. Bank National Association, as Paying Agent. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. (See “THE BONDS AND THE NOTES—Book-Entry Only System” herein.) **Interest on the Bonds is computed on the basis of a 360-day year consisting of twelve 30-day months.**

The Bonds will be dated the date of delivery. Interest on the Bonds will be payable on October 1, 2016 and semiannually thereafter on April 1 and October 1 of each year at the rates as shown in the maturity schedule on the inside front cover. Principal of the Bonds will be payable on October 1 as shown in the maturity schedule on the inside front cover.

The Notes are issuable only as fully registered Notes, and, when issued, will be registered in the name of Cede & Co., as Noteowner and nominee for DTC. DTC will act as securities depository for the Notes. Purchases of the Notes will be made in book-entry form, in the denomination of \$1,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Notes purchased. So long as Cede & Co. is the Noteowner, as nominee of DTC, references herein to the Noteowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Notes. So long as DTC, or its nominee Cede & Co., is the Noteholder, such payments will be made directly to such Noteholder. Principal of and interest on the Notes will be payable to DTC by U.S. Bank National Association, as Paying Agent. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. (See “THE BONDS AND THE NOTES—Book-Entry Only System” herein.) **Interest on the Notes is computed on the basis of a 360-day year consisting of twelve 30-day months.**

The Series A Bonds are subject to optional redemption prior to maturity, as further described herein. The Series B Bonds are subject to mandatory redemption prior to maturity as further described herein. The Series B Bonds and Notes are not subject to optional redemption prior to maturity.

The Series A Bonds will be designated as “qualified tax exempt obligations” pursuant to Section 265(b)(3) of the Code.

The Bonds and the Notes are offered for delivery when, as, and if issued, subject to the final approving opinion of Moses Afonso Ryan Ltd., Bond Counsel, of Providence, Rhode Island, and to certain other conditions referred to herein. Certain legal matters will be passed upon by Locke Lord LLP, of Providence, Rhode Island, counsel to the Underwriter. Public Financial Management, Inc. will be serving as financial advisor for the Town on this transaction. It is expected that the Bonds and the Notes in definitive form will be available for delivery to DTC in New York, New York, on or about November 18, 2015.



MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS

\$4,445,000 GENERAL OBLIGATION BONDS, SERIES 2015 A (Tax-Exempt)

| <u>Maturity October 1</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP No. †</u> | <u>Maturity October 1</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP No. †</u> |
|-------------------------------|-----------------------------|--------------------------|---------------------------|------------------------|-------------------------------|-----------------------------|--------------------------|---------------------------|------------------------|
| 2016 | \$225,000 | 2.00% | 0.40% | 737186 PB6 | 2026 | \$220,000 | 4.00% | 114.741* | 737186 PM2 |
| 2017 | 225,000 | 3.00 | 0.70 | 737186 PC4 | 2027 | 220,000 | 3.00 | 104.525* | 737186 PN0 |
| 2018 | 225,000 | 3.00 | 0.90 | 737186 PD2 | 2028 | 220,000 | 3.00 | 103.637* | 737186 PP5 |
| 2019 | 225,000 | 3.00 | 1.09 | 737186 PE0 | 2029 | 220,000 | 3.00 | 102.494* | 737186 PQ3 |
| 2020 | 225,000 | 2.00 | 1.26 | 737186 PF7 | 2030 | 220,000 | 3.00 | 101.712* | 737186 PR1 |
| 2021 | 225,000 | 2.00 | 1.49 | 737186 PG5 | 2031 | 220,000 | 3.25 | 102.809* | 737186 PS9 |
| 2022 | 225,000 | 3.00 | 1.70 | 737186 PH3 | 2032 | 220,000 | 3.25 | 102.291* | 737186 PT7 |
| 2023 | 225,000 | 4.00 | 1.89 | 737186 PJ9 | 2033 | 220,000 | 3.50 | 103.980* | 737186 PU4 |
| 2024 | 225,000 | 4.00 | 2.03 | 737186 PK6 | 2034 | 220,000 | 3.50 | 103.548* | 737186 PV2 |
| 2025 | 220,000 | 4.00 | 2.20 | 737186 PL4 | 2035 | 220,000 | 3.50 | 103.118* | 737186 PW0 |

*Priced to the first optional redemption date of October 1, 2025 at a redemption price of 100%.

\$415,000 GENERAL OBLIGATION BONDS, SERIES 2015 B (Federally Taxable)

\$215,000 2.340% Term Bond to yield 2.340% due October 1, 2020 CUSIP No. †737186 PX8
\$200,000 3.236% Term Bond to yield 3.236% due October 1, 2025 CUSIP No. †737186 PY6

†CUSIP® is a registered trademark of the American Bankers Association (ABA). The numbers have been assigned by an independent company not affiliated with the Town, the Underwriter or the Financial Advisor and are included solely for the convenience of the holders of the Bonds and the Notes. None of the Town, the Financial Advisor or the Underwriter are responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds and the Notes or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds and the Notes as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| THE BONDS AND THE NOTES..... | 1 |
| Description of the Bonds and the Notes..... | 1 |
| Record Date..... | 2 |
| Authorization and Purpose of the Bonds and the Notes..... | 2 |
| Book-Entry Only System..... | 2 |
| Sources and Uses of Funds..... | 4 |
| Redemption Prior to Maturity..... | 4 |
| Security for the Bonds and the Notes..... | 5 |
| THE TOWN OF PORTSMOUTH..... | 7 |
| General..... | 7 |
| Government..... | 7 |
| Principal Officials..... | 8 |
| Government Services..... | 8 |
| Education..... | 9 |
| Municipal Employees (Full-Time)..... | 10 |
| Employee Relations..... | 10 |
| Retirement Plans..... | 10 |
| Other Post-Employment Plans..... | 16 |
| ECONOMIC CHARACTERISTICS..... | 17 |
| General..... | 17 |
| Population..... | 20 |
| Per Capita Income..... | 20 |
| Median Family Income..... | 20 |
| Housing..... | 21 |
| Unemployment Rate..... | 21 |
| Type of Employment..... | 22 |
| Major Private Employers..... | 22 |
| INDEBTEDNESS OF THE TOWN..... | 23 |
| Debt Limit..... | 23 |
| Actual Bonded Debt Service Requirements..... | 24 |
| Direct Debt Summary..... | 24 |
| Debt Ratios and Debt Per Capita..... | 24 |
| Authorized But Unissued Debt..... | 25 |
| Tax Anticipation Notes..... | 25 |
| Bond Anticipation Notes..... | 25 |
| Overlapping Debt..... | 25 |
| FINANCIAL INFORMATION..... | 25 |
| Financial Reporting..... | 25 |
| School Aid..... | 26 |
| Reporting Requirements of Municipalities and School Districts..... | 27 |
| State Oversight..... | 28 |
| Budgetary Procedures..... | 29 |
| Budgets..... | 31 |
| Capital Improvement Programs..... | 31 |
| PROPERTY TAXES..... | 31 |
| General..... | 31 |
| Tax Limitations..... | 31 |
| Analysis of Taxable Property..... | 32 |
| Property Valuation..... | 32 |
| Assessed Valuations..... | 32 |
| Property Tax Levy and Collections..... | 33 |
| Principal Taxpayers..... | 33 |
| LITIGATION..... | 34 |
| TAX MATTERS..... | 34 |
| RISK FACTORS AND INVESTMENT CONSIDERATIONS..... | 38 |
| CERTAIN LEGAL MATTERS..... | 38 |
| UNDERWRITING..... | 38 |
| FINANCIAL ADVISOR..... | 38 |
| CONTINUING DISCLOSURE..... | 39 |
| RATINGS..... | 39 |
| MISCELLANEOUS..... | 39 |
| APPENDIX A—Comparative General Fund Financial Statements..... | A—1 |
| APPENDIX B—Audited Financial Statements for the Fiscal Year ended June 30, 2014..... | B—1 |
| APPENDIX C—Proposed Forms of Legal Opinions for the Bonds and the Notes..... | C—1 |
| APPENDIX D—Proposed Form of Continuing Disclosure Certificate..... | D—1 |

This Official Statement is not to be construed as a contract or agreement between the Town of Portsmouth and the purchasers or holders of any of the Bonds and the Notes. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town since the date hereof.

All quotations from and summaries and explanations of provisions of laws and documents described herein do not purport to be complete and reference is made to said laws and documents for full and complete statements of their provisions.

No dealer, salesman or any other person has been authorized to give any information or to make any representations, other than information and representations contained herein, in connection with the offering of the Bonds and the Notes, and if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds and the Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information set forth herein has been furnished by the Town and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness.

Upon issuance, the Bonds and the Notes will not be registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The Bonds will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds and the Notes may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except for the Town, will have passed upon the accuracy of the Official Statement or, except for the Town, approved the Bonds for sale. Any representation to the contrary may be a criminal offense.

The financial advisor to the Town has provided the following sentence for inclusion in this Official Statement. The financial advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Town and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the financial advisor does not guarantee the accuracy or completeness of such information.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Town and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information relating to The Depository Trust Company ("DTC") and the book-entry only system contained in this Official Statement has been furnished by DTC (see "THE BONDS AND THE NOTES--Book-Entry Only System" herein). No representation is made by the Town as to the adequacy or accuracy of such information. The Town has not made any independent investigation of DTC or the book-entry only system.

The cover page hereof, this page and the appendices attached hereto are part of this Official Statement.

OFFICIAL STATEMENT
of the
TOWN OF PORTSMOUTH, RHODE ISLAND
Relating to

\$4,445,000 GENERAL OBLIGATION BONDS, SERIES 2015 A (Tax-Exempt)
\$415,000 GENERAL OBLIGATION BONDS, SERIES 2015 B (Federally Taxable)

and

\$1,615,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES, 2015 SERIES 1 (Federally Taxable)

This Official Statement provides certain information concerning the Town of Portsmouth, Rhode Island (the "Town") in connection with the issuance by the Town of its \$4,445,000 General Obligation Bonds, Series 2015 A (Tax-Exempt) dated the date of delivery (the "Series A Bonds") its \$415,000 General Obligation Bonds, Series 2015 B (Federally Taxable) dated the date of delivery (the "Series B Bonds") (collectively with the Series A Bonds, are referred to herein as the "Bonds") and its \$1,615,000 General Obligation Bond Anticipation Notes, 2015 Series 1 (Federally Taxable) dated the date of delivery (the "Notes").

THE BONDS AND THE NOTES

Description of the Bonds and the Notes

The Bonds will be issued only as fully registered Bonds in the denomination of \$5,000 or any integral multiple thereof. The Bonds will be dated the date of delivery and will bear interest at the rates shown on the cover page hereof.

Interest on the Bonds will be payable on October 1, 2016 and semi-annually thereafter on April 1 and October 1 of each year at the rates shown in the maturity schedule on the cover page hereof. Principal of the Bonds will be payable on October 1 of each year as set forth on the inside cover page hereof.

The Bonds are issuable only as fully registered Bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any multiple thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "THE BONDS - Book-Entry Only System" below.

Principal of and interest on the Bonds are payable to DTC by U.S. Bank National Association as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. **Interest on the Bonds is computed on the basis of a 360-day year consisting of twelve 30-day months.**

For every transfer and exchange of the Bonds, whether in certificated form or otherwise, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto. Adequate indemnification may be required to replace any lost, stolen or destroyed Bonds, whether in certificated form or otherwise. See "THE BONDS AND THE NOTES - Book-Entry Only System" below.

The Notes are issuable only as fully registered Notes and, when issued, will be registered in the name of Cede & Co., as Noteholder and nominee for DTC. Principal of and interest on the Notes will be paid at maturity by U.S. Bank National Association, Corporate Trust Department, Boston, Massachusetts as Paying Agent to DTC. DTC will act as securities depository for the Notes. Purchases of the Notes will be made in book-entry form, in the denomination of \$1,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Notes purchased. So long as Cede & Co. is the Noteholder, as nominee of DTC, references herein to the Noteholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Notes. **Interest on the Notes is computed on the basis of a 30-day month and a 360 day year.** See "THE BONDS AND THE NOTES - Book-Entry Only System" below.

Record Date

The Record Date for each payment of interest on the Bonds is the close of business on the fifteenth day preceding the interest payment date or, if such day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

The Record Date for the payment of interest on the Notes is the close of business on the fifteenth day preceding the maturity date or, if such a day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

Authorization and Purpose of the Bonds and the Notes

The Series A Bonds in the amount of \$4,445,000 will be issued pursuant to §45-12-2 of the Rhode Island General Laws, the 2015-16 Operating Budget the Town adopted by ordinance on June 22, 2015, and an ordinance of the Town Council duly adopted on August 24, 2015 to finance various capital projects.

The Series B Bonds in the amount of \$415,000 will be issued pursuant to §45-12-2 of the Rhode Island General Laws and an ordinance of the Town Council duly adopted on September 22, 2014 to finance the Town's Septic System Loan Program.

The Notes in the amount of \$1,615,000 will be issued pursuant to Chapter 116/118 of the Public Laws of 2007, a vote of the electorate at the November 6, 2007 Election, a Resolution of the Town Council duly adopted on June 9, 2008 and an ordinance of the Town Council duly adopted on August 24, 2015 to refinance debt associated with the Town's Wind Turbine Project. See "THE TOWN OF PORTSMOUTH – Government Services – Utilities."

Book-Entry Only System

This section describes how ownership of the Bonds and the Notes is to be transferred and how the principal of, premium, if any, and interest on the Bonds and the Notes are to be paid to and credited by DTC while the Bonds and the Notes are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Town believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Town cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds and the Notes, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds and the Notes), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds and the Notes. The Bonds and the Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each series of the Bonds and the Notes in the principal amounts of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC").

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds and Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds and the Notes on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds and the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds and the Notes, except in the event that use of the book-entry system for the Bonds and the Notes is discontinued.

To facilitate subsequent transfers, all Bonds and the Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds and Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds and the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds and Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds and Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds and the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds and Notes may wish to ascertain that the nominee holding the Bonds and the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds and the Notes issued within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds and the Notes, and redemption proceeds, will be made to Cede & Co., or such other nominee as may be required by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Town or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be required by an authorized representative of DTC is the responsibility of the Town, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds and the Notes at any time by giving reasonable notice to the Town and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds and the Notes are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds and the Notes, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners will be given only to DTC.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the Town believes to be reliable, but neither the Town nor the Financial Advisor takes any responsibility for the accuracy thereof.

Sources and Uses of Funds

The proceeds of the Series A Bonds are to be applied as follows:

| | |
|----------------------------------|-----------------------|
| SOURCES OF FUNDS: | |
| Principal of the Series A Bonds | \$4,445,000.00 |
| Net Original Issue Premium | 275,043.60 |
| TOTAL SOURCES OF FUNDS | \$4,720,043.60 |
| USES OF FUNDS: | |
| Costs of Issuance ⁽¹⁾ | \$ 73,543.60 |
| Proceeds to Fund Projects | 4,646,500.00 |
| TOTAL USES OF FUNDS | \$4,720,043.60 |

The proceeds of the Series B Bonds are to be applied as follows:

| | |
|----------------------------------|---------------------|
| SOURCES OF FUNDS: | |
| Principal of the Series B Bonds | \$415,000.00 |
| TOTAL SOURCES OF FUNDS | \$415,000.00 |
| USES OF FUNDS: | |
| Costs of Issuance ⁽¹⁾ | \$ 15,000.00 |
| Proceeds to Fund Projects | 400,000.00 |
| TOTAL USES OF FUNDS | \$415,000.00 |

The proceeds of the Notes are to be applied as follows:

| | |
|--|-----------------------|
| SOURCES OF FUNDS: | |
| Principal of the Notes | \$1,615,000.00 |
| Net Original Issue Premium | 7,994.25 |
| TOTAL SOURCES OF FUNDS | \$1,622,994.25 |
| USES OF FUNDS: | |
| Costs of Issuance ⁽¹⁾ | \$ 20,967.67 |
| Proceeds to Redeem Wind Turbine Energy Bonds | 1,602,026.58 |
| TOTAL USES OF FUNDS | \$1,622,994.25 |

(1) Includes Underwriters' discount and other costs associated with the issuance of the Bonds and the Notes.

Redemption Prior to Maturity

Optional Redemption

The Series A Bonds maturing on or after October 1, 2026, shall be subject to optional redemption prior to their stated dates of maturity, at the option of the Town, on or after October 1, 2025, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the Town, at 100% of the aggregate principal amount of the Series A Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

The Series B Bonds and the Notes are not subject to optional redemption prior to their stated dates of maturity.

Mandatory Redemption

The Series B Bonds maturing on October 1, 2020 shall be redeemed from sinking fund installments at their principal amounts without premium plus interest, if any, accrued thereon to the date fixed for redemption, on each October 1 of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2016 | \$45,000 |
| 2017 | 45,000 |
| 2018 | 45,000 |
| 2019 | 40,000 |
| 2020† | 40,000 |

† Maturity

The Series B Bonds maturing on October 1, 2025 shall be redeemed from sinking fund installments at their principal amounts without premium plus interest, if any, accrued thereon to the date fixed for redemption, on each October 1 of the years and in the principal amounts set forth below:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2021 | \$40,000 |
| 2022 | 40,000 |
| 2023 | 40,000 |
| 2024 | 40,000 |
| 2025†† | 40,000 |

†† Final Maturity

Notice of any redemption of the Bonds, specifying the numbers and other designations of the Bonds to be redeemed, shall be given not more than 60 days nor less than 30 days prior to the date set for redemption by mailing a copy of such notice to DTC or its nominees.

The Town, so long as a book-entry system is used for determining beneficial ownership of the Bonds, shall send any notice of redemption to DTC, or its nominee, as registered owner of the Bonds. Transfer of such notice to the DTC Participants is the responsibility of DTC. Transfer of such notice to Beneficial Owners by DTC Participants is the responsibility of the DTC Participants and other nominees of Beneficial Owners of the Bonds. Any failure of DTC to mail such notice to any DTC Participant, or any failure by any DTC Participant to notify any Beneficial Owner, will not affect the validity of the redemption of the Bonds. The Town can make no assurances that DTC, the DTC Participants or other nominees of the Beneficial Owners of the Bonds will distribute such redemption notices to the Beneficial Owners of the Bonds, or that they will do so on a timely basis, or that DTC will act as described in this Official Statement.

A notice of redemption may state (1) that it is conditioned on the deposit of moneys, in an amount necessary to effect the redemption with the paying agent no later than the redemption date; and/or (2) that the Town retains the right to rescind such notice on or prior to the scheduled redemption date, and such notice and optional redemption shall be of no effect if such monies are not so deposited or if the notice is rescinded.

Security for the Bonds and the Notes

The Bonds and the Notes will be valid general obligations of the Town, for the payment of which the full faith and credit, *ad valorem* taxes and general fund revenues of the Town are pledged (See APPENDIX C-Proposed Forms of Legal Opinions for the Bonds and the Notes). The Rhode Island General Laws provide that the Town shall annually appropriate a sum sufficient to pay the principal and interest coming due within the year on all its bonds and notes to the extent that monies therefore are not otherwise provided, and that if such sum is not appropriated, it shall nevertheless be added to the annual tax levy. In order to provide such amount, all taxable property in the Town is subject to *ad valorem* taxation by the Town without limitation as to rate or amount.

Claims for Payment Due

Rhode Island General Laws Section 45-15-5 permits any person who shall have any claim for money due from any town, for any matter, to present a demand for such claim to the town council and if satisfaction of such claim is not

made within 40 days, to commence an action against the town treasurer for recovery of the claim. If judgment is obtained for such debt due and if the treasurer of the town does not have sufficient monies to pay the judgment, Rhode Island General Laws Section 45-15-6 authorizes the town treasurer to apply to any justice of the peace in the town for an order requiring the town to hold a special meeting of the town council “for the speedy ordering and making a tax” to be collected for such purpose. If the city council shall fail to assess voluntarily a tax sufficient to satisfy judgment on a city debt, the Superior Court of the State is authorized to order the assessors of the town “to assess upon the ratable property, and the collector to collect, a tax sufficient for the payment of the judgment, with all incidental costs and charges, and the expense of assessing and collecting the tax,” pursuant to Rhode Island General Laws Section 45-15-7.

The enforceability of rights or remedies with respect to the Bonds and the Notes may be subject to bankruptcy, insolvency, reorganization, moratorium, or other laws affecting creditors' rights or remedies heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Statutory Lien

In July 2011, the Rhode Island General Assembly (the “General Assembly”) enacted amendments to Section 45-12-1 of the Rhode Island General Laws (the “July Amendments”) to provide for a statutory lien on *ad valorem* taxes and general fund revenues for the benefit of general obligation debt of cities and towns and for giving priority to general obligation debt in a bankruptcy. The validity and priority of the lien granted by Section 45-12-1 have not been adjudicated in any proceeding brought under Chapter 9 of the United States Bankruptcy Code. The July Amendments provide, in part, that the faith and credit, *ad valorem* taxes and general fund revenues of each city and town are pledged for the payment of principal of, premium and interest on all general obligation bonds and notes of the city or town, whether or not the pledge is stated in the bonds and notes or in the proceedings authorizing their issue and the pledge constitutes a first lien on such *ad valorem* taxes and general fund revenues.

In addition, annual appropriations for payment of financing leases and obligations securing bonds, notes or certificates (“other financing obligations”), have a first lien on *ad valorem* taxes and general fund revenues commencing on the date of each annual appropriation. Amounts appropriated or added to the tax levy to pay principal of, premium and interest on general obligation bonds or notes and payments of other financing obligations are applied to the payment of such obligations. Any municipal employee or official who intentionally violates such provisions of Section 45-12-1 is personally liable to the city or town for any amounts not expended in accordance with such appropriations. The State Superior Court has jurisdiction to adjudicate claims brought by any city or town and to order such relief as the Court may find appropriate to prevent further violations under such provisions of Section 45-12-1. Any municipal employee or official who violates such provisions of Section 45-12-1 is subject to removal.

Section 45-12-1 further provides in part, that: notwithstanding any provision of any other law, including the Uniform Commercial Code, Title 6A of the Rhode Island General Laws: (1) the pledge of *ad valorem* taxes and general fund revenues to the payment of the principal, premium and interest on general obligation bonds and notes and payment of other financing obligations is valid and binding, and deemed continuously perfected from the time the bonds or notes or other financing obligations are issued; (2) no filing need be made under the Uniform Commercial Code or otherwise to perfect the first lien on *ad valorem taxes* and general fund revenues; (3) the pledge of *ad valorem taxes* or general fund revenues is subject to the lien of the pledge without delivery or segregation, and the first lien on *ad valorem taxes* and general fund revenues is valid and binding against all parties having claims of contract or tort or otherwise against the city or town, whether or not the parties have notice thereof; and (4) the pledge shall be a statutory lien effective by operation of law and shall apply to all general obligation bonds and notes and financing obligations of cities, towns and districts and shall not require a security agreement to be effective.

The July Amendments provide that *ad valorem* taxes and general fund revenues may be applied as required by the pledge without further appropriation except for financing obligations which are subject to annual appropriation.

State Aid Intercept

Rhode Island General Laws Section 45-12-32 creates a mechanism to enhance the creditworthiness of cities and towns in financial stress by providing for a state aid intercept mechanism to pay general obligation bonds and notes. Under the statute, the finance director is required to notify the town administrator and the town council if it appears to the finance director that the town is likely to be unable to pay in whole or in part the principal or interest, or both, on any of its bonds, notes or certificates of indebtedness when due. If the town administrator or town council, whether or not so notified, finds upon investigation that the payment cannot or is not likely to be made when due, he, she, or they are required to certify the inability or likely inability to the State Director of Revenue (the “Director”). Upon receipt of the certificate, the Director shall immediately investigate the circumstances and, if the Director finds that the town is, or in

the Director's opinion will be, unable to make the payment when due, the Director shall forthwith certify the inability, the amount of the due or overdue payment and the name of the paying agent for the bonds, notes or certificates of indebtedness to the General Treasurer of the State. The Town has never made such a certification.

Notwithstanding any provision of general or special law or any rules or regulations with respect to the timing of payment of state aid payments, not later than three days after receipt of the certification from the Director or one business day prior to the date on which the principal or interest, or both, becomes due, whichever is later, the General Treasurer of the State is required to pay to the paying agent the amount of the due or overdue payment certified to him/her to the extent of the sums otherwise then payable and the sums estimated to become payable during the remainder of the fiscal year, from the State treasury to the town. The amounts so paid to the paying agent are held in trust and exempt from being levied upon, taken, sequestered or applied for any purpose other than paying principal or interest, or both, on bonds, notes or certificates of indebtedness of the town.

For purposes of the statute, the sums otherwise payable from the State treasury to a city or town shall be the funds made available to cities or towns: (i) as state aid pursuant to Chapter 45-13 of the Rhode Island General Laws, but specifically excluding reimbursements to cities and towns for the cost of state mandates pursuant to Section 45-13-9 of the Rhode Island General Laws; (ii) as school housing aid pursuant to Sections 16-7-35 through 16-7-47 of the Rhode Island General Laws, but subject to any pledge to bonds issued to finance school projects by the Rhode Island Health and Educational Building Corporation, and specifically excluding school operations aid provided for in Sections 16-7-15 through 16-7-34.3 of the Rhode Island General Laws; (iii) in replacement of motor vehicle and trailer excise taxes pursuant to Chapter 44-34.1 of the Rhode Island General Laws; (iv) from the public service corporation tax pursuant to Chapter 44-13 of the Rhode Island General Laws; (v) from the local meal and beverage tax pursuant to Section 44-18-18.1 and the hotel tax pursuant to Section 44-18-36.1 of the Rhode Island General Laws; and (vi) pursuant to all acts supplementing such chapters.

Enforceability of Town Obligations

Enforcement of a claim for payment of principal of or interest on a bond or note issued by the Town is subject to the applicable provisions of the federal bankruptcy laws and of statutes, if any, hereafter enacted by the federal government or the State extending the time for payment of such obligations or imposing other constitutionally valid constraints upon such enforcement.

Judicial enforcement of statutes such as Rhode Island General Laws Sections 45-15-5 through 45-15-7 described above under the heading "*Claims for Payments Due*", the statutory lien provided for in Section 45-12-1 and state aid intercepts such as that provided for in Section 45-12-32 are within the discretion of a court. The status of these rights and remedies of owners of bonds and notes in a proceeding to restructure city or town debt under Chapter 9 of the United States Bankruptcy Code, or pursuant to other subsequently enacted laws relating to creditors' rights, has not been adjudicated.

THE TOWN OF PORTSMOUTH

General

The Town of Portsmouth, with a 2010 population of 17,389, is located approximately 20 miles southeast of Providence. The Town occupies the northern portion of Aquidneck Island and is bordered by the Town of Bristol on the north; the Town of Middletown on the south; the Town of Tiverton on the east; and Narragansett Bay on the west. The Town limits extend over an area of 59.3 square miles, including a land area of 23.2 square miles and an inland water area of 36.1 square miles. Routes 138 and 114 are major highways connecting the Town to I-195, I-95, Route 24 and the entire northeast corridor. Air transportation is available at the Newport State Air Park located in Middletown, which provides charter air service to all major airports in New England and New York. The state's major airport facility is located in the City of Warwick, approximately 30 miles from the Town. Nationwide intercity rail passenger service is offered through AMTRAK's Providence station. Freight transportation is provided by railroads and by local and long distance trucking firms and bus lines, and the nearby Port of Providence provides the Town with excellent shipping facilities.

Government

Portsmouth was established in 1638 and incorporated as a town in 1640. The Town is governed by a seven member Town Council, elected biennially in even years, and an appointed Town Administrator. The Town operates under a Home Rule Charter, under which all powers of the Town (including those powers formerly vested in and exercised by the Financial Town Meeting, which was discontinued) are vested in the elected Town Council. The Council

may enact local legislation subject only to the limitations imposed by Charter, the State Constitution and the General Laws. Under the Charter, the Council determines policy, enacts law and appoints the Town Administrator.

The Town Administrator is responsible to the Council for the administration of Town government. Richard A Rainer, Jr. is the current Town Administrator, having been appointed in June 2015. Mr. Rainer has served 30 years in the U.S. Navy as Commodore, Commanding Officer, and Director of the U.S. Naval Staff College. Prior to his appointment, Mr. Rainer served as Branch Head for Policy and Commanding Officer for the U.S. Naval Element at NATO Joint Forces Command, Brunssum, Netherlands.

The Finance Director is appointed by the Town Administrator with the approval of the Town Council. The Finance Director of Portsmouth is James Lathrop, CPA, who also holds the position of Deputy Town Administrator. Mr. Lathrop was hired in February 2014 and had previously worked in the Town of Westerly as the consolidated Town and School Finance Director, and the City of New London, Connecticut as Finance Director.

Principal Officials

| Office | Name | Manner of Selection | Term | Expires | Length of Service |
|---------------------------|------------------------|----------------------------|-------------|----------------|--------------------------|
| Town Administrator | Richard A. Rainer, Jr. | Appointed | 3 year | 6/30/2018 | .25 years |
| Finance Director | James Lathrop | Appointed | n/a | n/a | 1.50 years |
| Town Solicitor | Kevin Gavin | Appointed | n/a | n/a | 2.75 years |
| Superintendent of Schools | Ana C. Riley | Appointed | 3 year | 6/10/2017 | 1.25 years |

Government Services

Police

The Police Department employs 30 uniformed officers, a police chief, a deputy chief and 1 civilian clerk.

In addition, the Rhode Island State Police maintain a barracks in the Town. The barracks covers Newport and Bristol Counties, and the City of East Providence. See “FINANCIAL INFORMATION - Budgets” herein.

Fire

The Fire Department employs 32 full-time professional firefighters, a fire chief and a deputy chief, 4 full-time, 2 part-time and 2 per diem civilian dispatchers who staff 1 fire station. See “FINANCIAL INFORMATION - Budgets” herein.

Library

The Portsmouth Free Public Library was founded in 1898 as a non-profit corporation. An annual Town appropriation, as well as various trusts and membership fees, support the operation of the Library. For fiscal years ended June 30, 2014 and 2015, the Town appropriated \$463,296 and \$476,296, respectively. The Town budgeted \$480,000 for the fiscal year ending June 30, 2016.

Recreation

The Town offers excellent recreational activities which include swimming at various public beaches, salt and fresh water fishing, boating, family picnic sites and various parks and groves, and several modern playground facilities throughout the Town.

In 2015 the Town reestablished a Town Recreation department. This department manages the Town Beach and various sports fields used by the numerous youth sports organizations that operate in the Town. The Department has started various programming initiatives that included swimming lessons, free movie nights, and various classes and activities for the citizens of Portsmouth.

The Town has developed a campground on a 152-acre tract of land given to the Town by the federal government in 1978. The Melville Ponds Campground offers public camping facilities that accommodate full utility hook-up sites for recreational vehicles and small campers, and numerous tent sites. In 2015 the Town contracted out the operation of the campground to a private company.

There are four golf courses (one public, two semi-private and one private) and four marinas located within the Town. The Portsmouth Senior Center offers various services and daily activities.

Solid Waste

The Town constructed a modern and efficient solid waste compact station in 1974. The Town contracts a private hauler to operate the station and transport the compacted waste to the State's central landfill site in Johnston. Recyclables are collected at the compact station and transported to the State's Multi Use Recovery Facility ("MURF") in Johnston. The Town does not provide curbside removal; however, private haulers can be contracted at the homeowner's expense.

After decades of service, the station needed to be renovated. Approximately \$200,000 of renovations were completed in October 2015.

Sewers

The Town does not have a town wide municipal sewage system. Septic systems are utilized throughout the Town for both commercial and private usage.

Water

Water is distributed throughout the Town by the Portsmouth Water and Fire District, except for a small area, which is served by the City of Newport. The District is a separate legal entity from the Town and assesses user charges for usage of water and its system. Water for the system is purchased from the City of Newport and the Town of Tiverton.

Utilities

National Grid serves the Town with electricity. Natural gas is also supplied by National Grid which maintains its operating facilities and offices in Providence.

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 the manufacturer was no longer in business. The Town is currently negotiating an agreement with Wind Energy Development to remove the wind turbine and construct and operate a new wind Turbine in exchange for a lump sum payment of approximately \$1.5 million. The Town is issuing the Notes to repay the Town's outstanding bonds that were issued to finance the wind turbine. It is expected that funds received from the agreement with Wind Energy will be used to payoff the Notes at maturity.

Education

The general administration of the Town's school system is directed by the seven-member, elected School Committee. The School Committee determines and controls all policies affecting the administration, construction, maintenance, and operation of the public schools. The School Committee also appoints a superintendent of schools as its chief administrative agent and such other administrative officers as are considered necessary.

The Town maintains and operates one high school (grades 9-12), one middle school (grades 5-8) and two elementary schools (grades K-4).

According to the 2009-2013 American Community Survey, over 95 percent of Town residents over the age of 25 completed high school and nearly 50 percent hold a bachelor's or higher degree. The average public school enrollment for the 2014-15 school year is approximately 2,532 students and there are 210 teachers.

The following is a summary of school population in the Town:

| School Year | Enrollment |
|-------------|------------|
| 2014-15 | 2,532 |
| 2015-16 | 2,500 |
| 2016-17 | 2,459 * |
| 2017-18 | 2,406 * |
| 2018-19 | 2,383 * |
| 2019-20 | 2,352 * |
| 2020-21 | 2,300 * |
| 2021-22 | 2,271 * |
| 2022-23 | 2,337 * |
| 2023-24 | 2,222 * |
| 2024-25 | 2,218 * |

*Projected

Source: Rhode Island Department of Education.

Municipal Employees (Full-Time)

| Fiscal Year Ending 6/30 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|------|------|------|------|------|------|
| Municipal Government | 103 | 103 | 102 | 102 | 105 | 109 |
| School Department | 328 | 328 | 325 | 318 | 323 | 301 |
| Total Employees | 431 | 431 | 427 | 420 | 428 | 410 |

Employee Relations

| Employees | Organization | Number of Full-Time Employees | Current Contract Expiration Date |
|-----------------|---|-------------------------------|----------------------------------|
| Police Officers | International Brotherhood of Police Officers, Local #302 | 33 | 6/30/2017 |
| Firefighters | International Association of Firefighters, AFL-CIO, Local #1949 | 34 | 6/30/2016 * |
| Public Works | National Association of Government Employees, Local R.I. #280 | 16 | 6/30/2017 |
| Teachers | Employees' Retirement System of the State of Rhode Island | 230 | 8/31/2016 |
| Municipal | Portsmouth Municipal Employees Association (PMEA) Local 871 and non-union employees (Defined Supplemental Plan) | 24 | 6/30/2016 |
| Other Certified | R.I. Council 94, AFSCME, AFL-CIO, Local #2669 | 77 | 6/30/2015 * |

* Currently in negotiations.

Retirement Plans

All eligible employees of the Town are covered by one of six pension plans: the Town Retirement Plan, which is a single employer plan with a defined contribution component for certain employees (the "Town Plan"); the Employees' Retirement System of the State of Rhode Island (the "Teachers' Plan") and four distinct defined money purchase pension plans (collectively, the "Defined Contribution Plan") 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. A detailed presentation of the various plans is included as Note 12 of the notes to financial statements dated June 30, 2013 and is included in APPENDIX B.

Effective July 1, 2013, the Town and the Unions agreed to adopt the Town's Municipal Pension Funding Improvement Plan which employs both a defined benefit pension plan component (Town Plan) and a defined contribution plan component (401(a) plan). Effective July 1, 2014 all new Police, Fire, Town Hall, Non-Certified School Employees, and Public Works employees, whether union and non-union, are enrolled in the Defined Contribution Plan 401(a). Certain

existing employees hired before July 1, 2013 also are eligible to participate in the Defined Contribution 401(a), depending on each union's labor agreement. These employees continue to contribute to the defined benefit plan and retain their benefits earned from the Town thru June 30, 2013. However, they may not accrue any additional benefits from the Town after June 30, 2013 and/or will receive reduced benefits in retirement.

Locally Administered Pension Plans Experience Study

In accordance with Rhode Island General Laws Section 45-65-6, the Town submitted its Funding Improvement Plan (FIP) to the Locally-Administered Pension Plans Study Commission. The Town had completed an actuarial valuation and an experience study as of July 1, 2014. The funded ratio of the pension plan as of July 1, 2011 was 51.7% and, therefore, the plan was considered to be in "critical status". Based on the results of a new July 1, 2014 valuation, the plan's funded ratio increased to 59.8% and the Annual Required Contribution for fiscal year 2015 was \$4,054,721. It should be noted that the Town assumes a return on investment of 6.75% which is lower than the recommended rate of 7.50% and the Town uses a 5-year smoothing method for recognizing results different than actuarial assumptions.

The FIP provides several options for emerging out of critical status. In general, the option selected by the Town Council includes a number of pension plan concessions on the part of union employees. If the Town is unsuccessful or only partially successful in its union negotiations, the increase in the annual required contribution will likely require a tax increase to bring the Town to the maximum tax levy cap and/or reductions in budgeted expenditures.

The Town has successfully implemented several pension reforms with non-certified School, Town Hall, Fire and Public Works employees. These reforms include cost of living freezes for five years, COLA reductions from 3.0% to 1.70% and the establishment of the Defined Contribution Plan for new employees described above.

Town Plan

The Town 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, police employees hired after July 1, 2010 and public works employees hired after July 1, 2010.

As of July 1, 2014, there are a total of 308 participants in the plan including 164 active members and 144 retired members. The normal retirement date for Police and Fire employees is upon completion of twenty years of credited services and the later of age sixty or the completion of ten years of service for other employees.

Benefits and contributions for employees vary by employee type and are detailed below. The Town is required to contribute an amount determined in accordance with the actuarial valuation. The Town's contributions are detailed in the table below:

| Town Plan | | | | | |
|--------------------|----------------------------|----------------------------|----------------------------|---|---------------------|
| Fiscal Year | Annual Pension Cost | Actual Contribution | Percent Contributed | Unfunded Liability⁽¹⁾ | Funded Ratio |
| 2014 | \$ 3,677,200 | \$ 2,792,576 | 76 % | \$ 35,399,130 | 54.8 % |
| 2013 | 2,782,947 | 2,782,947 | 100 | 35,708,019 | 52.1 |
| 2012 | 2,662,801 | 2,662,801 | 100 | 32,702,028 | 52.7 |
| 2011 | 2,514,420 | 2,514,420 | 100 | 22,110,434 | 61.5 |
| 2010 | 2,590,523 | 2,590,523 | 100 | 21,275,298 | 60.6 |
| 2009 | 2,346,316 | 2,346,316 | 100 | 19,675,078 | 61.6 |

(1) Assumes asset appreciation of 8.0% annually for fiscal years 2009 - 2012 and assumes asset appreciation of 6.75% annually for fiscal year 2013 and 2014.

A Contribution in the amount of \$4,054,721 was made in fiscal 2015 and \$3,623,290 has been budgeted for fiscal year 2016, which represent 100% of the annual required pension costs.

Police Employees in Town Plan

The monthly benefit of the Town Plan for Police employees hired prior to July 1, 2010 is equal to 60% of average monthly earnings reduced prorata for service less than twenty years plus an additional 2% for up to five additional years

beyond twenty years up to a maximum benefit of 70%. Police employees covered by the Town Plan contribute 9% of earnings. All police officers hired prior to July 1, 2010 are eligible for an annual cost of living adjustment (“COLA”) of 3% which commences two years after retirement.

Fire Employees in Town Plan

The monthly benefit of the Town Plan for Fire employees is equal to 60% of average monthly earnings reduced prorata for service less than twenty years plus an additional 2% for up to seven additional years beyond twenty years up to a maximum benefit of 74%. Effective July 1, 2013, the service benefits accrual rate for Fire employees changed from 3% for the first twenty years plus 2% for the next seven years to 1% for all future years. Fire employees are eligible for an annual COLA of 1.7% to 3% depending on date of retirement which commences five years after retirement. Fire employees hired prior to July 1, 2013 are eligible for cost of living adjustments to pension and disability payments. Fire employees hired after July 1, 2013 are covered by the Town Plan for disabilities only, and Fire employees hired after October 1, 2013 are not covered by the Town plan. Fire employees covered by the Town plan contribute 4% of gross pay except for the Fire Chiefs and Deputy Fire Chiefs who contribute 6.5%.

Town Hall Union Employees in Town Plan

The monthly benefit of the Town Plan for Town Hall union employees hired before July 1, 1998 is 50% of average monthly earnings reduced prorata for service less than twenty years. The monthly benefit of the Town Plan for Town Hall union employees hired on or after July 1, 1998 is 2.5% of average monthly earnings times years of credited service up to a maximum of twenty seven years. Town Hall union employees are eligible for an annual COLA of 1.7% to 3% depending on date of retirement which commences five years after retirement. Town Hall union employees hired prior to July 1, 2012 contribute 5% of earnings. Town Hall union employees hired after July 1, 2012 contribute 6% of earnings effective July 1, 2014.

Town Hall Non-Union (Management) Employees in Town Plan

Town Hall non-union employees hired on or after July 1, 2004 contribute 8% of earnings until the maximum benefit is earned. Town Hall employees are eligible for a COLA of 1.7% to 3%, depending on date of retirement, which commences five years after retirement. Any Town Hall non-union employees hired on or after July 1, 2012 are not covered by the Town Plan but a Defined Contribution Plan 401(a).

Non-Certified School Employees in Town Plan

The monthly benefit of the Town Plan for non-certified School employees is 2.5% of average monthly earnings times years of credited service and further prorated for service less than twenty years. Effective October 1, 2013, the service retirement benefit changed from 2.5% to 1% for all future years. Benefit accruals through September 30, 2013 are grandfathered. Non-certified School employees hired on or after July 1, 2012 are covered by the Town Plan through September 30, 2013 and then transfer to the 401(a) plan. Non-certified School employees hired on or after October 1, 2013 are covered by the Defined Contribution Plan 401(a) for future benefits. Non-certified School employees covered by the Town Plan contribute 4% of earnings.

Public Works Employees in Town Plan

The monthly benefit of the Town Plan for Public Works employees hired before July 1, 2010 is 50% of average monthly earnings reduced prorata for service less than twenty years plus 2.5% for each additional year of service beyond age sixty with a maximum benefit of 67.5%.

Defined Contribution Plans

In addition to the Town Plan and the Teachers Plan (described below), the Town has twelve defined contribution plans (ten for Town employees and two for School Non-Certified employees). The plans are 401(a) money purchase plans which are member managed and sponsored by International City Management Association.

| Defined Contribution Plans | | | |
|-----------------------------------|--|------------------------------|------------------------------|
| Plan Name | Participants | Employee Contribution | Employer Contribution |
| Defined Supplemental Plan | Full-time NAGE Local 280 hired on or after 7/1/2010 & PMEA Local 871 members and non-union employees | 3.00% | 1.75% |
| | Full-time NAGE Local 280 members hired prior to 7/1/2010 | 3.00% | 3.00% |
| Police Plan | Full-time IBPO Local 302 members hired on or after 7/1/2010 | 8.00% | 8.00% |
| DPW Plan 1 | Full-time NAGE Local 280 members | 8.00% | 8.00% |
| Fire Plan 1 | Full-time IAFF Local 1949 members hired on or after 7/1/2013 | 8.00% | 8.00% |
| Town Hall Union 1 | Full-time PMEA Local 871 members hired on or after 7/1/2012 | 8.00% | 8.00% |
| Fire Plan 2 | Full-time IAFF Local 1949 members hired prior to 7/1/2013 | 5.00% | 1.00% |
| Town Hall Union 2 | Full-time PMEA Local 871 members hired prior to 7/1/2012 | 0.00% - 8.00% | 1.00% |
| Town Hall Non-Union | Full-time Non-Union employees | 8.00% | 8.00% |
| Town Administrator Plan | Town Administrator | 8.00% | 8.00% |
| School Non-Certified Plan 1 | Full-time Council 94 Local 2669 members hired on or after 7/1/2012 | 8.00% | 8.00% |
| School Non-Certified Plan 2 | Full-time Council 94 Local 2669 members hired prior to 7/1/2012 | 5.00% | 3.00% |

Deferred Compensation Plan

The Town offers its municipal employees a deferred compensation plan established in accordance with the provisions of Internal Revenue Service 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.

School Teachers' Retirement Plan

The Town provides retirement benefits to its public school teachers through its participation in the Employees' Retirement System of Rhode Island ("ERSRI" or the "Teachers' Retirement System"), a statutory, mandatory, statewide, cost-sharing multi-employer defined benefit plan, which first covered State teachers on July 1, 1949. ERSRI is administered as a unified statewide system by the State Retirement Board, the composition of which is set forth in the pertinent State statute. The assets are held in the custody of the State Treasurer as an undivided single fund.

The actuarial costs of the retirement benefits are partially funded by employee contributions of 9.50% of the actuarial costs of the retirement benefits effective July 1, 2003. The actuary determines the net employer actuarial costs annually and as provided by the State Retirement Board to the Department of Administration. Contributions are reported as a percent of payroll, payable in part by the State and in part by the Town. The split between State and Town is specified in State statute. For fiscal year 2014-2015, the State paid 40 percent and the Town paid 60 percent.

The actuarial valuation prepared by Gabriel, Roeder, Smith & Company uses the entry age normal cost. The valuation assumes an annual salary increase on a scale of age/service. In addition, other actuarial assumptions are made for post-retirement increases and other contingencies as set forth in the published annual reports of the State Retirement Board. The ERSRI does not maintain separate data for each of its participants. The ERSRI's website contains additional information (www.ersri.org).

The following are comparative highlights for 2010 through 2014 for the Teachers' Retirement System as a whole:

| | <u>6/30/2014</u> | <u>6/30/2013</u> | <u>6/30/2012</u> | <u>6/30/2011</u> | <u>6/30/2010</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Active Participants | 13,266 | 13,193 | 13,212 | 13,381 | 13,530 |
| Pensioners & Beneficiaries | 10,838 | 10,776 | 10,622 | 10,347 | 10,213 |
| Inactive Participants | 3,040 | 2,947 | 2,808 | 2,689 | 2,521 |
| Net Assets | \$3,875,901,034 | \$3,601,811,359 | \$3,499,847,941 | \$3,626,646,745 | \$3,196,511,775 |
| Employer Contributions | 196,927,737 | 179,244,463 | 207,800,343 | 183,762,262 | 178,122,248 |
| Member & Other Misc. Contributions | 37,377,996 | 36,899,338 | 91,086,659 | 94,342,939 | 94,117,458 |
| Total Contributions | \$ 234,305,733 | \$ 216,143,801 | \$ 298,887,002 | \$ 278,105,201 | \$ 272,239,706 |
| Investment Income | 519,523,894 | 370,887,631 | 50,871,632 | 606,935,285 | 402,693,600 |
| Total Income Available for Benefit Payments | \$ 753,829,627 | \$ 587,031,432 | \$ 349,758,634 | \$ 885,040,486 | \$ 674,933,306 |
| Benefit Payments | (483,854,062) | (485,296,592) | (475,856,366) | (455,121,047) | (440,029,866) |
| Transfer & Other Adjustments | (290,471) | 228,578 | (701,072) | 215,531 | (418,049) |
| Excess of Income Over Expenses | \$ 269,685,094 | \$ 101,963,418 | \$ (126,798,804) | \$ 430,134,970 | \$ 234,485,391 |
| Funded Ratio | 59.6% | 58.1% | 58.8% | 59.7% | 48.4% |

Compiled from Employee Retirement System of Rhode Island - Annual Reports 2010-2014

Actuarial costs and liabilities, as shown in the summary presentation, are determined in the aggregate for the ERSRI. Accordingly, employer contributions are first determined in the aggregate for all participating employers in this multi-employer system and are then expressed as a percentage of the aggregate participating payroll. For fiscal year 2014, the Town applied 60 percent of this factor to its participating payroll (the remaining 40 percent of the employer cost is contributed by the State as well as the full cost of deferred contributions by the State). Over the past six years, the Town has made the following required contributions:

| Employees' Retirement System of Rhode Island (Teachers) | | | |
|--|-------------------------------------|----------------------------|----------------------------|
| Fiscal Year | Annual Required Pension Cost | Actual Contribution | Percent Contributed |
| | 2015 | \$ 2,216,107 | \$ 2,193,910 |
| 2014 | 2,089,735 | 2,079,773 | 100 |
| 2013 | 1,862,615 | 1,862,615 | 100 |
| 2012 | 1,632,808 | 1,632,808 | 100 |
| 2011 | 1,378,156 | 1,378,156 | 100 |
| 2010 | 1,981,787 | 1,981,787 | 100 |

A contribution in the amount of \$2,442,590 has been budgeted for fiscal year 2016. This contribution represent 100% of the annual required pension costs.

Defined Contribution Plan for ERSRI Participants

The Rhode Island Retirement Act of 2011 changed the defined benefit plan to a hybrid plan which includes a defined contribution plan. The State selected TIAA-CREF to administer the plan. All employees in ERSRI are required to participate. ERSRI employees contribute 5% of their annual salary into the defined contribution plan, with an additional 2% contribution for those employees that do not participate in Social Security, and the Town must contribute 1% of salary. Participants have a selection of investments options chosen by the State and provided by TIAA-CREF.

Contributions to the defined contribution plan in the amount of \$616,575 and \$623,389 have been budgeted for fiscal years 2015 and 2016, respectively.

Challenges to Pension Reform Under the Employees' Retirement System of Rhode Island

Employees of the Town are participants in plans that are part of MERS and ERSRI. In recent years, the Rhode Island General Assembly made certain reforms to MERS and ERSRI. The reforms, which were included in legislation passed as part of the state budgets in 2009 and 2010 and in the RIRSA, have been challenged in numerous lawsuits brought by certain unions, active state and municipal employees, retired state employees and associations of retired state employees, including employees of the Town, who maintain they are current beneficiaries of MERS and ERSRI.

Many of the cases have been settled and thereafter, the General Assembly passed legislation to carry out the settlement, which was enacted into law on June 30, 2015. Accordingly, the Court entered final judgment on July 8, 2015.

Several appeals have been filed with the Rhode Island Supreme Court challenging the final judgment. The State has stated that it intends to vigorously defend these matters on appeal. The appeals in the case do not affect the implementation of the legislation enacted to carry out the settlement. The deadline for any further appeals of the final judgment was July 28, 2015.

With respect to the non-settling cases, the Court vacated the April 20, 2015 trial date and on July 29, 2015 dismissed the lawsuits as moot on the basis that the law being challenged had been amended through the settlement and June 30, 2015 legislative amendment. The Rhode Island State Troopers Association case is still pending.

Financial Impact of Pending Settlement and Remaining Litigation

The total savings from the 2009 and 2010 pension reforms is approximately \$75 million annually (approximately 5% of employee eligible compensation), including State savings of \$46.3 million annually and local government savings (including to the Town) of \$28.4 million annually.

As a result of the RIRSA 2011 legislation, the unfunded liability of \$6.8 billion for state employees and teachers in the June 30, 2011 valuation for ERSRI has been reduced to \$4.4 billion as reported in the June 30, 2011 valuation. Also, the projected employer's contribution (including the Town) has been reduced from \$622 million as reported in the 2010 actual valuation report to \$380 million as reported in the June 30, 2011 valuation. The Town's proportional share of its employer contribution was reduced as well.

The pension settlement, effective July 1, 2015, allows the 58,901 employees impacted to receive increases in their benefits, while at the same time still retaining a significant portion of the savings expected from the pension reforms. In connection with the settlement, the General Assembly enacted legislation which makes certain changes to all plans administered by ERSRI as contemplated by the settlement.

Overall it is estimated that the combination of the changes, as well as the other provisions of the settlement, based upon the actuarial analysis performed by Gabriel Roeder Smith & Company, the State's actuarial consultants, as set forth in a letter dated June 10, 2015 to certain State officials, will result in (i) a \$290 million increase in the UAAL as of June 30, 2014 on a combined basis and (ii) a \$14.7 million increase in combined employer contributions (including the Town) for the 2017 fiscal year. Despite such increases, the pension settlement of the State is estimated to preserve approximately 90% of the savings anticipated from the pension reforms.

Government Accounting Standards Board Statements 67 and 68

On June 25, 2012, the Government Accounting Standards Board ("GASB") voted to approve two new standards applicable to the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), revises existing guidance for the financial reports

of most pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB 67 and 68 replace the requirements of GASB 25 and GASB 27 which was implemented by the Town as of June 30, 2014. Calculations and the format of disclosures under GASB 67 and 68 are different than under GASB 25 and 27. Copies of Statements 67 and 68, and a plain language summary, are currently available from GASB.

Other Post-Employment Plans

Town OPEB Plan

The Town provides its workers with certain health care benefits after retirement sometimes called "other post-employment benefits" or "OPEBs." Changes in accounting rules require the Town to estimate its actuarial OPEB liability and amortize the unfunded liability over thirty years beginning with the 2008-2009 fiscal year.

Through its single employer defined benefit plan "Town OPEB Plan", the town provides post-retirement healthcare benefits to all Town employees, other than School Department employees, who meet years of service and age requirements. The Town established an OPEB trust fund "OPEB Trust" in fiscal year 2010. 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. For Police and Fire employees, upon death of the retiree, health care coverage continues to unmarried surviving spouse and dependent children up to age 18. For general employees, retiree health care coverage is discontinued upon death of the retiree. The Town OPEB Plan's provisions may be amended by the Town and the trustees of the Town OPEB Plan. A detailed presentation of the various plans is included as Note 11 of the notes to financial statements dated June 30, 2015 and is included in APPENDIX B.

Public Works, Fire and Police contributed 0.25%, 1.5% and 1.0% of salary, respectively, to the OPEB Trust. Over the six years, the Town has made the following contributions:

| Town OPEB Plan | | | | | |
|-----------------------|-------------------------------------|----------------------------|----------------------------|---|---------------------|
| Fiscal Year | Annual Required Contribution | Actual Contribution | Percent Contributed | Unfunded Liability⁽¹⁾ | Funded Ratio |
| 2014 | \$ 1,254,874 | \$ 653,791 | 52.10 % | \$ 12,370,030 | 3.6 % |
| 2013 | 1,297,531 | 724,032 | 55.80 | 12,688,743 | 3.1 |
| 2012 | 1,248,914 | 876,223 | 70.16 | 12,324,207 | 1.6 |
| 2011 | 1,345,177 | 638,328 | 47.45 | 13,095,091 | 1.2 |
| 2010 | 1,569,039 | 645,276 | 41.13 | 13,026,759 | 0.0 |
| 2009 | 1,569,039 | 462,590 | 29.48 | 13,026,759 | 0.0 |

(1) Assumes discount rate of 5.24% in fiscal years 2011-2014 after OPEB Trust was started.

School OPEB Plan

The School Department maintains and administers a single employer OPEB benefit plan that covers all School Department employees with fifteen years of service (School OPEB Plan). For fiscal year 2014, the School Department 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. If a retiree chose not to participate in the School OPEB 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 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.

The School Department has not yet established a Trust to prefund OPEB liabilities. The amounts due for these benefits are funded on a pay-as-you-go basis. For the year ended June 30, 2014, the School Department paid 100% of the cost of individual health care insurance and dental benefits for all retired eligible employees for six years and an additional three years for qualifying certified teachers or until the employee reaches the age of 65.

Over the past six years, the Town has made the following contributions:

| School OPEB Plan | | | | | |
|-------------------------|-------------------------------------|----------------------------|----------------------------|---------------------------|---------------------|
| Fiscal Year | Annual Required Contribution | Actual Contribution | Percent Contributed | Unfunded Liability | Funded Ratio |
| 2014 | \$ 468,795 | \$ 257,830 | 55.00 % | \$ 4,067,108 | 0.0 % |
| 2013 | 543,705 | 297,235 | 54.67 | 4,717,025 | 0.0 |
| 2012 | 592,410 | 270,703 | 45.70 | 7,207,872 | 0.0 |
| 2011 | 1,071,313 | 388,188 | 36.23 | 10,258,675 | 0.0 |
| 2010 | 511,670 | 322,804 | 63.09 | 4,514,458 | 0.0 |
| 2009 | 511,670 | 299,602 | 58.55 | 4,514,458 | 0.0 |

ECONOMIC CHARACTERISTICS

General

Earliest sources of income for the Town’s residents were farming and boat building. Boat building continues as one of the Town’s major industries. The State has designated the marine industry as one of five key sectors for economic growth. There are 39 companies of varying sizes located in Portsmouth engaged in marine related services and manufacturing. Manufacturing provides the largest number of jobs in the Town as of 2014, accounting for approximately 30% of private employment.

The 56-acre Portsmouth Business Park, is home to a mix of light industrial manufacturing firms. The convenient location with immediate access to state Route 24 places the Park in a strategic location for light industrial markets and labor supply. Occupancy in the Portsmouth Business Park is holding steady at around 90% with only two lots unsold. The Park has 23 companies employing 246 persons.

Another significant cluster of businesses is in the 97-acre Melville Marine District where 26 companies in the marine industry employ 626 persons. The District is ideally located on the shores of Narragansett Bay and includes two marinas with deep water access for yachts of all sizes.

Portsmouth’s largest employer is the Integrated Defense Systems division of Raytheon Company. Current employment on the 150 acres campus is 1,175. This division is primarily involved in the research, development and manufacture of sonar and other shipboard and airborne electronic tracking systems.

In addition to contributing as the Town’s largest employer, Raytheon actively supports the community with hosting mentoring and career interests programs and internships for local high school students. Raytheon developed a collaborative relationship with the Newport County Mentorship Program. Each school year, students from area high schools spend a day at Raytheon gaining in-depth exposure to careers in science, technology, engineering and mathematics (“STEM”) and advanced manufacturing. A subset of these students is then selected by their schools to participate in a "summer experience" program. The selected students shadow Raytheon employees in various jobs and functions over the course of the summer.

Raytheon proactively supports promoting and attracting other valued industry to the area. It has hosted seminars by Rhode Island Manufacturing Extension Services (“RIMES”) for groups of smaller sub-contractors. The presentations were aimed at developing better supplier partnerships by making the subs more efficient. Raytheon and RIMES provided instruction and leadership in increasing business efficiencies utilizing “lean agile” and “six sigma” techniques.

The United States Navy is the largest employer in Newport County and the third largest in Rhode Island. The 2005 Base Realignment and Closure Commission’s “BRACC” recommendation firmly established the Newport Naval Base as the nation’s leading naval educational center. The BRACC activity resulted in a net gain of commands stationed at the base. The Naval Education and Training Center “NETC” currently hosts twelve formal schools, including the Naval War College and the Naval Justice School. Each year the NETC allocates major contracts to the civilian community for construction projects and research and development activities. The base benefited greatly with several million dollars of new building construction.

Prospects for new economic development in Portsmouth continue to improve. Indications of growth are tied to new construction and increased hiring in some sectors. Growth of existing local businesses may stimulate additional new

development. Ground breaking has been limited but an increase in inquiries to the Town's building, planning and business development offices indicates that there is growing interest and consideration for development projects. Although the State continues to have lagging unemployment gains, Aquidneck Island is showing better employment trends.

Being surrounded by water has been the major factor in creating the Town's impressive history as a leader in the marine trades industry. With three world class yacht companies in Portsmouth, a large community of smaller marine support businesses continues to flourish that provide a wide range of specialized services for the boating industry and individual boat owners. The Melville companies are known within the industry for their high quality of work.

The marine industry and associated marine trades have long been a significant contributor to the Rhode Island economy. The marine industry continues to be identified as a key growth sector for the State. The America's Cup trial races held in Newport in June 2012 were very successful and served to further stimulate the maritime economy. The success of the Cup races has led to attracting other major marine races, regattas and associated events scheduled in the area as well as a possible return of the America's Cup events. The 2015 Volvo "Around the World Race" made its only U.S. stop in Newport. The races are a catalyst to attract other major events and bring attention to the Town's local marine industry. The race activities provide a big boost for the marine industry as well as area tourism and hospitality businesses. The local marine businesses benefit by providing services for race participants as well as the hundreds of spectators boats the races attract. The races attract participants, observers and media from around the world.

The 39 marine companies located in Portsmouth report that employment continues to improve. Total employment by the marine trades in Portsmouth has rebounded by 20% above the lows they experienced in 2010. Comments on the future by principals of the marine companies indicate the coming years should be positive. Overall, it appears the local marine trades did not suffer as much as some other areas of New England. The Rhode Island Marine Trades Association ("RIMTA") continues an active recruiting and job placement initiative to aid companies in identifying employment opportunities and filling full time positions. A recent RIMTA study showed that the marine industry is one of the few sectors of Rhode Island's economy that has shown growth. The study also showed that starting salaries in the marine sector are above average and most include attractive benefit packages. Principals at the companies indicate that many eliminated positions during the recession will be reactivated.

Of note in this regard, world renowned Hinckley Yachts announced they are going to move some of their new yacht construction from their Maine location to Portsmouth. This is expected to add 40 new jobs initially with more positions expected to be added as production ramps up.

In 2002, with assistance of our federal legislators prime excess Navy land in the Melville Marine District was approved for release to bolster local marine trades. The newly restructured Commerce RI, the State's primary economic development agency, in cooperation with the Town, has been working with a partnership of marine companies to transfer ownership of the former Navy fueling facility. The prime waterfront land will be key in stimulating expansion of existing and new marine trades. When the transfer is completed later in 2015, Portsmouth Marine Partners (comprised of four existing Portsmouth marine companies) is poised for expansion. The land will accommodate much needed space for the boat builders and create new facilities for smaller marine support contractors. The transfer of the 30 acres will serve as a model for the future transfer of other larger parcels the Navy has designated for disposal. There is high demand for space located near the existing cluster of marine companies.

New space for marine trades and defense work will complement the existing concentration of similar businesses in the Town. The marine trades in the Melville area are in need of expansion space. The Town has received inquiries from marine ventures outside the area interested in locating here. A similar attraction is possible with smaller defense contractors desiring to be located near Raytheon and the Naval Undersea Warfare Center. Marine trades and defense and homeland security are two key economic growth clusters identified by the State. These industries receive very active support from Commerce RI and other State agencies, including workforce development, to assist in attracting new and support for existing businesses.

Two main street projects of over 20,000 square feet have each received final approval form Town boards. A new East Main Road/Rt. 138 retail building built on speculation quickly gained tenants and is 80% leased. At Clocktower Square on West Main Road, construction of an additional 26,000 square foot quickly attracted three new tenants relocating their business to Portsmouth. Clocktower Square was begun in 2007 on 9 acres with construction of two buildings. The first phase of the development consisted of a successful restaurant and a mixed use two-story building. The first buildings quickly filled with a mix of uses. The attractive facilities include small local retail and medical offices, and scanning services. A marketing initiative is underway to attract medical and general service offices as well as specialty retail. The Clocktower Square property is approved for two additional buildings. When completed, the \$30 million, multi-phased project will consist of 6 buildings.

Forward-looking citizens and local governments in 1994 saw the need for coordinated planning. Years of planning and identifying needs and desires of the three Aquidneck Island municipalities led to the creation of the Aquidneck Island Planning Commission (“AIPC”). From this grassroots initiative came the West Side Master Plan (“WSMP”). The WSMP is the result of twelve years of regional planning efforts involving all three communities on Aquidneck Island. This unified plan has been unanimously adopted by all three communities.

The Portsmouth portion of the WSMP focuses on potential reuse of 146 acres of former Navy petroleum tank farms along the Eastern shore of Narragansett Bay. The release of the Navy land has been a key planning topic for several years. In the spring of 2008, the Navy officially announced that the former tank farms will be made available for development. The land is ideally situated along the West coast of Aquidneck Island, adjacent to Rt. 114, the Melville Marine District businesses and the Raytheon Company campus. Much planning and analysis must be accomplished to take advantage of the valuable land. The Town Council created a Tank Farm Advisory Committee to explore and make recommendations to the Council for the best future use of the land. Although government procedures for transfer of the land are extensive and very rigorous, the Town is focused on development that will contribute to the tax base.

Economic growth is planned along the shores of Narragansett Bay adjacent to the focus area of the WSMP. Just south of the cluster of marine businesses in the Melville area is the site for the new Weaver Cove marina. Necessary State Department of Environment Management and State Coastal Regional Management Commission permits have been approved for a large marina and related commercial marine facilities. Commencement of on shore construction has been slowed as portions of the land are contaminated from prior government uses. It is expected that the new marina adjacent to the Melville Marine District will attract additional boating activity and contribute as a potential business growth generator. Plans include commercial facilities for on-shore support services and related marine businesses. By including significant public access to the shoreline, the planned project is gaining wide support. Completion of all phases of the privately funded project are expected to cost over \$140 million. The project approvals also to include 385 residential units in a village setting overlooking the Narragansett Bay.

The Town received endorsement to set aside four acres of the excess Navy land in the Melville District for a multi-modal transportation activity. The site will serve as visitor parking for a future rail shuttle between Portsmouth and Newport. The existing Newport Dinner train has purchased self-propelled passenger rail cars that can make the shuttle service a reality. The very successful Newport Dinner Train received grant funding from RIDOT for an upgrade of the existing rail line located along the West Side shoreline. The train is busy with tourist activity, a dinner train and special seasonal activities. Tourist visits and special corporate event traffic continues to grow.

Planned development along the West Side is being encouraged by the Town Planning Department. The Town adopted changes to the Zoning Ordinance for the creation of Planned Marina Village Developments and Planned Resort Developments. The new zoning ordinances fully incorporate “smart growth” principles. The zoning ordinances include enforceable performance and preservation standards to promote site development of benefit to the Town. The Planning Department is reviewing the existing zoning process to identify additional changes that may expedite permitting procedures.

Raytheon Company recently consolidated all Portsmouth activity in one building. It is actively marketing the sale and or lease of 350,000 square feet in three light industry buildings as well as some surrounding acreage. This prime real estate is on busy West Main Road/Rt. 114 and convenient to off Island access and near the Naval Base and Naval Undersea Warfare Center. The potential synergy of being located near existing defense and marine companies should makes the space attractive for other light industry. Initiatives to bring new industry to the site are being spearheaded by Commerce RI and brokers specializing in contact with national site seekers.

Plans for construction of a new cidery on a vacant Town Center parcel are nearing approval. Other vacant parcels in the Town Center area are available for possible development of a mixed use project. Proposed re-design of East Main Road are planned to create a more pedestrian-friendly corridor. The Rhode Island Department of Transportation has fully endorsed the reconstruction of the road from four narrow lanes to a series of three roundabouts. Completion of the highway project is expected to improve safety and better manage peaks of commuter traffic. Public feedback at hearings has been supportive.

Newport Hospital built a new medical diagnostic services building within the Town Center area adjacent to an existing medical office building. Extensive scanning and imaging services eliminates the need to travel to Newport and Fall River for medical attention. The presence of The Imaging Center brings convenient key medical services to the area. The new 12,000 sq. ft. office building opened in 2007 and is 100% occupied.

One of the most prominent and attractive properties in the area is the exclusive “Carnegie Abbey Club”. The Carnegie developments include high-end vacation homes and condos which impact town services much less than

conventional residential development. The new marina at Carnegie has quickly become an attractive amenity. The centerpiece of the project, a 14 story tower consisting of exclusive condominiums, penthouses and amenities has attracted buyers from around the world.

The developer of the of the Carnegie projects, O’Neill Properties, also acquired 73 acres of waterfront property just north of the Carnegie facilities for their new project, “The Newport Club.” This project includes an indoor equestrian riding and training center and tennis club. The resort development will include 152 vacation homes, a small marina and other club amenities.

Residential building permits for new and rehabilitation projects were up 22% in fiscal 2015. Building permits for new, enlargement and rehabilitation of commercial properties is also well above fiscal year 2014.

Population

The following table shows the Town’s population and the change in population relative to the State.

| Year | Town | % Change Increase (Decrease) | State | % Change Increase (Decrease) |
|------|--------|---------------------------------|-----------|---------------------------------|
| 2010 | 17,389 | -0.4% | 1,052,567 | 0.4% |
| 2000 | 17,460 | 3.5 | 1,048,319 | 4.5 |
| 1990 | 16,857 | 18.2 | 1,003,464 | 5.9 |
| 1980 | 14,257 | 13.9 | 947,154 | -0.3 |
| 1970 | 12,521 | 51.8 | 949,723 | 10.5 |
| 1960 | 8,251 | 25.4 | 859,488 | 8.5 |
| 1950 | 6,578 | --- | 791,896 | - |

Source: U.S. Bureau of the Census.

Per Capita Income

The following table sets forth the personal income per capita for Town and the State:

| Year | Town | Rhode Island |
|------|----------|--------------|
| 2013 | \$44,821 | \$30,469 |
| 2012 | 41,554 | 30,005 |
| 2010 | 42,099 | 28,707 |
| 2000 | 28,161 | 21,688 |
| 1990 | 17,899 | 14,981 |

Sources: U.S. Bureau of Census, 1990; U.S. Bureau of Census, 2000; American FactFinder (2010/based on 2006-2010 American Community Survey; 2012/based on 2008-2012 American Community Survey 5-Year estimates); and 2013/based on 2009-2013 American Community Survey 5-Year estimates)

Median Family Income

The table below sets forth the Town’s median family income relative to the State and United States.

| | 1989 | 1999 | 2010 | 2012 | 2013 |
|---------------|----------|----------|----------|----------|----------|
| Portsmouth | \$46,669 | \$68,577 | \$77,712 | \$73,308 | \$94,596 |
| Rhode Island | 39,172 | 52,781 | 54,902 | 56,102 | 56,361 |
| United States | 35,225 | 50,046 | 51,914 | 53,046 | 85,588 |

Sources: U.S. Bureau of Census, 1990; U.S. Bureau of Census, 2000; American FactFinder 2010 (based on 2006-2010 American Community Survey); 2012 (based on 2008-2012 American Community Survey 5-Year estimates); and 2013 (based on 2009-2013 American Community Survey 5-Year estimates)

Housing

According to the U.S. Census Bureau, 2008-2012 American Community Survey, it is estimated for 2012 there were 8,108 dwelling units in the Town compared to 7,386 dwelling units in 2000. The additional 722 dwelling units represent an increase of 0.78%. In 2010, of the 6,906 occupied housing units, 5,068 or 68.6% were owner-occupied. The following table sets forth building permits issued in the Town from fiscal years 2009 to 2015:

| <u>Fiscal Year</u> | <u>No. Permits</u> | <u>Value</u> |
|--------------------|--------------------|--------------|
| 2009 | 17 | \$3,290,500 |
| 2010 | 6 | 3,243,495 |
| 2011 | 26 | 3,691,080 |
| 2012 | 16 | 4,252,692 |
| 2013 | 25 | 5,629,600 |
| 2014 | 15 | 9,177,600 |
| 2015 | 36 | 8,749,660 |

Source: Town Building Inspector.

Unemployment Rate

The Town's unemployment rate as of September 2015 is 4.1%. This is noteworthy as it is a significant decline from the 2009 high of 11.9%. This compares favorably with an unemployment rate of 5.8% for the State of Rhode Island and the national unemployment rate of 5.3%. The most recent labor market information is shown in the tables below:

| Annual Average Unemployment Rate | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Portsmouth..... | 8.8% | 9.8% | 9.8% | 8.6% | 8.2% | 6.8% |
| Rhode Island..... | 10.9 | 11.7 | 11.2 | 10.3 | 9.5 | 7.7 |
| United States..... | 9.3 | 9.6 | 9.6 | 8.1 | 7.4 | 6.2 |

Not Seasonally Adjusted

Source: R.I. Department of Labor and Training/US Bureau of Labor Statistics.

| Monthly, as of 2015 | | | | | | | | | |
|----------------------------|----------------|-----------------|--------------|--------------|------------|-------------|-------------|------------|-------------|
| | January | February | March | April | May | June | July | Aug | Sept |
| Portsmouth..... | 7.3% | 6.9% | 6.7% | 5.2% | 5.1% | 5.0% | 4.9% | 4.9% | 4.1% |
| Rhode Island..... | 7.4 | 7.0 | 6.9 | 5.7 | 5.8 | 5.6 | 5.8 | 5.7 | 4.7 |
| United States..... | 6.1 | 5.8 | 5.6 | 5.1 | 5.3 | 5.5 | 5.6 | 5.2 | 4.9 |

Not Seasonally Adjusted

Source: R.I. Department of Labor and Training/US Bureau of Labor Statistics.

Type of Employment

Rhode Island Department of Labor Training Quarterly Census of Employment & Wages Town Summary - 2014 Annual

In 2014, the Town had 520 private businesses and governments subject to employment security taxes with quarterly payrolls which totaled \$307,542,165 and the average number of persons employed was 5,770 according to the most recent statistics. The following is a listing of the various types of industry in the Town covered by the Department of Labor and Training.

| | <u>Number of Units</u> | <u>Average Employment</u> | <u>Total Wages</u> |
|---|----------------------------|-------------------------------|------------------------|
| Total Private & Government | 520 | 5,770 | \$307,542,165 |
| Total Private Only | 504 | 5,147 | 273,041,747 |
| Agriculture, Forestry, Fishing & Hunting | 15 | 43 | 1,179,301 |
| Utilities | 1 | * | * |
| Construction | 61 | 307 | 14,140,070 |
| Manufacturing | 21 | 1,553 | 139,153,030 |
| Wholesale Trade | 20 | 105 | 8,066,000 |
| Retail Trade | 57 | 496 | 16,053,538 |
| Transpiration & Warehousing | 8 | 88 | 2,478,355 |
| Information | 12 | 56 | 3,870,727 |
| Finance & Insurance | 18 | 59 | 3,051,920 |
| Real Estate & Rental & Leasing | 15 | 135 | 4,774,536 |
| Professional & Technical Services | 74 | 173 | 10,647,529 |
| Management of Companies & Enterprises | 3 | 24 | 1,537,226 |
| Administrative Support & Waste Mgmt. | 35 | 219 | 7,279,953 |
| Educational Services | 18 | 269 | 11,618,294 |
| Health Care & Social Assistance | 44 | 854 | 30,307,808 |
| Arts, Entertainment, & Recreation | 9 | 94 | 3,065,662 |
| Accommodation & Food Services | 42 | 480 | 9,300,870 |
| Other services, (except Public Administration) | 24 | 187 | 6,414,813 |
| Government | 17 | 623 | 34,500,418 |

Source: Rhode Island Department of Labor and Training.

Major Private Employers

| <u>Employer</u> | <u>Nature of Business</u> | <u>Employees</u> |
|--|--|------------------|
| Raytheon Company | Defense, homeland security | 1,175 |
| Visiting Nurse Services of Newport and Bristol Counties | Medical & social services | 250 |
| The Hinckley Company | Marine repair, storage, sales, Brokering & marina | 155 |
| New England Boatworks | Marine construction, design, repair, storage & marina | 127 |
| Vanguard Sailboats | Manufacturer of recreational sailing craft | 82 |
| East Coast Construction | Commercial construction | 49 |
| International Manufacturing Svcs. | Chip & resistor manufacturer | 47 |

Source: Town Officials.

INDEBTEDNESS OF THE TOWN

Debt Limit

There are three statutory mechanisms for municipalities in Rhode Island to obtain legal authority to issue general obligation debt: 1) Section 45-12-2 of the General Laws (the "3% Debt Limit Statute"), 2) special acts of the General Assembly, and 3) ministerial approval by the State's Auditor General.

The 3% Debt Limit Statute was enacted in 1896 as a limitation on the amount of debt municipalities could incur. The 3% Debt Limit Statute provides that except as explained below, municipalities may not, without special statutory authorization, or ministerial approval by the Auditor General of the State (described below), incur any debt, which would increase its aggregate indebtedness not otherwise excepted by law to an amount greater than 3% of the full assessed value of the taxable property within the municipality. Deducted from the computation of aggregated indebtedness is the amount of any borrowing in anticipation of taxes authorized by law and the amount of any fund held on account to pay such indebtedness maintained by the Town. In computing the value of taxable property, motor vehicles and trailers are valued at full value without regard to assessed value reductions provided for in other sections of the general laws.

The current 3% debt limit of the Town is \$93,403,020 based on assessed valuations of taxable property as of December 31, 2014 of \$3,113,434,005. As of June 30, 2014, the Town had approximately \$4,180,941 bonds outstanding subject to the 3% Debt Limit Statute.

In July 2007, the Rhode Island State Legislature enacted legislation effective January 1, 2008 allowing for ministerial approval by the State's Auditor General of debt outside of the 3% debt limit for communities with an "A" rating or better, if the community also satisfies certain requirements. The Town has no debt outstanding under the ministerial approval process.

Over time, special acts have displaced the 3% Debt Limit Statute as the primary method for municipalities in the State to obtain authority to issue general obligation debt. On June 30, 2014, the Town had \$8,895,759 of debt outstanding that is outside the 3% debt limit.

In addition to debt authorized pursuant to the 3% Debt Limit Statute, ministerial approved debt and debt authorized by special act of the General Assembly, Rhode Island General Laws Section 45-12-11 authorizes the State Director of Revenue, upon petition by a city or town, to authorize such city or town to incur indebtedness in excess of the 3% debt limit whenever the State Director of Revenue shall determine that the sums appropriated by the municipality or its funds available are insufficient to pay the necessary expenses of the city or town. The Town has not requested the State Director of Revenue to authorize indebtedness of the City under Section 45-12-11.

Under Rhode Island General Laws Section 45-12-4.4 a city or town may authorize the issuance of bonds, notes, or other evidences of indebtedness to pay the uninsured portion of any court judgment or settlement, except any court judgment or settlement arising out of any pension obligation of a city or town; provided however, that the outstanding principal amount, in aggregate, shall not exceed five percent (5%) of the total amount of the city or town's most recently adopted municipal budget. As of June 30, 2014, the Town had no bonds outstanding issued pursuant to Rhode Island General Laws Section 45-12-4.4.

In addition to the State imposes debt limits referenced above, the Town has a debt policy which states, in part, that non-self-supporting, unlimited tax, general obligation debt outstanding at any time does not exceed 2% of the Town's taxable property. In addition, the ratio of annual debt service payments shall not exceed 15 percent of the operating budget's expenditures.

Actual Bonded Debt Service Requirements

The following table sets forth a schedule of debt service for the outstanding bonds of the Town.

| Fiscal Year | GO Bonds ⁽¹⁾ | | Series A Bonds | | Series B Bonds | | Total |
|----------------|-------------------------|---------------------|---------------------|---------------------|-------------------|------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2016 | \$ 2,130,000 | \$ 377,839 | \$ - | \$ - | \$ - | \$ - | \$ 2,507,839 |
| 2017 | 1,570,000 | 315,122 | 225,000 | 189,335 | 45,000 | 15,226 | 2,359,683 |
| 2018 | 1,313,000 | 267,068 | 225,000 | 132,025 | 45,000 | 9,924 | 1,992,017 |
| 2019 | 1,265,000 | 219,195 | 225,000 | 125,275 | 45,000 | 8,871 | 1,888,340 |
| 2020 | 1,074,000 | 172,958 | 225,000 | 118,525 | 40,000 | 7,876 | 1,638,359 |
| 2021 | 1,064,000 | 130,581 | 225,000 | 112,900 | 40,000 | 6,940 | 1,579,421 |
| 2022 | 604,000 | 95,379 | 225,000 | 108,400 | 40,000 | 5,825 | 1,078,604 |
| 2023 | 474,000 | 70,352 | 225,000 | 102,775 | 40,000 | 4,530 | 916,657 |
| 2024 | 474,000 | 50,391 | 225,000 | 94,900 | 40,000 | 3,236 | 887,527 |
| 2025 | 384,000 | 31,217 | 225,000 | 85,900 | 40,000 | 1,942 | 768,058 |
| 2026 | 280,000 | 16,343 | 220,000 | 77,000 | 40,000 | 647 | 633,990 |
| 2027 | 105,000 | 5,645 | 220,000 | 68,200 | - | - | 398,845 |
| 2028 | 105,000 | 2,823 | 220,000 | 60,500 | - | - | 388,323 |
| 2029 | - | - | 220,000 | 53,900 | - | - | 273,900 |
| 2030 | - | - | 220,000 | 47,300 | - | - | 267,300 |
| 2031 | - | - | 220,000 | 40,700 | - | - | 260,700 |
| 2032 | - | - | 220,000 | 33,825 | - | - | 253,825 |
| 2033 | - | - | 220,000 | 26,675 | - | - | 246,675 |
| 2034 | - | - | 220,000 | 19,250 | - | - | 239,250 |
| 2035 | - | - | 220,000 | 11,550 | - | - | 231,550 |
| 2036 | - | - | 220,000 | 3,850 | - | - | 223,850 |
| Total | \$ 10,842,000 | \$ 1,754,910 | \$ 4,445,000 | \$ 1,512,785 | \$ 415,000 | \$ 65,016 | \$ 19,034,711 |

⁽¹⁾Excludes Wind Turbine Bond and Loan refunded with the Notes.

Direct Debt Summary

| | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| GO Bonds | \$ 10,873,082 | \$ 12,069,282 | \$ 11,179,482 | \$ 9,991,411 | \$ 8,196,700 |
| RIHEBC School Bonds | 6,035,000 | 5,375,000 | 4,785,000 | 4,270,000 | 4,880,000 |
| Total Direct Debt | \$ 16,908,082 | \$ 17,444,282 | \$ 15,964,482 | \$ 14,261,411 | \$ 13,076,700 |

Debt Ratios and Debt Per Capita

| | | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Outstanding Debt | \$ 16,908,082 | \$ 17,444,282 | \$ 15,964,482 | 14,261,411 | 13,076,700 |
| Population | 17,389 | 17,389 | 17,389 | 17,389 | 17,389 |
| Gross Bonded Debt Per Capita | \$ 972 | \$ 1,003 | \$ 918 | 820.14 | 752.01 |
| Net Assessed Valuations | \$ 3,705,159,854 | \$ 3,829,725,644 | \$ 3,241,923,705 | \$ 3,242,159,907 | \$ 3,257,969,891 |
| Ratio of Assessment | 100% | 100% | 100% | 100% | 100% |
| Estimated Full Market Value (EFMV) | \$ 3,705,159,854 | \$ 3,829,725,644 | \$ 3,241,923,705 | \$ 3,242,159,907 | \$ 3,257,969,891 |
| Ratio of Outstanding Debt to EFMV | 0.46% | 0.46% | 0.49% | 0.44% | 0.40% |

Source: Town's Tax Collector/Assessor.

Authorized But Unissued Debt

After this issue of Bonds and Notes, the Town's authorized but unissued debt is as follows:

| <u>Authorization</u> | <u>Purpose</u> | <u>Original Authority</u> | <u>Bonds Issued*</u> | <u>Notes Issued*</u> | <u>Remaining Authority</u> |
|---|-------------------------------------|---------------------------|----------------------|----------------------|----------------------------|
| RI General Laws 45-12-2 Chapter 616 | Septic System Loan Program | \$2,000,000 | \$ 415,000 | \$ 0 | \$1,585,000 |
| RI Public Laws of 1987 | Open Space Acquisition/Preservation | 1,000,000 | 29,000 | 0 | 971,000 |
| Chapters 367/469 RI Public Laws of 2007 | Open Space and Recreation | 4,000,000 | 3,032,000 | 0 | 968,000 |
| RI General Laws 45-12-2 | Miscellaneous Capital Projects | 4,571,500 | 4,445,000 | 0 | 126,500 |
| RI General Laws 45-12-2 | Wind Turbine Refunding | 1,650,000 | 0 | 1,615,000 | 35,000 |
| | | \$13,221,500 | \$7,921,000 | \$1,615,000 | \$3,685,500 |

*Includes this issue of Bonds and Notes.

Tax Anticipation Notes

Under State law, the Town may borrow in anticipation of the receipt of the proceeds of the property tax due in such fiscal year. Tax anticipation notes must be payable not later than one year from their date, but notes issued for less than one year may be renewed provided such renewal notes are payable within one year of the date of the original notes.

The Town has not issued Tax Anticipation Notes since June 19, 1998 when it issued a \$675,000 tax anticipation note which matured May 19, 1999.

Bond Anticipation Notes

Except for the present issue of Notes, the Town has no outstanding Bond Anticipation Notes.

Overlapping Debt

The Portsmouth Water and Fire District (the "District"), wholly within and covering approximately 90% of the Town, provides customers with treated water which is purchased from the City of Newport. The District is a separate legal entity from the Town. District operations are supported by both user charges and use of .16 mils of the 15-mil tax levy available to the District. In practice, user charges cover operations and maintenance expenses, and District taxes cover debt service; however, taxes could be used to cover all expenses if desired. The District had bonds outstanding as of fiscal year end April 30, 2015 in the amount of \$2,480,810. The Town has no contingent liability for the obligations of the Fire District.

FINANCIAL INFORMATION

Financial Reporting

The Town's financial statements for the year ended June 30, 2014 have been audited by Marcum LLP, Certified Public Accountants. The audit report for the year ended June 30, 2014 is included in APPENDIX B.

Marcum LLP has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Marcum LLP, also has not performed any procedures relating to this Official Statement.

The Town prepares its General Fund, Special Revenue Fund and the Trust and Agency Fund types on the modified accrual basis of accounting. See Note 1 to the Audit Report for details.

School Aid

State School Basic Education Aid for Operations

Pursuant to Rhode Island General Laws Sections 16-7-15 to 16-7-34 et seq., as amended, the State provides school operations assistance aid (also known as “Basic Education Aid”) to each municipality and school district in the State, subject to annual appropriation by the General Assembly. The General Assembly substantially changed the funding formula for school operations beginning in fiscal year 2012. The statutes provide for reimbursement of school expenditures based on a formula which adjusts the reimbursement ratio based on the relative equalized valuation of property and median family income relative to the State as a whole. There are no assurances, however, that the General Assembly will continue this program or appropriate sufficient funds for its implementation. Basic Education Aid is subject to pro-rata reduction in accordance with State law.

In the 2010 session of the General Assembly, legislation was passed which will substantially change the funding formula for school operations. As a result of the new funding formula, the Town will receive a reduction in state basis operations aid in the total amount of approximately \$200,000 from FY 2013 through FY 2017. But with a recent update on the demographics of families with children in town, the reduction is projected to be less than \$100,000. In fiscal year 2014 the Town received \$4,570,144 and in fiscal year 2015 the Town received \$4,303,672. The Town expects to receive \$4,212,562 in fiscal year 2016.

In 2012, the General Assembly amended the general laws to provide that basic education aid may be intercepted to pay debt service on bonds issued by the Rhode Island Health and Educational Building Corporation (“RIHEBC”) for the benefit of a municipality in the event the municipality fails to make timely payments of debt service on school construction bonds issued for the municipality through RIHEBC.

School Construction Aid

Pursuant to Rhode Island General Laws Sections 16-7-35 to 16-7-47, as amended, the State provides construction aid to Rhode Island municipalities for the cost of building or renovating public schools. All buildings constructed or renovated since July 1, 1949 are eligible for assistance of a minimum of 40% (for school housing projects completed after June 30, 2010 that received approval from the State Board of Education prior to June 30, 2012) or 35% (for school housing projects that received approval from the Board of Education after June 30, 2012) of the full cost of such buildings. Such assistance level may be further increased by a formula which takes into account the equalized assessed valuation and debt service burden of the particular municipality. State aid reimbursement for school construction projects is based on the share ratio established for that year by the State Department of Education. For the fiscal 2014 the Town’s share ratio is approximately 40%. This ratio can vary from year to year.

For projects approved by the voters after June 30, 2003, the cost of interest on any bond will be reimbursed as an eligible project cost only if the bonds for these projects are issued through RIHEBC. School construction aid attributable to projects financed through RIHEBC bonds is paid by the State directly to RIHEBC or the bond trustee for such RIHEBC bonds and is not directly available to the Town for other purposes. Furthermore, if the Town defaults in making any payment due to the RIHEBC trustee in support of any RIHEBC bond, any State aid in respect of other school housing projects may be redirected by the State to the trustee for the RIHEBC bond. School housing costs subject to State aid reimbursement shall not include bond issuance costs incurred by the municipality, demolition costs for buildings, facilities, or sites deemed surplus by the school committee and costs for furniture, fixtures and equipment except in the case of a project to construct a new school or school addition that is supported by a general obligation or lease revenue bond. The legislation authorizing State school construction aid is subject to future change and all State aid is subject to annual appropriation by the General Assembly. The Town received \$509,711 in school construction aid for fiscal 2015. The Town expects to receive \$445,823 in school construction aid for fiscal 2016.

Pursuant to Rhode Island General Laws Section 16-7-41(d), any net interest savings resulting from the issuance of refunding bonds issued by any local community in support of school housing projects for the community shall be allocated between the community and the State, by applying the applicable school housing aid ratio at the time of issuance of the refunding bonds, calculated pursuant to Section 16-7-39 of the Rhode Island General Laws, that would otherwise apply in connection with school housing projects of the community; provided however, that for any refundings that occur between July 1, 2013 and December 31, 2015, the community shall receive 80% of the total savings and the State shall receive 20%. In connection with any refunding bond issue, school housing project costs shall include the cost of interest payments on such refunding bonds, if the cost of interest payments was included as a school housing cost for the bonds being refunded. In addition, school housing projects costs in connection with any such refunding bond issue shall include bond issuance costs incurred in connection with the issuance. The benefits of this law are available only if the net present value savings resulting from the refunding is at least 3% of the refunded bond issue.

Reporting Requirements of Municipalities and School Districts

In June 2003, the Rhode Island General Assembly passed new financial reporting requirements for municipalities in order to ensure that municipalities and school districts monitor their financial operations on an ongoing basis and to prevent potential budget deficits (Rhode Island General Laws Sections 45-12-22.1 et seq. (the "Financial Reporting Act")).

Reporting

- The chief financial officer of the municipality must submit monthly reports to the municipality's chief executive officer, each member of the city or town council, and school district committee certifying the status of the municipal budget, including the school department budget or regional school budget.
- The chief financial officer of the municipality must also submit quarterly reports to the State Division Municipal Finance, the Commissioner of Education and the Auditor General certifying the status of the municipal budget. The chief financial officer of the school department or school district shall certify the status of the school district's budget and shall assist in the preparation of these reports.
- If any of the quarterly reports project a year-end deficit, the chief financial officer of the municipality must submit a corrective action plan, providing for the avoidance of a year-end deficit, to the State Division of Municipal Finance, the Commissioner of Education and the State Auditor General on or before the last day of the month succeeding the close of the fiscal quarter.
- If, at the end of the fiscal year, the chief financial officer determines that it is likely that the city or town's general fund or combined general fund and unrestricted school special revenue fund will incur a deficit, the municipality must notify the State Auditor General and the State Division of Municipal Finance and immediately develop a plan to eliminate the accumulated year-end deficit by annual appropriation over no more than five (5) years in equal or diminishing amounts. This plan must be submitted to the State Auditor General for approval.

Restrictions and Requirements

- Except as provided in Chapter 45-9 of the Rhode Island General Laws, no municipality can sell long-term bonds in order to fund a deficit without prior approval by the State Auditor General and the Director of the Rhode Island Department of Revenue.
- No municipality can incur expenditures nor obligate the municipality to expend unbudgeted amounts in excess of \$100,000 without first notifying the city or town council of the proposed expenditure and identifying the source of funding. Any such expenditure must be included in the chief financial officer's monthly report.
- No school committee or school department can incur accumulated unbudgeted expenditures in excess of \$100,000 without notifying the chief financial officer of the municipality of the proposed expenditure and identifying the source of funding. Any such expenditure must be included in the chief financial officer's monthly report.
- School committees, boards or regional school districts that are independent government entities within a municipality must cooperate in providing to the chief financial officer all information needed to formulate his or her reports and the deficit elimination plan.

Remedies

- If a municipality does not comply with the requirements of the Financial Reporting Act, the State Auditor General or State Division of Municipal Finance, through the State Director of Revenue, may elect any or all of the following remedies:
 - Petition the Superior Court for mandatory injunctive relief seeking compliance with the provisions of the Financial Reporting Act;
 - In the event a municipality fails to provide a year-end deficit elimination plan, implement a budget review commission pursuant to Rhode Island General Laws Section 45-9-5; or

- Withhold State Aid.

- If a school committee or board fails to cooperate with the municipality or provide all information requested by the chief financial officer needed to formulate a plan:

-The State Auditor General or the State Director of Revenue may petition the Superior Court to order the school committee or board to cooperate; and

-The State Director of Revenue may also direct the Rhode Island Controller and General Treasurer to withhold state aid from a school committee until the school committee or board cooperates in the formulation of the plan.

The Town has not been advised by the State Auditor General or the State Director of Revenue that it is not in compliance with the Financial Reporting Act.

State Oversight

On June 11, 2010 the Rhode Island General Assembly enacted “An Act Relating to Cities and Towns - Providing Financial Stability” the purposes of which are (1) to provide a mechanism for the State to work with cities and towns undergoing financial distress that threatens the fiscal well-being, public safety and welfare of such cities and towns, or welfare of other cities and towns or the state, and (2) to provide stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress.

The Act prohibits municipalities from filing for judicial receivership and clarifies that the Superior Court has no jurisdiction to hear such matters.

The Act gives the State, acting primarily through the Department of Revenue, the power to exercise varying levels of support and control depending on the circumstances. It creates three levels of State oversight and control: Level I -- Fiscal Overseer, Level II -- Budget Commission, and Level III -- Receiver. The State Director of Revenue, in consultation with the State Auditor General, may skip fiscal overseer and budget commission by appointing a receiver in a fiscal emergency.

Fiscal Overseer (Level I)

A fiscal overseer may be appointed by request of the municipality, or the State Director of Revenue may appoint a fiscal overseer if the Director finds, in his or her sole discretion, that any two of the following events have occurred whereby the city or town:

- Projects a deficit in the municipal budget in the current fiscal year and again in the upcoming fiscal year;
- Has not filed its year end audits with the State Auditor General by the deadlines required by law for two (2) successive fiscal years (not including extensions authorized by the Auditor General);
- Has been downgraded by one of the nationally recognized statistical rating organizations;
- Otherwise unable to obtain access to credit markets on reasonable terms;
- Does not promptly respond to requests made by the Director of Revenue, or the Auditor General, or the chairpersons of the house or senate finance committees for financial information.

The Director of Revenue may also appoint a fiscal overseer for failure to comply with the financial reporting and action plan requirements relating to budget deficits. A fiscal overseer acts in an advisory capacity to municipal officials, approves budgets and reports to State official regarding progress.

Budget Commission (Level II)

A budget commission may be established by request of a municipality or without such a request, if the fiscal overseer reports to the Director of Revenue that the city or town is unable to present a balanced municipal budget, faces a

fiscal crisis that poses an imminent danger to the safety of the citizens of the city or town or their property, will not achieve fiscal stability without the assistance of a budget commission, the tax levy should not be approved, or otherwise determines that a budget commission should be established. A budget commission is composed of five (5) members: three (3) designees of the Director of Revenue, the elected chief executive officer of the city, and the president of the city or town council (or in cities or towns in which the elected chief executive officer is the president of the city or town council, then the appointed city or town manager). A budget commission has more significant powers over financial matters, including but not limited to the power to:

- Amend, formulate and execute annual and supplemental municipal budgets and capital budgets;
- Reorganize, consolidate or abolish municipal departments, commissions, authorities, boards, offices or functions;
- Issue bonds, notes or certificates of indebtedness to fund a deficit of the city or town to fund cash flow and to finance capital projects.

Receiver (Level III)

The State Director of Revenue may appoint a receiver if the budget commission recommends appointment of receiver after concluding that its powers are insufficient to restore fiscal stability to the city or town. A receiver may exercise any function or power of any municipal officer, employee, board or commission and has the power to file on behalf of a city or town for bankruptcy in federal bankruptcy court. The Town is not subject to this Act as it has been working with the State pursuant to the Financial Reporting Act.

The Town is not currently and never has been subject to State oversight under the Financial Stability Act.

Budgetary Procedures

In accordance with the Article III, Section 304 of the Home Rule Charter, the Town Administrator is charged to submit to the Town Council, not later than April 2 prior to the start of the next fiscal year, a proposed budget of receipts and expenditures and an explanatory budget message. For such purpose, the Town Administrator shall obtain from the head of each office, department or agency, except the School Committee, estimates of its revenues and expenditures and such supporting data as he may request. In preparing the proposed budget, the Town Administrator shall review the estimates and may revise them as he may deem advisable. The budget as proposed by the Town Administrator shall show all anticipated revenues and all proposed expenditures, except those for school purposes, and the total of such expenditures shall not be greater than the total of anticipated revenue.

The Town Administrator shall request from the School Committee its budget of estimated expenditures and revenues for transmission to the Town Council. He shall incorporate the total of these expenditures and revenues with the total he has arrived at for general Town purposes. He shall file one (1) copy of the recommended budget with the Town Clerk to be available for public inspection.

In accordance with Article II, Section 208 of the Town's Home Rule Charter, upon receipt of the consolidated Town and School Budget from the Town Administrator, the Town Council shall:

1. Review the Administrator's recommended budget and within thirty (30) days adopt a provisional budget. The Council may only alter the total amount of the school department budget. A copy of the provisional budget shall be filed with the Town Clerk.
2. Immediately following the adoption of the provisional budget, it shall be published in a newspaper having general circulation in the Town, showing the initial requested total amount of each department by the Town Administrator and School Committee and the recommended total amount of the Town Council.
3. Within thirty (30) days of the approval and publication of the provisional budget, public hearings shall take place. The Council shall have printed and available copies of the provisional budget for public distribution at least five (5) days prior to public hearings. The time and place for holding of these hearings shall be included with the publication of the provisional budget.
4. Upon completion of the public hearing on the provisional budget, take the results thereof under consideration and make such additional changes as the Council may deem appropriate.

5. Within one (1) month following the completion of the public hearings on the provisional budget at a regular Town Council meeting in June, adopt the final Town budget by ordinance, forwarding one (1) copy to the Town Clerk for public inspection and, as soon as possible, have the final budget (departmental total amounts) published in a newspaper having general circulation in the Town.

6. Referendum Petitions. Within two (2) weeks of the adoption of the final Town Budget, any qualified elector of the Town may circulate a petition requesting that a referendum be held on the final budget as approved by the Town Council. Such petition may propose an increase or decrease in the total amount of either the School Department Budget, or the Town Budget, or both. The Registrar of Voters shall cause petition forms to be printed with standard language and spaces for the insertion of dollar amounts, budget designations, whether an increase or decrease of expenditure is called for, and other necessary information. All petition forms shall be approved by the Registrar of Voters before circulation, and must be returned to the Town Clerk on or before a return date, which shall be two (2) weeks after the adoption of the final Town Budget. Any language added to a petition, or any alteration of the language thereof: subsequent to its approval by the Registrar, shall be of no force or effect. The Town Clerk, upon return of the petitions, shall cause the signatures thereon to be verified by the Registrar, such verification to be completed not later than two (2) weeks of the return date for the petitions. There shall be no limit to the number of separate petitions which an elector may sign.

7. Budget Referendum. The Town Clerk shall cause a referendum by ballot to be held on a Tuesday, not less than thirty-five (35) nor more than forty-five (45) days from the certification of the signatures on the petitions, on all budget changes requested on petitions submitted pursuant to paragraph 6 above; provided that each such petition shall contain signatures of not less than ten percent (10%) of the duly qualified electors of the Town. The ballot used at such referendum shall be prepared by the Registrar in such manner as to include each of the separate petitions for increases and/or decreases in the appropriation for a particular budget together with the original approved budget amount. The qualified electors shall be instructed to vote either for the original total or for one (1) of the proposed increases or decreases thereof. The appropriation receiving the most votes shall be declared to have been adopted. In the event that certified petitions are received by the Registrar that include changes to both the School Department Budget and the Town Budget, there shall be two (2) separate ballot questions, one for the School Department Budget and one for the Town Budget, each of which shall follow the ballot format set forth herein. The polls at such referendum shall be open at 7:00 a.m. and shall remain open until 8:00 p.m. Emergency ballots will be available by application to the Canvassing Authority according to regulations that may be imposed by the Canvassing Authority necessary to implement the use of such ballots at such referendum. The results of each ballot question shall be certified by the Registrar.

8. In the event that an increase or a decrease in the School Department Budget and/or the Town Budget is approved by the electors at such referendum, the Town Council shall cause the total amount of said budgets to be adjusted upward or downward accordingly and shall adopt an amended Town Budget at its next regular Town Council meeting. The Town Council and/or the School Committee, whichever has jurisdiction over the budget affected by such action, shall make reductions or increases within said budget to match the new appropriation total.

Budgets

The following table sets forth a summary of the Town's budgets for the fiscal years ending June 30, 2015 and 2016:

| REVENUES | 2015 Adopted | 2016 Adopted |
|-------------------------------|-------------------------|-------------------------|
| Taxes..... | \$49,208,386 | \$49,444,106 |
| Intergovernmental..... | 5,311,301 | 5,442,351 |
| Licenses, permits & fees..... | 2,457,850 | 2,456,000 |
| Leases & Rentals..... | 900,846 | 815,485 |
| TOTAL REVENUES | \$57,878,383 | \$58,157,942 |
| EXPENDITURES | | |
| Municipal..... | \$19,892,459 | \$20,171,727 |
| Education..... | 35,086,474 | 35,127,847 |
| Debt Service..... | 2,899,450 | 2,858,368 |
| TOTAL REVENUES | \$57,878,383 | \$58,157,942 |

Capital Improvement Programs

The Town has a Capital Improvement Plan which facilitates the systematic replacement, maintenance, and expansion of the Town's physical plant and assets through a multi-year budget planning process. Annually, various Town departments submit a list of desired capital improvements. Such lists represent planning documents and are not approved financing plans.

PROPERTY TAXES

General

Under Rhode Island law, Rhode Island municipalities, including the Town, are restricted from levying general taxes except ad valorem taxes upon real and personal property, and an excise tax on motor vehicles. Valuations of real and personal property are assessed as of December 31 and the levy thereon may be paid in full or quarterly without penalty, at the taxpayers' option. In Portsmouth, the fiscal year begins July 1 with taxes in the prior December 31 assessment payable in full on September 1 or quarterly on September 1, December 1, March 1 and June 1. No discount is allowed by the Town for advance payment of taxes. There is a 12 percent late payment charge on all delinquent taxes including quarterly payments when not made in time.

Tax Limitations

Rhode Island General Laws Section 44-5-2 limits the amount by which a city or town may increase its tax levy unless it qualifies for certain exemptions relating to loss of non-property tax revenue, emergencies, payment of debt service and substantial increase in the tax base necessitating significant expenditures. For fiscal year 2013 and thereafter, the tax levy cap is four percent (4.00%) in excess of the prior year levy.

The amount levied by a city or town may exceed the tax levy cap described above if the city or town qualifies under one or more of the following provisions: (1) the city or town forecasts or experiences a loss in total non-property tax revenues and the loss is certified by the State Department of Revenue; (2) the city or town experiences or anticipates an emergency situation, which causes or will cause the levy to exceed the tax levy cap described above; (3) a city or town forecasts or experiences debt services expenditures which exceed the prior year's debt service expenditures by an amount greater than the percentage increase as specified above and which are the result of bonded debt issued in a manner consistent with State general law or a special act; or (4) the city or town experiences substantial growth in its tax base as the result of major new construction which necessitates either significant infrastructure or school housing expenditures by the city or town or a significant increase in the need for essential municipal services.

Any levy in excess of the tax levy cap described above must be approved by the affirmative vote of at least four-fifths (4/5) of the full membership of the governing body of the city or town and, in the case of a town with a financial

town meeting, the majority of electors present and voting at the financial town meeting must approve the excess in addition to the town council.

Section 44-5-2 provides that nothing contained therein constrains the payment of obligations as described by Section 45-12-1 of the Rhode Island General Laws, which provides that the outstanding notes, bonds and contracts of cities and towns shall be paid and be fulfilled and that the power and obligation of each city and town to pay its general obligation bonds and notes shall be unlimited and each city and town shall levy ad valorem taxes upon all taxable property within the city or town for the payment of such bonds and notes and interest thereon, without limitation as to rate or amount, except as otherwise provided by or pursuant to law.

Motor Vehicle Tax Exemption

State legislation requires cities and towns to exempt a minimum of \$500 on all motor vehicles subject to taxation. The Town granted a \$2,500 exemption in addition to the statutory \$500 exemption in fiscal years 2014 and 2015. Starting in fiscal year 2017, the Town will phase out by \$500 on a biannual basis over the next 10 years.

Analysis of Taxable Property

The following table shows an analysis of tax levy for Fiscal Year 2015 in the Town by class:

| Class | Town | State |
|-----------------------|----------|--------------|
| | 2014 | Average 2014 |
| Residential | 85.65 % | 73.53 % |
| Commercial/Industrial | 9.57 | 17.02 |
| Tangible | 1.93 | 3.92 |
| Motor Vehicles | 2.84 | 5.52 |
| Total | 100.00 % | 100.00 % |

Source: Rhode Island Department of Administration Annual State Report on Local Government Finances and Tax Equalization.

Property Valuation

Rhode Island General Laws, Section 44-5-11.6 requires that each city or town conduct and implement a revaluation of all real estate property within nine (9) years of the date of prior revaluation and shall conduct an update of real property every three (3) years from the last revaluation. The Town conducted such a revaluation as of December 31, 2007 for the 2009 fiscal year. The last statistical update was completed as of December 31, 2013 for the 2015 fiscal year. The next revaluation will be completed as of December 31, 2016 for the 2018 fiscal year.

Source: Town Tax Collector/Assessor.

Assessed Valuations

Under State law, State municipalities are restricted from levying general taxes, except *ad valorem* taxes upon real and tangible personal property and an excise tax on motor vehicles.

Motor vehicles and trailers registered under the laws of the State are subject to an excise tax administered and collected by the Town, assessed on the basis of the average retail price, determined pursuant to regulations of the State Vehicle Value Commission, or a uniform percentage thereof not to exceed 100%. The excise tax levy applies to all motor vehicles and trailers in the city or town where the owner lives, where the principal place of business is located in the case of business entities or where the motor vehicle or trailer is customarily kept if customarily kept in some other city or town.

The following table indicates assessed valuations of taxable real and personal property.

| | <u>12/31/2010⁽¹⁾</u> | <u>12/31/2011</u> | <u>12/31/2012</u> | <u>12/31/2013⁽¹⁾</u> | <u>12/31/2014</u> |
|--|---------------------------------|-------------------|-------------------|---------------------------------|-------------------|
| Real Property | \$ 3,194,188,000 | \$ 3,183,478,400 | \$ 3,198,734,900 | \$ 3,008,653,825 | \$ 2,960,275,048 |
| Motor Vehicles | 167,343,161 | 174,418,799 | 173,244,400 | 173,541,976 | 92,948,926 |
| Tangible Personal Property | 58,963,767 | 55,679,640 | 58,439,219 | 59,523,139 | 60,210,031 |
| Total | 3,420,494,928 | 3,413,576,839 | 3,430,418,519 | 3,241,718,940 | 3,113,434,005 |
| Less: Exemptions and Motor Vehicle Phase Out | | | | | |
| Real Property | (94,871,230) | (85,391,998) | (86,554,407) | (79,457,068) | (79,591,541) |
| Motor Vehicles | (83,697,717) | (86,022,718) | (85,892,085) | (86,158,159) | (83,503,169) |
| Tangible Personal Property | (2,276) | (2,216) | (2,136) | (2,080) | (2,041) |
| Total | \$ 3,241,923,705 | \$ 3,242,159,907 | \$ 3,257,969,891 | \$ 3,076,101,633 | \$ 2,950,337,254 |

Source: Audits & Town Tax Collector/Assessor.

(1) Statistical revaluation.

Property Tax Levy and Collections

| Fiscal Year | Tax Rates⁽¹⁾ | Total Tax Levy | Additions | Abatements & Adjustments | Amount to be Collected | Current Year Collections | Adjusted % Collected | Uncollected⁽²⁾ |
|--------------------|--------------------------------|-----------------------|------------------|-------------------------------------|-------------------------------|---------------------------------|-----------------------------|----------------------------------|
| 2016 | \$ | \$49,815,258 | - | - | - | - | - | - |
| 2015 | 15.80 | 49,187,930 | \$103,331 | \$(23,824) | \$49,267,437 | \$48,011,058 | 97.45% | \$1,256,379 |
| 2014 | 14.53 | 48,021,888 | 65,149 | (20,404) | 48,066,633 | 46,443,362 | 96.62% | 1,558,122 |
| 2013 | 14.24 | 46,892,536 | 25,907 | (25,180) | 46,893,263 | 45,485,323 | 97.00% | 1,434,166 |
| 2012 | 13.91 | 45,807,376 | 86,874 | (204,841) | 45,689,409 | 43,972,304 | 96.24% | 1,744,183 |
| 2011 | 11.30 | 44,174,990 | 32,687 | (31,737) | 44,175,940 | 41,191,864 | 93.25% | 3,001,693 |
| 2010 | 11.27 | 42,275,881 | 286,644 | (97,487) | 42,660,012 | 40,780,578 | 95.59% | 1,705,155 |
| 2009 | 10.84 | 40,361,114 | 72,662 | (80,328) | 40,514,104 | 38,685,261 | 95.49% | 1,711,072 |

(1) Residential, Commercial and Personal Property.

(2) Uncollected taxes include current levy and prior years thru the month of July.

Principal Taxpayers

The following table sets forth the principal taxpayers of the Town and the assessed valuation (100%) of property held by such taxpayer as of December 31, 2014.

| Taxpayer | Nature of Business | Assessed Value |
|---|---------------------------|-----------------------|
| Carnegie Tower Development Co. | Luxury Condos | \$80,653,400 |
| Raytheon Corporation | Military Contractor | 40,572,260 |
| City of Newport (Newport Water) | Utility | 27,984,883 |
| Northern Waterfront Associates LP | Real Estate | 20,275,300 |
| Narragansett Electric/National Grid | Utility | 18,040,671 |
| Carnegie Abbey Club Acquisition LP Holdings LLC | Resort Management | 16,044,400 |
| TDS Realty | Boat Building/Marina | 15,758,930 |
| Talaria RE Holdings | Boat Building | 15,407,383 |
| GMH Military Housing | Military Housing | 15,183,900 |
| Conlan Rhode Island Acquisitions | Real Estate | 8,291,700 |

Source: Town Tax Collector/Assessor.

LITIGATION

The Town has several lawsuits pending against it. In the opinion of the Town Solicitor, there is no litigation pending against the Town which, either individually or in the aggregate, would result in judgments that would have a materially adverse effect on the Town's financial position or its ability to meet its debt service obligations. However, the following case should be noted:

R.I. Nurseries, Inc. v. Town of Portsmouth, C.A. No. NC 2011-0505, is a civil action for damages arising out of the Town Council's 2011 decree abandoning a paper street referred to as the "Heidi Drive extension" based on the Council's determination that the paper street ceased to be useful to the public. Plaintiff R.I. Nurseries, Inc.'s complaint seeks an assessment of damages that it alleges to have sustained as a result of the abandonment, pursuant to R.I. Gen. Laws § 24-6-4. The complaint also includes counts alleging a taking of property without compensation in violation of the state and federal constitutions. The extent of the Town's liability for damages is estimated between \$700,000 and \$1,000,000.

TAX MATTERS

The Series A Bonds

The following is a summary of the material federal and state income tax consequences of holding and disposing of the Series A Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of holders subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series A Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers) and, except for the income tax laws of the State of Rhode Island, does not discuss the consequences to an owner under state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series A Bonds in the secondary market at a premium or a discount. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series A Bonds.

Opinion of Bond Counsel

In the opinion of Bond Counsel, under the law existing as of the issue date of the Series A Bonds:

Federal Tax Exemption. Interest on the Series A Bonds is excludable from gross income for federal income tax purposes.

Alternative Minimum Tax. Interest on the Series A Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Series A Bonds have been designated as "qualified tax-exempt obligations" for purposes of Code §265(b).

Rhode Island Tax Exemption. Income from the Series A Bonds is free from taxation by the State of Rhode Island and Providence Plantations and its political subdivisions and instrumentalities, although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island business and corporate taxes.

Bond Counsel's opinions are provided as of the date of the original issue of the Series A Bonds, subject to the condition that the Town comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series A Bonds in gross income for federal income tax purposes retroactively to the date of issuance of the Series A Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series A Bonds.

Other Tax Consequences

Original Issue Premium. If a Series A Bond is issued at a price that exceeds the stated redemption price at maturity of the Series A Bond, the excess of the purchase price over the stated redemption price at maturity constitutes "premium" on that Series A Bond. Under Code § 171, the purchaser of that Series A Bond must amortize the premium over the term of the Series A Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the Series A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for Federal income tax purposes on sale or disposition of the Series A Bond prior to its maturity. Even though the owner's basis is reduced, no Federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Original Issue Discount. If the stated redemption price at maturity exceeds the issue price of a Series A Bond, the Series A Bond is issued with original issue discount (Tax-exempt OID). For federal income tax purposes, Tax-exempt OID accrues to the holder of a bond over the period to maturity as described in Income Tax Regulation § 1.1272-1(b). With respect to an initial purchaser of a Series A Bond at its issue price, the portion of Tax-exempt OID that accrues during the period the purchaser owns the Series A Bond (i) is interest excludable from the purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations as other interest on the Series A Bonds and (ii) is added to the purchaser's tax basis for purposes of determining gain or loss on maturity, redemption, prior sale or other disposition of that Series A Bond. Holders of Series A Bonds having Tax-exempt OID should consult their own tax advisors as to the determination for federal income tax purposes of the amount of Tax-exempt OID properly accruable each year with respect to those Bonds and as to other federal consequences and any state, local, or foreign tax aspects of owning bonds with Tax-exempt OID.

Sale, Exchange or Retirement of Series A Bonds. Upon the sale, exchange or retirement (including redemption) of a Series A Bond, an owner of the Series A Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series A Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Series A Bond. Except as provided below in *Market Discount*, to the extent the Series A Bonds are held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series A Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Market discount. If a holder purchases a Series A Bond after the initial offering for an amount that is less than the principal amount of the Series A Bond (or, if the Series A Bond was issued with Tax-exempt OID, the principal amount minus as-yet unrealized Tax-exempt OID), then the ratable amount of such market discount (the "accrued market discount") must be recognized as ordinary income, not as excludable income nor as capital gain. With certain exceptions, this gain must be recognized notwithstanding any other provision of the federal subtitle on Income Taxes. Holders may make an irrevocable election to recognize market discount on the basis of a constant interest rate (rather than ratable accrual). Holders should consult with their own tax professionals concerning Series A Bonds purchased with market discount, whether to make the election and the consequences of doing so, and the accrual and recognition of market discount, transactions in which market discount is not immediately fully recognized, as well as any state, local, and foreign tax consequences of acquiring Series A Bonds with market discount.

Medicare tax. An additional 3.8% tax will be imposed on the net investment income (which includes capital or ordinary gain from the sale, exchange, retirement or other disposition of a Series A Bond) of certain individuals, trusts, and estates. Prospective investors in the Series A Bonds should consult with their tax advisors regarding the possible applicability of this tax to an investment in the Series A Bonds.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series A Bonds, and to the proceeds paid on the sale of the Series A Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status, fails to report in full dividend and interest income or, in the case of interest on the Series A Bonds, fails to certify that under penalties of perjury that he is not subject to backup withholding. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Series A Bonds should be aware that ownership of the Series A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign

corporations subject to the branch profits tax, life insurance companies, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series A Bonds and taxpayers disposing of property financed with federally subsidized indebtedness (mortgage credit certificates and single family mortgage loans). Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of the Series A Bonds should consult their tax advisors as to the applicability of these and other federal income tax consequences of the purchase, ownership and disposition of the Series A Bonds, including the possible application of state, local, foreign and other tax laws.

The Series B Bonds and the Notes

The following is a summary of the material federal and state income tax consequences of holding and disposing of the Series B Bonds or Notes. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of holders subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series B Bonds or Notes as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers) and, except for the income tax laws of the State of Rhode Island and Providence Plantations, does not discuss the consequences to an owner under state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series B Bonds or Notes in the secondary market at a premium or a discount. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series B Bonds or Notes.

As used in this section, a “U.S. Holder” is a “U.S. Person” that is a beneficial owner of a Series B Bond or a Note. A “non-U.S. Holder” is a holder (or a beneficial owner) of a Series B Bond or a Note that is not a U.S. Person. For these purposes, a “U.S. Person” is a citizen or resident of the United States, a corporation or partnership created or organized under the laws of the United States or any of its political subdivisions (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to federal income taxation regardless of its source, or a trust if (i) a United States court is able to exercise primary supervision over the trust’s administration or (ii) one or more U.S. Persons have the authority to all of the trust’s substantial decisions.

The Series B Bonds and the Notes will be treated for federal income tax purposes as debt instruments. Accordingly, interest will be included in the income of the holder as it is paid or accrues in accordance with the holder’s method of tax accounting.

Opinion of Bond Counsel

In the opinion of Bond Counsel, under the law existing as of the issue date of the Series B Bonds and the Notes:

Interest Taxable. The interest on the Series B Bonds and the Notes is includible in gross income for federal income tax purposes.

Rhode Island Tax Exemption. Income from the Series B Bonds and from the Notes is free from taxation by the State of Rhode Island and Providence Plantations and its political subdivisions and instrumentalities, although the income therefrom may be included in the measure of Rhode Island estate taxes and certain Rhode Island business and corporate taxes.

Other Tax Consequences

Original Issue Discount. Original issue discount, if any, on the Series B Bonds will be *de minimis* or Taxable OID. OID on the Series B Bonds will be *de minimis* if the excess of the stated redemption price at maturity over the issue price of the Series B Bond does not exceed a specified *de minimis* amount (generally $\frac{1}{4}$ % of the stated redemption price at maturity times the number of complete years to maturity). If the OID on a Series B Bond is *de minimis*, the Series B Bond will be treated as not having been issued with Taxable OID.

If a Series B Bond has Taxable OID, a U.S. Holder that purchases the Series B Bond in the initial offering for the issue price will accrue the Taxable OID during any accrual period in an amount equal to (i) the “adjusted issue price” of the Series B Bond at the beginning of the accrual period (which equals the issue price of the Series B Bond plus the amount of Taxable OID that has accrued on a constant-yield basis in all prior accrual periods minus the amount of any payments, other than “qualified stated interest”, received on the Series B Bond in all prior accrual periods) multiplied by the yield to maturity of the Series B Bond (determined on the basis of compounding at the close of each accrual period and

properly adjusted for the length of the accrual period) less (iii) any qualified stated interest payable on the Series B Bond during such accrual period. The amount of Taxable OID so accrued in a particular accrual period will be considered to be received ratably on each day in the accrual period.

A U.S. Holder of a Series B Bond issued with Taxable OID must include in gross income for federal income tax purposes the amount of Taxable OID accrued with respect to each day during the taxable year that the U.S. Holder owns the Series B Bond. Such inclusion in advance of receipt of the cash attributable to the income is required even if the U.S. Holder is on the cash method of accounting for federal income tax purposes. The amount of Taxable OID that is includible in a U.S. Holder's gross income will increase the U.S. Holder's tax basis in the Series B Bond. The adjusted tax basis in a Series B Bond will be used to determine taxable gain or loss upon a disposition such as sale or retirement of the Series B Bond.

Market discount. If a holder purchases a Series B Bond after the initial offering for an amount that is less than the principal amount of the Series B Bond, and such difference is not considered to be *de minimis* then the ratable amount of such discount (the "accrued market discount") must be recognized as ordinary income, not capital gain. With certain exceptions, this gain must be recognized notwithstanding any other provision of the federal subtitle on Income Taxes. Holders may make an irrevocable election to recognize market discount on the basis of a constant interest rate (rather than ratable accrual). Holders should consult with their own tax professionals concerning Series B Bonds purchased with market discount, whether to make the election and the consequences of doing so, and the accrual and recognition of market discount, transactions in which market discount is not immediately fully recognized, as well as any state, local, and foreign tax consequences of acquiring Series B Bonds with market discount.

Original Issue Premium. If a Series B Bond is purchased at a price that exceeds the stated redemption price of the Series B Bond at maturity, the excess of the purchase price over the stated redemption price at maturity constitutes premium on the Series B Bond, and that Series B Bond is referred to in this discussion as a "Taxable Premium Bond." Under Code § 171, the purchaser of a Taxable Premium Bond may elect to amortize the premium over the term of the Taxable Premium Bond using constant yield principles, based on the purchaser's yield to maturity. An owner of a Taxable Premium Bond amortizes bond premium by offsetting the qualified stated interest allocable to an accrual period with the bond premium allocable to that accrual period. This offset occurs when the owner takes the qualified stated interest into income under the owner's regular method of accounting. If the premium allocable to an accrual period exceeds the qualified stated interest for that period, the excess is treated by the owner as a deduction under Code §171(a)(1). As premium is amortized, the owner's basis in the Taxable Premium Bond will be reduced by the amount of amortizable premium properly allocable to the owner. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium and whether to make the election.

Sale, Exchange or Retirement of Series B Bonds and Notes. Upon the sale, exchange or retirement (including redemption) of a Series B Bond or a Note, an owner of the Series B Bond or Note generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series B Bond or Note (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Series B Bond or Note. To the extent the Series B Bond or Note is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series B Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Medicare tax. An additional 3.8% tax will be imposed on the net investment income (which includes capital or ordinary gain from the sale, exchange, retirement or other disposition of a Series B Bond or a Note) of certain individuals, trusts, and estates. Prospective investors in the Series B Bonds or Notes should consult with their tax advisors regarding the possible applicability of this tax to an investment in the Series B Bonds or Notes.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series B Bonds and the Notes, and to the proceeds paid on the sale of the Series B Bonds and Notes, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status, fails to report in full dividend and interest income or, in the case of interest on the Series B Bonds and Notes, fails to certify that under penalties of perjury that he is not subject to backup withholding. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

RISK FACTORS AND INVESTMENT CONSIDERATIONS

Taxation of Interest on the Series A Bonds

An opinion of Bond Counsel will be obtained in the effect that interest earned on the Series A Bonds is excludable from gross income for federal income tax purposes under current provisions of the Code, and applicable rulings and regulations under the Code; however, an application for a ruling has not been made and an opinion of counsel is not binding upon the Internal Revenue Service. There can be no assurance that the present provisions of the Code, or the rules and regulations thereunder, will not be adversely amended or modified, thereby rendering the interest earned on the Series A Bonds includable in gross income for federal income tax purposes.

The Town has covenanted in documents and certificates to be delivered in connection with the issuance of the Series 2015 A Bonds to comply with the provisions of the Code, including those which require the Town to take or omit to take certain actions after the issuance of the Series A Bonds. Because the existence and continuation of the excludability of the interest on the Series A Bonds depends upon events occurring after the date of issuance of the Series A Bonds, the opinion of Bond Counsel described under "TAX MATTERS — The Series A Bonds" assumes the compliance by the Town with the provisions of the Code described above and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the excludability of the interest on the Series A Bonds in the event of noncompliance with such provisions. The failure of the Town to comply with the provisions described above may cause the interest on the Series A Bonds to become includable in gross income as the date of issuance.

No Additional Interest or Mandatory Redemption upon Event of Taxability

The Series A Bonds do not provide for the payment of additional interest or penalty on the Series A Bonds or the mandatory redemption thereof if the interest thereon becomes includable in gross income for federal income tax purposes. Likewise, the Series A Bonds do not provide for the payment of any additional interest or penalty on the Series A Bonds if the interest thereon becomes includable in gross income for Rhode Island and Providence Plantations income tax purposes.

CERTAIN LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and delivery of the Bonds and the Notes are subject to the approval of Moses Afonso Ryan Ltd, Providence, Rhode Island, Bond Counsel to the Town, whose approving opinion substantially in the form appended hereto as APPENDIX B will be delivered with the issuance of the Bonds and the Notes. Certain legal matters in connection with the Bonds and the Notes will be passed upon by Locke Lord LLP, Providence, Rhode Island, Counsel to the Underwriter.

UNDERWRITING

The Series A Bonds are being purchased for reoffering by the Underwriter at an aggregate purchase price of par plus a net premium of \$275,043.60 less an Underwriters' discount of \$25,973.63. The Underwriter may offer and sell the Series A Bonds to certain dealers and others at prices other than the initial offering price. The offering price may be changed from time to time by the Underwriter.

The Series B Bonds are being purchased for reoffering by the Underwriter at an aggregate purchase price of par less an Underwriters' discount of \$2,082.12. The Underwriter may offer and sell the Series B Bonds to certain dealers and others at prices other than the initial offering price. The offering price may be changed from time to time by the Underwriter.

The Notes are being purchased for reoffering by the Underwriter at an aggregate purchase price of par plus a net premium of \$7,994.25 less an Underwriters' discount of \$4,707.36. The Underwriter may offer and sell the Notes to certain dealers and others at prices other than the initial offering price. The offering price may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

Public Financial Management, Inc. is employed as Financial Advisor to the Town in connection with the issuance of the Bonds and the Notes. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds and the Notes is contingent upon the issuance and delivery of the Bonds and the Notes. Public Financial Management, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants

and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds and the Notes, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than nine (9) months after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 (the "Annual Report"), to provide notices of the occurrence of certain enumerated events, if material, and to provide notice of failure to provide the Annual Report. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in APPENDIX D.

Except for fiscal year 2013, the Town has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule during the past five years. Due to an administrative oversight, certain financial information for fiscal year 2013 was not timely filed. The Town has implemented procedures to ensure timely filing of all future financial information. A notice of late filing has been filed.

RATINGS

The Town received ratings on the Bonds from Moody's Investors Service Inc. ("Moody's") and Standard & Poor's Ratings Service ("S&P") of "Aa2" and "AAA" respectively. The Town received a rating on the Notes from S&P of "SP-1+". The ratings reflect only the view of Moody's and S&P, and an explanation of the significance of such ratings may be obtained from the respective rating agency.

The above ratings are not a recommendation to buy, sell or hold the Bonds or the Notes, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds and the Notes.

MISCELLANEOUS

All quotations from and summaries and explanations of laws herein do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

This Official Statement is submitted only in connection with the sale of the Bonds and the Notes by the Town and may not be reproduced or used in whole or in part for any other purpose.

TOWN OF PORTSMOUTH

By: /s/ James Lathrop
Finance Director

Dated: November 4, 2015

[THIS PAGE INTENTIONALLY LEFT BLANK]

TOWN OF PORTSMOUTH, RHODE ISLAND
General Fund
Comparative Statement of Revenues, Expenditures and Transfers Out
For Fiscal Years Ending June 30,

| REVENUES: | 2010 | 2011 | 2012 | 2013⁽¹⁾ | 2014 |
|--|-----------------------|-----------------------|-----------------------|---------------------------|----------------------|
| Taxes..... | \$43,473,752 | \$43,001,417 | \$46,753,588 | \$47,081,631 | \$47,580,546 |
| Intergovernmental..... | 1,117,559 | 865,808 | 825,594 | 7,005,457 | 6,778,745 |
| Licenses, permits & fees | 205,831 | 242,417 | 252,500 | 677,466 | 490,585 |
| Charges for Services..... | 484,022 | 547,384 | 616,814 | 1,787,574 | 1,859,016 |
| Melville Ponds Campgrounds | 212,926 | 216,783 | 209,628 | 219,110 | 219,947 |
| Glen Manor House | 331,975 | 396,950 | 389,225 | 377,875 | 392,325 |
| Rescue Wagon Income..... | 536,733 | 506,998 | 517,575 | 470,966 | 788,305 |
| Earnings & Investments | 9,617 | 9,498 | 10,616 | (118,740) | 8,026 |
| Fines & Forfeitures..... | 333,545 | 384,197 | 638,575 | 387,891 | 314,427 |
| Other | 438,591 | 435,129 | 443,422 | 331,291 | 665,630 |
| Intergovernmental Pension Contribution..... | 0 | 0 | 0 | 1,317,767 | 1,496,081 |
| TOTAL REVENUE | \$47,144,551 | \$46,606,581 | \$50,657,537 | \$59,538,288 | \$60,593,633 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General Government | \$3,953,486 | \$4,153,553 | \$4,409,952 | \$4,209,578 | 4,166,454 |
| Public Safety..... | 8,092,765 | 8,602,939 | 8,822,846 | 9,426,650 | 9,550,836 |
| Public Works | 2,154,123 | 2,239,023 | 2,304,651 | 2,281,996 | 2,207,845 |
| Education..... | 0 | 0 | 0 | 36,289,540 | 36,605,793 |
| Parks & Recreation..... | 0 | 465,179 | 521,428 | 461,804 | 496,395 |
| Public & Social Services | 1,056,729 | 619,635 | 580,780 | 559,604 | 698,281 |
| Intergovernmental Pension Contribution..... | 0 | 0 | 0 | 1,317,767 | 1,496,081 |
| Debt Service | 3,277,589 | 2,859,866 | 3,145,683 | 2,941,130 | 2,867,825 |
| Bond Issuance Costs..... | 5,105 | 26,670 | 20,650 | 33,936 | 0 |
| TOTAL EXPENDITURES | \$18,539,797 | \$18,966,865 | \$19,805,990 | \$57,522,005 | \$58,089,510 |
| Excess (deficiency) of revenues & other financing sources | \$28,604,754 | \$27,639,716 | \$30,851,547 | \$2,016,283 | \$2,054,123 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers from other funds..... | \$272,323 | \$96,101 | \$1,251,469 | \$40,911 | 0 |
| Transfers to other funds..... | (28,213,640) | (28,284,271) | (29,512,217) | (1,556,698) | (2,288,063) |
| Bond proceeds | 0 | 0 | 0 | 927,000 | 0 |
| Payment to refunded bonds escrow agreement..... | 0 | 0 | 0 | (1,050,000) | 0 |
| TOTAL REVENUES & OTHER FINANCING SOURCES (USES)..... | (\$27,941,317) | (\$28,188,170) | (\$28,260,748) | (\$1,638,787) | (\$2,288,063) |
| Excess (deficiency) of revenues & other financing sources over expenditures & other financing uses..... | \$663,437 | (\$548,454) | \$2,590,799 | \$377,496 | \$216,060 |
| FUND BALANCE - BEGINNING OF YEAR | \$2,448,855 | \$3,112,292 | \$2,563,838 | \$9,464,243 | 9,841,739 |
| Prior Period Adjustment..... | 0 | 0 | 0 | 0 | 0 |
| FUND BALANCE - END OF YEAR | \$3,112,292 | \$2,563,838 | \$5,154,637 | \$9,841,739 | \$10,057,799 |

Source: Town Audit Reports.

(1) Beginning in fiscal year 2013, the School Unrestricted Fund is included in the General Fund operations.

TOWN OF PORTSMOUTH, RHODE ISLAND
General Fund Balance Sheet
For the Fiscal Years Ending June 30,

| ASSETS: | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|--------------------|--------------------|---------------------|---------------------|---------------------|
| Cash & Investments | \$4,392,991 | \$4,044,275 | \$8,774,923 | \$5,208,030 | \$9,558,263 |
| Cash on deposit at NCRSEP | 0 | 0 | 0 | 505,551 | 840,032 |
| Investments | 0 | 0 | 0 | 7,375,934 | 0 |
| Real Estate & Personal Property Tax Receivable (Net) | 1,584,454 | 2,886,896 | 1,792,948 | 1,465,746 | 1,892,832 |
| Due from Federal & State Governments | 0 | 0 | 0 | 550,796 | 339,734 |
| Due from Other Funds | 162,992 | 153,518 | 119,821 | 1,564,755 | 5,023,920 |
| Ambulance | 385,820 | 516,360 | 374,377 | 537,573 | 410,848 |
| Other | 282,363 | 331,571 | 283,592 | 214,466 | 116,631 |
| Advances to the Wind Turbine Generator Fund..... | 0 | 0 | 0 | 492,296 | 0 |
| Inventory | 47,179 | 58,646 | 60,892 | 17,450 | 31,236 |
| Prepaid Expenditures | 0 | 0 | 1,676 | 968 | 199,374 |
| Total Assets | \$6,855,799 | \$7,991,266 | \$11,408,229 | \$17,933,565 | \$18,412,870 |
| LIABILITIES & FUND EQUITY | | | | | |
| LIABILITIES: | | | | | |
| Accounts Payable & Accrued Expenses..... | \$323,187 | \$527,556 | \$292,053 | \$3,176,989 | 1,000,707 |
| Due to Other Funds | 1,421,924 | 1,497,668 | 4,102,769 | 3,144,146 | 5,055,277 |
| Unavailable Property Tax Revenue..... | 1,494,292 | 2,881,366 | 1,618,506 | 1,054,662 | 1,439,165 |
| Unearned Revenue | 504,104 | 0 | 0 | 537,573 | 410,848 |
| Other Liabilities | 0 | 520,838 | 240,264 | 178,456 | 449,074 |
| Total Liabilities | \$3,743,507 | \$5,427,428 | \$6,253,592 | \$8,091,826 | \$8,355,071 |
| FUND BALANCES: | | | | | |
| Non-Spendable..... | \$54,401 | \$58,646 | \$60,892 | \$510,714 | 230,610 |
| Restricted | 323,744 | 36,523 | 37,022 | 0 | 0 |
| Committed | 0 | 3,190 | 0 | 3,922,953 | 3,441,468 |
| Assigned | 0 | 309,379 | 309,379 | 309,378 | 309,378 |
| Unassigned..... | 2,734,147 | 2,156,100 | 4,747,344 | 5,098,694 | 6,076,343 |
| Total Fund Balances | \$3,112,292 | \$2,563,838 | \$5,154,637 | \$9,841,739 | \$10,057,799 |
| TOTAL LIABILITIES & FUND BALANCES | \$6,855,799 | \$7,991,266 | \$11,408,229 | \$17,933,565 | 18,412,870 |

Source: Town Audit Reports.

TOWN OF PORTSMOUTH, RHODE ISLAND

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2014

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 – 63 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule for the General Fund | E-1 | 64 – 65 |
| Budgetary Comparison Schedule for the School Unrestricted Fund..... | E-2 | 66 |
| Budgetary to GAAP Basis Reconciliation | E-3 | 67-68 |
| Schedule of Funding Progress for Pension Plan and for Other Post Employment Benefits | E-4 | 69 |
| Schedule of Employer Contributions for Pension Plan and for Other Post Employment Benefits | E-5 | 70 |
| Notes to Schedule of Employer Contributions for Pension Plan and for Other Post Employment Benefits | E-6 | 71 |
| Schedule of Changes in Net Pension Liability | E-7 | 72 |
| Schedule of Contributions | E8 | 73 |
| Annual Money-Weighted Rate of Return..... | E9 | 74 |

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2014

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 Unrestricted Fund..... | F - 1 | 75 |
| Combining Statement of Revenues, Other Financing Sources, Expenditures and Other Financing Uses and Changes in Fund Balance – Town General Fund and School Unrestricted Fund..... | F - 2 | 76 |
| Combining Balance sheet – Non-Major Governmental Funds..... | G - 1 | 77 |
| Combining Statement of Revenues, Other Financing Sources, Expenditures and Other Financing Uses and Changes in Fund Balance – Non-Major Governmental Funds | G - 2 | 78 |
| Agency Funds: | | |
| Combining Statement of Changes in Assets and Liabilities-Town Activities..... | H - 1 | 79 |
| Combining Statement of Changes in Assets and Liabilities- School Activities | H - 2 | 80 |
| General Fund: | | |
| Schedule of Property Taxes Receivable | I - 1 | 81 |

(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, 2014, 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, 2014, 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.



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, Changes in Net Pension Liability and Related Ratios, Contributions and Investment Returns on Pages 3 through 9, Pages 64 through 74, 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 general fund and school unrestricted 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 general fund and school unrestricted 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 February 25, 2015, 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.

Marcum LLP

Providence, Rhode Island
February 25, 2015

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, 2014. 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, 2014 were \$23,044,004 which is an increase of \$1,887,704 over the fiscal year ended June 30, 2013. Net assets at June 30, 2014 included \$17,959,643 investment in capital assets, an increase of \$4,039,565 over June 30, 2013; \$41,468 of restricted net assets at June 30, 2014, a decrease of \$748 over June 30, 2013 and \$5,042,893 of unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors, a decrease of \$2,151,113 over June 30, 2013.

- Total assets and deferred outflows of resources at June 30, 2014 were \$48,798,153, which is an increase of \$650,237 or 1.35% over June 30, 2013.
- Total liabilities at June 30, 2014 were \$25,754,149, which is a decrease of \$1,041,699 or 3.9% over June 30, 2013.
- The government's total net position increased by \$1,887,704.
- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of \$10,855,019 which is a decrease of \$1,576,335 from June 30, 2013. Approximately 72 percent of this total amount or \$7,767,295 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 74) was \$6,616,331 or 11.4 percent of the Fiscal Year 2014-15 Adopted Expenditure Budget of \$57,878,383. This represents an increase of \$755,329 over June 30, 2013.
- The Town of Portsmouth's total long-term and short-term obligations (i.e., general obligation bonds, capital leases, notes payable, compensated absences, net pension obligation and OPEB liabilities) decreased by \$1,041,669 (3.9 percent) during the current fiscal year. The key factors in this decrease were the increase in net pension and OPEB obligation of \$1,489,638, the retirement of \$1,607,138 in general obligation bonds and decrease in combination of accounts payable and accrued expenses.

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, deferred outflows of resources and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net 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 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 has entered into a public/private partnership to restore the wind turbine to an operational status. See note 17 on page 63)

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 21-63 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 63-68 of this report.

Note 12, found on page 55, disclose the Annual Pension Cost and Net Pension Obligation. In FY 2013 and 2014 the Town started negotiations with its unions to address pension reform. The Town's budgeted based on unions accepting pension reform and not the actuary prepared report. For this reason Note 12 shows that the Town's contribution had a shortfall of \$884,624 for FY 14. As of June 30, 2014, all union and non union employees except for the Police Union had accepted pension reform that resulted in significant savings and is reflected in future actuarially reports.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Portsmouth, assets exceeded liabilities by \$23,044,004 at the close of the most recent fiscal year, as compared to assets exceeding liabilities by \$21,352,098 at the close of the previous fiscal year.

A portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire these assets that is still outstanding. The current year's figure for invested in capital assets, net of related debt is \$17,959,643.

Town of Portsmouth Net Assets
June 30, 2014

| | Governmental activities | | Business-type Activities | | Total | | \$ Change | % Change |
|-----------------------------------|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|----------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | | |
| Current and other assets | \$ 15,381,021 | \$ 16,886,411 | \$ 236,841 | \$ 287,992 | \$ 15,617,862 | \$ 17,174,403 | \$ 1,556,541 | 9.1% |
| Capital Assets | 30,286,698 | 27,840,305 | 2,704,534 | 2,718,500 | 32,991,232 | 30,558,805 | (2,432,427) | -8.0% |
| Total Assets | 45,667,719 | 44,726,716 | 2,941,375 | 3,006,492 | 48,609,094 | 47,733,208 | (875,886) | -1.8% |
| Deferred outflow of resources | 189,059 | 218,910 | | | 189,059 | 218,910 | 29,851 | 13.6% |
| Long-term liabilities outstanding | 20,146,397 | 19,918,026 | 1,926,325 | 2,160,212 | 22,072,722 | 22,078,238 | \$ 5,516 | 0.0% |
| Other Liabilities | 3,550,818 | 4,071,833 | 130,609 | 645,747 | 3,681,427 | 4,717,580 | 1,036,153 | 22.0% |
| Total Liabilities | 23,697,215 | 23,989,859 | 2,056,934 | 2,805,959 | 25,754,149 | 26,795,818 | 1,041,669 | 3.9% |
| Net assets: | | | | | | | | |
| Invested in capital assets | 17,181,434 | 13,361,790 | 778,209 | 558,288 | 17,959,643 | 13,920,078 | (4,039,565) | -29.0% |
| Restricted | - | - | 41,468 | 42,216 | 41,468 | 42,216 | 748 | 1.8% |
| Unrestricted | 4,978,129 | 7,593,977 | 64,764 | (399,971) | 5,042,893 | 7,194,006 | 2,151,113 | 29.9% |
| Total Net Position | \$ 22,159,563 | \$20,955,767 | \$884,441 | \$200,533 | \$23,044,004 | \$21,156,300 | (\$1,887,704) | -8.9% |

Governmental activities Governmental activities increased Portsmouth's net position by \$1,887,704.

Town of Portsmouth Changes in Net Position
June 30, 2014

| | Governmental Activities | | Business-type Activities | | Total | | \$ Change | % Change |
|--|-------------------------|-------------------|--------------------------|------------------|-------------------|-------------------|------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for services | \$4,033,148 | \$3,934,831 | \$1,054,618 | \$1,064,338 | \$5,087,766 | \$4,999,169 | \$88,597 | 1.8% |
| Operating grants and contributions | 2,872,433 | 2,640,398 | 200,640 | 181,779 | 3,073,073 | 2,822,177 | 250,896 | 8.9% |
| Capital grants and contributions | 115,000 | 106,790 | | | 115,000 | 106,790 | 8,210 | 7.7% |
| General revenues: | | | | | | | | |
| Property taxes and payments in lieu of taxes | 47,965,049 | 46,517,787 | | | 47,965,049 | 46,517,787 | 1,447,262 | 3.1% |
| State Aid, unrestricted | 6,778,745 | 7,005,457 | | | 6,778,745 | 7,005,457 | (226,712) | -3.2% |
| Investment and interest income | 13,792 | (123,492) | 13 | 15 | 13,805 | (123,477) | 137,282 | -111.2% |
| Other revenues | 1,678,576 | 719,182 | | | 1,678,576 | 719,182 | 959,394 | 133.4% |
| Transfers | (788,063) | | 788,063 | | | - | - | |
| Total revenues | 62,668,680 | 60,800,953 | 2,043,334 | 1,246,132 | 64,712,014 | 62,047,085 | 2,664,929 | 4.3% |
| Expenses: | | | | | | | | |
| General government | 5,992,387 | 5,022,256 | | | 5,992,387 | 5,022,256 | 970,131 | 19.3% |
| Public safety | 9,860,969 | 9,606,117 | | | 9,860,969 | 9,606,117 | 254,852 | 2.7% |
| Public services | 2,870,292 | 3,120,357 | | | 2,870,292 | 3,120,357 | (250,065) | -8.0% |
| Community services | 1,376,200 | 1,045,438 | | | 1,376,200 | 1,045,438 | 330,762 | 31.6% |
| Education | 38,316,994 | 39,516,556 | | | 38,316,994 | 39,516,556 | (1,199,562) | -3.0% |
| Interest on long-term debt | 466,731 | 588,161 | | | 466,731 | 588,161 | (121,430) | -20.6% |
| Capital outlay | 2,551,458 | 106,499 | | | 2,551,458 | 106,499 | 2,444,959 | 2295.8% |
| Amortization expense | 29,851 | 50,501 | | | 29,851 | 50,501 | (20,650) | -40.9% |
| School lunch fund | | | 644,770 | 649,650 | 644,770 | 649,650 | (4,880) | -0.8% |
| Transfer station fund | | | 539,373 | 513,140 | 539,373 | 513,140 | 26,233 | 5.1% |
| Wind turbine generator fund | | | 155,319 | 99,702 | 155,319 | 99,702 | 55,617 | 55.8% |
| Non-major funds | | | 19,964 | 19,938 | 19,964 | 19,938 | 26 | 0.1% |
| Total expenses | 61,464,882 | 59,055,885 | 1,359,426 | 1,282,430 | 62,824,308 | 60,338,315 | 2,485,993 | 4.1% |
| Change in Net Position | 1,203,798 | 1,745,068 | 683,908 | (36,298) | 1,887,706 | 1,708,770 | 178,936 | 10.5% |
| Net Position - beginning of year , restated | 20,955,767 | 19,210,699 | 200,533 | 236,831 | 21,156,300 | 19,447,530 | 1,708,770 | 8.8% |
| Net Position- end of year | \$22,159,565 | \$20,955,767 | \$884,441 | \$200,533 | \$23,044,006 | \$21,156,300 | \$1,887,706 | 8.9% |

Financial Analysis of the Government's Funds

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

Governmental funds The focus of Portsmouth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Portsmouth's financing requirements. In particular, 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 \$10,855,019, a decrease of \$1,576,338 in comparison with the prior year's fund balance. Most of this total amount, \$9,331,025 constitutes committed, assigned or unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable or restricted to indicate that it is not available for new spending because it is not in spendable form or it is subject to external restrictions.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, committed, assigned and unassigned fund balance of the General Fund was \$9,827,189, while total fund balance reached \$10,057,799. 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 16.98 and 17.38 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 \$216,060 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2014 were more than budgeted amounts by \$202,795. The principal reason for this was greater than anticipated police detail, ambulance and other revenue items. Tax Revenue and Department Revenue (licenses & permits were below budget as a slow construction cycle and lower than anticipation collection of past due taxes. These two items were \$483,125 and \$421,215 below budgeted amounts.

Actual expenditures were less than budgeted amounts by \$33,052. Increased overtime resulting in budget overage of \$483,133 in public safety was off set by savings in other departments and \$335,626 in debt service.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2013-2014 fiscal year, School Department net revenues were less than budgeted amounts by \$52,925.

Actual expenditures were less than budgeted amounts by \$1,052,380. The principal reasons for this were savings in special education tuitions, health care costs and less than expected professional development expenditures.

Capital Asset and Debt Administration

Capital Assets The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$30,286,698 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total increase in the Town's investment in governmental activity capital assets for the current fiscal year was \$2,446,393.

Long-term Debt At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of \$14,900,507, entirely backed by the full faith and credit of the Town. This includes \$1,100,000 incurred in Fiscal Year 2013-14.

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, 2014 the Town had a debt limit of \$92,283,048, which significantly exceeds the Town's outstanding general debt.

The Town of Portsmouth maintains an "AAA" rating from Standard & Poor's Ratings 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 40-41 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, 2014

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 11,066,917 | \$ 128,158 | \$ 11,195,075 |
| Cash on deposit at NCRSEP | 840,032 | | 840,032 |
| Investments | 140,454 | | 140,454 |
| Real estate and personal property tax receivable, net | 1,892,832 | | 1,892,832 |
| Ambulance receivables | 320,131 | | 320,131 |
| Due from federal and state governments | 807,536 | 11,929 | 819,465 |
| Internal balances | (47,001) | 47,001 | - |
| Inventories | 31,236 | 19,156 | 50,392 |
| Prepaid expenditures | 199,374 | | 199,374 |
| Other receivables, net | 129,510 | 30,597 | 160,107 |
| Total Current Assets | 15,381,021 | 236,841 | 15,617,862 |
| Noncurrent Assets: | | | |
| Capital assets (non-depreciable) | 7,161,488 | 37,251 | 7,198,739 |
| Capital assets (net of depreciation) | 23,125,210 | 2,667,283 | 25,792,493 |
| Total Non-Current Assets | 30,286,698 | 2,704,534 | 32,991,232 |
| TOTAL ASSETS | 45,667,719 | 2,941,375 | 48,609,094 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | 189,059 | | 189,059 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 189,059 | - | 189,059 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 2,254,767 | 126,411 | 2,381,178 |
| Accrued interest payable | 84,112 | 4,198 | 88,310 |
| Accrued expenses | 848,048 | | 848,048 |
| Current portion of long-term debt | 2,628,804 | 234,026 | 2,862,830 |
| Total Current Liabilities | 5,815,731 | 364,635 | 6,180,366 |
| Noncurrent Liabilities: | | | |
| Unearned revenue | 363,891 | - | 363,891 |
| Accrued compensated absences | 1,647,168 | | 1,647,168 |
| Net OPEB obligation | 4,509,341 | | 4,509,341 |
| Net pension obligation | 884,624 | | 884,624 |
| Long-term liabilities (net) | 10,476,460 | 1,692,299 | 12,168,759 |
| Total Noncurrent Liabilities | 17,881,484 | 1,692,299 | 19,573,783 |
| TOTAL LIABILITIES | 23,697,215 | 2,056,934 | 25,754,149 |
| NET POSITION | | | |
| Net investment in capital assets | 17,181,434 | 778,209 | 17,959,643 |
| Restricted for specific programs | | 41,468 | 41,468 |
| Unrestricted | 4,978,129 | 64,764 | 5,042,893 |
| TOTAL NET POSITION | \$ 22,159,563 | \$ 884,441 | \$ 23,044,004 |

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, 2014**

| Functions/Programs | 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 | \$ 5,992,387 | \$ 207,860 | \$ 292,600 | \$ - | \$ (5,491,927) | | \$ (5,491,927) |
| Public safety | 9,860,970 | 1,928,936 | 51,093 | | (7,880,941) | | (7,880,941) |
| Public services | 2,870,292 | | | 115,000 | (2,755,292) | | (2,755,292) |
| Education | 38,316,994 | 1,284,080 | 2,477,841 | | (34,555,073) | | (34,555,073) |
| Community service | 1,376,200 | 612,272 | 50,899 | | (713,029) | | (713,029) |
| Capital outlay | 2,551,459 | | | | (2,551,459) | | (2,551,459) |
| Interest on long-term debt | 466,731 | | | | (466,731) | | (466,731) |
| Amortization expense | 29,851 | | | | (29,851) | | (29,851) |
| Total governmental activities | 61,464,884 | 4,033,148 | 2,872,433 | 115,000 | (54,444,303) | | (54,444,303) |
| Business-type Activity: | | | | | | | |
| School lunch fund | 644,770 | 474,039 | 200,640 | | | \$ 29,909 | 29,909 |
| Transfer station | 539,373 | 567,679 | | | | 28,306 | 28,306 |
| Wind turbine generator fund | 155,319 | - | | | | (155,319) | (155,319) |
| Non-major funds | 19,964 | 12,900 | | | | (7,064) | (7,064) |
| Total business type activity | 1,359,426 | 1,054,618 | 200,640 | | | (104,168) | (104,168) |
| Totals | \$ 62,824,310 | \$ 5,087,766 | \$ 3,073,073 | \$ 115,000 | (54,444,303) | (104,168) | (54,548,471) |
| General revenues: | | | | | | | |
| Property taxes and payments in lieu of taxes | | | | | 47,965,049 | | 47,965,049 |
| State aid, unrestricted | | | | | 6,778,745 | | 6,778,745 |
| Investment and interest income (loss) | | | | | 13,792 | 13 | 13,805 |
| Other revenues | | | | | 1,678,576 | | 1,678,576 |
| Transfers | | | | | (788,063) | 788,063 | 0 |
| Total general revenues | | | | | 55,648,099 | 788,076 | 56,436,175 |
| Change in Net Position | | | | | 1,203,796 | 683,908 | 1,887,704 |
| Net Position - beginning of year, restated | | | | | 20,955,767 | 200,533 | 21,156,300 |
| Net Position - ending of year | | | | | \$ 22,159,563 | \$ 884,441 | \$ 23,044,004 |

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, 2014**

| | General Fund | Town Capital Project Fund | School Capital Project Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 9,558,263 | \$ 1,072,009 | | \$ 436,645 | \$ 11,066,917 |
| Cash on deposit at NCRSEP | 840,032 | | | | 840,032 |
| Investments | - | | | 140,454 | 140,454 |
| Real estate and personal property tax receivable (net) | 1,892,832 | | | | 1,892,832 |
| Due from federal and state governments | 339,734 | | | 467,802 | 807,536 |
| Due from other funds | 5,023,920 | 162,946 | \$ 3,568,469 | 1,640,609 | 10,395,944 |
| Ambulance receivable | 410,848 | | | | 410,848 |
| Other receivables | 116,631 | | | 12,879 | 129,510 |
| Inventory | 31,236 | | | | 31,236 |
| Prepaid expenditures | 199,374 | | | | 199,374 |
| TOTAL ASSETS | \$ 18,412,870 | \$ 1,234,955 | \$ 3,568,469 | \$ 2,698,389 | \$ 25,914,683 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 863,992 | \$ 138,511 | \$ 750,694 | \$ 52,496 | \$ 1,805,693 |
| Accrued expenses | 136,715 | | | 11,333 | 148,048 |
| Due to other funds | 5,055,277 | 2,075,077 | 1,538,692 | 1,773,899 | 10,442,945 |
| Unearned revenue | - | | | 363,891 | 363,891 |
| Other liabilities | 449,074 | | | | 449,074 |
| TOTAL LIABILITIES | 6,505,058 | 2,213,588 | 2,289,386 | 2,201,619 | 13,209,651 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | |
| Unavailable property tax revenue | 1,439,165 | | | | 1,439,165 |
| Unavailable Ambulance revenue | 410,848 | | | | 410,848 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,850,013 | | | | 1,850,013 |
| FUND BALANCES: | | | | | |
| Non-spendable | 230,610 | | | 146,218 | 376,828 |
| Restricted | | | 1,279,083 | 1,431,813 | 2,710,896 |
| Committed | 3,441,468 | | | 107,908 | 3,549,376 |
| Assigned | 309,378 | | | | 309,378 |
| Unassigned | 6,076,343 | (978,633) | | (1,189,169) | 3,908,541 |
| TOTAL FUND BALANCES | 10,057,799 | (978,633) | 1,279,083 | 496,770 | 10,855,019 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 18,412,870 | \$ 1,234,955 | \$ 3,568,469 | \$ 2,698,389 | \$ 25,914,683 |

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, 2014*

| | |
|--|-----------------------------|
| TOTAL FUND BALANCES - Total Governmental Funds (B-1) | \$ 10,855,019 |
| 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 | 23,125,210 |
| Nondepreciable capital assets | 7,161,488 |
| Other long-term assets are recognized as revenue in the period for which they are billed in the Government-Wide financial statements, but are reported as unearned revenue (a liability) in Governmental Fund financial statements. | |
| Unavailable property tax revenue | 1,439,165 |
| Unavailable ambulance revenue | 410,848 |
| Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund financial statements because they are offset by unearned revenue. | (90,717) |
| 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. | (84,112) |
| Claims and judgments do not require current financial resources. Therefore, additional accrued expenses are not reported as a liability in Governmental Funds Balance Sheet. | (700,000) |
| 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. | 189,059 |
| 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. | (14,752,432) |
| OPEB liability is recorded in the governmental activities, but not recorded in the funds. | (4,509,341) |
| Pension liability is recorded in the governmental activities, but not recorded in the funds. | (884,624) |
| Net Position of Governmental Activities | <u><u>\$ 22,159,563</u></u> |

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, 2014**

| | General Fund | Town Capital Project Fund | School Capital Project Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| General property taxes and payments in lieu of taxes | \$ 47,580,546 | \$ - | \$ - | | \$ 47,580,546 |
| State aid and grants | 6,778,745 | | | \$ 1,260,279 | 8,039,024 |
| Licenses, permits and fees | 490,585 | | | | 490,585 |
| Charges for services | 1,859,016 | | | 70,605 | 1,929,621 |
| Melville Ponds Campgrounds | 219,947 | | | | 219,947 |
| Glen Manor House | 392,325 | | | | 392,325 |
| Rescue wagon income | 788,305 | | | | 788,305 |
| Fines and forfeitures | 314,427 | | | | 314,427 |
| Interest and investment income | 8,026 | | | 5,766 | 13,792 |
| Contributions and private grants | | | | 231,073 | 231,073 |
| Other revenues | 665,630 | | 512,500 | - | 1,178,130 |
| Intergovernmental pension contribution | 1,496,081 | | | | 1,496,081 |
| Total revenues | 60,593,633 | - | 512,500 | 1,567,723 | 62,673,856 |
| Expenditures | | | | | |
| <i>Current:</i> | | | | | |
| General government | 4,166,454 | | | 34,078 | 4,200,532 |
| Public safety | 9,550,836 | | | 96,836 | 9,647,672 |
| Public works | 2,207,845 | | | 140,956 | 2,348,801 |
| Education | 36,605,793 | | | 1,047,970 | 37,653,763 |
| <i>Community services:</i> | | | | | |
| Public and social services | 698,281 | | | 56,313 | 754,594 |
| Park & recreation | 496,395 | | | | 496,395 |
| Intergovernmental pension contribution | 1,496,081 | | | | 1,496,081 |
| <i>Debt Service:</i> | | | | | |
| Principal payments | 2,387,229 | | | | 2,387,229 |
| Interest and debt issuance costs | 480,596 | 27,991 | | | 508,587 |
| <i>Capital:</i> | | | | | |
| Capital expenditures | | 2,066,574 | 1,724,438 | 1,277,465 | 5,068,477 |
| Total expenditures | 58,089,510 | 2,094,565 | 1,724,438 | 2,653,618 | 64,562,131 |
| Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses) | 2,504,123 | (2,094,565) | (1,211,938) | (1,085,895) | (1,888,275) |
| Other financing sources (uses) | | | | | |
| Transfers in | - | 135,885 | 1,000,000 | 647,014 | 1,782,899 |
| Transfers out | (2,288,063) | (147,014) | | (135,885) | (2,570,962) |
| Bond proceeds | - | 1,100,000 | | - | 1,100,000 |
| Net other financing sources (uses) | (2,288,063) | 1,088,871 | 1,000,000 | 511,129 | 311,937 |
| Net change in fund balances | 216,060 | (1,005,694) | (211,938) | (574,766) | (1,576,338) |
| Fund balances - beginning of the year | 9,841,739 | 27,061 | 1,491,021 | 1,071,536 | 12,431,357 |
| Fund balances (deficit) - ending of the year | \$ 10,057,799 | \$ (978,633) | \$ 1,279,083 | \$ 496,770 | \$ 10,855,019 |

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

TOWN OF PORTSMOUTH, RHODE ISLAND

B-3

**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, 2014**

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds (B-2) | \$ (1,576,338) |
| 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. | 4,388,663 |
| 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. | (1,942,270) |
| 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. | (111,984) |
| Repayment of bonds and capital leases is an expenditure in the Governmental Fund financial statements, but the payments reduce long-term liabilities in the Government-Wide financial statements. | 2,440,471 |
| 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. | 41,856 |
| 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. | (1,100,000) |
| Amortization of debt premium on bonds and gains on advance refunding are not reflected in Governmental Fund financial statements. | (29,851) |
| Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental Fund financial statements. | 782,887 |
| 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. | (200,000) |
| The increase in pension 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 | (884,624) |
| 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 | (605,014) |
| Change in net assets of Governmental Activities | <u>\$ 1,203,796</u> |

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

TOWN OF PORTSMOUTH, RHODE ISLAND

C-1

**Statement of Net Position
Proprietary Funds
June 30, 2014**

| | <u>School Cafeteria Fund</u> | <u>Transfer Station</u> | <u>Wind Turbine Generator Fund</u> | <u>Non-major Summer School</u> | <u>Total</u> |
|---------------------------------------|----------------------------------|-----------------------------|--|--|-------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 128,158 | \$ - | \$ - | | \$ 128,158 |
| Due from other governmental units | 11,929 | | | | 11,929 |
| Due from other funds | 267,033 | 120,207 | | \$ 7,819 | 395,059 |
| Accounts receivable | | 30,597 | | | 30,597 |
| Inventory | 19,156 | | | | 19,156 |
| Total current assets | <u>426,276</u> | <u>150,804</u> | <u>-</u> | <u>7,819</u> | <u>584,899</u> |
| Non-current assets: | | | | | |
| Capital assets: | | | | | |
| Nondepreciable assets | | 37,251 | | | 37,251 |
| Depreciable assets - net | 45,788 | 150,003 | 2,471,492 | | 2,667,283 |
| Total non-current assets | <u>45,788</u> | <u>187,254</u> | <u>2,471,492</u> | <u>-</u> | <u>2,704,534</u> |
| TOTAL ASSETS | <u>472,064</u> | <u>338,058</u> | <u>2,471,492</u> | <u>7,819</u> | <u>3,289,433</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 58,003 | 68,408 | | | 126,411 |
| Current portion of long term debt | | 34,312 | 199,714 | | 234,026 |
| Accrued interest payable | | 112 | 4,086 | | 4,198 |
| Due to other funds | 348,058 | | | | 348,058 |
| Total current liabilities | <u>406,061</u> | <u>102,832</u> | <u>203,800</u> | <u>-</u> | <u>712,693</u> |
| Non-current liabilities: | | | | | |
| Bonds payable, net of current portion | | 68,204 | 1,624,095 | | 1,692,299 |
| Total non-current liabilities | <u>-</u> | <u>68,204</u> | <u>1,624,095</u> | <u>-</u> | <u>1,692,299</u> |
| TOTAL LIABILITIES | <u>406,061</u> | <u>171,036</u> | <u>1,827,895</u> | <u>-</u> | <u>2,404,992</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 45,788 | 84,738 | 647,683 | | 778,209 |
| Restricted for recycling | | 41,468 | | | 41,468 |
| Unrestricted | 20,215 | 40,816 | (4,086) | 7,819 | 64,764 |
| TOTAL NET POSITION | <u>\$ 66,003</u> | <u>\$ 167,022</u> | <u>\$ 643,597</u> | <u>\$ 7,819</u> | <u>\$ 884,441</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, 2014**

| | School Cafeteria Fund | Transfer Station | Wind Turbine Generator Fund | Non-major Summer School | Total |
|--|--------------------------|---------------------|--------------------------------|-------------------------------|-------------------|
| Operating Revenues: | | | | | |
| Intergovernmental | \$ 200,640 | | | | \$ 200,640 |
| Other revenues | 474,039 | | \$ - | | 474,039 |
| Charges for services | | \$ 567,679 | | \$ 12,900 | 580,579 |
| Total Operating Revenues | <u>674,679</u> | <u>567,679</u> | <u>-</u> | <u>12,900</u> | <u>1,255,258</u> |
| Operating Expenses: | | | | | |
| Cafeteria operations | 640,265 | | | | 640,265 |
| Transfer Station operations | | 530,801 | | | 530,801 |
| Wind Turbine Generator operations | | | 130,611 | | 130,611 |
| Education | | | | 19,964 | 19,964 |
| Depreciation and amortization | 4,505 | 8,572 | | | 13,077 |
| Total Operating Expenses | <u>644,770</u> | <u>539,373</u> | <u>130,611</u> | <u>19,964</u> | <u>1,334,718</u> |
| Income from operations | <u>29,909</u> | <u>28,306</u> | <u>(130,611)</u> | <u>(7,064)</u> | <u>(79,460)</u> |
| Non-operating Revenues (Expenses): | | | | | |
| Interest expense | | | (24,708) | | (24,708) |
| Interest income | 13 | | | | 13 |
| Transfer in from Town General Fund | | | 710,279 | | 710,279 |
| Transfer in from School General Fund | | | 57,784 | 20,000 | 77,784 |
| Net Non-operating Revenues (Expenses) | <u>13</u> | <u>-</u> | <u>743,355</u> | <u>20,000</u> | <u>763,368</u> |
| Change in net position | 29,922 | 28,306 | 612,744 | 12,936 | 683,908 |
| Net position - beginning of the year | <u>36,081</u> | <u>138,716</u> | <u>30,853</u> | <u>(5,117)</u> | <u>200,533</u> |
| Net position - ending of the year | <u>\$ 66,003</u> | <u>\$ 167,022</u> | <u>\$ 643,597</u> | <u>\$ 7,819</u> | <u>\$ 884,441</u> |

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

TOWN OF PORTSMOUTH, RHODE ISLAND

C-3

**Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2014**

| | School Cafeteria Fund | Transfer Station | Wind Turbine Generator | Non-major Summer School | Total |
|---|--------------------------|---------------------|---------------------------|-------------------------------|--------------------|
| Cash flows from operating activities: | | | | | |
| Cash received from customers | \$ 474,039 | \$ 560,106 | \$ - | \$ 7,450 | \$ 1,041,595 |
| Intergovernmental | 199,701 | | | | 199,701 |
| Cash payments to suppliers for goods and services | (702,743) | (486,761) | (51,073) | (19,964) | (1,260,541) |
| Net cash provided (used) by operating activities | <u>(29,003)</u> | <u>73,345</u> | <u>(51,073)</u> | <u>(12,514)</u> | <u>(19,245)</u> |
| Cash flows from non-capital financing activities: | | | | | |
| Operating transfers (to) from other funds | | | | 20,000 | 20,000 |
| Interfund borrowings | 87,799 | (39,173) | 275,495 | (7,486) | 316,635 |
| Net cash provided by (used) in non-capital financing activities | <u>87,799</u> | <u>(39,173)</u> | <u>275,495</u> | <u>12,514</u> | <u>336,635</u> |
| Cash flows from capital-related financing activities: | | | | | |
| Acquisition and construction of capital assets | | | | | - |
| Interest income | 13 | | | | 13 |
| Principal paid on bonds | | (34,172) | (199,714) | | (233,886) |
| Interest paid on bonds | | | (24,708) | | (24,708) |
| Net cash provided (used) for capital-related financing activities | <u>13</u> | <u>(34,172)</u> | <u>(224,422)</u> | | <u>(258,581)</u> |
| Net increase in cash | 58,809 | - | - | - | 58,809 |
| Cash and cash equivalents, beginning of the year | 69,349 | - | - | - | 69,349 |
| Cash and cash equivalents, end of the year | <u>\$ 128,158</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 128,158</u> |
| Reconciliation of net income to net cash provided by operating activities: | | | | | |
| Income (loss) from operations | \$ 29,909 | \$ 28,306 | \$ (130,611) | \$ (7,064) | \$ (79,460) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation and amortization | 4,505 | 8,572 | 889 | | 13,966 |
| Changes in assets and liabilities: | | | | | |
| Increase in: | | | | | |
| Due from other governmental units | (939) | | | | (939) |
| Inventory | (1,047) | 44,040 | | | 42,993 |
| Decrease in: | | | | | |
| Accounts receivable | | (7,573) | 54,676 | | 47,103 |
| Accounts payable | (61,431) | | 270 | | (61,161) |
| Deferred issuance costs | | | 23,703 | | 23,703 |
| Prepaid tuition | | | | (5,450) | (5,450) |
| Total adjustments | <u>(58,912)</u> | <u>45,039</u> | <u>79,538</u> | <u>(5,450)</u> | <u>60,215</u> |
| Net cash provided by (used) in operating activities | <u>\$ (29,003)</u> | <u>\$ 73,345</u> | <u>\$ (51,073)</u> | <u>\$ (12,514)</u> | <u>\$ (19,245)</u> |

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

TOWN OF PORTSMOUTH, RHODE ISLAND

D-1

**Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014**

| | Pension Trust Fund | OPEB Trust Fund | Agency Funds |
|---|-----------------------------------|----------------------------|-------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 594,574 | \$ 486,809 | \$ 617,098 |
| Investments, at fair value | 46,234,824 | | |
| Accounts Receivable | 18,000 | 57,728 | 299,772 |
| TOTAL ASSETS | <u>46,847,398</u> | <u>544,537</u> | <u>916,870</u> |
| LIABILITIES | | | |
| Other Liabilities | 3,516 | | |
| Deposits held in custody for others | | | 916,870 |
| TOTAL LIABILITIES | <u>3,516</u> | <u>-</u> | <u>916,870</u> |
| NET POSITION | | | |
| Held in trust for pension and OPEB benefits | 46,843,882 | 544,537 | |
| TOTAL NET POSITION | <u>46,843,882</u> | <u>544,537</u> | <u>-</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 46,847,398</u> | <u>\$ 544,537</u> | <u>\$ 916,870</u> |

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, 2014**

| | Pension Trust Fund | OPEB Trust Fund |
|---|-----------------------------------|----------------------------|
| <i>Additions:</i> | | |
| Contributions: | | |
| Employer | \$ 2,810,576 | \$ 685,131 |
| Plan member | 347,448 | 57,618 |
| Total contributions | <u>3,158,024</u> | <u>742,749</u> |
| Investment income: | | |
| Net gain (loss) on value of investments | <u>6,469,745</u> | <u>953</u> |
| Net investment income (loss) | <u>6,469,745</u> | <u>953</u> |
| <i>Total additions</i> | <u>9,627,769</u> | <u>743,702</u> |
| <i>Deductions:</i> | | |
| Benefits paid | 3,416,191 | 653,681 |
| Administrative and other | <u>163,154</u> | <u>3,000</u> |
| <i>Total deductions</i> | <u>3,579,345</u> | <u>656,681</u> |
| <i>Changes in net position</i> | 6,048,424 | 87,021 |
| <i>Net position - beginning of year</i> | <u>40,795,458</u> | <u>457,516</u> |
| <i>Net position - ending of the year</i> | <u>\$ 46,843,882</u> | <u>\$ 544,537</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, 2014**

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 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, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards

The Town has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2014. See Note 1.
- ✓ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, for the year ended June 30, 2014. The adoption of this Statement did not have an impact of the Town's 2014 financial statements.
- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, for the year ended June 30, 2014. See Note 12.
- ✓ GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees, for the year ended June 30, 2014. The adoption of this Statement did not have a significant impact on the Town's 2014 financial statements.

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

- ✓ 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. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68, effective for the Town's year ending June 30, 2015.

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

Basis of Presentation

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Governmental Funds

The funds of the financial reporting entity are described below:

General Fund

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

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 other than debt service or capital projects.

Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Funds

Permanent Funds account for assets held by the Town pursuant to trust agreements. 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds (Continued)

The funds of the financial reporting entity are described below:

Proprietary Funds

Proprietary Funds are used to account for business-like activities provided to the general public. 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 include Enterprise and Internal Service Funds. The Town currently maintains four enterprise funds (School Cafeteria Fund, Transfer Station Fund, Wind Turbine Generator Fund, Summer School Fund). The Town's currently does not have Internal Service Funds.

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity. The reporting entity includes eleven agency funds (Soil Fund, Library State Fund, GMH Deposit Fund, Probate Court Fund, Glen Part Damage Deposit Fund, Prescott Point Fund and five Student Activities funds). Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

Pension Trust Fund

Pension trust fund is used to account for resources held in trust for future pension obligations of the Town. The Town maintains one pension trust fund at June 30, 2014.

OPEB Trust Fund

This fund accounts for resources held in trust for members and beneficiaries of the Town administered retiree health plan.

Major and Non-Major Funds

The funds are further classified as major or non-major as follows:

| <u>Fund</u> | <u>Brief Description</u> |
|---------------------------|---|
| Major: | |
| General Fund: | See above for description |
| Town Capital Project Fund | Accounts for the Town's acquisition or construction of specific capital project or items. |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major and Non-Major Funds (Continued)

The funds are further classified as major or non-major as follows:

| <u>Fund</u> | <u>Brief Description</u> |
|----------------------------------|--|
| <i>Major:</i> | |
| School Capital Project Fund | Accounts for the School's acquisition or construction of specific capital project or items. |
| <i>Proprietary Funds:</i> | |
| Wind Turbine Generator Fund | Accounts for the operation of the Town's wind turbine generator. |
| Transfer Station Fund | Accounts for the Town's transfer station operations. |
| School Cafeteria Fund | Accounts for the operation of the school breakfast and lunch program of the School Department. |
| Summer School Fund | Accounts for the operation of the summer school program of the School Department. This fund did not meet the criteria for reporting as a major fund however, management elected to present the fund as a major fund. |
| <i>Non-Major:</i> | |
| Special Revenue Funds: | The Town currently maintains sixty seven (67) Special Revenue Funds which have been classified as non-major governmental funds |
| Capital Project Funds: | The Town of Portsmouth currently maintains eleven (11) Capital Project Funds which have been classified as non-major governmental funds. |

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item (b.) below and the accrual basis of accounting.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (Continued)

- (a) All governmental funds utilize a "current financial resources" measurement focus and the modified accrual basis of accounting. Only current financial assets, deferred outflows of resources liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. The Town considers property taxes as available if they are collected within 60 days after year end. Grant revenue (for expenditure reimbursement grants) of the governmental funds is generally recognized as revenue when earned as long as the payment is expected to be received within twelve months after year end. Substantially all other revenue (excluding municipal court fees and fines, and fire rescue services) of the governmental funds is recognized utilizing the modified accrual method of accounting and as such is recognized as it is earned and available. Municipal court fees and fines and fire rescue services are reported as receivable and unearned revenue until the amounts are collected.
- (b) The proprietary funds and private purpose trust funds utilize "economic resources" measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources associated with their activities are reported. Fund equity is classified as net position.
- (c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflow of resources, liabilities, and deferred inflow of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds, agency funds, and private purpose trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal operation. The principal operating revenues of the enterprise funds are charges for services provided in accordance with the fund's purpose. Operating expenses for the enterprise funds include the costs of providing the services, including administration and depreciation on capital assets. All other revenue and expense items not meeting these criteria are reported as non-operating revenues and expenses.

Estimates

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity

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.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

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, 2014 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.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

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.

Capital 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 2014.

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 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. 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, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that later date. At June 30, 2014 the Town only had one item that qualified as a deferred outflow of resources: deferred charge on refunding reported in the government-wide statement of net position. The deferred charge on refunding totaling \$189,059 for governmental activities is the unamortized balance of the difference between the carrying value of the refunded debt and the new debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2014 the Town had two one items that qualified as a deferred inflow of resources in the governmental funds balance sheet. The unavailable tax revenue represents property taxes receivables which are assessed on December 31, 2012 and prior and are not collected within 60 days of June 30, 2014. Net unavailable property tax revenue included in the fund financial statements was \$1,439,165 at June 30, 2014. The unavailable ambulance revenue represents ambulance rescue fee receivables that are not collected as of June 30, 2014. Net unavailable ambulance rescue fee revenue included in the fund financial statements was \$410,848 at June 30, 2014. These amounts are deferred and will be recognized as an inflow of resources in the year(s) in which the amounts become available.

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, 2014.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

Accrued Liabilities and Long-Term Debt (Continued)

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.

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/Fund Balance Classifications

Government-wide financial statements

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity (Continued)

Net Position/Fund Balance Classifications (Continued)

Government-wide financial statements (Continued)

- (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.
- Committed – the amount of fund balance that includes the portion of the spendable fund balance but has constraints on the spending that the Town Council has imposed upon itself by a formal action by vote. This constraint must be imposed prior to the fiscal year end, but the specific amount may be determined at a later date.
- Assigned – the amount of fund balance that includes the portion of the spendable fund balance that reflects funds intended to be used by the government for specific purposes assigned by information operational planning. The assigned fund balance represents a "plan" for spending the amount, but it is not restricted or committed. The authority to "assign" fund balance has not been delegated by the Town Council.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

Net Position/Fund Balance Classifications (Continued)

Fund Balance (Continued)

- 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 that 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 10 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, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity
(Continued)***

Reconciliation of Government-wide and Fund Financial Statements

The governmental fund Balance Sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements.” The details of this \$14,752,432 are as follows:

| | |
|-------------------------------|----------------------------|
| Bonds and notes payable | \$ 13,105,264 |
| Compensated absences | <u>1,647,168</u> |
| Total | <u>\$14,752,432</u> |

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of the reconciliation states that “the governmental funds report principal repayments on debt obligations as an expenditure.” The details of the \$2,440,471 are as follows:

| | |
|--|---------------------------|
| Principal payment of bonds and notes payable | \$2,387,229 |
| Principal payment of capital lease obligations | <u>53,242</u> |
| Total | <u>\$2,440,471</u> |

Another element of that reconciliation states that, “Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds.” Also, the allowance adjustment on the ambulance receivables affects the revenue recorded in the Statement of Activities. The details of this \$782,887 are as follows:

| | |
|---|-------------------------|
| Unavailable property tax revenue, | \$384,503 |
| Unavailable ambulance fees, net | 212,365 |
| Claims and judgments | <u>186,019</u> |
| Total | <u>\$782,887</u> |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. 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, 2014, the carrying amount of the Town's cash and cash equivalents was \$12,893,555 (including Fiduciary Funds) while the bank balance was \$13,212,702. Of the bank balance, \$785,701 was covered by federal depository insurance and \$12,427,001 was uninsured. The Town has entered into collateralization agreements with various financial institutions and as a result, \$2,776,123 of the uninsured balance at June 30, 2014 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..... | \$11,328,360 |
| Add: Petty Cash..... | 1,450 |
| Add: Money market funds | 1,563,745 |
| Less: Fiduciary funds cash, including time deposits (not included in the Government-wide statement)..... | <u>(1,698,480)</u> |
| Total cash and cash equivalents on A-1 | <u>\$11,195,075</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.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

At June 30, 2014, 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 | Over 5 years |
|---|----------------------|----------------------|----------------------|---------------------|-------------------|
| Mutual Funds | | | | | |
| Domestic Equity | \$ 17,533,433 | \$ 17,533,433 | \$ - | \$ - | \$ - |
| Global Real Estate | 2,517,451 | 2,517,451 | - | - | - |
| International Equity | 6,017,198 | 6,017,198 | - | - | - |
| Emerging Markets | 4,338,015 | 4,338,015 | - | - | - |
| Federal National Mortgage Assn, 3%, 6/12/2028 | 140,454 | | | | 140,454 |
| Fixed Income Securities | 15,828,727 | | 11,103,243 | 4,693,410 | 32,074 |
| | <u>\$ 46,375,278</u> | <u>\$ 30,406,097</u> | <u>\$ 11,103,243</u> | <u>\$ 4,693,410</u> | <u>\$ 172,528</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 | \$ 6,969,303 |
| AA | 8,787,669 |
| A | 71,755 |
| | <u>\$ 15,828,727</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, 2014**

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, 2014, the following pension investments represent 5% or more of the Town Plan's net position:

Dimensional Fund Advisors:

| | |
|----------------------------|-------------|
| One Year Fixed income | \$7,885,264 |
| Two Year Fixed income | \$3,156,224 |
| Five Year Fixed income | \$4,787,240 |
| US Core Equity 2 Portfolio | \$7,850,175 |
| US Large Cap Value | \$3,999,588 |
| US Vector Equity Portfolio | \$5,683,668 |
| Global Real Estate | \$2,517,451 |
| Emerging Market Core | \$2,756,535 |

As of June 30, 2014, 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, 2014**

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, 2014.

Town:

| | |
|--------------------------------|-----------|
| PPD Sex Offender | \$443 |
| EMA WMD | \$632 |
| Click-it or Ticket | \$286 |
| Active Shooter | \$2,088 |
| EMPG | \$935 |
| Blue Rip Tide Speed Management | \$448 |
| Substance Abuse | \$7,928 |
| Tobacco Survey | \$2,667 |
| Child Passenger Safety Grant | \$397 |
| Capital Projects: | |
| 2008-2009 Warrants | \$19,029 |
| 2009-2010 Warrants | \$5,742 |
| 2012-2013 Warrants | \$892,781 |
| Capital Project Fund | \$978,633 |

School:

| | |
|--------------------|-----------|
| Title II | \$51 |
| Perkins Grant | \$191 |
| Technical Services | \$255,551 |

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, 2014**

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is as follows:

| | Beginning Balances | Increases | Decreases | Ending Balance |
|---|-------------------------------|---------------------|-------------------|---------------------------|
| Governmental Activities: | | | | |
| Nondepreciable assets: | | | | |
| Land | \$ 4,037,922 | | | \$ 4,037,922 |
| Land easements | 1,420,000 | | | 1,420,000 |
| Construction in progress | 151,336 | \$ 1,684,109 | \$ 131,879 | 1,703,566 |
| Total Capital assets not being depreciated | 5,609,258 | 1,684,109 | 131,879 | 7,161,488 |
| Depreciable assets: | | | | |
| Land improvements | 637,848 | | | 637,848 |
| Buildings | 21,825,672 | 14,565 | | 21,840,237 |
| Buildings and improvements | 6,805,773 | 1,019,817 | | 7,825,590 |
| Machinery and equipment | 5,620,981 | 331,146 | | 5,952,127 |
| Construction equipment | 396,909 | | | 396,909 |
| Infrastructure | 20,276,205 | 1,194,757 | | 21,470,962 |
| Vehicles | 4,625,918 | 276,148 | - | 4,902,066 |
| Total Capital assets being depreciated | 60,189,306 | 2,836,433 | - | 63,025,739 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 312,998 | 28,889 | | 341,887 |
| Buildings | 15,060,493 | 355,970 | | 15,416,463 |
| Buildings and improvements | 1,604,579 | 362,360 | | 1,966,939 |
| Machinery and equipment | 4,217,793 | 470,535 | | 4,688,328 |
| Construction equipment | 336,967 | 11,130 | | 348,097 |
| Infrastructure | 13,891,100 | 483,257 | | 14,374,357 |
| Vehicles | 2,534,329 | 230,129 | | 2,764,458 |
| Total accumulated depreciation | 37,958,259 | 1,942,270 | - | 39,900,529 |
| Governmental Activities Capital assets, net | \$ 27,840,305 | \$ 2,578,272 | \$ 131,879 | \$ 30,286,698 |
| Business-type activities | | | | |
| Nondepreciable assets: | | | | |
| Land | \$ 37,251 | \$ - | \$ - | \$ 37,251 |
| Total capital assets not being depreciated | 37,251 | - | - | 37,251 |
| Depreciable assets: | | | | |
| Land improvements | 8,879 | | | 8,879 |
| Machinery and equipment | 3,228,419 | | 889 | 3,227,530 |
| Total Capital assets being depreciated | 3,237,298 | - | 889 | 3,236,409 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 222 | - | | 222 |
| Machinery and equipment | 555,827 | 13,077 | | 568,904 |
| Total accumulated depreciation | 556,049 | 13,077 | - | 569,126 |
| Business-type Activities Capital assets, net | \$ 2,718,500 | \$ (13,077) | \$ 889 | \$ 2,704,534 |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

4. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|----------------------------|
| General government | \$ 67,537 |
| Public safety | 283,262 |
| Public works | 532,226 |
| Education | 934,034 |
| Community service | <u>125,211</u> |
| Total depreciation expense | <u>\$ 1,942,270</u> |

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

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

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, 2015 | \$ 93,671 |
| June 30, 2016 | <u>97,905</u> |
| Total | <u>\$ 191,576</u> |

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 \$97,739,097. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. At June 30, 2014, bonds outstanding totaled \$12,974,182.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014:

| Description of Purpose | Amount of Original Issue | Date of Issue | Interest Rate | Date of Maturity | Balance, June 30, 2013 | New Issues | Retired | Balance, June 30, 2014 |
|--|--------------------------------|------------------|------------------|---------------------|---------------------------|---------------|------------|---------------------------|
| School gymnasium | \$ 3,500,000 | 6/27/2006 | 4.00-5.00% | 4/1/2026 | \$ 2,275,000 | | \$ 175,000 | \$ 2,100,000 |
| Portsmouth Middle School sprinklers | \$ 1,900,000 | 5/16/2007 | 4.00-5.50% | 4/1/2022 | 1,125,000 | | 125,000 | 1,000,000 |
| Town Improvements | \$ 242,500 | 2/13/2009 | 3.51% | 2/13/2014 | 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 | | 16,318 | 233,682 |
| Town Improvements | \$ 562,000 | 5/23/2013 | 2.350% | 2/15/2028 | 562,000 | | 36,682 | 525,318 |
| General Obligation Refunding Bond - Series B | \$ 927,000 | 5/23/2013 | .53% -1.70% | 2/15/2019 | 927,000 | | 163,000 | 764,000 |
| Student Information Technology | \$ 350,000 | 8/7/2008 | 3.75-4.00% | 5/15/2014 | 70,000 | | 70,000 | - |
| School Information Technology | \$ 350,000 | 2/13/2009 | 3.51% | 2/13/2014 | 70,000 | | 70,000 | - |
| Portsmouth High School Sprinklers | \$ 1,100,000 | 8/7/2008 | 3.75-6.00% | 5/15/2024 | 800,000 | | 75,000 | 725,000 |
| School Improvements | \$ 4,655,000 | 6/4/2009 | 2.00-5.00% | 11/1/2020 | 3,925,000 | | 525,000 | 3,400,000 |
| Open Space/Recreation Bond | \$ 1,980,000 | 6/15/2010 | 2.00-4.00% | 6/15/2025 | 1,530,000 | | 150,000 | 1,380,000 |
| Town Improvements | \$ 267,000 | 8/12/2009 | 4.10% | 8/12/2014 | 80,100 | | 53,400 | 26,700 |
| School Information Technology | \$ 350,000 | 8/12/2009 | 4.10% | 8/12/2014 | 105,000 | | 70,000 | 35,000 |
| School Information Technology | \$ 350,000 | 11/4/2010 | 2-3% | 6/30/2016 | 210,000 | | 70,000 | 140,000 |
| School Improvements | \$ 350,000 | 11/4/2010 | 2-3% | 6/30/2016 | 210,000 | | 70,000 | 140,000 |
| Town Improvements | \$ 345,000 | 11/4/2010 | 2-3% | 6/30/2016 | 205,000 | | 70,000 | 135,000 |
| Fire Engine Purchase | \$ 970,000 | 11/4/2010 | 2-3% | 6/30/2016 | 580,000 | | 195,000 | 385,000 |
| Wastewater Plan | \$ 750,000 | 11/4/2010 | 2-3% | 6/30/2016 | 450,000 | | 150,000 | 300,000 |
| Building Repairs | \$ 350,000 | 6/12/2012 | 1.326% | 6/30/2017 | 279,770 | | 69,943 | 209,827 |
| Building Repairs | \$ 350,000 | 6/12/2012 | 1.326% | 6/30/2017 | 279,770 | | 69,943 | 209,827 |
| School Information Technology | \$ 350,000 | 6/12/2012 | 1.326% | 6/30/2017 | 279,771 | | 69,943 | 209,828 |
| School Projects | \$ 1,100,000 | 8/28/2013 | 3.060% | 6/30/2028 | - | \$ 1,100,000 | 45,000 | 1,055,000 |
| | | | | | 14,261,411 | 1,100,000 | 2,387,229 | 12,974,182 |
| Deferred amount for issuance premiums | | | | | 163,862 | | 32,780 | 131,082 |
| Compensated absences | | | | | 1,535,184 | 111,984 | | 1,647,168 |
| Net OPEB Obligation | | | | | 3,904,327 | 605,014 | | 4,509,341 |
| | | | | | 19,864,784 | 1,816,998 | 2,420,009 | 19,261,773 |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2013 | New Issues | Retired | Balance, June 30, 2014 |
|---|--------------------------|---------------|---------------|------------------|------------------------|---------------------|---------------------|------------------------|
| Capital leases payable: | | | | | | | | |
| Hewlett Packard equipment lease | \$41,111 | 1/31/2010 | 4.60% | 1/31/2013 | 9,150 | | 9,150 | - |
| Dell equipment lease | \$60,283 | 5/8/2013 | | | 44,092 | - | 44,092 | - |
| | | | | | <u>53,242</u> | <u>-</u> | <u>53,242</u> | <u>-</u> |
| Enterprise Funds | | | | | | | | |
| General obligation bonds and loans: | | | | | | | | |
| Transfer Station Construction Project | \$171,000 | 6/12/2012 | 1.326% | 6/30/2017 | 136,688 | | 34,173 | 102,515 |
| Wind Turbine Construction Project | \$2,600,000 | 11/4/2008 | 1.15% | 12/15/2022 | 1,733,334 | - | 173,333 | 1,560,001 |
| Wind Turbine Construction Project | \$400,000 | 9/4/2008 | 2.00% | 7/15/2023 | 290,190 | | 26,381 | 263,809 |
| Total enterprise fund long-term debt | | | | | <u>2,160,212</u> | <u>-</u> | <u>233,887</u> | <u>1,926,325</u> |
| Total long-term obligations | | | | | <u>\$ 22,078,238</u> | <u>\$ 1,816,998</u> | <u>\$ 2,707,138</u> | <u>\$ 21,188,098</u> |

Scheduled annual debt service requirements

At June 30, 2014, scheduled annual debt service requirements for the general obligation bonds, revenue bonds, refunding bonds, loans and capital leases are as follows:

| | Governmental Activities | | | Enterprise Funds | | |
|-----------|-------------------------|---------------------|----------------------|---------------------|-------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2015 | \$ 2,200,526 | \$ 430,662 | \$ 2,631,188 | \$ 233,886 | \$ 23,319 | \$ 257,205 |
| 2016 | 2,095,828 | 376,948 | 2,472,776 | 233,886 | 20,344 | 254,230 |
| 2017 | 1,535,828 | 314,676 | 1,850,504 | 233,886 | 17,368 | 251,254 |
| 2018 | 1,313,000 | 267,068 | 1,580,068 | 199,714 | 14,393 | 214,107 |
| 2019 | 1,265,000 | 219,195 | 1,484,195 | 199,714 | 11,872 | 211,586 |
| 2020-2024 | 3,690,000 | 519,661 | 4,209,661 | 825,239 | 22,542 | 847,781 |
| 2025-2028 | 874,000 | 56,027 | 930,027 | - | - | - |
| | <u>\$ 12,974,182</u> | <u>\$ 2,184,237</u> | <u>\$ 15,158,419</u> | <u>\$ 1,926,325</u> | <u>\$ 109,838</u> | <u>\$ 2,036,163</u> |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 | \$ 5,023,920 | \$ 5,055,277 |
| Town Capital Project Fund | 162,946 | 2,075,077 |
| School Capital Project Fund | 3,568,469 | 1,538,692 |
| Non-Major Governmental Funds | 1,640,609 | 1,773,899 |
| Proprietary School Cafeteria Fund | 267,033 | 348,058 |
| Proprietary Transfer Station Fund | 120,207 | - |
| Non-Major Proprietary Funds | 7,819 | - |
| Total | \$ <u>10,791,003</u> | \$ <u>10,791,003</u> |

10. FUND BALANCES

The Town has classified governmental fund balances at June 30, 2014 as follows:

| | |
|--|---------------------|
| Nonspendable: | |
| Permanent funds: | |
| Perpetual care and endowment permanent funds | \$ 146,218 |
| General fund: | |
| Prepaid expenses | 199,374 |
| Inventory | 31,236 |
| Total nonspendable fund balance | \$ <u>376,828</u> |
| Restricted: | |
| Town special revenue funds | \$ 614,792 |
| School special revenue funds | 472,711 |
| Town capital project funds | 316,497 |
| School capital project funds | 1,306,896 |
| Total restricted fund balance | \$ <u>2,710,896</u> |
| Committed: | |
| Town capital project funds | \$ 107,908 |
| General fund: | |
| Committed for education | 3,441,468 |
| | \$ <u>3,549,376</u> |
| Assigned: | |
| Open space | \$ <u>309,378</u> |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 \$653,791 for the year ended June 30, 2014.

Public Works, Fire and Police contributed .25%, 1.5% and 1.0% of salary respectively, to the OPEB Trust which amounted to \$57,618 for the year ended June 30, 2014.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014.

| | |
|--|----------------------------|
| Annual Required Contribution | \$ 1,254,874 |
| Interest on net OPEB obligation | 171,274 |
| Adjustment to annual required contribution | <u>(218,478)</u> |
| Annual OPEB cost | 1,207,670 |
| Implicit rate subsidy | (83,795) |
| Employer contribution for pre-funding | (31,340) |
| Contributions made during the year | <u>(653,791)</u> |
| Increase in net OPEB obligation | 438,744 |
| Net OPEB obligation at beginning of year | <u>3,268,590</u> |
| Net OPEB obligation at end of year | <u><u>\$ 3,707,334</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, 2012, 2013 and 2014 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> |
|----------------------------|------------------|---|----------------------------|
| 2012 | \$1,212,030 | 78.7% | \$2,812,586 |
| 2013 | \$1,256,912 | 63.7% | \$3,268,590 |
| 2014 | \$1,207,670 | 63.7% | \$3,707,334 |

Funded status and funding progress:

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

| | |
|---|---------------|
| Funded ratio | 3.6% |
| Actuarial accrued liability for benefits | \$ 12,827,546 |
| Actuarial value of assets | \$457,516 |
| Unfunded actuarial accrued liability (UAAL) | \$12,370,030 |
| Covered payroll | \$5,569,426 |
| UAAL to covered payroll | 222.1% |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014 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 \$257,830 for the year ended June 30, 2014.

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014.

| | |
|--|--------------------------|
| Annual Required Contribution | \$ 468,795 |
| Interest on net OPEB obligation | 33,542 |
| Adjustment to annual required contribution | <u>(75,421)</u> |
| Annual OPEB cost | 426,916 |
| Implicit rate subsidy | (205,638) |
| Contributions made during the year | <u>(257,830)</u> |
| Decrease in net OPEB obligation | (36,552) |
| Net OPEB obligation at beginning of year | <u>838,559</u> |
| Net OPEB obligation at end of year | <u><u>\$ 802,007</u></u> |

The School'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, 2012, 2013 and 2014 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> |
|----------------------------|----------------------|---|--------------------------------|
| 2012 | \$ 577,942 | 98.1% | \$822,243 |
| 2013 | \$502,642 | 96.8% | \$838,559 |
| 2014 | \$426,916 | 108.6% | \$802,007 |

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 | \$ 4,067,108 |
| Actuarial value of assets | \$0 |
| Unfunded actuarial accrued liability (UAAL) | \$4,067,108 |
| Covered payroll | \$19,170,981 |
| UAAL to covered payroll | 21.2% |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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 THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan

The Town has adopted GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Statement enhances the Town's footnote disclosures and expands the Required Supplemental Information (RSI) data with new schedules. It was issued to improve financial reporting by state and local government pension plans. The following provides information required to be disclosed under Statement No. 67 that is not discussed as part of information in Note 13.

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.

Plan membership

At June 30, 2014 pension plan membership consisted of the following:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 144 |
| Inactive employees entitled to but not yet receiving benefits | 11 |
| Active employees | <u>164</u> |
| Total | <u>319</u> |

Benefit Provisions and Contributions

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

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 plus 2% for each years beyond 20 years subject to a maximum of 70%. Does not apply to Police employees hired after July 1, 2010. |
|------------------|--|

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

Fire Employees

20 years of credited service.

For service before July 1, 2013 : 3% of average monthly earnings per year of credited service to a maximum of 20 years plus 2% for each year beyond 20 years.

For service on or after July 1, 2013: 1% of average monthly earnings per year of credited service.

Fire Deputy and Fire Chief: 3% of average monthly earnings per year of credited service to a maximum of 20 years plus 2% for each year beyond 20 years.

The maximum benefit is 74% of average monthly earnings.

An employee's average monthly earnings are defined as the highest gross annual salary during the last three years of employment. Gross annual salary includes base salary, longevity and E.M.T bonus, but excludes overtime, clothing allowance, holiday pay and any other forms of compensation.

Employees hired on or after July 1, 2013 are not entitled to Normal Retirement Benefits.

Town Non-Management

Age and Service Requirement: Age 60

For services before July 1, 2013: 2.5% of average monthly earnings per year of credited service to a maximum of 27 years.

For service on or after July1, 2013, 1% of average monthly earnings.

Benefit is reduced pro-rata if less than 20 years of service.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

Town Management

20 years of credited service

3.0% of average monthly earnings per year of credited service for up to 20 years of service, plus 2.0% of average monthly earnings per year of credited service to a maximum of 74%. For benefit accrual purposes, credited service is frozen as of July 1, 2014. Benefit is reduced prorata for less than 20 years of service.

All employee's average monthly earnings are defined as the highest annual salary (base salary and longevity for Non-Management) during the three years of employment.

School Employees

Age 60 with 10 years of credited service

Council 94:

For service before October 1, 2013: 2.5% of average monthly earnings per year of credited service.

For service on or after October 1, 2013: 1% of average monthly earnings per year of credited service.

Benefit is reduced pro-rata if less than 20 years of service.

School Council 94 employees hired after October 1, 2013 are not covered by this Plan. School Council 94 employees hired after October 1, 2013 were transferred to the defined contribution plan effective October 1, 2013.

Management and Non-Certified:

2.5% of average monthly earnings per year of credited service. Benefit is reduced pro-rata for less than 20 years of service.

An employee's average monthly earnings are defined as gross annual salary averaged over the highest three years of employment.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

Public Works Employees

Age and Service Requirement: Age 60 with 10 years of credited service.

For employees with less than 10 years of credited service at July 1, 2013 who were hired before June 30, 2010: 2.5% of average monthly earnings per year of credited service for a maximum of ten years (previously, no maximum). Benefit is reduced pro-rata if less than 20 years of service.

For employees with 10 or more years of service as of June 30, 2013: 2.5% of average monthly earnings per year of credited service prior to July 1, 2013 (previously, included service after July 1, 2013) to a maximum of 67.5%. Benefit is reduced pro-rata if less than 20 years of service.

An employee's average monthly earnings are defined as annual salary (base salary and longevity) averaged over the final five years of employment.

Employees hired on or after July 1, 2010 are not entitled to Normal Retirement Benefits.

Employees are required to contribute to the Plan as follows:

Fire employees

4.0% of base pay; Fire Deputy and Fire Chief: 10.0% (previously, 6.5%) of base pay. No contribution for employees hired on or after July 1, 2013.

Police employees

9.0% of gross annual earnings (Previously, 8.0%). No contributions for employees hired on or after July 1, 2010.

School employees

Council 94: 4% of gross annual salary.
Management and Non-Certified: 6% of gross annual salary for employees hired before July 1, 1991.

Town employees

Non-management: Effective July 1, 2014, 6% of base salary.
Management: No employee contributions after July 1, 2014.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

| | |
|------------------------|---|
| Public Works employees | For employees hired before June 30, 2010 who have 10 or more years of service as of July 1, 2013, effective July 1, 2014, 4.0% of annual salary. No employee contributions after July 1, 2013 for other employees |
|------------------------|---|

The Town is required to contribute an amount determined in accordance with the actuarial valuation. The Town's contributions for the Town's Retirement Plan for the fiscal years ended June 30, 2014, 2013 and 2012 were \$2,792,576, \$2,782,947 and \$2,662,801, respectively.

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.

Annual Pension Cost and Net Pension Obligation

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

| | FY 2014 | FY 2013 | FY 2012 |
|---|--------------|--------------|--------------|
| Annual required contribution | \$ 3,677,200 | \$ 2,782,947 | \$ 2,662,801 |
| Interest on NPO | - | - | - |
| Amortization of NPO | - | - | - |
| Annual pension cost | 3,677,200 | 2,782,947 | 2,662,801 |
| Contributions made | 2,792,576 | 2,782,947 | 2,662,801 |
| Increase in net pension obligation | 884,624 | - | - |
| Net pension obligation, beginning of year | - | - | - |
| Net pension obligation, end of year | \$ 884,624 | \$ - | \$ - |
| Percentage of annual pension cost contributed | 76% | 100% | 100% |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (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.

| <u>Asset Class</u> | <u>Target Allocation</u> |
|---------------------------|--------------------------|
| Equities | 65% |
| Fixed Income | 34% |
| Cash and Cash Equivalents | <u>1%</u> |
| Total | <u>100%</u> |

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, 2014.

Net Pension Liability

The components of the net pension liability of the Pension System at June 30, 2014 were as follows:

| | | |
|--|----|------------|
| Total pension liability | \$ | 78,330,009 |
| Plan fiduciary net position | \$ | 46,829,397 |
| Town's net pension liability | \$ | 31,500,612 |
| Plan fiduciary net position as a percentage of the total pension liability | | 59.78% |

Healthy mortality rates based on RP-2000 Combined Healthy Mortality Table projected generationally with Scale AA from 2000. Disabled retire mortality rates based on RP-2000 Disabled Mortality Table

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net position plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-term Expected Real Rate of Return</u> |
|---|---|
| Domestic equity | 6.60% |
| International developed market equities | 7.10% |
| International emerging markets equity | 9.40% |
| Core fixed income | 2.20% |
| Real Estate | 4.40% |

Discount Rate: The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made as the current contribution rate and that the Town of Portsmouth's contributions will be made as the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Pension System, calculated using the discount rate of 6.75%, as well as what the Pension System's net pension liability would be if it were calculated using a discount rate that is 1-percentage –point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate.

| | <u>1% Decrease (5.75%)</u> | <u>Current Discount (6.75%)</u> | <u>1% Increase (7.75%)</u> |
|-----------------------|--------------------------------|-------------------------------------|--------------------------------|
| Net pension liability | \$ 42,680,778 | \$ 31,500,612 | \$ 22,410,476 |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. GASB – 67 FINANCIAL REPORTING FOR PENSION PLANS

Town Retirement Plan (Continued)

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, 2014:

| | |
|---|------------------------|
| Actuarial Value of Asset | \$ 42,930,879 |
| Actuarial Accrued Liability (AAL) | <u>78,330,009</u> |
| Unfunded AAL (UAAL) | <u>\$ (35,399,130)</u> |
| Funded Ratio | 54.81% |
| Covered Payroll | \$ 7,837,400 |
| UAAL as a percentage of covered payroll | 452.0% |

13. PENSION PLANS

State Administered Defined Benefit Plan Covering Teachers (Cost Sharing Pension 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.

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 2014, the total employer rate of 20.68% (8.42% State share and 12.26% local share). The State share of the employer contribution rate includes the total cost of prior contribution deferrals, which was .24% for fiscal 2014.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

13. PENSION PLANS (Continued)

State Administered Defined Benefit Plan Covering Teachers (Cost Sharing Pension Plan (Continued))

Funding policy (Continued):

The Town contributed \$2,079,773, \$1,862,615 and \$1,632,808 during the fiscal years 2014, 2013, and 2012, 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. The on-behalf contributions for the defined benefit plan for the fiscal year ended June 30, 2014 amounted to approximately \$1,428,387.

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.

The Town contributed \$23,654, \$23,232 and \$23,217 during the fiscal years 2014, 2013 and 2012, respectively, equal to 100% of the required contributions for those respective years.

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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

13. **PENSION PLANS (Continued)**

State Administered Defined Benefit Plan Covering Teachers (Cost Sharing Pension Plan (Continued))

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%. Although the Town (School Department) is required to contribute 3% towards the plan, the School Department receives reimbursement from the State of Rhode Island of .4%. For financial reporting purposes, the State's share of the contribution is reflected as on-behalf payments and is included as both revenue and expenditures in the accompanying financial statements. The on-behalf contributions for the defined contribution plan for fiscal year ended June 30, 2014 amounted to approximately \$68,000. The plan members and Town contributed \$1,196,355 and \$512,719, respectively, during the fiscal year ended June 30, 2014.

Other Defined Contribution Pension Plans

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

| Participants | Contributions | | | |
|---|-----------------------------|-----------------|------------------|-----------------|
| | Participants (Employees) | | Employer (Town) | |
| | % of Earnings | 2014 Dollars | % of Earnings | 2014 Dollars |
| All full-time NAGE local 280 & PEMA Local 871 members and non-union employees | 3.0% | \$ 65,189 | 1.75% | \$ 26,115 |
| All full-time police hired after July 1, 2010 | 8.0% | \$ 23,052 | 8.0% | \$ 23,052 |
| All NAGE local 280 members hired after July 1, 2010 | 8.0% | \$ 9,513 | 8.0% | \$ 9,513 |
| Town Administrator | 32.0% | \$ 40,320 | 8.0% | \$ 10,080 |
| All full-time IAFF 1949 members hired after July 1, 2013 | 8.0% | \$ 10,635 | 8.0% | \$ 27,238 |
| All full-time IAFF 1949 members hired before July 1, 2013 | 5.0% | \$ 70,050 | 1.0% | \$ 159,010 |

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

13. PENSION PLANS (Continued)

Other Defined Contribution Pension Plans (Continued)

| Participants | Contributions | | | |
|---|-----------------------------|-----------------|------------------|-----------------|
| | Participants (Employees) | | Employer (Town) | |
| | % of Earnings | 2014 Dollars | % of Earnings | 2014 Dollars |
| All full-time PEMA 871 members hired before July 1, 2012 | 1% - 8% | \$ 6,722 | 1.0% | \$ 27,274 |
| All full-time PEMA 871 members hired after July 1, 2012 | 5.0% | \$ 17,134 | 1.0% | \$ 13,083 |
| Police Chief hired on or after October 21, 2013 | 8.0% | \$ 5,300 | 8.0% | \$ 5,300 |
| Finance/Personnel Director | 8.0% | \$ 4,160 | 8.0% | \$ 4,160 |

14. DEFERRED COMPENSATION PLAN

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

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

15. 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

15. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

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.

The Town is a defendant in a suit related to a condemnation proceeding. The potential loss ranges from \$400,000 to \$700,000. The Town plans to vigorously contest the suit or seek an out-of-court settlement.

On September 15, 2010, the Department of Environmental Management (DEM) 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. On October 27, 2014, the Town executed a memorandum of agreement with DEM to resolve the NOV and eliminate the penalty assessment.

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 \$1,664,000 for the year ended June 30, 2014.

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 2014 was \$1,820,055. The towns have no equity interest in the net assets of NCRSEP.

At June 30, 2014, a total of \$840,032 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.

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

17. SUBSEQUENT EVENTS

Wind Turbine

The Town's wind turbine installed at the Portsmouth High School in fiscal year 2009 failed in June 2012 due to issues with the gearbox. The Town was unable to seek remedies from the manufacturer as they were no longer in business. Unable to operate, the turbine did not generate revenue to service the related debt, and funds were advanced to the operation to meet legal obligations.

If fiscal year 2015, the Town entered into an agreement with WED Portsmouth One LLC which stated that in exchange for a single payment of \$1.51 million from WED Portsmouth One LLC they could operate a wind turbine on the site. WED Portsmouth One LLC will remove the wind turbine and install a new turbine on the site. They will be able operate the turbine for 25 years with the option for an additional 5 years and will establish a separate fund to have the turbine decommissioned and removed at the end of the term. Based on the financial performance of the turbine, the Town of Portsmouth may be entitled to additional compensation in later years of the agreement. The Town will use the payment from WED Portsmouth One LLC to pay debt related to the original turbine.

The Town of Portsmouth also agreed to purchase its electricity from WED Portsmouth One LLC at market rate with a floor of \$0.155 per kwh.

NCRSEP

At its October 14, 2014 meeting, the Portsmouth School Committee voted to withdraw from and terminate its relationship with the NCRSEP effective June 30, 2015. Beginning July 1, 2015, special education services for qualified special needs students residing in the Town of Portsmouth will be provided by the Portsmouth School Department.

18. RESTATEMENT

The net position of the Government-wide Financial Statements has been restated as of June 30, 2013 to reflect the implementation of GASB Statement #65 – *Items Previously Reported as Assets and Liabilities*. Implementation of this new Standard resulted in the removal of bond issuance costs as an asset from the Statement of Net Position (formerly the Statement of Net Assets). Under GASB Statement #65 bond issuance costs (excluding bond insurance costs) are to be recorded as an expense in the year the costs are incurred rather than amortizing those costs over the life of the bond obligation. As a result, the unamortized bond issuance costs as of June 30, 2013 totaling \$195,798 have been retroactively removed from the opening net position balance. The following reflects the effect of implementation of GASB Statement #65:

| | |
|---|----------------------------|
| Governmental Activities: | |
| Net Position, June 30, 2013 as originally stated..... | \$21,151,565 |
| Less write-off of bond issuance costs, net..... | <u>(195,798)</u> |
| Net Position, June 30, 2013 as restated | <u>\$20,955,767</u> |

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, 2014
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|-------------------|---------------------------------------|
| Revenues | | | | |
| Property taxes | \$ 48,063,671 | \$ 48,063,671 | \$ 47,580,546 | \$ (483,125) |
| Intergovernmental revenue | 1,094,596 | 1,094,596 | 1,161,914 | 67,318 |
| Licenses, permits and fees | 911,800 | 911,800 | 490,585 | (421,215) |
| Fines & forfeitures | 361,700 | 361,700 | 314,427 | (47,273) |
| Earnings on investments | 10,000 | 10,000 | 8,026 | (1,974) |
| Other revenues | 1,556,775 | 1,556,775 | 2,645,839 | 1,089,064 |
| Total revenues | <u>51,998,542</u> | <u>51,998,542</u> | <u>52,201,337</u> | <u>202,795</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,247,687 | 4,247,687 | 4,166,454 | 81,233 |
| Public safety | 9,067,703 | 9,067,703 | 9,550,836 | (483,133) |
| Public works | 2,346,255 | 2,346,255 | 2,207,845 | 138,410 |
| Community services: | | | | |
| Public and social services | 645,534 | 645,534 | 698,281 | (52,747) |
| Recreation, parks and grounds | 510,058 | 510,058 | 496,395 | 13,663 |
| Debt Service | 3,203,451 | 3,203,451 | 2,867,825 | 335,626 |
| Total expenditures | <u>20,020,688</u> | <u>20,020,688</u> | <u>19,987,636</u> | <u>33,052</u> |
| Excess (deficiency) of revenues over expenditures | <u>31,977,854</u> | <u>31,977,854</u> | <u>32,213,701</u> | <u>235,847</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, 2014
(Unaudited)**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|-------------------------|---------------------|---------------------------------------|
| <i>Other financing sources (uses)</i> | | | | |
| <i>transfer between funds</i> | | | | |
| Transfer from School | 330,000 | 330,000 | | (330,000) |
| Transfer to other funds | (32,307,854) | (32,307,854) | (31,458,372) | 849,482 |
| <i>Total other financing sources (uses)</i> | <u>(31,977,854)</u> | <u>(31,977,854)</u> | <u>(31,458,372)</u> | <u>519,482</u> |
| | | | | |
| <i>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 755,329</u> | <u>\$ 755,329</u> |

(Concluded)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-2

Budgetary Comparison Schedule for the School Unrestricted Fund
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)
Budget and Actual
Year Ended June 30, 2014
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|----------------------------|-------------------------|---------------------|---------------------------------------|
| Revenues | | | | |
| Intergovernmental revenue | \$ 5,784,140 | \$ 5,784,140 | \$ 5,616,831 | \$ (167,309) |
| Other revenues | 1,165,000 | 1,165,000 | 1,279,384 | 114,384 |
| Total revenues | <u>6,949,140</u> | <u>6,949,140</u> | <u>6,896,215</u> | <u>(52,925)</u> |
| Expenditures | | | | |
| Education | 37,658,173 | 37,658,173 | 36,605,793 | 1,052,380 |
| Total expenditures | <u>37,658,173</u> | <u>37,658,173</u> | <u>36,605,793</u> | <u>1,052,380</u> |
| Excess (deficiency) of revenues over expenditures | <u>(30,709,033)</u> | <u>(30,709,033)</u> | <u>(29,709,578)</u> | <u>999,455</u> |
| Other financing sources (uses): | | | | |
| Transfer from General Fund | 30,248,093 | 30,248,093 | 30,248,093 | - |
| Transfer to other funds | | | (1,077,784) | (1,077,784) |
| Use of accumulated fund balance | 460,940 | 460,940 | 460,940 | - |
| Total other financing sources (uses) | <u>30,709,033</u> | <u>30,709,033</u> | <u>29,631,249</u> | <u>(1,077,784)</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (78,329)</u> | <u>\$ (78,329)</u> |

**Notes to Required Supplementary Information
June 30, 2014**

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 Public Safety and Public and social services exceeded their appropriation by \$483,133 and \$52,747, respectively. There were no other municipal department expenditures that exceeded appropriations (after approved transfers) for the year ended June 30, 2014.

(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) | \$ 7,357,155 |
| The appropriated fund balance is a budgetary revenue but is not a current year revenue for financial reporting purposes | (460,940) |
| 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. | <u>1,496,081</u> |
| 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><u>\$ 8,392,296</u></u> |

TOWN OF PORTSMOUTH, RHODE ISLAND

**Notes to Required Supplementary Information
June 30, 2014**

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) | \$ 36,605,793 |
| 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>1,496,081</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>\$ 38,101,874</u></u> |

(Concluded)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-4

Required Supplementary Information

Schedule of Funding Progress
Year Ended June 30, 2014

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a percentage Of Covered Payroll ((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 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% |
| July 1, 2013 | \$ 457,516 | \$ 12,827,546 | \$ 12,370,030 | 3.6% | \$ 5,569,426 | 222.1% |
| <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% |
| July 1, 2013 | \$ - | \$ 4,067,108 | \$ 4,067,108 | 0.0% | \$ 19,170,981 | 21.2% |

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-5

Required Supplementary Information

Schedule of Employer Contributions
Year Ended June 30, 2014

Town Pension Plan:

| <u>Fiscal Year Ending</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percent of ARC Contributed</u> |
|-----------------------------------|---|--------------------------------|---|
| 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:

| <u>Fiscal Year Ending</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percent of ARC Contributed</u> |
|-----------------------------------|---|--------------------------------|---|
| <i>Municipal employees:</i> | | | |
| 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% |
| June 30, 2014 | \$ 1,254,874 | \$ 768,926 | 61.3% |

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% |
| June 30, 2014 | \$ 468,795 | \$ 463,468 | 98.9% |

(Concluded)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-6

Required Supplementary Information

Schedule of Actuarial Methods, Assumptions and Benefit Changes
Year Ended June 30, 2014

| | |
|---|--|
| Valuation date | Actuarial determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported. |
| Methods and used assumptions to determine contribution rates | |
| Actuarial cost method | Entry age |
| Amortization method | Level dollar closed |
| Remaining amortization period | 27 years remaining for the fiscal year ending June 30, 2014 contribution |
| Asset valuation method | Market value of assets as reported by the Town less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value. |
| Actuarial assumptions: | |
| Investment rate of return | 6.75% net of pension plan investment expenses, including inflation |
| Inflation rate | 2.75% |
| Projected salary increases | 3.5% per year |
| Cost of Living Adjustments | Cost-of-living increase for pensioners whose COLAs were based on 50% of the percentage salary increase received the previous July 1 by the active bargaining unit from which the the employee retired are assumed to be 2% annually. |
| Benefit changes | This valuation reflects the following changes in plan provisions: For Police, the Accidental Disability benefit was lowered from 72% to 67% of gross annual salary and the employee contribution rate increased from 8.0% to 9.0%; The employee contribution rate increased from 6.5% to 10% for the Fire Deputy and Fire Chief; For Town Management, credited service is frozen as of June 30, 2014 and employee contributions cease and for retirements effective on or after July 1, 2013 the COLA was changed from 3.0% commencing on the January 1st following the first anniversary of retirement to 1.7% commencing on the January 1st following the fifth anniversary of retirement ; and For Public Works, the employee contribution rate decreased from 5.5% to 4.0% and credited service is limited to the greater of service as of July 1, 2013 or 10 years. |

TOWN OF PORTSMOUTH, RHODE ISLAND

E-7

Required Supplementary Information

Schedule of Changes in Net Pension Liability
Year Ended June 30, 2014

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-------------------------|--|------|------|------|
| Total pension liability | | | | | |
| Service Cost | \$ 1,389,334 | (Historical information prior to implementation of GASB 67/68 is not required) | | | |
| Interest | 4,915,100 | | | | |
| Changes of benefit terms | (879,278) | | | | |
| Differences between expected and actual experience | 2,000,989 | | | | |
| Changes of Assumptions | (203,891) | | | | |
| Benefit payments, including refunds of employee contributions | (3,417,068) | | | | |
| Net change in total pension liability | <u>3,805,186</u> | | | | |
| Total pension liability-beginning | <u>74,524,823</u> | | | | |
| Total pension liability-ending (a) | <u>\$ 78,330,009</u> | | | | |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ 2,792,576 | | | | |
| Contributions - employee | 388,692.00 | | | | |
| Net Investment income | 6,330,851 | | | | |
| Benefits payments, including refunds of employee contributions | (3,417,068) | | | | |
| Administrative expense | (61,112) | | | | |
| Net change in plan fiduciary net position | <u>6,033,939</u> | | | | |
| Plan fiduciary net position - beginning | <u>40,795,458</u> | | | | |
| Plan fiduciary net position - ending (b) | <u>46,829,397</u> | | | | |
| Town's net pension liability - ending (a)-(b) | <u>\$ 31,500,612.00</u> | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 59.78% | | | | |
| Covered employee payroll | \$ 7,837,400 | | | | |
| Town's net pension liability as a percentage of covered employee payroll | 401.93% | | | | |

TOWN OF PORTSMOUTH, RHODE ISLAND

E-8

Required Supplementary Information

Schedule of Contributions
Year Ended June 30, 2014

| Year Ended June 30 | Actuarially Determined Contributions | Contributions in relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered-Employee Payroll* | Contributions as a Percentage of Covered Employee Payroll |
|-----------------------|--|--|-------------------------------------|---------------------------|--|
| 2005 | | (Historical information prior to implementation of GASB 67/68 is not required) | | | |
| 2006 | | | | | |
| 2007 | | | | | |
| 2008 | | | | | |
| 2009 | | | | | |
| 2010 | | | | | |
| 2011 | | | | | |
| 2012 | | | | | |
| 2013 | | | | | |
| 2014 | \$ 3,677,200 | \$ 2,792,576 | \$ 884,624 | \$ 7,837,400 | 35.63% |

*Note: Includes payroll for employees eligible for a disability benefit only.

TOWN OF PORTSMOUTH, RHODE ISLAND

E-9

Required Supplementary Information

Annual Money-Weighted Rate of Return

Year Ended June 30, 2014

| | <u>2014</u> |
|--|-------------|
| Annual money-weighted rate of return, net of investment expense | 15.67% |

Other Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

F-1

**Combining Balance Sheet
Town General Fund and School Department Unrestricted Fund
June 30, 2014**

| | General Fund | School Unrestricted Fund | Eliminations | Total Governmental Funds |
|--|----------------------|--------------------------------|-----------------------|--------------------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 8,013,748 | \$ 1,544,515 | | \$ 9,558,263 |
| Cash on deposit at NCRSEP | | 840,032 | | 840,032 |
| Real estate and personal property tax receivable (net) | 1,892,832 | | | 1,892,832 |
| Due from federal and state governments | 248,299 | 91,435 | | 339,734 |
| Due from other funds | 2,539,532 | 6,168,494 | \$ (3,684,106) | 5,023,920 |
| Ambulance receivable | 410,848 | | | 410,848 |
| Other receivables | 116,631 | | | 116,631 |
| Inventory | 31,236 | | | 31,236 |
| Prepaid expenditures | 199,374 | | | 199,374 |
| TOTAL ASSETS | \$ 13,452,500 | \$ 8,644,476 | \$ (3,684,106) | \$ 18,412,870 |
| LIABILITIES: | | | | |
| Accounts payable | \$ 186,116 | \$ 677,876 | | \$ 863,992 |
| Accrued expenses | 96 | 136,619 | | 136,715 |
| Due to other funds | 4,350,870 | 4,388,513 | \$ (3,684,106) | 5,055,277 |
| Unearned revenue | 0 | | | - |
| Other liabilities | 449,074 | | | 449,074 |
| TOTAL LIABILITIES | 4,986,156 | 5,203,008 | (3,684,106) | 6,505,058 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable property tax revenue | 1,439,165 | | | 1,439,165 |
| Unavailable Ambulance revenue | 410,848 | | | 410,848 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,850,013 | - | - | 1,850,013 |
| FUND BALANCES: | | | | |
| Non-spendable | 230,610 | - | | 230,610 |
| Restricted | | | | - |
| Committed | | 3,441,468 | | 3,441,468 |
| Assigned | 309,378 | | | 309,378 |
| Unassigned | 6,076,343 | | | 6,076,343 |
| TOTAL FUND BALANCES | 6,616,331 | 3,441,468 | | 10,057,799 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 13,452,500 | \$ 8,644,476 | \$ (3,684,106) | \$ 18,412,870 |

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, 2014**

| | General Fund | School Unrestricted Fund | Eliminations | Town General Fund |
|---|---------------------|--------------------------------|-----------------|-------------------------|
| Revenues | | | | |
| General property taxes and payments in lieu of taxes | \$ 47,580,546 | \$ - | | \$ 47,580,546 |
| State aid and grants | 1,161,914 | 5,616,831 | | 6,778,745 |
| Licenses, permits and fees | 490,585 | | | 490,585 |
| Charges for services | 616,496 | 1,242,520 | | 1,859,016 |
| Melville Ponds Campgrounds | 219,947 | | | 219,947 |
| Glen Manor House | 392,325 | | | 392,325 |
| Rescue wagon income | 788,305 | | | 788,305 |
| Fines and forfeitures | 314,427 | | | 314,427 |
| Interest and investment income | 8,026 | | | 8,026 |
| Other revenues | 628,766 | 36,864 | | 665,630 |
| Intergovernmental pension contribution | | 1,496,081 | | 1,496,081 |
| Total revenues | <u>52,201,337</u> | <u>8,392,296</u> | <u>-</u> | <u>60,593,633</u> |
| Expenditures | | | | |
| <i>Current:</i> | | | | |
| General government | 4,166,454 | | | 4,166,454 |
| Public safety | 9,550,836 | | | 9,550,836 |
| Public works | 2,207,845 | | | 2,207,845 |
| Education | | 36,605,793 | | 36,605,793 |
| <i>Community services:</i> | | | | |
| Public and social services | 698,281 | | | 698,281 |
| Park & recreation | 496,395 | | | 496,395 |
| Intergovernmental pension contribution | | 1,496,081 | | 1,496,081 |
| <i>Debt Service:</i> | | | | |
| Principal payments | 2,387,229 | | | 2,387,229 |
| Interest | 480,596 | | | 480,596 |
| Total expenditures | <u>19,987,636</u> | <u>38,101,874</u> | <u>-</u> | <u>58,089,510</u> |
| Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses) | <u>32,213,701</u> | <u>(29,709,578)</u> | <u>-</u> | <u>2,504,123</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 0 | 30,248,093 | \$ (30,248,093) | - |
| Transfers out | (31,458,372) | (1,077,784) | 30,248,093 | (2,288,063) |
| Net other financing sources (uses) | <u>(31,458,372)</u> | <u>29,170,309</u> | <u>-</u> | <u>(2,288,063)</u> |
| Net change in fund balances | <u>755,329</u> | <u>(539,269)</u> | <u>-</u> | <u>216,060</u> |
| Fund balances - beginning of the year | <u>5,861,002</u> | <u>3,980,737</u> | <u>-</u> | <u>9,841,739</u> |
| Fund balances - ending of the year | <u>\$ 6,616,331</u> | <u>\$ 3,441,468</u> | <u>\$ -</u> | <u>\$ 10,057,799</u> |

TOWN OF PORTSMOUTH, RHODE ISLAND

G-1

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

| | Special Revenue Funds | Capital Project Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|---|--------------------------------------|--------------------------------------|----------------------------|--|
| ASSETS | | | | |
| Cash, cash equivalents | \$ 294,014 | \$ 137,788 | \$ 4,843 | \$ 436,645 |
| Investments | - | - | 140,454 | 140,454 |
| Accounts receivable | 12,879 | | | 12,879 |
| Due from federal and state governments | 467,802 | | | 467,802 |
| Due from other funds | 1,209,292 | 430,396 | 921 | 1,640,609 |
| TOTAL ASSETS | \$ 1,983,987 | \$ 568,184 | \$ 146,218 | \$ 2,698,389 |
| LIABILITIES | | | | |
| Accounts payable | \$ 52,496 | \$ - | | \$ 52,496 |
| Accrued expenses | 11,333 | | | 11,333 |
| Due to other funds | 484,830 | 1,289,069 | | 1,773,899 |
| Advance funding | 363,891 | | | 363,891 |
| TOTAL LIABILITIES | 912,550 | 1,289,069 | - | 2,201,619 |
| FUND BALANCE | | | | |
| Nonspendable | | | \$ 146,218 | 146,218 |
| Restricted | 1,087,503 | 344,310 | | 1,431,813 |
| Committed | | 107,908 | | 107,908 |
| Unassigned | (16,066) | (1,173,103) | | (1,189,169) |
| TOTAL FUND BALANCE | 1,071,437 | (720,885) | 146,218 | 496,770 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 1,983,987 | \$ 568,184 | \$ 146,218 | \$ 2,698,389 |

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, 2014**

| | <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) | \$ 1,260,279 | | | \$ 1,260,279 |
| Charges for services | 70,605 | | | 70,605 |
| Investment and interest income | | \$ 16 | \$ 5,750 | 5,766 |
| Contributions and private grants | 231,073 | - | | 231,073 |
| TOTAL REVENUES | <u>1,561,957</u> | <u>16</u> | <u>5,750</u> | <u>1,567,723</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 34,078 | | | 34,078 |
| Public safety | 96,836 | | | 96,836 |
| Public works | - | 140,956 | | 140,956 |
| Education | 1,047,970 | - | | 1,047,970 |
| Community services | 56,313 | | | 56,313 |
| Capital expenditures | | 1,277,465 | | 1,277,465 |
| TOTAL EXPENDITURES | <u>1,235,197</u> | <u>1,418,421</u> | <u>-</u> | <u>2,653,618</u> |
| Excess of revenue over(under) expenditures before transfers | <u>326,760</u> | <u>(1,418,405)</u> | <u>5,750</u> | <u>(1,085,895)</u> |
| Other financing sources (uses): | | | | |
| Transfers from other funds | | 647,014 | | 647,014 |
| Net other financing sources (uses) | <u>-</u> | <u>647,014</u> | <u>-</u> | <u>647,014</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | <u>326,760</u> | <u>(771,391)</u> | <u>5,750</u> | <u>(438,881)</u> |
| FUND BALANCES, BEGINING OF YEAR | <u>744,677</u> | <u>186,391</u> | <u>140,468</u> | <u>1,071,536</u> |
| FUND BALANCES, ENDING OF YEAR | <u>\$ 1,071,437</u> | <u>\$ (585,000)</u> | <u>\$ 146,218</u> | <u>\$ 632,655</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, 2014**

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|
| <u>SOIL AGENCY FUND</u> | | | | |
| <u>Asset</u> | | | | |
| Accounts Receivable | \$ 217,480 | \$ 81,675 | \$ 61,700 | \$ 237,455 |
| | <u>\$ 217,480</u> | <u>\$ 81,675</u> | <u>\$ 61,700</u> | <u>\$ 237,455</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ 217,480 | \$ 81,675 | \$ 61,700 | \$ 237,455 |
| | <u>\$ 217,480</u> | <u>\$ 81,675</u> | <u>\$ 61,700</u> | <u>\$ 237,455</u> |
| <u>LIBRARY STATE AID</u> | | | | |
| <u>Asset</u> | | | | |
| Accounts Receivable | \$ - | \$ 103,446 | \$ 103,446 | \$ - |
| | <u>\$ -</u> | <u>\$ 103,446</u> | <u>\$ 103,446</u> | <u>\$ -</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ - | \$ 103,446 | \$ 103,446 | \$ - |
| | <u>\$ -</u> | <u>\$ 103,446</u> | <u>\$ 103,446</u> | <u>\$ -</u> |
| <u>GMH DEPOSIT AGENCY FUND</u> | | | | |
| <u>Asset</u> | | | | |
| Due from General Fund | \$ 15,500 | \$ 28,000 | \$ 28,000 | \$ 15,500 |
| | <u>\$ 15,500</u> | <u>\$ 28,000</u> | <u>\$ 28,000</u> | <u>\$ 15,500</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ 15,500 | \$ 28,000 | \$ 28,000 | \$ 15,500 |
| | <u>\$ 15,500</u> | <u>\$ 28,000</u> | <u>\$ 28,000</u> | <u>\$ 15,500</u> |
| <u>PROBATE COURT AGENCY FUND</u> | | | | |
| <u>Asset</u> | | | | |
| Cash and cash equivalents | \$ 201,570 | \$ 34,071 | \$ - | \$ 235,641 |
| | <u>\$ 201,570</u> | <u>\$ 34,071</u> | <u>\$ -</u> | <u>\$ 235,641</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ 201,570 | \$ 34,071 | \$ - | \$ 235,641 |
| | <u>\$ 201,570</u> | <u>\$ 34,071</u> | <u>\$ -</u> | <u>\$ 235,641</u> |
| <u>GLEN PARK DAMAGE DEPOSIT</u> | | | | |
| <u>Asset</u> | | | | |
| Accounts receivable | \$ 400 | \$ 1,800 | \$ 1,100 | \$ 1,100 |
| | <u>\$ 400</u> | <u>\$ 1,800</u> | <u>\$ 1,100</u> | <u>\$ 1,100</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ 400 | \$ 1,800 | \$ 1,100 | \$ 1,100 |
| | <u>\$ 400</u> | <u>\$ 1,800</u> | <u>\$ 1,100</u> | <u>\$ 1,100</u> |
| <u>PRESCOTT POINT FUND</u> | | | | |
| <u>Asset</u> | | | | |
| Cash and cash equivalents | \$ 96,635 | \$ 11,549 | \$ 8,186 | \$ 99,998 |
| | <u>\$ 96,635</u> | <u>\$ 11,549</u> | <u>\$ 8,186</u> | <u>\$ 99,998</u> |
| <u>Liability</u> | | | | |
| Deposits Held in Custody for Others | \$ 96,635 | \$ 11,549 | \$ 8,186 | \$ 99,998 |
| | <u>\$ 96,635</u> | <u>\$ 11,549</u> | <u>\$ 8,186</u> | <u>\$ 99,998</u> |
| <u>TOTAL TOWN ACTIVITY AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash | \$ 298,205 | \$ 45,620 | \$ 8,186 | \$ 335,639 |
| Accounts Receivable | 233,380 | 214,921 | 194,246 | 254,055 |
| TOTAL ASSETS | <u>\$ 531,585</u> | <u>\$ 260,541</u> | <u>\$ 202,432</u> | <u>\$ 589,694</u> |
| <u>Liabilities</u> | | | | |
| Deposits Held in Custody for Others | \$ 531,585 | \$ 260,541 | \$ 202,432 | \$ 589,694 |
| | <u>\$ 531,585</u> | <u>\$ 260,541</u> | <u>\$ 202,432</u> | <u>\$ 589,694</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, 2014**

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|
| <u>HATHAWAY</u> | | | | |
| <u>ASSETS</u> | | | | |
| Citizens Bank Checking | \$ 3,971 | \$ 8,337 | \$ 5,797 | \$ 6,511 |
| <u>LIABILITIES</u> | | | | |
| Deposits Held in Custody for Others | \$ 3,971 | \$ 8,337 | \$ 5,797 | \$ 6,511 |
| <u>MELVILLE</u> | | | | |
| <u>ASSETS</u> | | | | |
| Citizens Bank Checking | \$ 25,150 | \$ 26,849 | \$ 27,416 | \$ 24,583 |
| Citizens Bank Savings | 2,687 | | | 2,687 |
| | \$ 27,837 | \$ 26,849 | \$ 27,416 | \$ 27,270 |
| <u>LIABILITIES</u> | | | | |
| Deposits Held in Custody for Others | \$ 27,837 | \$ 26,849 | \$ 27,416 | \$ 27,270 |
| <u>PORTSMOUTH MIDDLE SCHOOL</u> | | | | |
| <u>ASSETS</u> | | | | |
| Citizens Bank Checking | \$ 35,386 | \$ 153,912 | \$ 132,957 | \$ 56,341 |
| <u>LIABILITIES</u> | | | | |
| Deposits Held in Custody for Others | \$ 35,386 | \$ 153,912 | \$ 132,957 | \$ 56,341 |
| <u>PORTSMOUTH HIGH SCHOOL</u> | | | | |
| <u>ASSETS</u> | | | | |
| Portsmouth High School CD | \$ 50,000 | | | \$ 50,000 |
| Citizens Bank Checking | 93,719 | \$ 452,650 | \$ 409,002 | 137,367 |
| Citizens Bank Savings | 3,970 | | | 3,970 |
| | \$ 147,689 | \$ 452,650 | \$ 409,002 | \$ 191,337 |
| <u>LIABILITIES</u> | | | | |
| Deposits Held in Custody for Others | \$ 147,689 | \$ 452,650 | \$ 409,002 | \$ 191,337 |
| <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 | \$ 214,883 | \$ 641,748 | \$ 575,172 | \$ 281,459 |
| Accounts Receivable | 45,717 | - | - | 45,717 |
| TOTAL ASSETS | \$ 260,600 | \$ 641,748 | \$ 575,172 | \$ 327,176 |
| <u>LIABILITIES</u> | | | | |
| Deposits Held in Custody for Others | \$ 260,600 | \$ 641,748 | \$ 575,172 | \$ 327,176 |
| TOTAL LIABILITIES | \$ 260,600 | \$ 641,748 | \$ 575,172 | \$ 327,176 |

TOWN OF PORTSMOUTH, RHODE ISLAND

SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2014

| Tax Roll Year | Balance | | | | | | | | Balance |
|---|-----------------------------|----------------------|------------------|-----------------------------|---------------------------|-----------------------------|------------------|---------------------|---------|
| | Uncollected July 1, 2013 | 2012 Assessment | Additions | Abatements & Adjustments | Amount to be Collected | Current Year Collections | Refunds | June 30, 2014 | |
| 2013 | | \$ 48,021,888 | \$ 65,149 | \$ 27,381 | \$ 48,059,656 | \$ 46,253,859 | \$ 29,871 | \$ 1,835,668 | |
| 2012 | \$ 1,434,166 | | 801 | 1,507 | 1,433,460 | 1,316,040 | 3,507 | 120,927 | |
| 2011 | 131,856 | | | 130 | 131,726 | 65,437 | 6 | 66,295 | |
| 2010 | 62,341 | | | 485 | 61,856 | 7,796 | | 54,060 | |
| 2009 | 37,713 | | | 475 | 37,238 | 4,947 | 4 | 32,295 | |
| 2008 | 33,666 | | | | 33,666 | 5,269 | 4 | 28,401 | |
| 2007 | 23,981 | | | | 23,981 | 3,533 | 4 | 20,452 | |
| 2006 | 16,883 | | | | 16,883 | 414 | | 16,469 | |
| 2005 | 15,954 | | | | 15,954 | 293 | | 15,661 | |
| 2004 | 12,678 | | | | 12,678 | 77 | | 12,601 | |
| 2003 | 13,867 | | | | 13,867 | 186 | | 13,681 | |
| 2002 | 12,560 | | | 12,153 | 407 | 407 | | - | |
| Total | 1,795,665 | \$ 48,021,888 | \$ 65,950 | \$ 42,131 | \$ 49,841,372 | \$ 47,658,258 | \$ 33,396 | 2,216,510 | |
| Less: Allowance for Uncollectible accounts | <u>(340,656)</u> | | | | | | | <u>(340,656)</u> | |
| | <u>\$ 1,455,009</u> | | | | | | | <u>\$ 1,875,854</u> | |

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

| | Valuation | Levy |
|--|------------------------|----------------------|
| Real property | \$3,198,734,900 | \$ 46,464,823 |
| Motor vehicles | 173,244,400 | 3,897,999 |
| Tangible personal property | 58,439,219 | 848,888 |
| Total | 3,430,418,519 | 51,211,710 |
| Less: Exemptions and motor vehicle phase out | | |
| Real property | (86,554,407) | (1,257,270) |
| Motor vehicles | (85,892,085) | (1,932,702) |
| Tangible personal property | (2,136) | 150 |
| Total | \$3,257,969,891 | \$ 48,021,888 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

Moses Afonso Ryan

◆ COUNSELORS AT LAW ◆ LTD

[Date of Delivery]

Town of Portsmouth, Rhode Island
Portsmouth Town Hall
2200 East Main Road
Portsmouth, Rhode Island 02871

***Re: Town of Portsmouth, Rhode Island
\$4,445,000 General Obligation Bonds, Series 2015 A***

Dear Sir or Madam:

We have examined the law, a certified copy of proceedings and other papers relating to the issuance of the \$4,445,000 Town of Portsmouth, Rhode Island General Obligation Bonds, Series 2015 A (the Series A Bonds") dated the date of delivery.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Series A Bonds are valid general obligations of the Town of Portsmouth, Rhode Island (the "Town"), enforceable in accordance with their terms in accordance with law, and all taxable property in the Town is subject to taxation without limitation as to rate or amount to pay the Series A Bonds and the interest thereon.

2. Interest on the Series A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for the purpose of calculating the alternative minimum tax imposed on individuals and corporations. Interest on the Series A Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations.

We call your attention to the fact that interest on the Series A Bonds may become includible in income retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the use of bond-financed property, the investment of bond proceeds and certain other amounts, and to payments to the United States, are not met. The Town has covenanted to take all lawful action necessary under the Code to ensure that interest on the Series A Bonds will remain excludable from gross income for federal income purposes, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Series A Bonds to become includable in such gross income. We express no opinion regarding other federal tax consequences arising with respect to the Series A Bonds.

3. Income from the Series A Bonds is free from taxation by the State of Rhode Island and Providence Plantations (the "State") or any instrumentality of the State, although income from the Series A Bonds may be included in the measure of State estate taxes and certain State corporate and business taxes.

The rights of the holders of the Series A Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

MOSES AFONSO RYAN LTD.

Moses Afonso Ryan

— LTD —
◆ COUNSELORS AT LAW ◆

[Date of Delivery]

Town of Portsmouth, Rhode Island
Portsmouth Town Hall
2200 East Main Road
Portsmouth, Rhode Island 02871

***Re: \$415,000 Town of Portsmouth, Rhode Island
General Obligation Bonds, 2015 Series B (Federally Taxable) and
\$1,615,000 Town of Portsmouth, Rhode Island
General Obligation Bond Anticipation Notes, 2015 Series 1 (Federally Taxable)***

Dear Sir or Madam:

We have examined the law, a certified copy of proceedings and other papers relating to the issuance of the \$415,000 Town of Portsmouth, Rhode Island General Obligation Bonds, 2015 Series 2015 B (Federally Taxable) (the "Series B Bonds") and \$1,615,000 Town of Portsmouth, Rhode Island General Obligation Bond Anticipation Notes, 2015 Series 1 (Federally Taxable) (the "Notes") both dated the date of delivery.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Series B Bonds and Notes are valid general obligations of the Town of Portsmouth, Rhode Island (the "Town"), enforceable in accordance with their terms in accordance with law, and all taxable property in the Town is subject to taxation without limitation as to rate or amount to pay the Series B Bonds and Notes and the interest thereon.
2. Interest on the Series B Bonds and Notes is wholly includible in gross income for federal income tax purposes.
3. Income from the Series B Bonds and Notes is exempt from taxation by the State of Rhode Island and Providence Plantations (the "State") or any instrumentality of the State, although income from the Series B Bonds and Notes may be included in the measure of State estate taxes and certain State corporate and business taxes.

The rights of the holders of the Series B Bonds and Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

MOSES AFONSO RYAN LTD.

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Portsmouth, Rhode Island (the “Issuer”) in connection with the issuance of its \$4,445,000 General Obligation Bonds, Series 2015 A (Tax-Exempt), \$415,000 General Obligation Bonds, Series 2015 B (Federally Taxable) and \$1,615,000 General Obligation Bond Anticipation Notes, 2015 Series 1 (Federally Taxable) dated the date of delivery (collectively, the “Obligations”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Obligations” shall mean the registered owners, including beneficial owners, of the Obligations.

“Participating Underwriter” shall mean any of the original underwriters of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than nine (9) months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2015, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report described in Section 1 shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated November 4, 2015 relating to the Obligations regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events. The Issuer shall give, in a timely manner, not in excess of ten (10) business days after the occurrence of the event, to the MSRB in electronic format notice of the occurrence of any of the following events with respect to the Obligations:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations.
7. Modifications to rights of the Owners of the Obligations, if material.

8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Obligations, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the Issuer.*
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Obligations or payment in full of all of the Obligations. If such termination occurs prior to the final maturity of the Obligations, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Obligations may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Obligations, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

[Signature on Next Page]

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Obligations from time to time, and shall create no rights in any other person or entity.

Date: November __, 2015

TOWN OF PORTSMOUTH, RHODE ISLAND

By: _____
Director of Finance

EXHIBIT A

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board
<http://emma.msrb.org>

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Town of Portsmouth, Rhode Island

Name of Issue: Town of Portsmouth, Rhode Island \$4,445,000 General Obligation Bonds,
Series 2015 A (Tax-Exempt), \$415,000 General Obligation Bonds, Series
2015 B (Federally Taxable) and \$1,615,000 General Obligation Bond
Anticipation Notes, 2015 Series 1 (Federally Taxable)

Date of Issuance: November __, 2015

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Obligations as required by the Continuing Disclosure Certificate of the Issuer dated November 4, 2015. The Issuer anticipates that the Annual Report will be filed by _____.

Dated:

TOWN OF PORTSMOUTH, RHODE ISLAND

By: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

