

THE TOWN OF PORTSMOUTH, RHODE ISLAND

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

TOWN OF PORTSMOUTH

YEAR ENDED JUNE 30, 2008

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YEAR ENDED JUNE 30, 2008

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(CONCLUDED)

FINANCIAL SECTION

This Section contains the Following Subsections:

Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activity, 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, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Portsmouth, Rhode Island's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 on our consideration of the Town of Portsmouth, Rhode Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information and supplementary pension information on pages 3 through 11 and 53 through 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the

Boston

Newton

Providence

United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 nonmajor fund financial statements, the combining fiduciary 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 nonmajor fund financial statements, the combining fiduciary fund financial statements, and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blair, PC

Providence, Rhode Island
January 26, 2009

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, 2008. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements that follow this section.

Financial Highlights

The Town of Portsmouth's total net assets for the fiscal year ended June 30, 2008 were \$13,497,498 which is an increase of \$1,726,498 over the fiscal year ended June 30, 2007. Net assets at June 30, 2008 included \$10,409,001 invested in capital assets, net of related debt, a decrease of \$586,958 over June 30, 2007; \$2,325,230 of restricted net assets at June 30, 2008, an increase of \$642,582 over June 30, 2007 and \$763,267 of unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors, an increase of \$1,660,092 over June 30, 2007.

- Total assets at June 30, 2008 were \$35,092,422, which is an increase of \$259,096 or 0.7% over June 30, 2007.
- Total liabilities at June 30, 2008 were \$21,594,924, which is a decrease of \$1,456,620 or 6.3% over June 30, 2007.
- The governments total net assets increased by \$1,709,503.
- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of \$5,979,931, which is a decrease of \$172,384 over June 30, 2007. Approximately 84 percent of this total amount or \$5,036,303, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,158,518 or 4 percent of the Fiscal Year 2007-08 Adopted General Fund Expenditure Budget of \$52,628,352. This represents an increase of \$1,490,256 over June 30, 2007.
- The Town of Portsmouth's total debt (i.e., general obligation bonds, capital leases, notes payable and compensated absences) decreased by \$1,667,125 (8 percent) during the current fiscal year. The key factor in this decrease was the issuance of \$694,836 in general obligation bonds and the retirement of \$2,440,661 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.

It is important to note that the Town implemented the new reporting requirements outlined in GASB 34 effective July 1, 2002. The reporting of general infrastructure assets of government activities was included in the financial statements for the year ended June 30, 2007.

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

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

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

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

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

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

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

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

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

The Town of Portsmouth maintains eighty four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the school unrestricted funds and the 06-07 Warrants which are considered to be major funds. Data from the other eighty one governmental funds are combined into a single, aggregated presentation.

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-52 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 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 53-58 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Portsmouth, assets exceeded liabilities by \$13,497,498 at the close of the most recent fiscal year, as compared to assets exceeding liabilities by \$11,771,000 at the close of the previous fiscal year.

A portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire these assets that is still outstanding. The current year's figure for invested in capital assets, net of related debt is \$10,409,001.

An additional portion of Portsmouth's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$763,267, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Portsmouth is able to report positive balances in all three categories of its net assets.

Town of Portsmouth Net Assets
June 30, 2008

	Governmental		Business-type		Total		\$	%
	Activities		Activities					
	2008	2007	2008	2007	2008	2007	Change	Change
Current and								
other assets	\$ 10,066,013	\$ 10,142,591	\$ 19,323		\$ 10,085,336	\$ 10,142,591	\$ (76,578)	-0.8%
Capital Assets	24,967,562	24,631,888	39,524		25,007,086	24,631,888	335,674	1.4%
Total Assets	35,033,575	34,774,479	58,847	-	35,092,422	34,774,479	259,096	0.7%
Long-term liabilities								
outstanding	16,353,706	17,525,752			16,353,706	17,525,752	(1,172,046)	-6.7%
Other Liabilities	5,241,218	5,525,792			5,241,218	5,525,792	(284,574)	-5.1%
Total Liabilities	21,594,924	23,051,544	-	-	21,594,924	23,051,544	(1,456,620)	-6.3%
Net assets:								
Invested in capital assets,								
net of related debt	10,369,477	10,956,435	39,524		10,409,001	10,956,435	(586,958)	-5.4%
Restricted	2,325,230	1,682,648			2,325,230	1,682,648	642,582	38.2%
Unrestricted	743,944	(916,148)	19,323		763,267	(916,148)	1,660,092	-181.2%
Total net assets	\$13,438,651	\$11,722,935	\$58,847	-	\$13,497,498	\$11,722,935	\$1,715,716	14.6%

Governmental activities. Governmental activities increased Portsmouth's net assets by \$1,709,503.

Town of Portsmouth Changes in Net Assets
June 30, 2008

	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2008	2007	2008	2007	2008	2007		
Revenues:								
Program revenues:								
Charges for services	\$4,884,448	\$4,915,611	\$525,336		\$5,409,784	\$4,915,611	\$494,173	10.1%
Operating grants and contributions	7,947,968	8,670,075	131,922		8,079,890	8,670,075	(590,185)	-6.8%
Capital grants and contributions	53,993	1,135,619			53,993	1,135,619	(1,081,626)	-95.2%
General revenues:								
Property taxes and payments								
in lieu of taxes	40,184,494	36,529,065			40,184,494	36,529,065	3,655,429	10.0%
State Aid, unrestricted	2,901,839	2,227,878			2,901,839	2,227,878	673,961	30.3%
Investment and interest income	156,895	124,894	343		157,238	124,894	32,344	25.9%
Other	416,446	514,475			416,446	514,475	(98,029)	-19.1%
Total revenues	56,546,083	54,117,617	657,601	-	57,203,684	54,117,617	3,086,067	5.7%
Expenses:								
General government	4,956,102	4,673,009			4,956,102	4,673,009	283,093	6.1%
Public safety	7,798,115	7,772,362			7,798,115	7,772,362	25,753	0.3%
Public works	2,531,625	2,855,500			2,531,625	2,855,500	(323,875)	-11.3%
Community Services	1,428,005	1,402,505			1,428,005	1,402,505	25,500	1.8%
Education	35,706,487	35,367,608			35,706,487	35,367,608	338,879	1.0%
Interest on long-term debt	791,135	735,194			791,135	735,194	55,941	7.6%
Capital outlay	1,625,111				1,625,111		1,625,111	
School Lunch Fund			640,606		640,606		640,606	
Total expenses	54,836,580	52,806,178	640,606	-	55,477,186	52,806,178	2,671,008	5.1%
Increase (decrease)								
in net assets	1,709,503	1,311,439	16,995		1,726,498	1,311,439	415,059	31.6%
Net assets - beginning,								
as restated	11,729,148	10,411,496	41,852		11,771,000	10,411,496	1,359,504	13.1%
Net assets - ending								
	\$13,438,651	\$11,722,935	58,847	-	\$13,497,498	\$11,722,935	\$1,774,563	15.1%

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, *unreserved 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 fund reported a combined ending fund balance of \$5,979,931, a decrease of \$131,350 in comparison with the prior year's fund balance. Most of this total amount, \$5,036,303, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed, primarily to liquidate contracts and purchase orders of the prior period.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,158,518, while total fund balance reached \$2,625,584. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 4 and 5 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 \$790,671 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2008 exceeded budgeted amounts by \$484,883. The principal reasons for this were higher than budgeted revenues for taxes.

Actual expenditures were less than budgeted by \$402,427. The primary reasons for this were lower than budgeted expenditures from public works and the Melville Campgrounds where a new bathhouse was delayed.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2007-2008 fiscal year, school department net revenues were less than budgeted by \$25,906. This shortfall was anticipated early on in the fiscal year. The original revenue projection included a 3% increase in Educational State Aid or \$187,000. The other anticipated revenue shortfall came in the amount projected for tuition for students from Little Compton. The amount actually received was \$161,190 less than originally projected. This total revenue shortfall of \$348,190 was largely offset by \$202,190 in P.L. 81-874 Impact Aid revenue received in excess of projection.

Actual expenditures were \$121,854 less than budgeted. The primary areas that contributed to the variance were payroll expenditures of \$118,000 and out of district tuition expenditures of \$209,000 which came in well below budget and assisted in offsetting the revenue shortfalls and other over expended categories. The primary reason for this positive variance was that several teachers were on leave without pay. The out of district tuition cost for the vocational regional school was reduced as a result of our challenging the per pupil tuition cost. Additionally, out of district placements are trending down as we continue to bring more out of district placements in house.

Capital Asset and Debt Administration

Capital Assets. The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$24,832,437 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total increase in the Town's investment in governmental activity capital assets for the current fiscal year was \$200,549.

Long-term Debt. At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of \$16,343,436, entirely backed by the full faith and credit of the Town. This includes \$694,836 incurred in Fiscal Year 2007-08.

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, 2008 the Town had a debt limit of \$99,851,780, which significantly exceeds the Town's outstanding general debt.

The Town of Portsmouth maintains an "A1" rating from Moody's Investors Service on its general obligation debt.

Additional information on the Town of Portsmouth's long-term debt can be found in Note #5 on pages 38-40 of this report.

Economic Factors and Next Year's Budgets and Rates

New economic development in Portsmouth will be a mix of growth of existing businesses and capitalizing on significant potential new development. Current initiatives provide opportunities for a variety of new development.

The Town continues to focus on objectives of the West Side Master Plan (WSMP) developed by the Aquidneck Island Planning Commission (AIPC). The WSMP is the result of ten years of regional planning efforts across the community lines of Aquidneck Island. The focus for much of this plan is the potential reuse of over 275 acres of former Navy tank farms along the Eastern shore of Narragansett Bay. The possible 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. 138, the existing cluster of Melville marine businesses and the large Raytheon Company campus. There is much planning and analysis that must be accomplished to take advantage of the valuable land. The government procedures for selecting a recipient of the land are extensive and very rigorous.

To be in the best position to facilitate the transfer of the land, the Portsmouth Town Council created the Portsmouth Redevelopment Agency (PRA). The PRA is empowered with creating a formal plan for the reuse of the excess federal land and to manage and control redevelopment projects. With this formal body in position, the Town is following the federally approved mechanism for the transfer of the unused land to the Town. The PRA is empowered to own, sell and lease land on behalf of the Town. Initial ideas for reuse of the Navy land envision a future business park focused on expansion of the marine trades industry, defense and homeland security businesses, municipal facilities, improved transportation facilities and open space.

Creating a business park for marine trades and defense work will complement the existing concentration of similar businesses. The marine trades in the Melville area are in need of expansion space and inquiries have been received from marine ventures outside the area wishing to locate 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 to attract new and grow existing businesses.

More immediate economic activity is underway on the Bay adjacent to the focus of the WSMP. Just south of the cluster of marine businesses in the Melville area is the site for the new Weaver Cove marina. Critical DEM and CRMC permits have been approved for a 1,495 slip marina and related facilities. On shore construction has been slowed due to portions of the land being contaminated from prior government uses. This marina is drawing much attention, as it will ease the critical shortage of marina slips in Rhode Island and act as a business growth generator. The developer also plans to include facilities for on-shore support services and housing units in a village setting. By including significant public access to the shoreline, the planned project is gaining wide support. Construction of the first phase could result in some slips being ready for use in the spring of 2009. The completion of all phases of the project will involve over \$80 million.

All of the 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.

Portsmouth continues to be a leader in the marine trades industry. Having three top of the line yacht companies in Portsmouth has attracted a large community of smaller marine support businesses that handle a wide range of specialized services for the boating industry and individual customers. The Town, existing marine businesses, the Rhode Island Economic Development Corporation and the federal government continue work on the transfer of 30 acres of waterfront land in Melville from the Navy to a partnership of existing marine businesses. When the transfer is completed, Portsmouth Marine Partners is poised for expansion. The expansion will accommodate much needed space for the boat builders and create new facilities for smaller marine support contractors. The transfer of the 30 acres will serve as a model for the future transfer of the large tank farm acreage. There is very high demand for space in the area.

The largest employer in Portsmouth, Raytheon Company, continues to grow and recover from a downturn in the 1990's. The Portsmouth Seapower Capability Center is the global leader for naval and marine integrated systems for the defense industry and the civilian marine community. Raytheon Portsmouth is the contractor for systems development for many Navy ship types. They also provide similar service for some foreign navies. Raytheon in Portsmouth continues with major work in underwater detection and weapons systems as well as Navy missile systems. Raytheon has developed new uses for many of its systems in the field of homeland security for both government projects and private industry. Raytheon recently received new contracts from the Department of Homeland Security for the further development of harbor and port protection systems. Working with a \$1.2 million congressional appropriation, Raytheon is developing and testing harbor and undersea detection systems to protect critical infrastructure. Raytheon's job expansion is projected to continue with the award of a new Navy contract to develop systems for all-weather carrier landings.

The Newport Dinner Train (located in Portsmouth) has received grant funding for the upgrade of the existing rail line located along the West Side shoreline. The line currently is used for tourist activity and a dinner train. Riding traffic continues to grow. In addition to reconstructing the tracks, the train purchased new rolling stock to upgrade the service offering.

Vacant parcels in the Town Center area are attracting developer interest for a mixed use project. Changes to East Main Road to create a pedestrian friendly corridor are progressing. The RI DOT has fully endorsed the conversion of the road from four narrow lanes to a series of three roundabouts. Public feedback at hearings is very supportive. A new medical diagnostic services building was opened

in the Town center adjacent to a new medical office building. The new facilities eliminate the need to travel to Newport and Fall River for medical attention.

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

In the nearby Portsmouth Business Park, land has been sold for development of a new building to house an electronic device company moving from New Hampshire. Occupancy in the Business Park is holding steady at above 90%.

Building on the interest generated by the wind generator at the Portsmouth Abbey School, a second wind generator in Portsmouth will become a reality before the end of February, 2009. The Portsmouth Economic Development Committee received a \$25,000 grant from the State and Town Council approval to borrow \$2.6 million in zero interest Clean Renewable Energy Bonds to finance the project. The new 1.5 Mw wind generator is to be located at the high school and will create a positive cash flow in its first year of operation and contribute to decreasing electrical energy costs.

Work continues on new construction at the exclusive "Carnegie Abbey Club". The additional Carnegie developments include high-end vacation homes and condos which impact town services much less than conventional residential development. The new marina opened this year. The centerpiece of the project is the new 14 story tower consisting of exclusive condominiums and penthouses. Occupancy of the Tower is scheduled for January 2009. O'Neill Properties, the developers of the Carnegie projects have also acquired 73 acres of waterfront property just north of the Carnegie facilities and has begun permitting for construction of a second resort development. The project 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 and State income tax credits for adding to existing employment levels. As one of eleven areas in the State where special economic incentives are available, it serves as an additional attraction to locate and expand in Portsmouth. The past three years have seen an increase in participation by new and existing Portsmouth businesses.

The unemployment rate as of June 30, 2008 is 5.7% (not seasonally adjusted). This compares favorably with an unemployment rate of 7.5% for the State of Rhode Island and matches the national unemployment rate of 5.7%.

All of these factors were considered in preparing the Town of Portsmouth's budget for the Fiscal Year 2008-09.

Requests for Information

This financial report is designed to provide a general overview of the Town of Portsmouth's finances for all those with an interest in the Town's finances. 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.

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TOWN OF PORTMOUTH**Statement of Net Assets
June 30, 2008**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 7,191,526	\$ 1,016	\$ 7,192,542
Real estate and personal property tax receivable, net	1,034,370		1,034,370
Ambulance receivables	235,066		235,066
Due from federal and state governments	248,239	13,565	261,804
Internal balances	9,462	(9,462)	0
Inventories	2,232	14,204	16,436
Prepaid expenditures	455,280		455,280
Other receivables, net	889,838		889,838
Total Current Assets	10,066,013	19,323	10,085,336
Noncurrent Assets:			
Capital assets (non-depreciable)	3,825,173		3,825,173
Capital assets (net of depreciation)	20,967,740	39,524	21,007,264
Debt issuance costs, net	174,649		174,649
Total Non-Current Assets	24,967,562	39,524	25,007,086
TOTAL ASSETS	35,033,575	58,847	35,092,422
LIABILITIES			
Current Liabilities:			
Accounts payable	999,634		999,634
Accrued interest payable	172,210		172,210
Accrued expenses	1,588,050		1,588,050
Due to external parties	317,065		317,065
Current portion of long-term debt	2,164,259		2,164,259
Total Current Liabilities	5,241,218		5,241,218
Noncurrent Liabilities:			
Unearned revenue	197,221		197,221
Accrued compensated absences	1,924,681		1,924,681
Long-term liabilities (net)	14,231,804		14,231,804
Total Noncurrent Liabilities	16,353,706		16,353,706
TOTAL LIABILITIES	21,594,924		21,594,924
NET ASSETS			
Invested in capital assets, net of related debt	10,369,477	39,524	10,409,001
Restricted for specific programs	2,325,230		2,325,230
Unrestricted	743,944	19,323	763,267
TOTAL NET ASSETS	\$ 13,438,651	\$ 58,847	\$ 13,497,498

TOWN OF PORTSMOUTH

Statement of Activities

For the year ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 4,956,102	\$ 1,691,792		\$ 53,993	\$ (3,264,310)		\$ (3,264,310)
Public safety	7,798,115	563,970	\$ 165,091		(7,015,061)		(7,015,061)
Public services	2,531,625	119,507	123,279		(2,288,839)		(2,288,839)
Education	35,706,487	1,949,409	7,580,885		(26,176,193)		(26,176,193)
Community service	1,428,005	559,770	78,713		(789,522)		(789,522)
Capital outlay	1,625,111				(1,625,111)		(1,625,111)
Interest on long-term debt	791,135				(791,135)		(791,135)
Total governmental activities	54,836,580	4,884,448	7,947,968	53,993	(41,950,171)		(41,950,171)

Business-type Activity:

School lunch fund	640,606	525,336	131,922		\$ 16,652		16,652
Total business type activity	640,606	525,336	131,922		16,652		16,652
Totals	\$ 55,477,186	\$ 5,409,784	\$ 8,079,890	\$ 53,993	(41,950,171)		(41,933,519)

General revenues:

Taxes:

Property taxes and payments in lieu of taxes	40,184,494
State aid, unrestricted	2,901,839
Investment and interest income	156,895
Other revenues	416,446
Total general revenues	43,659,674

Change in Net Assets

Change in Net Assets	1,709,503	16,995	1,726,498
Net Assets - beginning of year, as restated	11,729,148	41,852	11,771,000

Net Assets - ending of year

Net Assets - ending of year	\$ 13,438,651	\$ 58,847	\$ 13,497,498
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See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH**Balance Sheet
Governmental Funds
June 30, 2008**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	School Unrestricted Fund	Warrants 06-07		
ASSETS:					
Cash and cash equivalents	\$ 2,819,158	\$ 2,511,751	\$ 1,406,397	\$ 454,220	\$ 7,191,526
Real estate and personal property tax receivable (net)	1,034,370				1,034,370
Due from federal and state governments				248,239	248,239
Due from other funds	6,655	462,024		1,303,616	1,772,295
Ambulance receivable	314,832				314,832
Other receivables	439,431			450,407	889,838
Inventory	2,232				2,232
Prepaid expenditures	455,280				455,280
TOTAL ASSETS	\$ 5,071,958	\$ 2,973,775	\$ 1,406,397	\$ 2,456,482	\$ 11,908,612
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	247,058	127,787		384,107	758,952
Accrued expenses	220,560	1,269,726		97,764	1,588,050
Due to other funds	359,058	685,144	16,347	702,284	1,762,833
Due to agency funds	317,065				317,065
Deferred revenue	1,063,878			197,221	1,261,099
Other liabilities	238,755	1,923		4	240,682
TOTAL LIABILITIES	2,446,374	2,084,580	16,347	1,381,380	5,928,681
FUND BALANCES:					
Reserved for:					
Inventory	2,232				2,232
Encumbrances	9,554	471,741			481,295
Prepaid expenditures	455,280				455,280
Perpetual care and other				4,821	4,821
Unreserved:					
Designated for subsequent year's expenditures	571,654	200,000			771,654
Unreserved undesignated	1,586,864	217,454			1,804,318
Reported in:					
Special revenue funds				524,020	524,020
Capital project funds			1,390,050	411,160	1,801,210
Permanent funds				135,101	135,101
TOTAL FUND BALANCES	2,625,584	889,195	1,390,050	1,075,102	5,979,931
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,071,958	\$ 2,973,775	\$ 1,406,397	\$ 2,456,482	\$ 11,908,612

(CONTINUED)

TOWN OF PORTSMOUTH

B-1

**Reconciliation of the Governmental Funds Balance Sheet (B-1)
to the Government-Wide Statement of Net Assets (A-1)
June 30, 2008**

TOTAL FUND BALANCES - Total Governmental Funds (B-1)	\$ 5,979,931
Amounts reported for governmental activities in the statement of net assets differ because:	
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	24,792,913
Other long-term assets are recognized as revenue in the period for which they are billed in the Government-Wide Financial Statements, but are reported as deferred revenue (a liability) in Governmental Fund Financial Statements.	1,063,878
Allowance for doubtful accounts for ambulance receivables not recorded in the Governmental Fund Financial Statements because they are offset by deferred revenue.	(79,766)
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.	(172,210)
Debt issuance costs 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.	174,649
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.	(18,320,744)
Net Assets of Governmental Activities	<u>\$ 13,438,851</u>

(CONCLUDED)

TOWN OF PORTSMOUTH
Statement of Revenues, Other financing sources
Expenditures, Other financing uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	School Unrestricted Fund	Warrants 06-07		
Revenues					
General property taxes and payments in lieu of taxes	\$ 40,104,766				\$ 40,104,766
State aid and grants	1,483,889	\$ 7,779,178		\$ 2,230,442	11,493,509
Licenses, permits and fees	217,645				217,645
Charges for services	1,339,753				1,417,267
Melville Ponds Campgrounds	221,420			77,514	221,420
Glen Manor House	335,425				335,425
Rescue wagon income	449,019				449,019
Fines and forfeitures	273,409				273,409
Interest and investment income	150,035			6,860	156,895
Contributions and private grants				5,882	5,882
Other revenues	415,157			1,289	416,446
Intergovernmental pension contribution		1,417,950			1,417,950
Total revenues	44,990,518	9,197,128		2,321,987	56,509,633
Expenditures					
<i>Current:</i>					
General government	4,787,193			67,198	4,854,391
Public safety	7,472,063			310,831	7,782,894
Public works	2,082,836			167,000	2,249,836
Education		32,858,363		1,901,124	34,759,487
Community services	1,043,268			252,352	1,295,620
Park & recreation				143,685	143,685
Intergovernmental pension contribution		1,417,950			1,417,950
<i>Debt Service:</i>					
Principal payments	2,440,661				2,440,661
Interest	807,218				807,218
<i>Capital:</i>					
Capital expenditures			\$ 857,432	767,679	1,625,111
Total expenditures	18,633,239	34,276,313	857,432	3,609,869	57,376,853
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	26,357,279	(25,079,185)	(857,432)	(1,287,882)	(867,220)
Other financing sources (uses)					
Transfers in	9,439	25,525,020	88,574	59,930	25,682,963
Transfers out	(25,576,047)		(94,024)	(12,892)	(25,682,963)
Bond proceeds				694,836	694,836
Net other financing sources (uses)	(25,566,608)	25,525,020	(5,450)	741,874	694,836
Net change in fund balances	790,671	445,835	(862,882)	(546,008)	(172,384)
Fund balances - beginning of the year, as restated	1,834,913	443,360	2,252,932	1,621,110	6,152,315
Fund balances - ending of the year	\$ 2,625,584	\$ 889,195	\$ 1,390,050	\$ 1,075,102	\$ 5,979,931

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH

***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, 2008***

Net change in fund balances - total governmental funds (B-2)	\$ (172,384)
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.	1,878,332
Depreciation expense on capital assets is reported in the Government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the Governmental fund statements.	(1,682,486)
Long-term compensated absences is reported in the Government wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, compensated absences is not reported as expenditures in Governmental fund financial statements. This is the change in long-term compensated absences for the year.	(84,359)
Repayment of bond is an expenditure in the Governmental Fund financial Statements but the payments reduce long-term liabilities in the Government-wide statements.	2,446,320
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.	10,424
Bond proceeds are reported as an other financing sources in the Governmental fund financial statements. However, in the Government-wide financial statements the proceeds are recorded as long-term liabilities	(694,836)
Amortization of deferred debt issuance costs, premium on bonds and loss on advance refunding are not reflected in Governmental fund financial statements.	(27,958)
Bad debt expense reported in the Government-wide statement of activities and changes in net assets, but not reported in the Governmental fund financial statements	(43,278)
Revenues in the Statement of activities that are not available in Governmental Funds are not reported as revenue in the Governmental fund financial statements	<u>79,728</u>
<i>Change in net assets of Governmental Activities</i>	<u>\$ 1,709,503</u>

TOWN OF PORTSMOUTH**Statement of Net Assets
Proprietary Funds
June 30, 2008**

	<u>School Lunch Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,016
Due from other governmental units	13,565
Inventory	14,204
Total current assets	<u>28,785</u>
Non-current assets:	
Capital assets:	
Depreciable assets - net	39,524
Total non-current assets	<u>39,524</u>
TOTAL ASSETS	<u>68,309</u>
LIABILITIES	
Current liabilities:	
Due to other funds	9,462
Total current liabilities	<u>9,462</u>
TOTAL LIABILITIES	<u>9,462</u>
NET ASSETS	
Invested in capital assets, net of related debt	39,524
Unrestricted	19,323
TOTAL NET ASSETS	<u>\$ 58,847</u>

See Notes to Financial Statements

TOWN OF PORTSMOUTH

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2008**

	School Lunch Fund
Operating Revenues:	
Intergovernmental	\$ 131,922
Other revenues	525,336
Total Operating Revenues	<u>657,258</u>
Operating Expenses:	
Cafeteria operations	638,654
Depreciation	1,952
Total Operating Expenses	<u>640,606</u>
Income from operations	<u>16,652</u>
Non-operating Revenues (Expenses):	
Interest and miscellaneous income	505
Other expenses	(162)
Net Non-operating Revenues	<u>343</u>
Net Income	16,995
Net assets - beginning of the year, as restated	<u>41,852</u>
Net assets - ending of the year	<u><u>\$ 58,847</u></u>

See Notes To Financial Statements

TOWN OF PORTSMOUTH
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2008

	School Lunch Fund
Cash flows from operating activities:	
Cash received from customers	\$ 524,601
Intergovernmental	118,357
Cash payments to suppliers for goods and services	(642,285)
Cash payments for administrative expenses	343
Net cash provided by operating activities	1,016
Net increase in cash	1,016
Cash and cash equivalents, beginning of the year	0
Cash and cash equivalents, end of the year	1,016
Reconciliation of net income to net cash provided by operating activities:	
Income from operations	16,995
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	1,952
Changes in assets and liabilities:	
Increase in accounts receivable	(4,533)
Increase in due to other funds	(13,398)
Total adjustments	(15,979)
Net cash provided by operating activities	\$ 1,016

See Notes to Financial Statements

TOWN OF PORTSMOUTH**Statement of Net Assets
Fiduciary Funds
June 30, 2008**

	Pension Trust Funds	Defined Contribution Pension Plan	Agency Funds
<u>ASSETS</u>			
Cash equivalents	\$ 408,750		\$ 210,398
Investments, at fair value	26,710,751	\$ 2,066,163	
Due from other other funds			317,065
Other receivables			10,450
<u>TOTAL ASSETS</u>	<u>27,119,501</u>	<u>2,066,163</u>	<u>537,913</u>
<u>LIABILITIES</u>			
Deposits held in custody for others			537,913
<u>Total liabilities</u>			<u>537,913</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits	27,119,501	2,066,163	
<u>Total net assets</u>	<u>27,119,501</u>	<u>2,066,163</u>	
<u>Total liabilities and net assets</u>	<u>\$ 27,119,501</u>	<u>\$ 2,066,163</u>	<u>\$ 537,913</u>

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH**Statement of Changes in Net Assets
Fiduciary Funds
For the year ended June 30, 2008**

	Pension Trust Fund	Defined Contribution Pension Plan
Additions:		
Contributions:		
Employer	\$ 2,088,317	\$ 26,798
Plan member	453,622	90,396
Total contributions	<u>2,541,939</u>	<u>117,194</u>
Investment income:		
Net decrease in fair value of investments	(3,506,288)	
Interest and dividends	751,413	90,954
Net investment income (loss)	<u>(2,754,875)</u>	<u>90,954</u>
Total additions	<u>(212,936)</u>	<u>208,148</u>
Deductions:		
Benefits paid	1,449,218	136,814
Administrative and other	122,963	
Total deductions	<u>1,572,181</u>	<u>136,814</u>
Changes in net assets	(1,785,117)	71,334
Net assets - beginning of year, as restated	<u>28,904,618</u>	<u>1,994,829</u>
Net assets - ending of the year	<u>\$ 27,119,501</u>	<u>\$ 2,066,163</u>

See Notes to Basic Financial Statements

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TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

As a general rule, the effect of Inter-fund activity has been eliminated from the government-wide financial statements.

Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14. Under GASB Statement No. 14, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate entities that meet any one of the following three tests:

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

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

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

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

The following entities were considered for classification as component units for fiscal year 2008:

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

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

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

The Town of Portsmouth does not have any component units.

Recently Issued Accounting Standards

The Town has implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers for Assets and Future Revenues, effective for the Town's fiscal year ending June 30, 2008. The adoption of this Statement did not have an effect on the Town's financial statements or results of operations.

The Town has implemented GASB Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27, effective for the Town's fiscal year ending June 30, 2008.

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

- ✓ GASB Statement No. 45 – Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions, effective for the Town's fiscal year ending June 30, 2009.
- ✓ GASB Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations, effective for the Town's fiscal year ending June 30, 2009.
- ✓ GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets, effective for the Authority's fiscal year ending June 30, 2010.

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

Basis of Presentation

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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

The funds of the financial reporting entity are described below:

Major Governmental Funds

General Fund

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

School Unrestricted Fund

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

Warrants 06-07 Fund

The Warrants 06-07 Fund is used to account for resources devoted to capital projects of the Town and School Department.

Proprietary Fund Financial Statements

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

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

The Town's School Department has one Enterprise Fund as follows:

School Lunch Fund

The School Lunch Fund is used to account for cafeteria operations.

Fiduciary Fund Financial Statements (Not included in governmental wide statements)

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

Pension Trust Fund

This fund accounts for resources held in trust for members and beneficiaries of the Town administered defined benefit pension plan and defined contribution pension plan.

Agency Funds

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

Non-Major Governmental Funds

Special Revenue Funds

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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: Glen Manor, 05-06 Warrants, 07-08 Warrants, 08-09 Warrants, Various Equipment and Capital Fund.

Permanent Funds

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

Assets, Liabilities and Fund Equity

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.

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

Investments

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Accounts Receivable and Taxes Receivable

Accounts receivable and taxes receivable are shown net of an allowance for uncollectible accounts. The allowances are calculated based on the age of the individual receivables. The allowance for uncollectible property taxes in the governmental and government wide statements amounted to \$460,470 at June 30, 2008. Property taxes which were levied on July 1 of the current year and other delinquent balances are recorded as receivables.

Short-Term Interfund Receivables/Payables

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

Inventory

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

Revenues

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

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Capital Assets and Depreciation

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

All capital assets are capitalized at historical cost or estimated historical cost. Donated capital assets are recorded at the fair market value as of the date received. The Town follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than 1 year. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not considered during fiscal 2008.

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Capital Assets and Depreciation (Continued)

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

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

Deferred Revenue

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

Property Taxes

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

The Town is permitted by State Law to levy property taxes. Current tax collections for the Town were approximately 97.09% of the total 2007 levy.

The Town's fiscal 2007-2008 property taxes were levied on July 1, 2007 on assessed valuations as of December 31, 2006. Upon levy taxes are due September 1 or may be paid quarterly by September 1, December 1, March 1, and June 1. Failure to make payments by due dates will result in a lien on the taxpayer's property.

Rhode Island general laws restricts the Town's ability to increase either its total tax levy or its tax rates by more than 5.25% over those of the preceding year. Total taxes of \$38,442,372 resulting from tax rates of \$22.50, \$11.38, and \$2.30 per \$1,000 of assessed valuation for motor vehicles, real estate and tangible property, and business inventory, respectively, were levied on July 1, 2007.

Intergovernmental

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

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

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.

Non-reciprocal interfund activities:

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

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

Compensated Absences

Under the terms of various contracts and agreements, Town employees are granted vacation and sick leave in varying amounts based on length of service. Vacation benefits are accrued as a liability based on the accumulated benefits earned at June 30. Sick leave benefits are based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The liability is calculated at the rate of pay in effect at June 30, 2008.

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Accrued Liabilities and Long-Term Debt

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

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

Bond Premiums and Issuance Costs

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance.

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 Rhode Island Interlocal Management Trust. The Trust was established to offer a viable alternative to commercial insurance for public entities through intergovernmental pooling of risk. The Trust is a protected, self-insurance plan. The Town pays annual premium for its liability, property and worker's compensation coverage. The membership participation agreement provides that, in return for the payment of the annual premium, the Trust member transfers the financial responsibility for loss, but only according to the conditions of coverage and up to the stated maximum amount of insurance purchased by the Town or School Department. In the government-wide financial statements, the estimated liability for all claims and judgments is recorded as a liability and as an expense.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 as follows:

	BEGINNING			ENDING
<i>Governmental Activities:</i>	BALANCE	ADDITIONS	RETIREMENTS	BALANCE
	<u>As Restated</u>			
Nondepreciable assets:				
Land	\$ 3,825,173	\$ -	\$ -	\$ 3,825,173
Total Capital assets not being depreciated	<u>3,825,173</u>	<u>-</u>	<u>-</u>	<u>3,825,173</u>
Depreciable assets:				
Land improvements	386,145	-	-	386,145
Buildings	21,701,762	-	-	21,701,762
Buildings and improvements	1,402,033	892,421	-	2,294,454
Machinery & equipment	2,846,119	509,091	-	3,355,210
Construction equipment	291,982	-	-	291,982
Infrastructure	18,261,971	74,640	-	18,336,611
Vehicles	<u>3,306,593</u>	<u>402,180</u>	<u>-</u>	<u>3,708,773</u>
Total Capital assets being depreciated	<u>48,196,605</u>	<u>1,878,332</u>	<u>-</u>	<u>50,074,937</u>
Less: accumulated depreciation for:				
Land improvements	156,030	16,303	-	172,333
Buildings	12,582,332	425,232	-	13,007,564
Buildings and improvements	291,037	92,412	-	383,449
Machinery and equipment	1,300,882	475,842	-	1,776,724
Construction equipment	282,662	3,901	-	286,563
Infrastructure	11,396,522	420,010	-	11,816,532
Vehicles	<u>1,415,246</u>	<u>248,786</u>	<u>-</u>	<u>1,664,032</u>
Total accumulated depreciation	<u>27,424,711</u>	<u>1,682,486</u>	<u>-</u>	<u>29,107,197</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 24,597,067</u>	<u>\$ 195,846</u>	<u>\$ -</u>	<u>\$ 24,792,913</u>

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CAPITAL ASSETS (Continued)

	BEGINNING			ENDING
	BALANCE			BALANCE
<i>Business-type activities</i>	<u>As Restated</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u>
Depreciable assets:				
Machinery, equipment & vehicles	\$ 35,714	\$ 6,655	\$ -	\$ 42,369
TOTAL CAPITAL ASSETS	<u>35,714</u>	<u>6,655</u>	<u>-</u>	<u>42,369</u>
Less accumulated depreciation for:				
Machinery, equipment & vehicles	893	1,952	-	2,845
Total accumulated depreciation	<u>893</u>	<u>1,952</u>	<u>-</u>	<u>2,845</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 34,821</u>	<u>\$ 4,703</u>	<u>\$ -</u>	<u>\$ 39,524</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 55,456
Public safety	346,157
Public works	528,400
Education	664,094
Community service	<u>88,379</u>
Total depreciation expense	<u>\$1,682,486</u>

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

School lunch	<u>1,952</u>
Total depreciation expense	<u>\$1,952</u>

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 town meeting 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.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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, 2008.

Wastewater Facility Plan.....	\$ (127,000)
Click it or Ticket.....	(325)

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

Legal Debt Margin

The Town's legal debt margin as set forth by State Statute is limited to three percent of the total taxable assessed value which approximates \$99,851,780. As of June 30, 2008, the Town was in compliance with this Statute. The debt subject to the debt limitation is based on the type of debt that is used.

4. CASH DEPOSITS and INVESTMENTS

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Cash and investments-governmental activities.....	\$7,191,526
Cash and investments-business-type activities.....	1,016
Cash and investments-pension trust funds.....	29,185,664
Cash and investments-town agency funds.....	206,802
Cash and investments-student activity agency funds.....	<u>3,596</u>
Total cash and investments.....	<u>\$36,588,604</u>

Cash

Deposits are in various financial institutions and are carried at cost. The carrying amount of deposits is separately displayed on the Balance Sheet of the Fund financial statements and on the Government-Wide Statement of Net Assets as "Cash and Cash Equivalents."

Total deposits.....	\$6,227,200
Add: Petty Cash.....	1,250
Add: U. S. Government money market funds.....	<u>964,092</u>
Total cash and cash equivalents reported in the financial statements	<u>\$7,192,542</u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Town will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town does not have a formal deposit policy for custodial credit risk, but is governed by State Laws as described below. At year end, the carrying amount of such deposits was \$7,191,292, while the bank balance was \$1,859,581, of which \$300,000 was covered by federal depository insurance.

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

4. CASH DEPOSITS and INVESTMENTS (Continued)

Investments

Investments are stated at fair value for investment pools and historical cost for all other investments. The majority of investment activities are conducted through a contracted investment management firm and held in a pooled trust fund account in the Town's name.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Town's formal investment policy for its Pension Trust Fund states that no security can be purchased that is rated below B by Moody's Investor Services or Standard & Poor's Ratings Group. The pension investment policy also states that no more than 10% of the portfolio's fixed income allocation may be invested in securities rated below investment grade. The pension portfolio may not invest or use synthetic securities or derivatives of any kind. The Town does not have a formal policy that limits investment choices for its other funds.

Interest Rate Risk

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

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town's formal investment policy for its Pension Trust Funds states that no more than 5% of the portfolio's value may be invested in the securities of any one issuer except for securities of the U.S. Government, its agencies or instrumentalities. The Town does not have a formal policy that limits the amount the Town may invest in one issuer for its other funds.

At June 30, 2008, the Town had a diversified portfolio and was not deemed to be concentrated in any one investment category. Although all of the investments were held in mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

At June 30, 2008, the Town of Portsmouth, Rhode Island has not formally adopted an investment policy.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

4. CASH DEPOSITS and INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

<u>Investment</u>	<u>Pension Funds</u> <u>Percentage</u>	<u>Fair Value</u>	<u>Rating (Moody/S&P)</u>
Mutual Funds			
DFA Emerging Markets - Core	3.77%	\$1,085,810	N/A
DFA Emerging Markets - Value	2.21%	636,828	N/A
DFA 5 Year Global-Fixed Income	9.97%	2,870,273	N/A
DFA International-Equity	7.25%	2,086,302	N/A
DFA International RE - Securities	2.40%	690,418	N/A
DFA International Small Cap - Portfolio	3.61%	1,040,092	N/A
DFA International Small Com - Portfolio	1.22%	349,027	N/A
DFA 1 Year Fixed-Income Portfolio	16.60%	4,775,586	N/A
DFA RE - Securities	3.53%	1,016,936	N/A
DFA 2 Year Global-Fixed Income Portfolio	6.63%	1,908,321	N/A
DFA US Core Equity 2-Portfolio	16.36%	4,706,976	N/A
DFA US Large Cap Value-Portfolio	7.88%	2,267,511	N/A
DFA US Vector Equity-Portfolio	11.39%	3,276,671	N/A
PLUS Fund-91 Day T-Bills	7.01%	2,017,267	N/A
Bond Funds	0.00%	596	N/A
Balanced Funds	0.08%	23,410	N/A
U.S. Stock	0.09%	24,890	N/A
		<hr/>	
Pension Trust Fund Total		\$ 28,776,914	
		<hr/>	
Total Investments	<u>100 %</u>		

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

5. LONG-TERM AND SHORT-TERM OBLIGATIONS

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

Rhode Island general laws cap the amount of each municipality's general bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from nontax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2006 was \$3,328,392,669, limiting the amount of nonexempted general obligation bonds outstanding to \$99,851,780. At June 30, 2008, bonds outstanding totaled \$16,343,436.

During 1996, general obligation bonds totaling \$7,564,998 were defeased by replacing from the issuance of new general obligation bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the accompanying basic financial statements.

The following is a summary of changes in long-term debt for the year ended June, 30, 2008.

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2007	Additions	Retirements	Balance, 6/30/2008	Interest Paid	Amounts	
										Due Within One Year	Due Within One Year
Town and School refunding bond	\$7,695,000	4/1/96	4.60-5.30%	09/15/09	\$ 1,485,000	-	\$ 505,000	\$ 980,000	\$ 64,323	\$	495,000
School improvements	9,240,000	12/7/00	5.00-5.40%	11/01/20	6,650,000	-	475,000	6,175,000	329,056		475,000
School improvements & computers	700,000	6/20/03	3.25%	06/15/08	140,000	-	140,000	-	3,413		-
Fire truck and vehicle	722,000	6/20/03	3.25%	06/15/08	144,000	-	144,000	-	3,510		-
School improvements & computers	700,000	6/15/04	4.09%	06/15/09	280,000	-	140,000	140,000	10,021		14,000
Tax settlement bond	2,200,000	2/17/04	2.25%-4.75%	02/15/19	1,800,000	-	150,000	1,650,000	58,838		150,000
School improvements & computers	700,000	6/15/05	4.20%	06/15/10	420,000	-	140,000	280,000	16,170		140,000

General obligation bonds:

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2007	Additions	Retirements	Balance, 6/30/2008	Interest Paid	Amounts	
										Due Within One Year	Due Within One Year
Library land	\$ 450,000	9/27/05	4.35%	09/15/10	\$ 360,000	-	\$ 90,000	\$ 270,000	\$ 15,660	\$	90,000
Fire alarm system & dump trucks	350,000	6/1/06	4.35%	06/15/11	280,000	-	70,000	210,000	11,681		70,000
School computers	124,000	6/1/06	4.35%	06/15/11	98,000	-	26,000	72,000	4,072		24,000
School improvements	350,000	6/27/06	4.00-5.00%	04/01/11	280,000	-	70,000	210,000	12,075		70,000
School gymnasium	3,500,000	6/27/06	4.00-5.00%	04/01/26	3,325,000	-	175,000	3,150,000	150,938		175,000
Road resurfacing	277,261	1/24/07	4.40%	01/15/12	227,261	-	45,661	181,600	9,454		45,400
School information technology	350,000	1/24/07	4.50%	01/15/12	350,000	-	70,000	280,000	14,569		70,000
Portsmouth Middle School sprinklers	1,900,000	5/16/07	4.00-5.50%	04/01/22	1,900,000	-	130,000	1,770,000	84,041		130,000
School improvements	350,000	5/16/07	4.00-5.50%	04/01/12	350,000	-	70,000	280,000	13,961		70,000
School improvements	350,000	5/17/08	3.98%	03/17/13	-	350,000	-	350,000	-		70,000
School improvements	344,836	5/17/08	3.98%	03/17/13	-	344,836	-	344,836	-		70,836
Total governmental activity					\$18,089,261	\$ 694,836	\$ 2,440,661	\$16,343,436	\$ 801,782		\$ 2,159,236
Deferred amount for issuance premiums					58,286	-	5,659	52,627	-		5,023
Total bonds					\$18,147,547	\$ 694,836	\$ 2,446,320	\$ 16,396,063	\$ 801,782		\$ 2,164,259
Compensated absences					1,840,322	100,156	15,797	1,924,681	-		-
Total long-term obligations					\$19,987,869	\$ 794,992	\$ 2,462,117	\$18,320,744	\$ 801,782		\$ 2,164,259

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

At June 30, 2008 the annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION		TOTAL
	PRINCIPAL	INTEREST	
2009	\$ 2,285,236	\$ 725,395	\$ 3,010,631
2010	2,134,400	625,318	2,759,718
2011	1,507,400	541,088	2,048,488
2012	1,253,400	477,300	1,730,700
2013	1,063,000	424,076	1,487,076
2014	925,000	379,081	1,304,081
2015	925,000	336,222	1,261,222
2016	925,000	293,728	1,218,728
2017	925,000	250,344	1,175,344
2018	925,000	206,950	1,131,950
2019-2023	2,950,000	427,885	3,377,885
2024-2026	525,000	47,250	572,250
	<u>\$16,343,436</u>	<u>\$ 4,734,637</u>	<u>\$ 21,078,073</u>

6. LEASE REVENUE

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

Fiscal Year Ending June 30,	Governmental Activities
2009.....	\$62,710
2010.....	65,845
2011.....	69,138
2012.....	72,595
2013.....	<u>37,421</u>
Total.....	<u>\$307,709</u>

7. RISK MANAGEMENT

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

7. RISK MANAGEMENT (Continued)

The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust (the Trust), a nonprofit public entity risk pool which provides insurance coverage to participants in exchange for an annual premium and a pro-rata share of certain administrative expenses. Coverage is provided in accordance with each member's policy, subject to maximum insurable limits and deductibles, through a pooling of risks among participants, supplemented by commercial reinsurance for excess losses. Management believes the Trust's reserves to be adequate to meet all reported claims, as well as an estimate of potential claims for losses incurred but not reported. Accordingly, no accrual has been made for potential liabilities arising from risks once they have been transferred to the Trust. The Town and the School Department are members of the Governmental Health Group of Rhode Island, 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, 2008.

8. INTERFUND BALANCES

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

Interfund receivable and payable are as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 6,655	\$ 676,123
School Unrestricted Fund	462,024	685,144
Warrants 06-07		16,347
Non-Major Governmental Funds	1,303,616	702,284
Proprietary School Lunch Fund	-	9,462
Town Activity Fund	317,065	-
Total	\$ <u>2,089,360</u>	\$ <u>2,089,360</u>

9. NET ASSETS/FUND BALANCES

The Government-Wide Financial Statements utilize a net asset presentation. Net assets are categorized as invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

9. NET ASSETS/FUND BALANCES (Continued)

Restricted Net Assets

This category presents external restrictions imposed by grantors or laws and regulations.

Unrestricted Net Assets

This category represents net assets of the Town, not restricted for any project or other purpose.

Reserved for Encumbrances

To reserve for encumbrances outstanding at June 30, 2008

10. POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 13, the Town and School Department provide, under the provisions of various union contracts and other employment agreements, post-retirement health insurance benefits or compensation as per the requirements of labor agreements to teachers and municipal employees that retire from the Town and School Department. Eligibility is determined based on years of service, employee age, and other available health care coverage. The Town and School Department fund these benefits on a pay-as-you-go basis. Currently, approximately 31 retirees meet those eligibility requirements. The cost of retiree's health care insurance benefits is recognized as an expenditure as premiums are paid. For 2008, those costs totaled \$404,213.

GASB Statement No.45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions," will require the measurement and recognition of the cost of other post-employment benefits during the periods that employee services are rendered. The Town has calculated the effect of implementing GASB Statement No. 45, which will occur in fiscal year 2009.

11. JOINT VENTURE

The Town of Portsmouth and Portsmouth School Department participate in a joint venture entitled the Governmental Health Group of Rhode Island, Inc. (Group). The Group is a not-for-profit organization formed on July 1, 2005 to provide programs of health insurance coverage to Rhode Island cities, towns, and other governmental units. The Group is governed by a Board of Directors.

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

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

The Group agreement provides the Group's Board of Directors a discretionary, fully allocable assessment feature with respect to specified circumstances. After it has been a member of the Group for an initial three year period, a member may withdraw from the Group by providing the Group's Board of Directors with 90 days notice; liquidated damages would also be assessed at that time. The Group may terminate member's coverage for failure to pay amounts due.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

11. JOINT VENTURE (Continued)

The Group generated \$51,203,605 in revenues, and net revenue of \$2,493,977 for the period ending June 30, 2008. The Group had \$14,003,162 in total assets, and \$6,635,268 in total equity as of June 30, 2008. The Group retains certain levels of insurance risk and acquires reinsurance for specific losses in excess of \$300,000. As of June 30, 2008, the Group's membership consists of 5 cities and towns, 8 school districts and 1 other governmental unit. Separately audited financial statements are available at Governmental Health Group of Rhode Island, Inc. P. O. Box 4430, Middletown, RI.

12. CONTINGENT LIABILITIES AND COMMITMENTS

Pending or threatened lawsuits against municipal governments arise in the ordinary course of operations. Generally, in the opinion of the administration, the ultimate resolution of any legal actions will not result in a material loss to the Town. However, at June 30, 2008, there are several claims against the Town for which the Town's legal counsel is unable to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

Under the terms of federal and state grants, periodic compliance audits by the grantors or their representatives are required and, consequently, certain costs may be questioned as not being appropriate, and result in reimbursement to the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies could not be determined at this time. Town officials believe that such disallowances, if any would not be material.

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 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 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 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 a contract expiring on June 30, 2009.

The School Department has as agreement with Laidlaw Transit to provide busing for the School Department based on the rate schedule specified in the agreement. The agreement expires June 30, 2010. Busing costs associated with this agreement totaled approximately \$1,518,090 for the year ended June 30, 2008.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS

Town Retirement Plan

Plan Description

The Town Retirement Plan is a single employer, contributory defined benefit pension plan which provides retirements, 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. The Plan was established in accordance with the Town Charter and State statutes. The plan is reported as a Pension Trust Fund in the Town's financial statements. As of July 1, 2008, employee membership data for the Town Retirement Plan is as follows:

Active members.....	192
Retired members.....	75
Terminated with vesting	17
Disabled members	7
Beneficiaries of deceased members	<u>2</u>
Total.....	<u>293</u>

Benefit Provisions and Contributions

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

- Plan participation commences on the first day of month coinciding with or following the date of hire, if the employee chooses to participate in the Plan. Elected officials and certified employees of the School Department are not eligible to participate in the Plan.
- The normal retirement date for Police and Fire employees is upon completion of twenty years of credited service. The normal retirement date for Town Hall, School and Public Works employees is the later of age 60 or the completion 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 prorated for service less than 20 years plus 2% for 5 additional years beyond 20 years to a maximum of 70%.
Fire Employees	60% of average monthly earnings prorated for service less than 20 years plus 2% for 7 additional years beyond 20 years to a maximum of 74%.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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

Pension benefits are determined using the highest twelve month earnings 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.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

Employees are required to contribute to the Plan as follows:

Fire and Police employees	8% of earnings; Exception-the Fire Chiefs and the two Deputy Fire Chiefs contribute 5.5% of earnings.
School employees	Employees hired on or after July 1, 1991 contribute 6% of earnings. Employees hired prior to July 1, 1991 contribute 2% of earnings.
Town Hall employees	No contributions required from employees hired prior to July 1, 1991. Employees hired on or after July 1, 1991 contribute 5% of earnings
Public Works employees	Union employees are not required to make contributions. Management and nonunion employees contribute 5% of earnings.
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>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension costs	\$ 2,088,317	\$ 1,671,713	\$ 1,552,168
Actual contribution	2,088,317	1,671,713	1,552,168
Net pension obligation	NONE	NONE	NONE
% of annual pensions costs contributed	100%	100%	100%

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

The annual required contribution was determined as part of an actuarial valuation as of July 1, 2007. Significant actuarial methods and assumptions are as follows:

Actuarial Cost Method

The entry age normal actuarial cost method has been used to determine both the actuarial accrued liabilities and annual required contributions to the Plan. Under this method, the normal cost is the amount calculated to be the level percentage of pay necessary to fund the prospective benefits from each employee's entry age to retirement age. The actuarial accrued liability, which is redetermined 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, 2006. During fiscal year 2007, pension assets valuation year-end changed from December 31st to June 30th.

Assumptions

1. Mortality	1994 Group Annuity Table Male and Female
2. Interest Rate	8.00% per annum
3. Salary increases	Projected 4.00 increase per year
4. Disability	100 % (school, public works and town) and 160% (fire and police)
5. Cost of Living Adjustments	1.7%~3.0%

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing and decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of with a valuation dated of July 1, 2008 which is the most recent report available from the State who administers this plan:

Actuarial Value of Asset	\$	27,628,308
Actuarial Accrued Liability (AAL)	\$	43,087,640
Unfunded AAL (UAAL)	\$	(15,459,332)
Funded Ratio		64.1%
Covered Payroll	\$	7,958,303
UAAL as a percentage of covered payroll		194.3%

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Funded Status of 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.

Employees' Retirement System of the State of Rhode Island

All full-time teachers, including superintendents, principals, school nurses and certain other school officials in the School Department are considered Certified Employees and are eligible to participate in the Employee's Retirement System of the State of Rhode Island ("System"), a cost-sharing multiple-employer defined benefit plan administered by the State of Rhode Island. Financial Statements for the plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. The payroll for employees covered by the System for the year ended June 30, 2008 was \$17,142,997 including \$801,295 of federally reimbursed payroll.

The plan issues a stand-alone publicly available financial report that includes financial statements and required supplementary information. A copy of the report can be obtained from the State Employees Retirement Board, 40 Fountain Street, Providence, Rhode Island 02903, or by accessing their website at www.ersri.org.

Plan Description

The following eligibility and benefit provisions are established by Rhode Island General Laws, Title 16, Chapters 15-17 and may be amended by State Statute. All Portsmouth School Department certified school personnel are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service, or after 28 years of credited service regardless of age are entitled to a retirement benefit. The retirement benefit is equal to 1.7 percent of their final average salary for each year of credited service up to 10 years, plus 1.9 percent of their final average salary in excess of 10 years through 20 years, plus 3.0 percent of their final average salary in excess of 20 years up to the 34th year of service, plus 2.0 percent of their final average salary for the 35th year, up to a maximum benefit of 80 percent of their final average salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pay. Employees are vested in their retirement benefits upon completion of 10 years of service. Members receive a 3% compounded increase in their retirement benefit each year, beginning in January of the year in which the member reaches the third anniversary of retirement. The System also provides death and disability benefits. The plan provides pre-retirement benefits at a minimum of 17 percent of salary for nonoccupational disabilities after 5 years of service, and at 67 percent for occupational disabilities regardless of service. Surviving spouses are eligible for both pre-and post-retirement death benefits with minimum amounts established under varying circumstances.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

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

Contributions Required and Contributions Made

Covered employees are required by State Statute to contribute 9.5% of their salary to the Plan. The State and the School Department are required to contribute an amount determined annually by the actuary and as provide by State Statute. The School Department was required to contribute 13.04%, 11.62% and 9.72% for all full-time employees for fiscal years 2008, 2007 and 2006, respectively. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. The split between State and School Department is specified by State Statute. The contribution requirement for the year ended June 30, 2008 was 22.01%. The Teacher's Plan cost is paid 60% by the School Department and 40% by the State. However, the State will pay the total cost of the contribution deferrals. As prescribed by Rhode Island General Laws, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For the year ended June 30, 2008, actuarial contributions were 13.04% of participant salary. This resulted in contribution rates paid by the State on behalf of the School Department of 8.97% or \$1,417,950 of the nonfederal reimbursed payroll. The School Department's required and actual contributions to the System for the years ended June 30, 2008, 2007 and 2006 were approximately \$2,218,021, \$1,894,000 and \$1,478,000, respectively. The annual required contribution was determined as part of the June 30, 2005 actuarial valuation.

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

- A. Mortality - 1994 Group Annuity Mortality Table with mortality for disabled persons set equal to the age 65 under the 1971 Group Annuity Mortality Table.
- B. Investment return - 8.25%, compounded annually.
- C. Salary increase – Salaries will increase at a rate of 4.25% – 13.25%, compounded annually
- D. Retirement age - Teachers are assumed to retire at the later of age 60 or completion of the service requirements.
- E. Cost of living adjustments – 3.0% compounded annually beginning on the January 1st following a participant's third anniversary of retirement.

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

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

13. PENSION PLANS (Continued)

Defined Contribution Pension Plan

The Town of Portsmouth has adopted a defined contribution money purchase plan for all full time NAGE local 280, PMEA local 871 members and non-union employees. The required contribution for the Town and participants are 1.75% earnings and 3.00% earnings, respectively. During fiscal year 2008, contributions made under this plan by participants and employer were \$90,396 and \$26,798, respectively.

Plan Description

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

- A. Plan Administrator – The ICMA Retirement Corporation
- B. Plan Year- The twelve consecutive month period designated by the Town
- C. Trust- The Trust created under Article VI of the Plan which shall consist of all of the assets of the Plan derived from Employer and Participant contributions under the Plan, plus any income and gains thereon, less any losses, expenses and distribution to Participants and Beneficiaries.

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

14. RESTATEMENT

In some instances beginning fund balance/net assets have been restated as a result of adjustments made to correct or reclassify prior year balances. Such adjustments, summarized by fund type as follows:

	General Fund	School Unrestricted	Warrants 06-07	Special Revenue	Capital Projects	Enterprise School Lunch Fund	Defined Contribution Pension Fund
Beginning balance, June 30, 2007	\$ 1,255,416	\$ 442,689	\$ -	\$ 839,899	\$ 3,439,762	\$ 7,031	\$ -
To correct prior year restatement	254,258	-	-	-	(254,251)	-	-
To correct capital project fund reporting	205,604	-	-	-	(205,604)	-	-
To correct prior year adjustment	58,404	671	-	(671)	-	-	-
To correct expenditures for CDBG	-	-	-	(52,438)	-	-	-
To correct special revenue fund balances	55,246	-	-	(20,160)	-	-	-
To correct prior year general fund accounts	5,985	-	-	-	-	-	-
To reclassify warrants 06-07 fund	-	-	2,332,790	-	(2,332,790)	-	-
To correct warrants 06-07 fund balances	-	-	(79,858)	-	79,858	-	-
To reclassify the school lunch fund	-	-	-	(6,010)	-	-	-
To reclassify capital assets into the school lunch fund	-	-	-	-	-	34,821	-
To correct prior year undisclosed defined contribution pension plan	-	-	-	-	-	-	1,994,829
Beginning balance, June 30, 2007, restated	\$ 1,834,913	\$ 443,360	\$ 2,252,932	\$ 760,620	\$ 726,975	\$ 41,852	\$ 1,994,829

Government Wide Financial Statements

	Governmental Activities	Business Activities	Defined Contribution Pension Fund
Beginning balance, June 30, 2007	\$ 11,722,935	\$ 7,031	\$ -
Restatements adjustments made above	6,213	34,821	1,994,829
Beginning balance, June 30, 2007, restated	\$ 11,729,148	\$ 41,852	\$ 1,994,829

TOWN OF PORTSMOUTH, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

15. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Town issued General Obligation bonds in the amount of \$350,000, \$1,100,000 and \$350,000, with the interest at 3.75%~4.00%, 3.75%~6% and 3.75%~4.00%, maturing on May 2013, May 2024 and May 2014 respectively, to be used for School Projects.

Subsequent to June 30, 2008, the Town added a Wind Turbine Generator Fund and a Transfer Station Fund as proprietary funds.

(CONCLUDED)

Required Supplementary Information

TOWN OF PORTSMOUTH

Required Supplementary Information

Statement of Revenues and Expenditures (Non-GAAP Budgetary Basis) Budget and Actual-General Fund

Year Ended June 30, 2008

	Encumbrances Carried Forward	Original Budget	Appropriation Transfers and Additions	Final Budget	Actual on Budgetary Basis	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues							
Property taxes	\$ -	\$ 38,096,817	\$ 107,398	\$ 38,204,215	\$ 38,645,629	\$ -	\$ 441,414
Intergovernmental revenue	-	3,263,927	(175,790)	3,088,137	3,039,744	-	(48,393)
Licenses, permits and fees	-	1,580,500	34,254	1,614,754	1,557,398	-	(57,356)
Fines & forfeitures	-	201,200	-	201,200	273,409	-	72,209
Earnings on investments	-	125,000	-	125,000	150,035	-	25,035
Other revenues	-	1,348,796	20,251	1,369,047	1,421,021	-	51,974
Total revenues	-	44,616,240	(13,887)	44,602,353	45,087,236	-	484,883
Expenditures							
Current:							
General government	25,000	4,672,110	184,212	4,881,322	4,787,193	9,554	84,575
Public safety	-	7,567,645	(49,021)	7,518,624	7,472,063	-	46,561
Public works	-	2,272,744	(55,939)	2,216,805	2,082,836	-	133,969
Community services:							
Recreation, parks and grounds	-	570,834	4,822	575,656	463,348	-	112,308
Public and social services	-	580,873	(1)	580,872	579,920	-	952
Debt Service	-	3,271,941	-	3,271,941	3,247,879	-	24,062
Total expenditures	25,000	18,936,147	84,073	19,045,220	18,633,239	9,554	402,427
Excess (deficiency) of revenues over expenditures	(25,000)	25,680,093	(97,960)	25,557,133	26,453,997	(9,554)	82,456
Other financing sources (uses) transfer between funds	-	(25,680,093)	122,960	(25,557,133)	(25,566,608)	-	(9,475)
Total other financing sources (uses)			122,960	(25,557,133)	(25,566,608)	-	(9,475)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (25,000)	\$ -	\$ 25,000	\$ -	\$ 887,389	\$ (9,554)	\$ 72,981

(CONTINUED)

TOWN OF PORTSMOUTH, RHODE ISLAND

Required Supplementary Information

Statement of Revenues and Expenditures (Non-GAAP Budgetary Basis) Budget and Actual-School Unrestricted Fund

Year Ended June 30, 2008

	Encumbrances Carried Forward	Original Budget	Appropriation Transfers and Additions	Final Budget	Actual on Budgetary Basis	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues							
Intergovernmental revenue	\$ -	\$ 7,861,938	\$ -	\$ 7,861,938	\$ 7,755,189	\$ -	\$ (106,749)
Other revenues		65,000		65,000	23,989		(41,011)
Total revenues	-	7,926,938	-	7,926,938	7,779,178	-	(147,760)
Expenditures							
Education	236,685	33,451,958	(236,685)	33,451,958	32,858,363	471,741	121,854
Total expenditures	236,685	33,451,958	(236,685)	33,451,958	33,858,363	471,741	121,854
Excess (deficiency) of revenues over expenditures	(236,685)	(25,525,020)	236,685	(25,525,020)	(25,079,185)	(471,741)	(25,906)
Other financing sources (uses):							
Transfer from General Fund				25,525,020	25,525,020		
Transfer to school restricted funds							
Transfer from school restricted funds							
Transfer from prior year encumbrance	236,685		(236,685)				
Total other financing sources (uses)	-	25,525,020	(236,685)	25,525,020	25,525,020	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -	\$ 445,835	\$ (471,741)	\$ (25,906)

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

**Notes to Combining Statement of Revenues and Expenditures-Budget
(Non-GAAP Budgetary Basis) Actual**

Year Ended June 30, 2008

Budgetary-GAAP Reporting Reconciliation

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

Budgets are adopted for the General Fund and the School Department's unrestricted fund (a special revenue fund) on a legally enacted budgetary basis which differs from accounting principles generally accepted in the United States (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 table below shows the approximate amounts by which certain municipal department expenditures exceed appropriations (after approved transfers) for the year ended June 30, 2008:

Department	Fund or fund-type	Expenditures in excess of budget
Manor House Committee	General	\$ 1,095

The following is a budget to GAAP reconciliation:

	General Fund	School Unrestricted
Excess of revenues and other financing sources over expenditures and other financing uses- budgetary basis	\$ 887,389	\$ 445,835
Changes in 60 day accrual	(96,718)	
Excess of revenues and other financing sources over expenditures and other financing uses –GAAP basis	\$ 790,671	\$ 445,835

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Pension Plan

Schedule of Funding Progress

Year Ended June 30, 2008

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
1/1/1999	\$11,604,444	\$ 14,874,442	\$ 3,269,998	78.0%	\$ 5,431,775	60.2%
1/1/2000	13,366,941	16,682,652	3,315,711	80.1%	5,656,718	58.6%
1/1/2001	14,764,504	20,772,711	6,008,207	71.1%	6,121,015	98.2%
1/1/2002	15,775,149	22,798,424	7,023,275	69.2%	6,347,972	110.6%
1/1/2003	15,770,989	24,582,923	8,811,934	64.2%	6,619,388	133.1%
1/1/2004	19,407,779	28,684,523	9,276,744	67.7%	6,696,215	138.5%
1/1/2005	22,451,034	33,089,944	10,638,910	67.8%	6,732,372	158.0%
7/1/2006	25,129,703	38,459,122	13,329,419	65.3%	7,767,018	171.6%
7/1/2007	27,628,308	43,087,640	15,459,332	64.1%	7,958,303	194.3%

See accompanying independent auditors' report

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Pension Plan

Schedule of Funding Progress

Year Ended June 30, 2008

Schedule of Employer Contribution

<u>Actuarial Valuation Date</u>	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percent of ARC Contributed</u>
1/1/1999	\$ 802,090	\$ 831,195	103.63%
1/1/2000	799,190	811,401	101.53%
1/1/2001	1,088,547	1,088,547	100.00%
1/1/2002	1,162,063	1,162,063	100.00%
1/1/2003	1,292,432	1,292,432	100.00%
1/1/2004	1,370,682	1,370,682	100.00%
1/1/2005	1,552,168	1,552,168	100.00%
7/1/2006	1,671,713	1,671,713	100.00%
7/1/2007	2,088,317	2,088,317	100.00%

See accompanying independent auditors' report

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Contributory Pension Plan

Schedule of Funding Progress

Year Ended June 30, 2008

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, 2007
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	23 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	8.0% per annum
Projected salary increase	4.0% per annum
Cost-of- living adjustments	Public works employees -2.0% Fire employees (retired before 6/30/2007) - 2.0% Fire employees (retired after 6/30/2007) - 3.0% Police employees - 3.0% Town hall employees - 2.0% School employees - 1.7 % Town management (retired before 7/1/2004) - 2.0% Town management (retired after 7/1/2004) - 3.0%
Assumed Retirement Age	Employees are assumed to retire as follows: Fire - 100% at 27 years of service Police - 50% at 25 years of service and the remainder at 27 years of service Town and Public Works - 100% at the later of age 60 or 10 years of service School (Council #94) - 50% on completion of age 55 and 20 years of services, 100% at age 60 with 10 years and 5% between age 56-59 School (Non-Council #94) - 100% on completion of age 60 with 10 years of services Any employee who has already passed the Assumed Retirement Age is assumed to retire immediately

See accompanying independent auditors' report

(CONTINUED)

Other Supplementary Information

TOWN OF PORTSMOUTH
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

ASSETS	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
Cash, cash equivalents and investments	\$ -	\$ 454,220	\$ -	\$ 454,220
Accounts receivable	310,485	-	139,922	450,407
Due from federal and state governments	248,239	-	-	248,239
Due from other funds	915,397	388,219	-	1,303,616
TOTAL ASSETS	\$ 1,474,121	\$ 842,439	\$ 139,922	\$ 2,456,482
LIABILITIES				
Accounts payable	\$ 33,888	\$ 350,219	\$ -	\$ 384,107
Accrued payroll	97,764	-	-	97,764
Due to other funds	621,224	81,060	-	702,284
Deferred revenue	197,221	-	-	197,221
Due to State	4	-	-	4
TOTAL LIABILITIES	950,101	431,279	-	1,381,380
FUND BALANCE				
Reserved for:				
Perpetual care and other	-	-	4,821	4,821
Unreserved for:				
Special revenue funds	107,286	-	-	107,286
School restricted funds	416,734	-	-	416,734
Capital project funds	-	411,160	-	411,160
Permanent funds	-	-	135,101	135,101
TOTAL FUND BALANCE	524,020	411,160	139,922	1,075,102
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,474,121	\$ 842,439	\$ 139,922	\$ 2,456,482

**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, 2008**

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES:				
State aid and grants (Intergovernmental)	\$ 2,230,442	\$ -	\$ -	\$ 2,230,442
Charges for services	77,514	-	-	77,514
Investment and interest income	-	453	6,407	6,860
Contributions and private grants	5,882	-	-	5,882
Other revenue	1,289	-	-	1,289
TOTAL REVENUES	2,315,127	453	6,407	2,321,987
EXPENDITURES:				
Current:				
General government	67,198	-	-	67,198
Public safety	152,674	158,157	-	310,831
Public works	167,000	-	-	167,000
Education	1,901,124	-	-	1,901,124
Community services	252,352	-	-	252,352
Capital expenditures	-	767,679	-	767,679
Debt issuance costs	-	-	-	-
Park & recreation	11,379	132,306	-	143,685
TOTAL EXPENDITURES	2,551,727	1,058,142	-	3,609,869
Excess of revenue over(under) expenditures before transfers	(236,600)	(1,057,689)	6,407	(1,287,882)
Other financing sources (uses):				
Transfers from other funds	-	59,930	-	59,930
Transfers to other funds	-	(12,892)	-	(12,892)
Bond Proceeds	-	694,836	-	694,836
Net other financing sources (uses)	-	741,874	-	741,874
Excess of revenues and other sources over (under) expenditures and other uses	(236,600)	(315,815)	6,407	(546,008)
FUND BALANCES, BEGINING OF YEAR (restated)	760,620	726,975	133,515	1,621,110
FUND BALANCES, ENDING OF YEAR	\$ 524,020	\$ 411,160	\$ 139,922	\$ 1,075,102

TOWN OF PORTSMOUTH
Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2008

Town Activity Funds

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Soil Agency Fund</u>				
ASSET				
Account Receivable	\$ -	\$ 8,450	\$ -	\$ 8,450
Due from other funds	405,517	85,585	199,187	291,915
ASSET	<u>\$ 405,517</u>	<u>\$ 94,035</u>	<u>\$ 199,187</u>	<u>\$ 300,365</u>
LIABILITY				
Deposits Held in Custody for Others	<u>\$ 405,517</u>	<u>\$ 94,035</u>	<u>\$ 199,187</u>	<u>\$ 300,365</u>
<u>Glen Farm Equest Bond Agency</u>				
ASSET				
Cash and cash equivalents	<u>\$ 11,420</u>	<u>\$ 328</u>	<u>\$ 11,748</u>	<u>\$ -</u>
LIABILITY				
Deposits Held in Custody for Others	<u>\$ 11,420</u>	<u>\$ 328</u>	<u>\$ 11,748</u>	<u>\$ -</u>
<u>Library State Aid</u>				
ASSET				
Due from other fund	<u>\$ -</u>	<u>\$ 109,462</u>	<u>\$ 109,462</u>	<u>\$ -</u>
LIABILITY				
Deposits Held in Custody for Others	<u>\$ -</u>	<u>\$ 109,462</u>	<u>\$ 109,462</u>	<u>\$ -</u>
<u>GMH Deposit Agency Fund</u>				
ASSET				
Account receivable	\$ -	\$ 2,000	\$ -	\$ 2,000
Due from other funds	26,500	35,500	38,000	24,000
ASSET	<u>\$ 26,500</u>	<u>\$ 37,500</u>	<u>\$ 38,000</u>	<u>\$ 26,000</u>
LIABILITY				
Account payable	\$ 2,500		\$ 2,500	\$ -
Deposits Held in Custody for Others	24,000	37,500	35,500	26,000
LIABILITY	<u>\$ 26,500</u>	<u>\$ 37,500</u>	<u>\$ 38,000</u>	<u>\$ 26,000</u>
<u>Drago Road Bond Agency Fund</u>				
ASSET				
Cash and cash equivalents	<u>\$ 3,588</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 3,596</u>
LIABILITY				
Deposits Held in Custody for Others	<u>\$ 3,588</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 3,596</u>
<u>Glen Park Damage Deposit</u>				
ASSET				
Due from other funds	<u>\$ 1,850</u>	<u>\$ 1,750</u>	<u>\$ 2,450</u>	<u>\$ 1,150</u>
LIABILITY				
Deposits Held in Custody for Others	<u>\$ 1,850</u>	<u>\$ 1,750</u>	<u>\$ 2,450</u>	<u>\$ 1,150</u>

TOWN OF PORTSMOUTH
Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2008

Town Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
<u>TOTAL TOWN ACTIVITY AGENCY FUNDS</u>				
<u>ASSET</u>				
Cash	\$ 15,008	\$ 336	\$ 11,748	3,596
Account receivables	-	10,450	-	10,450
Due from other funds	433,867	122,835	239,637	317,065
TOTAL ASSETS	<u>\$ 448,875</u>	<u>\$ 133,621</u>	<u>\$ 251,385</u>	<u>\$ 331,111</u>
<u>LIABILITY</u>				
Account payable	\$ 2,500	-	\$ 2,500	-
Deposits Held in Custody for Others	446,375	\$ 133,621	248,885	\$ 331,111
TOTAL LIABILITIES	<u>\$ 448,875</u>	<u>\$ 133,621</u>	<u>\$ 251,385</u>	<u>\$ 331,111</u>

TOWN OF PORTSMOUTH

**Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2008**

School Activity Funds

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Elmhurst</u>				
ASSETS				
Bank Newport Checking	\$ 19,067	\$ 23,511	\$ 28,255	\$ 14,323
LIABILITIES				
Deposits Held in Custody for Others	\$ 19,067	\$ 23,511	\$ 28,255	\$ 14,323
<u>Hathaway</u>				
ASSETS				
Citizens Bank Checking	\$ 6,694	\$ 9,185	\$ 9,483	\$ 6,396
LIABILITIES				
Deposits Held in Custody for Others	\$ 6,694	\$ 9,185	\$ 9,483	\$ 6,396
<u>Melville</u>				
ASSETS				
Citizens Bank Checking	\$ 899	\$ 22,411	\$ 15,820	\$ 7,490
Citizens Bank Savings	4,884	7	2,000	2,891
	\$ 5,783	\$ 22,418	\$ 17,820	\$ 10,381
LIABILITIES				
Deposits Held in Custody for Others	\$ 5,783	\$ 22,418	\$ 17,820	\$ 10,381
<u>PMS</u>				
ASSETS				
Citizens Bank Checking	\$ 22,568	\$ 122,002	\$ 110,724	\$ 33,846
LIABILITIES				
Deposits Held in Custody for Others	\$ 22,568	\$ 122,002	\$ 110,724	\$ 33,846
<u>PHS</u>				
ASSETS				
PHS CD	\$ 52,484	\$ -	\$ 52,484	\$ -
Citizens Bank Checking	144,052	405,053	411,210	137,895
Citizens Bank Savings	3,953	8	-	3,961
	\$ 200,489	\$ 405,061	\$ 463,694	\$ 141,856
LIABILITIES				
Deposits Held in Custody for Others	\$ 200,489	\$ 405,061	\$ 463,694	\$ 141,856

TOWN OF PORTSMOUTH

**Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2008**

School Activity Funds	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>TOTAL SCHOOL ACTIVITY AGENCY FUNDS</u>				
<u>ASSET</u>				
Cash	\$ 254,601	\$ 582,178	\$ 577,493	206,802
TOTAL ASSETS	<u>\$ 254,601</u>	<u>\$ 582,178</u>	<u>\$ 577,493</u>	<u>\$ 206,802</u>
<u>LIABILITIES</u>				
Deposits Held in Custody for Others	\$ 254,601	\$ 582,178	\$ 577,493	\$ 206,802
TOTAL LIABILITIES	<u>\$ 254,601</u>	<u>\$ 582,178</u>	<u>\$ 577,493</u>	<u>\$ 206,802</u>

SCHEDULE G-1

Town of Portsmouth

SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2008

Tax Roll Year	Balance Uncollected July 1, 2007	2007 Assessment	Additions	Abatements & Adjustments	Current Year Collections	Refunds	Balance June 30, 2008
2007	\$ -	\$ 38,442,372	\$ 105,249	\$ 25,398	\$ 37,406,998	\$ 5,101	\$ 1,120,326
2006	1,255,802	-	1,982	831	1,184,169	-	72,784
2005	67,486	-	567	-	40,966	-	27,087
2004	23,263	-	566	119	5,674	-	18,036
2003	21,527	-	575	-	3,908	-	18,194
2002	19,042	-	188	-	2,451	-	16,779
2001	54,771	-	-	-	2,022	-	52,749
2000	40,977	-	-	-	1,228	-	39,749
1999	32,362	-	-	-	1,527	-	30,835
1998	51,462	-	-	-	794	-	50,668
1997	48,262	-	-	-	629	-	47,633
1996	35,391	-	-	35,027	364	-	-
Total	\$ 1,650,345	\$ 38,442,372	\$ 109,127	\$ 61,375	\$ 38,650,730	\$ 5,101	\$ 1,494,840
Less: Allowance for uncollectible accounts	(510,559)						(460,470)
Net	\$ 1,139,786						\$ 1,034,370

Schedule of property valuation assessed as of December 31, 2006:

	Valuation	Levy
Real property	\$ 3,324,729,200	\$ 36,545,741
Motor vehicles	143,400,815	1,213,669
Tangible personal property	63,051,358	682,962
Total	3,531,181,373	38,442,372
Less: Exemptions and motor vehicle phase out		
Real property	(113,329,744)	-
Motor vehicles	(89,454,384)	-
Tangible personal property	(4,576)	-
Total	\$ 3,328,392,669	\$ 38,442,372

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