

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 30, 2014**

**NEW ISSUE**

**Rating for the Bonds: S&P: "AAA"**

*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 \$1,505,000 General Obligation Bonds, Series 2014 A (Tax-Exempt) (the "Bonds") is excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986 and interest on the 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 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 \$400,000 General Obligation Bond Anticipation Notes (Federally Taxable) (the "Notes") is fully includable in gross income for federal income tax purposes. Under existing law, income from the Bonds and the Notes is exempt from taxation by the State of Rhode Island (the "State") or any instrumentality of the State, 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 or the Notes. See "TAX STATUS" and "APPENDIX C" herein.*

**PRELIMINARY OFFICIAL STATEMENT  
of the  
TOWN OF PORTSMOUTH, RHODE ISLAND  
Relating to  
\$1,505,000 GENERAL OBLIGATION BONDS, SERIES 2014 A (Tax-Exempt)**

**Dated: Date of Delivery** **Due: As shown on the inside front cover**  
**and**  
**\$400,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES (Federally Taxable)**

**Dated: October 23, 2014** **Due: October 22, 2015**

<u>Amount</u>	<u>Interest Rate</u>	<u>Reoffering Yield</u>	<u>CUSIP No.*</u>
\$400,000	%	%	

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 April 15, 2015 and semiannually thereafter on April 15 and October 15 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 15 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 Bonds are subject to optional redemption prior to maturity, as further described herein. The Notes are not subject to optional redemption prior to maturity.**

**The Bonds will be designated as "qualified tax exempt obligations" pursuant to Section 265(b)(3) of the Code.**

*The Bonds are being offered for sale at 11:00 A.M. on October 8, 2014 and the Notes are being offered for sale at 11:30 A.M. on October 1, 2014. Reference is made to the official Notice of Sale for conditions of such sale. 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. 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 October 23, 2014.*

**Public Financial Management, Inc.**

Official Statement Dated October \_\_, 2014

\*See inside front cover.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which said offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any jurisdiction. A definitive Official Statement with respect to these securities will be made available concurrently to their sale.

**\$1,505,000 GENERAL OBLIGATION BONDS, SERIES 2014 A (Tax-Exempt)**

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES OR YIELDS**

<u>Maturity</u> <u>October 15</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> <u>No.*</u>	<u>Maturity</u> <u>October 15</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> <u>No.*</u>
2015	\$155,000				2020	\$150,000			
2016	150,000				2021	150,000			
2017	150,000				2022	150,000			
2018	150,000				2023	150,000			
2019	150,000				2024	150,000			

\*The CUSIP Numbers have been assigned by an independent company not affiliated with the Town or the Financial Advisor and are included solely for the convenience of the holders of the Bonds and the Notes. Neither the Financial Advisor nor the Town is 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.

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**This Preliminary Official Statement is made available to prospective purchasers of the Bonds and the Notes for review prior to purchase and is in a form deemed final by the Town as of its date (except for permitted omissions) for purposes of paragraph (b)(1) of Securities and Exchange Commission Rule 15c-2-12 (the "Rule"), but is subject to revision, amendment and completion (as so revised, amended or completed such document will be referred to as the "Final Preliminary Official Statement").**

**This Preliminary 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 Preliminary 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 Preliminary 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 Preliminary 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 and the Notes will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds and the Notes 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 Preliminary Official Statement or, except for the Town, approved the Bonds and the Notes 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 Preliminary Official Statement. The financial advisor has reviewed the information in this Preliminary 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 Preliminary Official Statement. The Underwriter has reviewed the information in this Preliminary 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 Preliminary 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 Preliminary Official Statement.**

**PRELIMINARY OFFICIAL STATEMENT**  
of the  
**TOWN OF PORTSMOUTH, RHODE ISLAND**  
Relating to  
**\$1,505,000 GENERAL OBLIGATION BONDS, SERIES 2014 A (Tax-Exempt)**  
and  
**\$400,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES (Federally Taxable)**

This Preliminary Official Statement provides certain information concerning the Town of Portsmouth, Rhode Island (the "Town") in connection with the issuance by the Town of its \$1,505,000 General Obligation Bonds, Series 2014 A (Tax-Exempt) dated the date of delivery (the "Bonds") and its \$400,000 General Obligation Bond Anticipation Notes (Federally Taxable) dated October 23, 2014 (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 April 15, 2015 and semi-annually thereafter on April 15 and October 15 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 15 of each year as set forth on the 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 AND THE NOTES- Book-Entry Only System" below.

Principal of and interest 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.

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 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**

Bonds in the amount of \$703,000 will be issued pursuant to §45-12-2 of the Rhode Island General Laws, a resolution of the Town Council adopted May 14, 2014, the 2014-15 Operating Budget the Town adopted by ordinance on June 23, 2014, and an ordinance of the Town Council duly adopted on September 22, 2014 to finance various capital projects.

Bonds in the amount of \$802,000 will be issued pursuant Chapter 367/469 of the Public Laws of 2007 and Resolution 2008-08-12 of Town Council adopted August 12, 2008 to finance acquisition of land in the Town.

Notes in the amount of \$400,000 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.

### **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 Preliminary 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 Preliminary 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 the Bonds and the Notes in the principal amounts of such issue, 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds and the 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 Preliminary Official Statement.* In reading this Preliminary 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 Preliminary 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.

### **Redemption Prior to Maturity**

#### *The Bonds*

The Bonds maturing on or after October 15, 2022, shall be subject to optional redemption prior to their stated dates of maturity, at the option of the Town, on or after October 15, 2021, 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 Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

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.

#### *The Notes*

The Notes are not subject to redemption prior to maturity.

### **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 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 §45-15-5 permits any person who shall have any claim for money due from any town to present a demand for such claim to the town council and, if satisfaction of such claim is not made within forty (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 monies available in the town treasury are insufficient to pay the judgment, Rhode Island General Laws §45-15-6 authorizes the town treasurer to apply to any justice of the peace for an order requiring the town to hold a town meeting "for the speedy ordering and making a tax" to be collected for such purpose. If the town council shall fail to voluntarily assess a tax sufficient to satisfy judgment on a town debt, the Superior Court is authorized to order the assessors of the town "to assess upon the ratable property thereof, and the collector to collect, a tax sufficient for the payment of such judgment, with an incidental costs and charges, and the expense of assessing and collecting the tax."

The rights of the holders of the Bonds and the 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 appropriate cases.

### *Statutory Lien*

Section 45-12-1 of the Rhode Island General Law provides 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 §45-12-1 have not been adjudicated in any Chapter 9 bankruptcy proceeding. The amendments are summarized, in part, as follows:

The 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 §45-12-1 is personally liable to the city or town for any amounts not expended in accordance with such appropriations. The 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 §45-12-1. Any municipal employee or official who violates such provisions of §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 statutory provisions described above 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 §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. The intercept mechanism is not a state guarantee. 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 Director of Revenue of the State. The Town has never made such a certification. Upon receipt of the certificate, the Director of Revenue 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.

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 (3) days after receipt of the certification from the Director of Revenue 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 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 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 §45-13-9 of the Rhode Island General Laws; (ii) as school housing aid pursuant to §§16-7-35— 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 §§16-7-15 — 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 §44-18-18.1 and the hotel tax pursuant to §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 of Rhode Island 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 §45-15-5 — 45-15-7 described above under the heading "*Claims for Payments Due*", the statutory lien provided for in §45-12-1 and state aid intercepts such as that provided for in §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 Federal 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 (the "Town"), 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. John C. Klimm is the current Town Administrator, having been appointed in February 2012. Mr. Klimm, prior to becoming the Town Administrator, previously served as the Town Manager of Barnstable, MA for 12 years and prior to becoming town manager, was an elected state legislator for eight years, served as a Selectman in Barnstable, and as the Southeast Regional Director for the Massachusetts Housing Partnership.

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. Mr. Lathrop has held this position since February 2014 and had previously worked in the Town of Westerly as the consolidated Town and School Finance Director and maintains a CPA practice.

## Principal Officials

Office	Name	Manner of Selection	Term	Expires	Length of Service
Town Administrator	John C. Klimm	Appointed	3 year	2/12/2015	2.5 years
Finance Director	James Lathrop	Appointed	3 year	2/10/2017	0.5 years
Town Solicitor	Kevin Gavin	Appointed	n/a	n/a	1.75 years
Superintendent of Schools	Ana C. Riley	Appointed	3 year	6/10/2017	0.25 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 “Budgets” herein.

### *Fire*

The Fire Department employs 32 full-time professional firefighters, a fire chief and a deputy chief, 3 full-time and 2 part-time civilian dispatchers who staff 1 fire station. See “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 June 30, 2013 and 2014, the Town has appropriated \$445,477 and \$463,296, respectively.

### *Recreation*

Portsmouth 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.

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. The campground contains several small ponds which provide fishing and boating. Hiking and walking trails are also available. The campground is self-supporting and generates sufficient surplus funds for future development.

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 compaction 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 “MURF” (Multi Use Recovery Facility) in Johnston. The Town does not provide curbside removal; however, private haulers can be contracted at the homeowner’s expense.

### *Sewers*

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

*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 they were no longer in business. As the turbine did not generate sufficient revenue in the current year to service the debt, the Town general fund advanced \$228,058 to the Wind Turbine Generator Fund (WTGF) to pay its debt obligations as they became due. At June 30, 2013, the total amount advanced by the Town (\$434,513) and the School Department (\$57,784) have been reclassified and reported as a long-term advance payable in the WTGF and a long-term advance receivable in the Governmental Activities column in the statement of net position at June 30, 2013.

The Town is in the process of reviewing alternatives to address the failed wind turbine which includes the repair, sale or possible removal.

**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 2008-2012 American Community Survey, over 94 percent of Town residents over the age of 25 completed high school and over 49 percent hold a bachelor’s or higher degree. The average public school enrollment for the 2013-14 school year is approximately 2,647 students and there are 232 teachers.

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

School Year	Enrollment	
2009-10	2,859	
2010-11	2,796	
2011-12	2,715	
2012-13	2,658	
2013-14	2,611	
2014-15	2,521	*
2015-16	2,479	*
2016-17	2,427	*
2017-18	2,379	*
2018-19	2,328	*

\*Projected

Source: Rhode Island Department of Education.

**Municipal Employees (Full-Time)**

<i>Fiscal Year Ending 6/30</i>	2010	2011	2012	2013	2014
Municipal Government	103	103	102	102	105
School Department	328	328	325	318	323
<b>Total Employees</b>	431	431	427	420	428

## Employee Relations

Employees	Organization	Number of Employees	Current Contract Expiration Date
Police Officers	International Brotherhood of Police Officers, Local #302	31	6/30/2014 *
Firefighters	International Association of Firefighters, AFL-CIO, Local #1949	34	6/30/2016
Public Works	National Association of Government Employees, Local R.I. #280	14	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)	17	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 (the "Defined Contribution Plans") for: (1) full time National Association of Government Employees (NAGE) Local 280, Portsmouth Municipal Employees Association (PMEA) Local 871 and non-union employees (Defined Supplemental Plan), (2) full time police officers hired after July 1, 2010 (Police Plan), (3) NAGE Local 280 members hired after July 1, 2010 (DPW Plan), and (4) the Town Administrator's Plan. 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.

### 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, 2013, there are a total of 316 participants in the plan including 165 active members and 119 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 <sup>(1)</sup>	Funded Ratio
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
2008	2,088,317	2,088,317	100	17,295,057	63.8

(1) Assumes asset appreciation of 8.0% annually for fiscal years 2008 - 2012 and assumes asset appreciation of 6.75% annually for fiscal year 2013.

Contributions in the amount of \$2,264,398 and \$3,515,288 have been budgeted for fiscal years 2014 and 2015, respectively. The contributions for fiscal year 2014 were budgeted less than the annual required contribution in anticipation of pension change being made through union negotiation. The contributions for fiscal year 2015 represent 100% of the annual required pension costs.

Effective July 1, 2013, the Town and the Unions agree 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 existing 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). Depending on each union negotiation, essentially these employees will not accrue any additional benefits from the Town after June 30, 2013 however they continue to contribute to the defined benefit plan and be able to retain their earnings from the Town thru June 30, 2013.

#### *Police Employees (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 a COLA of 3%.

#### *Fire Employees (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 a COLA of 1.7% to 3% depending on date of retirement. Fire employees hired prior to July 1, 2013 are eligible for cost of living adjustments (COLA) 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 the Fire Chiefs and Deputy Fire Chiefs who contribute 6.5%.

#### *Town Hall Union Employees (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 a COLA of 1.7% to 3% depending on date of 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% effective July 1, 2014.

#### *Town Hall Non-Union (Management) Employees (Town Plan)*

Town Hall non-union employees hired on or after July 1, 2004 contribute 5.5% of earnings until the maximum benefit is earned. 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 (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. Town Hall employees are eligible for a COLA of 1.7% to 3% depending on date of retirement. 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). Non-certified School employees covered by the Town Plan contribute 4% of earnings.

#### *Public Works Employees (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%. Public Works employees hired after July 1, 2004 who are management or nonunion contribute 5.5% of earnings.

*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, 2011. Based upon these results, 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, 2012 valuation, the plan’s funded ratio declined to 49.5% and the Annual Required Contribution for fiscal year 2014 was \$4,381,321. 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 (“COLA”) freezes for five years, COLA reductions from 3.0% to 1.70% and the establishment of the Defined Contribution Plans for new employees.

*Defined Contribution Plans*

In addition to the Town Plan and the Teachers Plan, 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 ICMA.

<b>Defined Contribution Plans</b>			
<b>Plan Name</b>	<b>Participants</b>	<b>Employee Contribution</b>	<b>Employer Contribution</b>
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%
Police Chief	Police Chief	8.00%	8.00%
Town Administrator Plan	Town Administrator	32.00%	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	8.00%	8.00%

*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.

*Teachers Plan*

The Town provides retirement benefits to its public school teachers through its participation in the Employees' Retirement System of Rhode Island, 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.

Rhode Island General Law currently sets the defined benefit contribution rates of participating employees at 3.75% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years initially, but in conjunction with the implementation of RIRSA the amortization period was reset to 25 years as of June 30, 2010; and (c) interest on the unfunded frozen actuarial liability. The Town participates in the optional Teachers Survivor Benefits Fund, whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits.

As prescribed by Rhode Island General Law, the State pays the entire portion of the defined benefit annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2013, the Town's actuarial required contributions were 14.01% of participant salary (19.29% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 7.88% (\$1,798,946).

Effective with the June 30, 2011 actuarial valuation, the funding method was changed to the Individual Entry Age Cost Method in order to be consistent with the Act and GASB statement No. 27 standards. The ERSRI does not maintain separate data for each of its participants. The ERSRI's website contains additional information ([www.ersri.org](http://www.ersri.org)).

The following are comparative highlights for 2009 through 2013 for the Teachers' Retirement System as a whole:

	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
Active Participants	13,193	13,212	13,381	13,530	13,689
Pensioners & Beneficiaries	10,776	10,622	10,347	10,213	9,749
Inactive Participants	2,947	2,808	2,689	2,521	2,466
Net Assets	\$ 3,601,811,359	\$ 3,499,847,941	\$ 3,626,646,745	\$ 3,196,511,775	\$ 2,962,026,384
Employer Contributions	179,244,463	207,800,343	183,762,262	178,122,248	193,923,476
Member & Other Misc. Contributions	36,899,338	91,086,659	94,342,939	94,117,458	89,226,214
<b>Total Contributions</b>	<b>\$ 216,143,801</b>	<b>\$ 298,887,002</b>	<b>\$ 278,105,201</b>	<b>\$ 272,239,706</b>	<b>\$ 283,149,690</b>
Investment Income	370,887,631	50,871,632	606,935,285	402,693,600	(765,400,473)
<b>Total Income Available for Benefit Payments</b>	<b>\$ 587,031,432</b>	<b>\$ 349,758,634</b>	<b>\$ 885,040,486</b>	<b>\$ 674,933,306</b>	<b>\$ (482,250,783)</b>
Benefit Payments	(485,296,592)	(475,856,366)	(455,121,047)	(440,029,866)	(413,096,770)
Transfer & Other Adjustments	228,578	(701,072)	215,531	(418,049)	-
<b>Excess of Income Over Expenses</b>	<b>\$ 101,963,418</b>	<b>\$ (126,798,804)</b>	<b>\$ 430,134,970</b>	<b>\$ 234,485,391</b>	<b>\$ (895,347,553)</b>
Funded Ratio	58.1%	58.8%	59.7%	48.4%	58.1%

Compiled from Employee Retirement System of Rhode Island - Annual Report 2009-2013

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 2013, 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:

<b>Employees' Retirement System of Rhode Island (Teachers)</b>			
<b>Fiscal Year</b>	<b>Annual Required Pension Cost</b>	<b>Actual Contribution</b>	<b>Percent Contributed</b>
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
2009	1,707,253	1,707,253	100
2008	2,218,021	2,218,021	100

Contributions in the amount of \$2,532,819 and \$2,773,808 have been budgeted for fiscal years 2014 and 2015, respectively. These contributions 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 2014 and 2015, respectively.

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

Other than police, certain 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 Retirement Security Act of 2011, are being 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. The parties to the various lawsuits were ordered to participate in mediation which resulted in a settlement that required approval of eligible members, however, eligible members voted to reject the settlement. A trial date has not yet been set.

An adverse judgment to the State rendered in the litigation could significantly increase the Town's Annual Required Contribution ("ARC"). If there were to be a significant increase in the ARC, the Town may be required to (i) raise additional revenue, (ii) reduce Town services, (iii) implement a combination of the foregoing, or (iv) take any other measures as necessary.

#### *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. For the Town, the first annual financial report under the new standards will be for the fiscal year ending June 30, 2014. Calculations and the format of disclosures under GASB 67 and 68 will be 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 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 ten. 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, 2013 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 five six years, the Town has made the following contributions:

<b>Town OPEB Plan</b>					
<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percent Contributed</b>	<b>Unfunded Liability<sup>(1)</sup></b>	<b>Funded Ratio</b>
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 2011-2013 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 2013, 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, 2013 the School Department Trust 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 five years, the Town has made the following contributions:

<b>School OPEB Plan</b>					
<b>Fiscal Year</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution</b>	<b>Percent Contributed</b>	<b>Unfunded Liability</b>	<b>Funded Ratio</b>
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**

The 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 2013, accounting for approximately 31% of private employment.

The Portsmouth Business Park a 45-acre business park, currently contains light industrial manufacturing firms. The 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 22 companies employing 216.

Raytheon Company, Naval and Maritime Integrated Systems, which currently employs approximately 1,753 people, are the largest private employer in the Town. This division is primarily involved in the research, development and manufacture of sonar and electronic equipment.

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 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 United States Navy remains the most significant public sector employer on Aquidneck Island and still contributes significant employment opportunities in the area.

### **Economic Development**

The outlook for economic development in Portsmouth has improved over the past year. Indications of positive growth are tied to new commercial construction, renewed job expansion by some sectors and the development of two large land tracts that are positioned for development in the future. Growth of existing local businesses may stimulate additional new development. While new development has been limited, 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. While the State's unemployment rate is among the highest in the nation, Aquidneck Island's is lower than other parts of Rhode Island.

In 2002, with assistance of the Town's federal delegation prime excess Navy land in the middle of the Melville Marine District was approved for release to bolster the Town's local marine trades. The Rhode Island Commerce Corporation, formerly the Rhode Island Economic Development Corporation, 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 this year, 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 very high demand for space in the area.

The fact that Portsmouth is surrounded by water has been the major factor in creating its impressive history as a leader in the marine trades industry. With three world class yacht companies in the Town, 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 have a renowned reputation within the industry for their high quality of work.

A recent survey of the 39 marine companies in Portsmouth reflects that employment continues to improve. Total employment by the marine trades in the Town 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 very 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 continues a very active recruiting and job placement initiative to aid companies in identifying employment opportunities and filling numerous full time positions. Their recent 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. In spite of the very poor employment picture for the State, principals at the companies indicate that the worst is over and that many eliminated positions will be reactivated.

Marine companies and associated marine trades have long been a significant contributor to the State. 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 rousing success of the Cup races has led to attracting additional major marine races, regattas and associated events to be scheduled in the area as well as a possible return of the America's Cup events. The race activity provides a big boost for the marine industry as well as area tourism and hospitality businesses. The races attracted participants, observers and media from around the world.

A new East Main Road/Rt. 138 retail building built on speculation has quickly gained tenants and is already at 80% leased. The building is only 10,000 square feet but it is indicative of a renewed interest by developers and the availability of financing to encourage new development.

New construction is also underway on Portsmouth's other primary artery, West Main Road/Rt. 114. Clocktower Square was begun in 2007 on nine acres with construction of two buildings. The first phase of the development consists of a restaurant and a 26,000 square foot two story building. The first buildings quickly filled out with a mix of uses. The facilities have small local retail and medical offices, including scanning services. Recently construction has begun on an additional 26,000 square foot building. Marketing is underway to attract a medical and general service offices as well as specialty retail. Occupancy is scheduled for late 2014. The Clocktower Square property is approved for two additional buildings. When completed, the \$15 million, multi-phased project will consist of 6 buildings.

In the early '90s, forward looking citizens and local governments saw the need to plan ahead. Years of planning and gathering of community desires 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.

In Portsmouth, the focus for much of this plan is the potential reuse of 146 acres of former Navy petroleum tank farms along the Eastern shore of Narragansett Bay. The release of the Navy land has been a key planning topic for several years. In the spring of 2008, the Navy made it official that the former tank farms will be made available. The land is ideally situated along the West coast of Aquidneck Island, adjacent to Rt. 114, the existing cluster of Melville marine businesses and the Raytheon Company campus. There is much planning and analysis that must be accomplished to take advantage of the valuable land. The government procedures for transfer of the land are extensive and very rigorous.

Following prescribed disposal procedures of the Navy, Portsmouth created the Portsmouth Redevelopment Agency (PRA). The local PRA is empowered to own, sell and lease land on behalf of the Town. Initial ideas for reuse of some Navy land envision a future business park focused on attracting a combination of marine trades, defense, homeland security, municipal facilities, improved transportation facilities and open space. There is also interest in creating a solar farm on a portion of the land.

Creating new space for marine trades and defense work will complement the existing concentration of similar businesses. The marine trades in the Melville area are in need of expansion space. Inquiries have been received from marine ventures outside the area 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 of the key economic growth clusters identified by the State. These industries receive very

active support from State agencies, including workforce development, to assist in attracting new and support for existing businesses.

Additional future economic growth is possible on 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 DEM and CRMC permits have been approved for a large marina and related commercial marine facilities. The potential for the new marina is drawing much attention, as it will ease a scarcity of boat slips in Rhode Island and act as a potential business growth generator. Having the new marina located adjacent to the 96 acre Melville Marine District makes it a potential win-win. The 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. The completion of all phases of the project will involve over \$130 million. The project is in the initial planning stage and has received Planning Board approval to include 385 residential units in a village setting.

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

Planned development along the West Side is being encouraged through the actions of 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 zoning ordinances fully support the incorporation of “smart growth” principles. The zoning ordinances include enforceable performance and preservation standards that will ensure site development of benefit to the Town. The Planning Department is reviewing the existing zoning process to identify changes that can expedite permitting procedures.

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

Raytheon recently consolidated all Portsmouth activity in one building. With this move they are actively marketing the sale and or lease of 350,000 square feet in three light industry buildings as well as 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 synergy of being located near existing defense and marine companies should make the space very attractive.

Vacant parcels in the Town Center area are available for development of a mixed use project. Proposed changes to 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. Public feedback at hearings is supportive.

A new medical diagnostic services building was built by Newport Hospital within the Town Center area adjacent to an existing medical office building. The new facilities eliminate 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 now 100% leased.

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 is the 14 story tower consisting of exclusive condominiums, penthouses and amenities.

O’Neill Properties, the developer of the Carnegie projects, also acquired 73 acres of waterfront property just north of the Carnegie facilities for their most recent project, “The Newport Club.” This project includes a recently completed

indoor equestrian riding and training center and tennis club. The resort development will include 152 vacation homes, a small marina and other club amenities.

Portsmouth is fortunate to have a large portion of the Town in a State designated Enterprise Zone. The Enterprise Zone program offers incentives through property tax relief for new development as well as State income tax credits for adding new jobs. As one of eleven areas in the State where special economic incentives are available, it serves as an additional attraction to locate and expand in Portsmouth. In the fall of 2014, the Town expects to receive approval from the Rhode Island Commerce Corporation to continue the Enterprise Zone program for an additional five years.

### Population

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

<b>Year</b>	<b>Town</b>	<b>% Change Increase (Decrease)</b>	<b>State</b>	<b>% Change Increase (Decrease)</b>
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:

<b>Year</b>	<b>Town</b>	<b>Rhode Island</b>
2012	\$41,554	\$30,005
2010	42,099	28,707
1999	28,161	21,688
1989	17,899	14,981
1979	7,554	6,897

Source: U.S. Bureau of Census, 2000 and American FactFinder (2010/based on 2006-2010 American Community Survey & 2012/based on 2008-2012 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.

	<b>1979</b>	<b>1989</b>	<b>1999</b>	<b>2010</b>	<b>2012</b>
Portsmouth	\$21,539	\$46,669	\$68,577	\$77,712	\$73,308
Rhode Island	19,448	39,172	52,781	54,902	56,102
United States	19,917	35,225	50,046	51,914	53,046

Source: U.S. Bureau of Census, 2000 and American FactFinder (2010/based on 2006-2010 American Community Survey & 2012/based on 2008-2012 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 represents 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 2009 to 2014:

<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 <sup>(1)</sup>	15	9,177,600

Source: Town Building Inspector.

(1) Through June, 2014.

## Unemployment Rate

	<u>Annual Average Unemployment Rate</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Portsmouth.....	8.8%	9.8%	9.8%	8.6%	8.2%
Rhode Island.....	10.9	11.7	11.2	10.3	9.5
United States.....	9.3	9.6	9.6	8.1	7.4

Not Seasonally Adjusted

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

## Monthly Unemployment Rate

	<u>Monthly, as of 2014</u>					
	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
Portsmouth.....	10.0%	9.1%	8.7%	6.5%	6.6%	5.5%
Rhode Is land.....	10.1	9.4	9.1	7.8	8.2	7.1
United States.....	7.0	7.0	6.8	5.9	6.1	6.3

Not Seasonally Adjusted

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

## Employment

### Rhode Island Department of Labor Training Quarterly Census of Employment & Wages Town Summary - 2013 Annual

In 2013, the Town had 519 private businesses and governments subject to employment security taxes with quarterly payrolls which totaled \$299,622,434 and the average number of persons employed was 5,717 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>
<b>Total Private &amp; Government</b>	519	5,717	\$299,662,434
<b>Total Private Only</b>	503	5,121	265,739,639
Agriculture, Forestry, Fishing & Hunting	16	44	1,151,277
Mining	-	-	-
Utilities	1	4	71,904
Construction	60	290	13,469,711
Manufacturing	23	1,586	140,137,173
Wholesale Trade	23	114	8,282,410
Retail Trade	55	482	14,613,721
Transpiration & Warehousing	9	80	2,310,399
Information	12	80	5,046,786
Finance & Insurance	18	64	2,986,725
Real Estate & Rental & Leasing	15	143	4,772,540
Professional & Technical Services	73	152	9,251,670
Management of Companies & Enterprises	4	21	1,317,654
Administrative Support & Waste Mgmt.	36	206	672,645
Educational Services	17	270	10,884,479
health Care & Social Assistance	45	840	27,252,518
Arts, Entertainment, & Recreation	10	101	2,653,512
Accommodation & Food Services	40	475	8,827,993
Other services, (except Public Administration)	52	170	5,984,522
Unclassified Establishments	-	-	-
<b>Government</b>	17	596	33,922,795

Source: Rhode Island Department of Labor and Training.

#### Major Private Employers

<u>Employer</u>	<u>Nature of Business</u>	<u>Employee's</u>
Raytheon Company	Defense, homeland security	1,250
Visiting Nurse Services	Medical & social services	250
New England Boatworks	Marine construction, repair, sales, storage & marina	127
The Hinckley Company	Marine repair, storage, sales, Brokering & marina	115
Hodges Badge	Design & manufacture of awards, Ribbons, mementos	91
Vanguard Sailboats	Manufacturer of recreational sailing Craft	80
International Manufacturing Svcs.	Chip & resistor manufacturer	47

Source: Town Officials.

## INDEBTEDNESS OF THE TOWN

### Debt Limit

Except as provided below, under Rhode Island Law the Town 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 Town. 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. In July 2007, the Rhode Island State Legislature enacted legislation providing 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 satisfies certain requirements.

The State Legislature may by special act permit the Town to incur indebtedness outside the limitations imposed by the 3% debt limit. As of June 30, 2014, the Town had \$4,180,941 in bonds and bond anticipation notes outstanding which are subject to the 3% debt limit. The 3% debt limit of the Town is \$97,251,568 based on assessed valuations as of December 31, 2013 of \$3,241,718,940, leaving a remaining 3% debt limit capacity of \$93,070,628. The Town has no debt outstanding under the ministerial approval process.

In addition to debt authorized within the 3% debt limit and debt authorized by special act of the Legislature, Rhode Island General Laws §45-12-11 authorizes the Rhode Island State Director of Administration, upon petition by a municipality, to authorize such municipality to incur indebtedness in excess of the 3% debt limit whenever the Director shall determine that the sums appropriated by the municipality or its funds available are insufficient to pay the necessary expenses of the municipality. The Town has never requested the State Director of Administration to authorize indebtedness of the Town under §45-12-11.

### Actual Bonded Debt Service Requirements

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

<b>Fiscal Year</b>	<b>GO Bonds</b>		<b>CREB Loans</b>		<b>This Issue of Bonds</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2015	\$ 2,234,700	\$ 433,263	\$ 199,714	\$ 21,956			\$ 2,889,633
2016	2,130,000	377,839	199,714	19,435			2,726,988
2017	1,570,000	315,122	199,714	16,914			2,101,750
2018	1,313,000	267,068	199,714	14,393			1,794,175
2019	1,265,000	219,195	199,714	11,872			1,695,781
2020	1,074,000	172,958	199,714	9,351			1,456,023
2021	1,064,000	130,581	199,714	6,830			1,401,125
2022	604,000	95,379	199,714	4,309			903,402
2023	474,000	70,352	199,714	1,788			745,854
2024	474,000	50,391	26,381	264			551,035
2025	384,000	31,217	-	-			415,217
2026	280,000	16,343	-	-			296,343
2027	105,000	5,645	-	-			110,645
2028	105,000	2,823	-	-			107,823
2029	-	-	-	-			-
2030	-	-	-	-			-
2031	-	-	-	-			-
2032	-	-	-	-			-
2033	-	-	-	-			-
2034	-	-	-	-			-
2035	-	-	-	-			-
<b>Total</b>	<b><u>\$ 13,076,700</u></b>	<b><u>\$ 2,188,173</u></b>	<b><u>\$ 1,823,809</u></b>	<b><u>\$ 107,111</u></b>			<b><u>\$ 17,195,794</u></b>

## Direct Debt Summary

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
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
<b>Total Direct Debt</b>	<b>\$ 16,908,082</b>	<b>\$ 17,444,282</b>	<b>\$ 15,964,482</b>	<b>\$ 14,261,411</b>	<b>\$ 13,076,700</b>

## 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: Towns Tax Collector/Assessor.

## Authorized But Unissued Debt

<u>Authorization</u>	<u>Purpose</u>	<u>Original Authority</u>	<u>Bonds Issued</u>	<u>Remaining Authority</u>
Chapters 126/323	Renovation of Town	\$2,164,880	\$2,084,880	\$80,000
RI Public Laws of 1988	Buildings			
Chapters 126/323	Purchase of Fire	\$140,000	\$130,000	\$10,000
RI Public Laws of 1988	Apparatus			
Chapters 126/323	Purchase of Public	\$14,000	\$0	\$14,000
RI Public Laws of 1988	Works Equipment			
Chapter 616	Open Space	\$1,000,000	\$29,000	\$971,000
RI Public Laws of 1987	Acquisition/Preservation			
Chapters 367/469	Open Space and	\$4,000,000	\$3,032,000	\$968,000
RI Public Laws of 2007	Recreation			
<b>Totals</b>		<b>\$7,318,880</b>	<b>\$5,275,880</b>	<b>\$2,043,000</b>

## 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

The Town currently has no outstanding Bond Anticipation Notes.

## Overlapping Debt

The Portsmouth Water and Fire 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, 2013 in the amount of \$3,180,477. 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, 2013 have been audited by Marcum LLP, Certified Public Accountants. The audit report for the year ended June 30, 2013 is included in Appendix B.

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 basic education aid to each municipality and school district in the State, subject to annual appropriation by the General Assembly. 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 Rhode Island General Assembly will continue this program or appropriate sufficient funds for its implementation. State school 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. In fiscal year 2013 the Town received \$4,794,137 and in fiscal year 2014 the Town received \$4,570,144. The Town expects to receive \$4,303,672 in fiscal year 2015.

#### *School Construction Aid*

Pursuant to Rhode Island General Laws §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 30% 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. For the fiscal year ended June 30, 2014, the Town received \$395,156 in construction aid. For the fiscal year ending June 30, 2015 the Town expects to receive \$395,156 in construction aid. 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 the Rhode Island Health and Educational Building Corporation. The legislation authorizing State School Construction Aid is subject to future change and all State aid is subject to annual appropriation by the Rhode Island General Assembly.

Commencing with fiscal year 1990-91, school housing project costs include the cost of interest on any bond issued after July 1, 1988.

State aid reimbursement for school construction projects is based on the share ratio established for that year by the Rhode Island Department of Education. For fiscal year 2014, the Town's share ratio is 40.0%. This ratio can vary from year to year. The recently enacted funding formula also raises the minimum reimbursement percentage to 40% for the fiscal year 2012 payments and thereafter.

### Reporting Requirements of Municipalities and School Districts

State law imposes 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 §45-12-22 (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 Office of Municipal Affairs 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 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 Office of Municipal Affairs no later than thirty (30) days after completion of his or her monthly budget analysis.
- 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 immediately develop a plan to eliminate the accumulated year-end deficit by annual appropriation over no more than five (5) years. This plan must be submitted to the State Auditor General for approval.

#### *Restrictions and Requirements*

- No municipality can sell long-term bonds in order to fund a deficit without prior approval by the Rhode Island Auditor General and the Director of the Rhode Island Department of Administration.
- No municipality can incur expenditures or 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 Office of Municipal Affairs, through the Director of Administration, 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 financial review commission pursuant to Rhode Island General Laws §45-9-3; 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 Auditor General or the Director of Administration may petition the Superior Court to order the school committee or board to cooperate; and
  - The Director of Administration 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.

## **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 subject to 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:

	<b>2014</b>	<b>2015</b>
<b>REVENUES</b>	<b>Adopted</b>	<b>Adopted</b>
Taxes.....	\$48,031,939	\$49,208,386
Intergovernmental.....	5,634,102	5,311,301
Licenses, permits & fees.....	2,394,464	2,457,850
Leases & Rentals.....	784,255	900,846
<b>TOTAL REVENUES</b> .....	<b>\$56,844,760</b>	<b>\$57,878,383</b>
<b>EXPENDITURES</b>		
Municipal.....	\$18,624,922	\$19,892,459
Education.....	34,755,237	35,086,474
Debt Service.....	3,203,453	2,899,450
<b>TOTAL REVENUES</b> .....	<b>\$56,583,612</b>	<b>\$57,878,383</b>

**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.

Certain Town school buildings currently require fire code upgrades. The Town does not have authorization to finance these proposed improvements and is supporting legislation to extend the timetable for completion.

## 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. Through and including its fiscal year 2007, the maximum amount is five and one-quarter percent (5.25%) in excess of the amount levied for the prior year. The maximum amount a city or town may levy in excess of the amount levied for the prior fiscal year is gradually decreased from five and one-quarter percent (5.25%) to four percent (4.0%) by decreasing the amount a city or town may levy by one-quarter percent (0.25%) annually beginning in 2008 and ending in 2013. For fiscal year 2013 and subsequent years the tax levy cap is four percent (4.00%) in excess of the prior year levy.

Any levy pursuant to this section in excess of the percentage increase as specified in Section 44-5-2 shall 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 city or town with a financial town meeting, the majority of electors present and voting at the financial town meeting.

Section 44-5-2 makes it clear that nothing contained in that Section 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.

### Analysis of Taxable Property

The following table shows an analysis of tax levy for Fiscal Year 2014 in the Town by class:

Class	Town	State
	2014	Average 2014
Residential	85.24%	73.86%
Commercial/Industrial	8.89%	17.21%
Tangible	1.77%	3.50%
Motor Vehicles	4.09%	5.43%
Total	<u>100.00%</u>	<u>100.00%</u>

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

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

	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Real property	\$ 3,815,491,200	\$ 3,194,188,000	\$ 3,183,478,400	\$ 3,198,734,900	\$ 3,008,653,825
Motor vehicles	161,943,404	167,343,161	174,418,799	173,244,400	173,541,976
Tangible personal property	67,737,408	58,963,767	55,679,640	58,439,219	59,523,139
Total	4,045,172,012	3,420,494,928	3,413,576,839	3,430,418,519	3,241,718,940
Less: Exemptions and motor vehicle phase out					
Real property	(133,429,357)	(94,871,230)	(85,391,998)	(86,554,407)	(79,457,068)
Motor vehicles	(82,014,635)	(83,697,717)	(86,022,718)	(85,892,085)	(86,158,159)
Tangible personal property	(2,376)	(2,276)	(2,216)	(2,136)	(2,080)
Total	\$ 3,829,725,644	\$ 3,241,923,705	\$ 3,242,159,907	\$ 3,257,969,891	\$ 3,076,101,633

Source: Audits & Town Tax Collector/Assessor.

### Property Tax Levy and Collections

<b>Fiscal Year</b>	<b>Total Tax Levy</b>	<b>Additions</b>	<b>Abatements &amp; Adjustments</b>	<b>Amount to be Collected</b>	<b>Current Year Collections</b>	<b>Adjusted % Collected</b>	<b>Uncollected<sup>(1)</sup></b>
2015	\$ 49,187,930	\$ 87,625	\$ (7,935)	\$ 49,254,103	-	-	-
2014	48,021,888	65,149	(20,404)	48,066,633	46,443,362	96.62%	1,558,122
2013	46,892,536	25,907	(25,180)	46,893,263	45,485,323	97.00%	1,434,166
2012	45,807,376	86,874	(204,841)	45,689,409	43,972,304	96.24%	1,744,183
2011	44,174,990	32,687	(31,737)	44,175,940	41,191,864	93.25%	3,001,693
2010	42,275,881	286,644	(97,487)	42,660,012	40,780,578	95.59%	1,705,155
2009	40,361,114	72,662	(80,328)	40,514,104	38,685,261	95.49%	1,711,072

<sup>(1)</sup>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, 2013.

<b>Taxpayer</b>	<b>Nature of Business</b>	<b>Assessed Value</b>
Carnegie Tower Development Co.	Luxury Condos	\$65,277,400
Raytheon Company	Military Contractor	38,680,002
GMH Military Housing	Military Housing	22,687,900
Carnegie Abbey Club Acquisition	Resort Management	18,547,800
Narragansett Electric	Utility	16,671,594
Talaria Real Estate Holdings Inc.	Boat Building	16,044,400
TDS Realty LLC	Boat Building/Marina	15,549,355
Prescott Point LLC	Real Estate	15,183,900
ER Real Estate Holdings II LLC	Real Estate	15,093,215
Order of St. Benedict	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 undetermined at this time.

## TAX STATUS

In the opinion of Moses Afonso Ryan Ltd., Bond Counsel to the Town ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 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 Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Interest on the Notes is fully includible in gross income for federal income tax purposes.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be includible in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds and Notes is free from taxation by the State or any political subdivision or other instrumentality of the State. Bond Counsel has not opined as to other Rhode Island tax consequences arising with respect to the Bonds and Notes. Prospective Bond and Note Holders should be aware, however, that the Bonds and Notes may be included in the measure of Rhode Island estate taxes, and the Bonds and Notes and the interest thereon may be included in the measure of certain Rhode Island corporate and business taxes. Bond Counsel has not opined as to the taxability of the Bonds and Notes or the income therefrom under the laws of any state other than Rhode Island. A complete copy of the proposed forms of opinions of Bond Counsel is set forth in APPENDIX C hereto.

Except as described herein, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the acquisition of, ownership of, receipt or accrual of interest on, or disposition of the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in other collateral federal tax consequences, including (without limitation) (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Bonds or, in the case of a financial institution, that portion of the owner's interest expenses allocable to interest on the Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Bonds, (iii) the inclusion of interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of interest on the Bonds in passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, (v) the inclusion in modified adjusted gross income of interest on the Bonds by recipients of certain Social Security and Railroad Retirement benefits, and (vi) the inclusion of interest on the Bonds in the modified adjusted gross income of certain persons disposing of property financed with federally subsidized indebtedness (mortgage credit certificates and single family mortgage loans).

### Original Issue Discount

Certain of the Bonds (the "Discount Bonds") may be offered and sold to the public at an original issue discount (the "OID"). The OID is the excess of the stated redemption price at maturity (the face amount) over the "issue price" of such Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the

Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the holder of a Discount Bond over the period to maturity at a constant yield as described in Income Tax Regulation Section 1.1272-1(b). With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period the purchaser owns the Discount 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 discussed above as other interest on the Bonds, and (ii) is added to the purchaser's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. Holders of Discount Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Bond and as to other federal consequences and any state or local tax aspects of owning Discount Bonds.

### Bond Premium

Under the Code, a purchaser (other than a purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires a Bond (a "Premium Bond") for a price in excess of (i) in the case of a Discount Bond, its initial offering price plus accrued OID to the date of purchase (as described in the preceding paragraph) or (ii) in the case of any other non-callable Bond, its stated redemption value at maturity, has acquired the Bond with "bond premium". In the case of Bonds that are callable at the Applicable Call Date (defined below) at a price less than the holder's acquisition price, the bond premium is the excess of the holder's acquisition price over the redemption price on the Applicable Call Date. The Applicable Call Date is the first date on which the Bond may be redeemed for a redemption price less than the holder's acquisition price.

Bond premium is amortized over the remaining term of the Premium Bond for federal income tax purposes. In the case of callable Premium Bonds acquired at a price in excess of par, the bond premium will be amortizable to the Applicable Call Date. For purposes of calculating amortizable bond premium only, a Premium Bond not redeemed on the Applicable Call Date shall be treated as if sold and reacquired on such date at the optional redemption price. The purchaser of the Premium Bond is required to decrease his adjusted basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year during the amortization period. The amount of amortizable bond premium attributable to each taxable year is determined actuarially at a constant interest rate. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and income from the Bonds is exempt from Rhode Island income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

### *Notes (Federally Taxable)*

The following is a general discussion of certain of the anticipated federal tax consequences of the purchase, ownership and disposition of the Notes by the original purchasers of the Notes. Investors should consult their own tax advisors in determining the federal, state, local or other tax consequences to them of purchase, ownership and disposition of the Notes. This discussion is based upon the Code, regulations, rulings and decisions now in effect, all of which are subject to change at any time, possibly with retroactive effect, and does not purport to deal with federal income tax consequences applicable to all categories of investors, some of which will be subject to special rules. This discussion assumes that the Notes will be held as "capital assets" under the Code and that the Notes are owned by U.S. Holders (as

defined below).

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any State or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a court within the United States and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

### **Interest Income**

Interest on the Notes is **includible** in gross income for federal income tax purposes.

### **Backup Withholding**

Under the Code, payments on the Notes may be subject to "backup withholding" at a rate equal to the fourth lowest rate of tax applicable under Section 1(c) of the Code. Backup withholding applies under certain circumstances if the Noteholder (i) fails to furnish such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide such owner's securities broker with a certified statement, signed under penalties of perjury, that the TIN is correct and that the Noteholder is not subject to backup withholding. Owners of the Notes should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedures for obtaining the exemption.

IRS CIRCULAR 230 DISCLAIMER REGARDING THE NOTES: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, ANY TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE NOTES IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER THE INTERNAL REVENUE CODE. Noteholders should consult their own tax professionals with respect to the tax consequences of acquiring, holding, or disposing of the Notes.

## **CONDITIONS PRECEDENT TO DELIVERY**

The following, among other things, are conditions precedent to the delivery of the Bonds and the Notes to the original purchasers thereof.

### **No Litigation Certificate**

Upon delivery of the Bonds and the Notes, the Town shall deliver or cause to be delivered a certificate of the President of the Town Council, the Finance Director and the Town Clerk, dated the date of delivery, to the effect that there is no litigation pending or, to the knowledge of such officers, threatened affecting the validity of the Bonds and the Notes or the power of the Town to levy and collect taxes to pay them, and that neither the corporate existence nor the boundaries of the Town, nor the title of any said officers to their respective offices, is being contested.

### **Certificate With Respect to Preliminary Official Statement**

At the time the original delivery of and payment for the Bonds and the Notes, the Town will deliver a certificate of the Finance Director certifying that, to the best of his knowledge and belief, both as of its date and as of the date of delivery of the Bonds and the Notes, this Preliminary Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made herein, in the light of the circumstances under which they were made, not misleading.

### **Approval of Legality**

The legality of the Bonds and the Notes will be approved by Moses Afonso Ryan LTD, Bond Counsel. The approving opinion of such counsel with respect to the Bonds and the Notes will be delivered at the time of delivery of the Bonds and the Notes. The opinion will be substantially in the forms attached hereto as APPENDIX C. The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for accuracy or adequacy of the statements made in this Preliminary Official Statement (other than matters expressly set forth as their opinion) and they

make no representations that they have independently verified the same.

### **SALE AT COMPETITIVE BIDDING**

The Bonds are being offered for sale at competitive bidding on October 8, 2014 and were awarded to (the "Bond Underwriter). The Bond Underwriter has supplied the information as to the yield of the Bonds as set forth on the front cover hereof. The Bonds are being purchased from the Town by the Bond Underwriter at an aggregated price of \$ , reflecting the principal amount of \$\_, plus original issue premium of \$\_, minus Bond Underwriter's discount of \$\_. The Bond Underwriter may offer to sell the Bonds to certain dealers and others at a price other than the initial public offering price and the public offering price may be changed from time to time by the Bond Underwriter.

The Notes are being offered for sale at competitive bidding on October 8, 2014 and were awarded to \_ (the "Note Underwriter). The Note Underwriter has supplied the information as to the yield of the Notes as set forth on the front cover hereof. The Notes are being purchased from the Town by the Note Underwriter at an aggregated price of \$\_, reflecting the principal amount of \$\_, plus original issue premium of \$\_, minus Note Underwriter's discount of \$\_. The Note Underwriter may offer to sell the Notes to certain dealers and others at a price other than the initial public offering price and the public offering price may be changed from time to time by the Note Underwriter.

### **FINANCIAL ADVISOR**

Public Financial Management, Inc. is employed as Financial Advisor to the Town in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. 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, 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, 2014 (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. 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.

It should be noted that the Town's continuing disclosure filing for fiscal year 2009 was filed 18 days late.

A notice of late filing has been filed.

### **RATING**

The Town received a rating of "AAA" on the Bonds from Standard and Poor's Rating Services ("S&P"), which is shown on the cover page hereof. The rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained from S&P.

The above rating is not recommendations to buy, sell or hold the Bonds, and such rating may be subject to revision or withdrawal at any time by the S&P. Any downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The Notes **will not** be rated.

**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 Preliminary 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:  
*James Lathrop, Finance Director*

Dated: October , 2014

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

<b>REVENUES:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013<sup>(1)</sup></b>
Taxes.....	\$41,616,382	\$43,473,752	\$43,001,417	\$46,753,588	\$47,081,631
Intergovernmental.....	1,223,846	1,117,559	865,808	825,594	7,005,457
Licenses, permits & fees.....	191,176	205,831	242,417	252,500	677,466
Charges for Services.....	502,080	484,022	547,384	616,814	1,787,574
Melville Ponds Campgrounds.....	219,878	212,926	216,783	209,628	219,110
Glen Manor House.....	329,435	331,975	396,950	389,225	377,875
Rescue Wagon Income.....	518,429	536,733	506,998	517,575	470,966
Earnings & Investments.....	39,188	9,617	9,498	10,616	(118,740)
Fines & Forfeitures.....	246,210	333,545	384,197	638,575	387,891
Other.....	454,771	438,591	435,129	443,422	331,291
Intergovernmental Pension Contribution.....	0	0	0	0	1,317,767
<b>TOTAL REVENUE.....</b>	<b>\$45,341,395</b>	<b>\$47,144,551</b>	<b>\$46,606,581</b>	<b>\$50,657,537</b>	<b>\$59,538,288</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General Government.....	\$3,842,018	\$3,953,486	\$4,153,553	\$4,409,952	\$4,209,578
Public Safety.....	8,027,469	8,092,765	8,602,939	8,822,846	9,426,650
Public Works.....	2,248,304	2,154,123	2,239,023	2,304,651	2,281,996
Education.....	0	0	0	0	36,289,540
Parks & Recreation.....	0	0	465,179	521,428	461,804
Public & Social Services.....	1,122,122	1,056,729	619,635	580,780	559,604
Intergovernmental Pension Contribution.....	0	0	0	0	1,317,767
Debt Service.....	3,153,060	3,277,589	2,859,866	3,145,683	2,941,130
Bond Issuance Costs.....	13,927	5,105	26,670	20,650	33,936
<b>TOTAL EXPENDITURES.....</b>	<b>\$18,406,900</b>	<b>\$18,539,797</b>	<b>\$18,966,865</b>	<b>\$19,805,990</b>	<b>\$57,522,005</b>
Excess (deficiency) of revenues & other financing sources.....	\$26,934,495	\$28,604,754	\$27,639,716	\$30,851,547	\$2,016,283
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers from other funds.....	\$5,480	\$272,323	\$96,101	\$1,251,469	\$40,911
Transfers to other funds.....	(27,116,704)	(28,213,640)	(28,284,271)	(29,512,217)	(1,556,698)
Bond proceeds.....	0	0	0	0	927,000
Payment to refunded bonds escrow agreement.....	0	0	0	0	(1,050,000)
<b>TOTAL REVENUES &amp; OTHER FINANCING SOURCES (USES).....</b>	<b>(\$27,111,224)</b>	<b>(\$27,941,317)</b>	<b>(\$28,188,170)</b>	<b>(\$28,260,748)</b>	<b>(\$1,638,787)</b>
Excess (deficiency) of revenues & other financing sources over expenditures & other financing uses..	(\$176,729)	\$663,437	(\$548,454)	\$2,590,799	\$377,496
<b>FUND BALANCE - BEGINNING OF YEAR.....</b>	<b>\$2,625,584</b>	<b>\$2,448,855</b>	<b>\$3,112,292</b>	<b>\$2,563,838</b>	<b>\$9,464,243</b>
Prior Period Adjustment.....	0	0	0	0	0
<b>FUND BALANCE - END OF YEAR.....</b>	<b>\$2,448,855</b>	<b>\$3,112,292</b>	<b>\$2,563,838</b>	<b>\$5,154,637</b>	<b>\$9,841,739</b>

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,**

<b>ASSETS:</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Cash & Investments .....	\$1,883,618	\$4,392,991	\$4,044,275	\$8,774,923	\$5,208,030
Cash on deposit at NCRSEP .....	0	0	0	0	505,551
Investments .....	0	0	0	0	7,375,934
Real Estate & Personal Property Tax Receivable (Net)	1,558,088	1,584,454	2,886,896	1,792,948	1,465,746
Due from Federal & State Governments .....	0	0	0	0	550,796
Due from Other Funds .....	509,985	162,992	153,518	119,821	1,564,755
Ambulance .....	319,284	385,820	516,360	374,377	537,573
Other .....	275,892	282,363	331,571	283,592	214,466
Advances to the Wind Turbine Generator Fund.....	0	0	0	0	492,296
Inventory.....	29,956	47,179	58,646	60,892	17,450
Prepaid Expenditures .....	0	0	0	1,676	968
<b>Total Assets .....</b>	<b>\$4,576,823</b>	<b>\$6,855,799</b>	<b>\$7,991,266</b>	<b>\$11,408,229</b>	<b>\$17,933,565</b>
<b>LIABILITIES &amp; FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts Payable & Accrued Expenses.....	\$372,275	\$323,187	\$527,556	\$292,053	\$3,176,989
Due to Other Funds .....	264,704	1,421,924	1,497,668	4,102,769	3,144,146
Unavailable Property Tax Revenue.....	1,239,126	1,494,292	2,881,366	1,618,506	1,054,662
Unearned Revenue .....	0	504,104	0	0	537,573
Other Liabilities .....	251,863	0	520,838	240,264	178,456
<b>Total Liabilities .....</b>	<b>\$2,127,968</b>	<b>\$3,743,507</b>	<b>\$5,427,428</b>	<b>\$6,253,592</b>	<b>\$8,091,826</b>
<b>FUND BALANCES:</b>					
Non-Spendable.....	\$60,134	\$54,401	\$58,646	\$60,892	\$510,714
Restricted .....	0	323,744	36,523	37,022	0
Committed .....	1,907,174	0	3,190	0	3,922,953
Assigned .....	481,547	0	309,379	309,379	309,378
Unassigned.....	0	2,734,147	2,156,100	4,747,344	5,098,694
<b>Total Fund Balances.....</b>	<b>\$2,448,855</b>	<b>\$3,112,292</b>	<b>\$2,563,838</b>	<b>\$5,154,637</b>	<b>\$9,841,739</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES.....</b>	<b>\$4,576,823</b>	<b>\$6,855,799</b>	<b>\$7,991,266</b>	<b>\$11,408,229</b>	<b>\$17,933,565</b>

Source: Town Audit Reports.

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

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TOWN OF PORTSMOUTH, RHODE ISLAND

YEAR ENDED JUNE 30, 2013

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(CONCLUDED)

# **FINANCIAL SECTION**

This Section contains the Following Subsections:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Town Council  
Town of Portsmouth, Rhode Island

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinions**

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

**Emphasis-of-matter**

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

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, on our consideration of the Town of Portsmouth, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Portsmouth, Rhode Island's internal control over financial reporting and compliance.

Providence, Rhode Island  
April 10, 2014



## Management's Discussion and Analysis

As management of the Town of Portsmouth, Rhode Island (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of financial activities of the Town for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements that follow this section.

### Financial Highlights

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

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

### Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

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

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

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

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

The basic governmental fund financial statements can be found on pages 12-15 of this report.

**Proprietary funds:** Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The proprietary funds of the Town are considered major funds. The Town has no internal service funds. The Wind Turbine Generator enterprise fund has generated net income of approximately \$400,000 in its first three years of operation. However, in June 2012, the gearbox failed and the wind turbine has not been operational. The Town is exploring public/private partnerships to restore the wind turbine to an operational status and balance the risk associated with the operation.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

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

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-60 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. It presents schedules detailing certain pension and OPEB information, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 61-69 of this report.

### **Government-wide Financial Analysis**

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

A portion of the Town's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire these assets that is still outstanding. The current year's figure for net investment in capital assets is \$13,920,078.

**Town of Portsmouth Net Assets**  
June 30, 2013

	Governmental activities		Business-type Activities		Total		2012	\$ Change	% Change
	2013	2012	2013	2012	2013	2012			
Current and other assets	\$ 17,301,119	\$ 13,983,318	\$ 287,992	\$ (10,623)	\$ 17,589,111	\$ 13,972,695	\$ (3,616,416)	-25.9%	
Capital Assets	27,840,305	28,743,928	2,718,500	2,733,438	30,558,805	31,477,416	918,611	2.9%	
<b>Total Assets</b>	<b>45,141,424</b>	<b>42,727,246</b>	<b>3,006,492</b>	<b>2,722,865</b>	<b>48,147,916</b>	<b>45,450,111</b>	<b>(2,697,805)</b>	<b>-5.9%</b>	
Long-term liabilities outstanding	19,918,026	19,376,665	2,160,212	2,170,486	22,078,238	21,547,151	\$ (531,087)	-2.5%	
Other Liabilities	4,071,833	4,139,882	645,747	315,548	4,717,580	4,455,430	(262,150)	-5.9%	
<b>Total Liabilities</b>	<b>23,989,859</b>	<b>23,516,547</b>	<b>2,805,959</b>	<b>2,486,034</b>	<b>26,795,818</b>	<b>26,002,581</b>	<b>(793,237)</b>	<b>-3.1%</b>	
<b>Net assets:</b>									
Invested in capital assets	13,361,790	13,342,227	558,288	337,289	13,920,078	13,679,516	(240,562)	-1.8%	
Restricted	-	-	42,216	117,652	42,216	117,652	75,436	64.1%	
Unrestricted	7,789,775	5,868,472	(399,971)	(218,110)	7,389,804	5,650,362	(1,739,442)	-30.8%	
<b>Total Net Position</b>	<b>21,151,565</b>	<b>\$19,210,699</b>	<b>\$200,533</b>	<b>\$236,831</b>	<b>\$21,352,098</b>	<b>\$19,447,530</b>	<b>(\$1,904,568)</b>	<b>-9.8%</b>	

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

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

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

## Financial Analysis of the Government's Funds

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

**Governmental funds:** The focus of Portsmouth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Portsmouth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, Portsmouth's governmental funds reported a combined ending fund balance of \$12,431,354, an increase of \$1,491,997 in comparison with the prior year's fund balance. Most of this total amount, \$9,378,327 constitutes committed, assigned or unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable or restricted to indicate that it is not available for new spending because it is not in spendable form or it is subject to external restrictions.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, committed, assigned and unassigned fund balance of the General Fund( excluding the school general fund per schedule F-1 on page 69) was \$5,861,002, while total fund balance reached \$5,861,002. As a measure of the General Fund's liquidity, it may be useful to compare committed, assigned and unassigned fund balances and total fund balance to total fund expenditures. Committed, assigned and unassigned fund balances and total fund balance represent 16.51 and 16.54 percent of total general fund budgeted expenditures, respectively, which includes funds transferred to the School Department.

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

### General Fund Budgetary Highlights

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

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

### Special Revenue Fund Budgetary Highlights (School Department)

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

Actual expenditures were less than budgeted amounts by \$1,278,899. The principal reasons for this were special education tuition costs and salaries/benefits being less than anticipated.

### Capital Asset and Debt Administration

**Capital Assets:** The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$27,840,305 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total decrease in the Town's investment in governmental activity capital assets for the current fiscal year was \$438,414.

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

State statutes limit the amount of general obligation bonded debt a town can issue to 3 percent of the net assessed property values. However, all bonds approved through State enabling legislation and voter referendums are exempt from the limit. At June 30, 2013 the Town had a debt limit of \$97,264,797, which significantly exceeds the Town's outstanding general debt.

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

Additional information on the Town of Portsmouth's long-term debt can be found in Note #7 on pages 39-40 of this report.

**Requests for Information**

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

TOWN OF PORTSMOUTH, RHODE ISLANDStatement of Net Position  
June 30, 2013

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

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

TOWN OF PORTSMOUTH, RHODE ISLAND

A-2

Statement of Activities  
For the year ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 5,022,256	\$ 325,937	\$ -	\$ -	\$ (4,696,319)		\$ (4,696,319)
Public safety	9,606,117	1,916,306	36,096		(7,653,715)		(7,653,715)
Public services	3,120,357		478	106,790	(3,013,089)		(3,013,089)
Education	39,516,556	1,095,603	2,507,053		(35,913,900)		(35,913,900)
Community service	1,045,438	596,985	96,771		(351,682)		(351,682)
Capital outlay	106,499				(106,499)		(106,499)
Interest on long-term debt	392,363				(392,363)		(392,363)
Amortization expense	50,501				(50,501)		(50,501)
<b>Total governmental activities:</b>	<b>58,860,087</b>	<b>3,934,831</b>	<b>2,640,398</b>	<b>106,790</b>	<b>(52,178,068)</b>		<b>(52,178,068)</b>
<b>Business-type Activity:</b>							
School lunch fund	649,650	439,792	181,779			\$ (28,079)	(28,079)
Transfer station	513,140	554,501				41,361	41,361
Wind turbine generator fund	99,702	55,120				(44,582)	(44,582)
Non-major funds	19,938	14,925				(5,013)	(5,013)
<b>Total business type activity</b>	<b>1,282,430</b>	<b>1,064,338</b>	<b>181,779</b>			<b>(36,313)</b>	<b>(36,313)</b>
<b>Totals</b>	<b>\$ 60,142,517</b>	<b>\$ 4,999,169</b>	<b>\$ 2,822,177</b>	<b>\$ 106,790</b>	<b>(52,178,068)</b>	<b>(36,313)</b>	<b>(52,214,381)</b>
<b>General revenues:</b>							
Property taxes and payments in lieu of taxes					46,517,787		46,517,787
State aid, unrestricted					7,005,457		7,005,457
Investment and interest income (loss)					(123,492)	15	(123,477)
Other revenues					719,182		719,182
<b>Total general revenues</b>					<b>54,118,934</b>	<b>15</b>	<b>54,118,949</b>
<b>Change in Net Position</b>					<b>1,940,866</b>	<b>(36,298)</b>	<b>1,904,568</b>
<b>Net Position - beginning of year, restated</b>					<b>19,210,699</b>	<b>236,831</b>	<b>19,447,530</b>
<b>Net Position - ending of year</b>					<b>\$ 21,151,565</b>	<b>\$ 200,533</b>	<b>\$ 21,352,098</b>

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

TOWN OF PORTSMOUTH, RHODE ISLAND

B-1

*Balance Sheet  
Governmental Funds  
June 30, 2013*

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

**B-1(Continued)**

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

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<b>TOTAL FUND BALANCES - Total Governmental Funds (B-1)</b>	<b>\$ 12,431,354</b>
<b>Amounts reported for governmental activities in the statement of net assets differ because:</b>	
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	
Depreciable capital assets, net of accumulated depreciation	22,231,047
Nondepreciable capital assets	5,609,258
Other long-term assets are recognized as revenue in the period for which they are billed in the Government-Wide financial statements, but are reported as unearned revenue (a liability) in Governmental Fund financial statements.	
Unearned property tax revenue	1,054,662
Unearned ambulance revenue	537,573
Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund financial statements because they are offset by unearned revenue.	(429,804)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(93,188)
Claims and judgments do not require current financial resources. Therefore, additional accrued expenses are not reported as a liability in Governmental Funds Balance Sheet.	(686,019)
Debt issuance costs, deferred gain on refunding and premium on bonds are deferred and amortized over the life of the related debt in the Government-Wide Financial Statements, but are reported as an expenditure and other financing source in the year of issuance in the Governmental Fund financial statements.	414,708
Long-term liabilities (including bonds payable, compensated absences and leases payable) are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.	(16,013,699)
OPEB liability is recorded in the governmental activities, but not recorded in the funds.	(3,904,327)
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 21,151,565</u></u></b>

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

B-2

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

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

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

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, 2013**

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

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

C-2

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

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

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

D-1

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

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

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

TOWN OF PORTSMOUTH, RHODE ISLAND

D-2

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

***Reporting Entity***

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. Under GASB Statement No. 61, a legally separate entity is required to be included as a component unit if it is fiscally dependent upon the primary government and there is a financial benefit or burden relationship present. The primary government is financially accountable if it appoints the voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A potential component unit has a financial benefit or burden relationship with the primary government if, for example, any one of the following conditions exists:

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

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

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

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

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

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

The Town of Portsmouth does not have any component units.

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recently Issued Accounting Standards***

The Town has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Town’s fiscal year ending June 30, 2013. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ GASB Statement No. 61 – The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Town’s fiscal year ending June 30, 2013. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Town’s fiscal year ending June 30, 2013. The adoption of this Statement has no effect on the Town’s financial statements.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Town’s fiscal year ending June 30, 2013. The adoption of this Statement has no effect on the Town’s financial statements.

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Presentation***

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

***Government-Wide Financial Statements***

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

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

***Fund Financial Statements***

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

- (a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- (b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Financial Statements (Continued)***

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

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

The funds of the financial reporting entity are described below:

***Major Governmental Funds***

General Fund

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

School Unrestricted Fund

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

***Major Proprietary Funds***

Proprietary Fund Financial Statements

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Financial Statements (Continued)***

Proprietary Fund Financial Statements (Continued)

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

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

Wind Turbine Generator Fund- Major

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

Transfer Station Fund- Major

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

School Lunch Fund- Major

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

Summer School Remedial Fund- Non-Major

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Financial Statements (Continued)***

Fiduciary Funds of the Town are as follows:

Pension Trust Funds

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

OPEB Trust Fund

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

Agency Funds

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

***Non-Major Governmental Funds***

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The non-major funds are the following:

For the Town:

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

For the School:

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Financial Statements (Continued)***

***Non-Major Governmental Funds (Continued)***

**Capital Project Funds**

These funds are used to account for financial resources to be used for the acquisition or construction of specific capital projects or items:

For the Town:

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

For the School:

Gym Fundraising and Phase II Project.

**Permanent Funds**

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

***Estimates***

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

***Cash and Cash Equivalents***

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Investments***

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

***Real estate and personal property tax***

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

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

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

***Due from federal and state governments***

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

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

***Short-Term Interfund Receivables/Payables***

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Inventory***

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

***Capital Assets and Depreciation***

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

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

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

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

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

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

***Bond Premiums and Issuance Costs***

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Compensated Absences***

Under the terms of various contracts and agreements, Town employees are granted vacation and sick leave in varying amounts based on length of service. Vacation benefits are accrued as a liability based on the accumulated benefits earned at June 30. Sick leave benefits are based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The liability is calculated at the rate of pay in effect at June 30, 2013.

The entire compensated absence liability is reported in the statement of net position. For the governmental fund financial statements, accumulated vacation and sick leave has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability not paid with expendable available financial resources is not recorded in the governmental fund financial statements

***Accrued Liabilities and Long-Term Debt***

All accrued liabilities and long-term debt are reported in the government wide financial statements.

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

***Interfund Transactions***

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

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

**Reciprocal interfund activities:**

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Interfund Transactions (Continued)***

Non-reciprocal interfund activities:

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

***Net Position and Fund Balance***

**Government-wide financial statements**

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

- (a) Net investment in capital assets - represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to those assets, if any.
- (b) Restricted - assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation. reduced by liabilities and deferred inflows of resources related to the restricted assets.
- (c) Unrestricted net position – a residual category for the balance of net position.

**Fund Balance**

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

- **Non-Spendable** – the amount of fund balance that cannot be spent because it is either not in spendable form or there is a legal or contractual requirement for the funds to remain intact. At the end of each fiscal year, the Town's Finance Director and School Department's Director of Finance and Administration will report the portion of the fund balance that is not in spendable form as Non-Spendable on the annual financial statements.
- **Restricted** – the amount of fund balance that can only be spent on specific expenses due to constraints on the spending because of legal restrictions, outside party creditors, and grantor/donor requirements. The Town's restricted fund balance amounts are considered to have been spent when an expenditure has been incurred satisfying such restriction. At the end of each fiscal year, the Town's Finance Director and School Department's Director of Finance and Administration will report restricted fund balance amounts that have applicable legal restrictions per GASB 54.
- **Committed** – the amount of fund balance that includes the portion of the spendable fund balance but has constraints on the spending that the Town Council has imposed upon itself by a formal action by vote. This constraint must be imposed prior to the fiscal year end, but the specific amount may be determined at a later date.

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance (Continued)**

- **Assigned** – the amount of fund balance that includes the portion of the spendable fund balance that reflects funds intended to be used by the government for specific purposes assigned by information operational planning. The assigned fund balance represents a “plan” for spending the amount, but it is not restricted or committed. The authority to “assign” fund balance has not been delegated by the Town Council.
  
- **Unassigned** – the amount of fund balance that is in the General Fund and includes all spendable amounts that are not otherwise contained in the classifications listed above, and therefore, not subject to any constraints or intended use. Unassigned amounts are available for any purpose. These are current resources available for which there are no external or self-imposed limitations or set spending plan. Although there is generally no set spending plan for the unassigned portion, there is a need to maintain a certain funding level. Unassigned fund balance is commonly used for emergency expenditures not previously considered. In addition, the resources classified as unassigned can be used to cover expenditures for revenues not yet received. At the end of each fiscal year, the Town’s Finance Director will report the portion of the unassigned fund balance and will maintain an unassigned fund balance of no less than 8% and no more than 16% of total General Fund Budgeted Operating Expenditures in order to accommodate immediate cash flow and needs for unanticipated expenditures and/or emergencies.

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

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

***Claims and Judgments***

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenues**

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

**Expenditures**

Expenditures are recognized when the related fund liability is incurred.

**2. CASH DEPOSITS AND INVESTMENTS**

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

**Deposits**

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

**Reconciliation to Government-Wide Statement of Net Position:**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

***Investments***

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

***Concentration of Credit Risk***

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

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

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

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

***Interest Rate Risk***

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**2. CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

***Investments (Continued)***

***Custodial Credit Risk***

Custodial credit risk is the risk that, in the event of financial institution failure, the Town's deposits and/or investments may not be returned. The Town does not believe that it has a significant custodial credit risk as all the investments are registered and held in the name of the Town. Additionally, the Town deposit policy requires that deposits be placed in financial institutions that are FDIC insured. The Town deposits are maintained in high rated financial institutions and the ratings of these institutions is reviewed by management on a periodic basis.

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

***Dimensional Fund Advisors:***

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

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

**3. BUDGETARY AND LEGAL COMPLIANCE**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**3. BUDGETARY AND LEGAL COMPLIANCE (Continued)**

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

*Town:*

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

*School:*

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**4. CAPITAL ASSETS**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**4. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

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

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

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

**5. LEASE REVENUE**

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

		<u>Governmental Activities</u>
June 30, 2014	\$	89,638
June 30, 2015		93,671
June 30, 2016		97,905
Total	\$	<u>281,214</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 \$97,264,797. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. At June 30, 2013, bonds outstanding totaled \$16,421,623.

**TOWN OF PORTSMOUTH, RHODE ISLAND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**7. LONG - TERM AND SHORT-TERM OBLIGATIONS**

**Governmental Activities**  
**General Obligation Bonds, Revenue Bonds, Refunding Bonds and Loans:**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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

**Business Activities**

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

**Scheduled annual debt service requirements**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**8. RISK MANAGEMENT**

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

- a) The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust (the Trust), a nonprofit public entity risk pool which provides insurance coverage to participants in exchange for an annual premium and a pro-rata share of certain administrative expenses. Coverage is provided in accordance with each member's policy, subject to maximum insurable limits and deductibles, through a pooling of risks among participants, supplemented by commercial reinsurance for excess losses. Management believes the Trust's reserves to be adequate to meet all reported claims, as well as an estimate of potential claims for losses incurred but not reported. Accordingly, no accrual has been made for potential liabilities arising from risks once they have been transferred to the Trust. The Town and the School Department are members of the Trust, a joint purchasing group which provides health and dental insurance coverage to participants in exchange for a premium. There have been no significant reductions in insurance coverage during the year ended June 30, 2013.

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**9. INTERFUND BALANCES**

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

Interfund receivables and payables are as follows:

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

**10. FUND BALANCES**

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

Nonspendable:

Permanent funds:

Perpetual care and endowment permanent funds \$ 140,468

General fund:

Advance to Wind Turbine Generator fund 492,296

Prepaid expenses 968

Inventory 17,450

Total nonspendable fund balance \$ 651,182

Restricted:

Town special revenue funds \$ 333,999

School special revenue funds 418,230

Town capital project funds 620,253

School capital project funds 1,521,010

Total restricted fund balance \$ 2,893,492

Committed:

Town capital project funds \$ 137,715

General fund:

Committed for education 3,922,953

\$ 4,060,668

Assigned:

Open space \$ 309,378

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**11. POST EMPLOYMENT HEALTH CARE BENEFITS**

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

**Plan Description**

Through its single-employer defined benefit plan (OPEB Plan), the Town provides postretirement healthcare benefits to all Town employees who meet years of service and age requirements. For police and fire employees, upon death of the retiree, health care coverage continues to unmarried surviving spouse and dependent children up to age 10. For general employees, retiree health care coverage is discontinued upon death of the retiree. The plan's provisions may be amended by the Town and the Trustees of the plan. The trust is accounted for as an OPEB trust fund in the Town's financial statements.

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

**Summary of Significant Accounting Policies and Plan Asset Matters**

**a. Basis of Accounting**

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

**b. Benefits and employee contributions:**

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

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

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

**c. Covered participants**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

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

**Annual OPEB Cost and Net OPEB Obligation**

The Town's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation as of June 30, 2013.

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

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

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

*Funded status and funding progress:*

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

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

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of OPEB Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**Actuarial Methods and Assumptions**

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

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

**Plan Description**

The School Department maintains and administers a single-employer OPEB benefit plan that covers all School Department employees with fifteen years of service. The plan provides health benefits and dental insurance benefits to eligible retired employees and their beneficiaries. The plan's provisions may be amended by the Portsmouth School Committee and the Trustees of the plan. The School Department has not yet established a Trust to pre-fund OPEB liabilities. Accordingly, the OPEB activity is accounted for in the School Unrestricted Fund in the Town's financial statements.

**Summary of Significant Accounting Policies and Plan Asset Matters**

**a. Basis of Accounting**

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

**b. Benefits and employee contributions:**

For the year ended June 30, 2013 the School Department Trust paid 100% of the cost of individual health care insurance and dental insurance benefits for all retired eligible employees, AFSCME and At-Will employees for six years, NEA (Teachers) and Administrators for nine years, capped at the premium cost at the time of retirement. The amounts due for these benefits are funded on an at-will basis. If a retiree chose not to participate in the medical plan, the retiree would receive a 50% reimbursement of the cost of a single coverage for a six year period, capped at the premium cost at the time of retirement.

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

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

**c. Covered participants**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

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

**Annual OPEB Cost and Net OPEB Obligation**

The School's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School's net OPEB obligation as of June 30, 2013.

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

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

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

*Funded status and funding progress:*

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**11. POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

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

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of OPEB Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**Actuarial Methods and Assumptions**

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**12. PENSION PLANS**

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

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

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

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

**Town Retirement Plan**

***Plan Description***

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

***Benefit Provisions and Contributions***

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

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

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

- Plan participation commences on the first day of month coinciding with or following the date of hire, if the employee chooses to participate in the Plan. Elected officials and certified employees of the School Department are not eligible to participate in the Plan.
- The normal retirement date for Police and Fire employees is upon completion of twenty years of credited service. The normal retirement date for Town Hall, School and Public Works employees is the later of age 60 or the completion of ten years of service.
- Any participant, who has attained his or her normal retirement date, as defined in the plan, is eligible for a normal retirement benefit. The monthly benefit payable upon normal retirement is based on average monthly salary multiplied by credited service as follows:

Police Employees	60% of average monthly earnings reduced prorata for service less than 20 years plus 2% for 5 additional years beyond 20 years to a maximum of 70%. Does not apply to Police employees hired after July 1, 2010.
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Fire Employees	60% of average monthly earnings reduced prorata for service less than 20 years plus 2% for 7 additional years beyond 20 years to a maximum of 74%. For service retirements and non-service disability on or after July 1, 2013, the automatic COLA changes from 3% starting on the January 1 <sup>st</sup> following retirement to 1.7% on the January 1 <sup>st</sup> following the 5 <sup>th</sup> anniversary of retirement.
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**TOWN OF PORTSMOUTH, RHODE ISLAND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

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**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

***Benefit Provisions and Contributions (Continued)***

Fire Employees (Continued)

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

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

Town Hall Non-Management Employees

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

School Employees

2.5% of average monthly earnings multiplied by years of credited service and further prorated for service less than 20 years of service. Effective October 1, 2013, the service retirement benefit changes from 2.5% reduced pro rata for less than 20 years of service to 1% for all future years. Benefit accruals through September 30, 2013 are grandfathered.

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

Public Works Employees

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

***Benefit Provisions and Contributions (Continued)***

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

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

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

The pre-retirement death benefits are as follows:

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

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

Employees are required to contribute to the Plan as follows:

Fire employees	4% of gross pay; Exception-the Fire Chiefs and the two Deputy Fire Chiefs contribute 6.5% of earnings.
Police employees	8% of earnings. No contributions for employees hired on or after July 1, 2010.

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

***Benefit Provisions and Contributions (Continued)***

School employees	Employees hired prior to July 1, 1991 contribute 4% of earnings. Employees hired between July 1, 1991 and July 1, 2012 contribute 4% of earnings.
Town Hall employees	Employees hired prior to July 1, 2012 contribute 5% of earnings. Employees hired after July 1, 2012 contribute 6% effective July 1, 2014.
Public Works employees	Union employees are not required to make contributions. Management and nonunion employees hired after July 1, 2004 contribute 5.5% of earnings. No contributions for employees hired on or after July 1, 2010.
Town Hall management	For employees hired on or after July 1, 2004 the 5.5% contributions will cease once the employee earns the maximum benefit.

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

***Actuarial Methods and Significant Assumptions***

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

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

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

***Actuarial Cost Method***

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

***Asset Valuation Method***

Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets and annual requirement contributions for the Plan were performed annually through June 30, 2013.

***Assumptions***

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

***Funded Status of Plan***

The required supplementary information which follows the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing and decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress with an actuarial valuation date of July 1, 2013:

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**12. PENSION PLANS (CONTINUED)**

**Town Retirement Plan (Continued)**

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

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

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

***Plan description:***

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

***Funding policy:***

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

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**12. PENSION PLANS (CONTINUED)**

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

***Funding policy (Continued):***

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

**Defined Contribution Plan**

***Plan description***

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

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

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

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

***Plan funding policy:***

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**12. PENSION PLANS (CONTINUED)**

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

**Defined Contribution Pension Plans**

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

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

**13. DEFERRED COMPENSATION PLAN**

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**14. CONTINGENT LIABILITIES AND COMMITMENTS**

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

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

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

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

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

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

The School Department has a five year agreement, through June 30, 2015, with First Student to provide busing for the School Department based on the rate schedule specified in the agreement. Busing costs associated with this agreement totaled approximately \$1,772,000 for the year ended June 30, 2013.

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

**15. SUBSEQUENT EVENTS:**

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

**16. JOINT VENTURE**

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

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

**17. PRIOR PERIOD ADJUSTMENT**

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

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

**Government-wide Financial Statements - Governmental Activities**

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

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

**Governmental Fund Financial Statements - General Fund**

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**18. WIND TURBINE GENERATOR FUND**

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

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

## Required Supplementary Information

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**Budgetary Comparison Schedule for the General Fund  
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)**

**Budget and Actual  
Year Ended June 30, 2013  
(Unaudited)**

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

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

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

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

(Continued)

TOWN OF PORTSMOUTH, RHODE ISLAND

E-2

**Budgetary Comparison Schedule for the School General Fund  
Schedule of Revenue and Expenditures (Non GAAP Budgetary Basis)**

**Budget and Actual**

**Year Ended June 30, 2013**

**(Unaudited)**

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

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

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**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 30<sup>th</sup>.

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

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

*Budgetary Compliance:*

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

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

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

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

<b><u>Revenue and Other Financing Sources</u></b>	<b><u>School Unrestricted Fund</u></b>
Actual Amounts(Budgetary basis)	\$ 7,262,578
The appropriated fund balance is a budgetary revenue but is not a current year revenue for financial reporting purposes	(50,000)
The pension contributions made to the Employees Retirement System by the State of Rhode Island on behalf of the Town of Portsmouth is not reported as budgetary revenue, but is a current year revenue for financial reporting purposes.	1,317,767
<b>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)</b>	<b>\$ 8,530,345</b>

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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**BUDGETARY – GAAP REPORTING RECONCILIATION (CONTINUED)**

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

<b><u>Expenditures and Other Financing Sources</u></b>	<b><u>School Unrestricted Fund</u></b>
Actual Amounts(Budgetary basis)	\$ 36,289,540
The pension contributions made to the Employees Retirement System by the State of Rhode Island on behalf of the Town of Portsmouth is not reported as a budgetary expense, but is a current year expenditure for financial reporting purposes.	<u>1,317,767</u>
<b>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)</b>	<b><u><u>\$ 37,607,307</u></u></b>

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(Concluded)

Required Supplementary Information

Schedule of Funding Progress  
Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
<b>Town Pension Plan:</b>						
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%
<b>Other Post Employment Benefits:</b>						
<i>Municipal employees:</i>						
July 1, 2008	N/A	\$ 13,026,759	\$ 13,026,759	N/A	\$ 5,510,188	236.4%
July 1, 2009	N/A	\$ 13,026,759	\$ 13,029,759	N/A	\$ 5,510,188	236.5%
July 1, 2010	\$ 153,249	\$ 13,248,340	\$ 13,095,091	1.2%	\$ 6,383,155	205.2%
July 1, 2011	\$ 203,392	\$ 12,527,599	\$ 12,324,207	1.6%	\$ 6,574,650	187.5%
July 1, 2012	\$ 402,179	\$ 13,090,922	\$ 12,688,743	3.1%	\$ 5,407,210	234.7%
<i>School employees:</i>						
July 1, 2008	\$ -	\$ 4,514,458	\$ 4,514,458	0.0%	N/A	N/A
July 1, 2009	\$ -	\$ 4,514,458	\$ 4,514,458	0.0%	N/A	N/A
July 1, 2010	\$ -	\$ 10,258,675	\$ 10,258,675	0.0%	\$ 18,890,918	54.3%
July 1, 2011	\$ -	\$ 7,207,872	\$ 7,207,872	0.0%	\$ 19,457,646	37.0%
July 1, 2012	\$ -	\$ 4,717,025	\$ 4,717,025	0.0%	\$ 18,612,603	25.3%

(Continued)

Required Supplementary Information

Schedule of Employer Contributions  
Year Ended June 30, 2013

**Town Pension Plan:**

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

**Other Post Employment Benefits:**

Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percent of ARC Contributed
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*Municipal employees:*

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

*School employees:*

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

(Concluded)

**TOWN OF PORTSMOUTH, RHODE ISLAND**

**E-6**

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

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

Valuation date	July 1, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	26 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	6.75% per annum
Projected salary increase	Percentage based on age
Cost-of- living adjustments	Public works employees -2.0% Fire employees (retired before 6/30/2007) - 2.0% Fire employees (retired after 6/30/2007) - 3.0% Police employees - 3.0% Town hall employees - 2.0% School management and Non-Certified employees - 1.7 % Town management (retired before 7/1/2004) - 2.0% Town management (retired after 7/1/2004) - 3.0%
Assumed Retirement Age	Employees are assumed to retire as follows: Police, Fire, School, Public Works and Town – Rates based on length of service

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(Continued)

**TOWN OF PORTSMOUTH, RHODE ISLAND**

**E-6**

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

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

**Town:**

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

**School:**

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

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(Concluded)

## Other Supplementary Information

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

F-2

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

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

TOWN OF PORTSMOUTH, RHODE ISLAND

G-1

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

G-2

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

H-1

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

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

**TOWN OF PORTSMOUTH, RHODE ISLAND**

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

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

TOWN OF PORTSMOUTH, RHODE ISLAND

**SCHEDULE OF PROPERTY TAXES RECEIVABLE  
YEAR ENDED JUNE 30, 2013**

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

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

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

**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: \$1,505,000 Town of Portsmouth, Rhode Island  
General Obligation Bonds, Series 2014 A (Tax-Exempt)***

Dear Sir or Madam:

We have examined the law, a certified copy of proceedings and other papers relating to the issuance of the \$1,505,000 Town of Portsmouth, Rhode Island General Obligation Bonds, Series 2014 A (Tax-Exempt) dated the date of delivery (the "Bonds").

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

1. The 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 Bonds and the interest thereon.

2. Interest on the 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 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 Bonds may become includable 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 and 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 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 Bonds to become includable in such gross income. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

3. Income from the Bonds 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 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 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**

◆ COUNSELORS AT LAW ◆

LTD

Date of Delivery

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

***Re: \$400,000 Town of Portsmouth, Rhode Island  
General Obligation Bond Anticipation Notes (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 \$400,000 Town of Portsmouth, Rhode Island General Obligation Bond Anticipation Notes (Federally Taxable) dated the date of delivery (the "Notes").

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

1. The 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 Notes and the interest thereon.
2. Interest on the Notes is wholly includible in gross income for federal income tax purposes.
3. Income from the 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 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 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 \$1,505,000 General Obligation Bonds, Series 2014 A (Tax-Exempt) dated the date of delivery (the "Bonds") and its \$400,000 General Obligation Bond Anticipation Notes (Federally Taxable) dated the date of delivery (the "Notes" and collectively with the Bonds, 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 Underwriters 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, 2014, 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.

(a) 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 October \_\_, 2014 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.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, 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.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Subsections (a)(2), (6), (7), (8) (with respect to bond calls), (10), (13) or (14), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (8) (with respect to tender offers), (9), (11) or (12), and in the event the Issuer determines that the occurrence of a Listed Event described in subsections (a)(2), (6), (7), (8) (with respect to bond calls), (10), (13) or (14) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

**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.

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\* 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.

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 applicable 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 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.

**\*Remainder of Page Intentionally Left Blank\***

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: [            ], 2014

TOWN OF PORTSMOUTH, RHODE ISLAND

By: \_\_\_\_\_  
Finance Director