THE TOWN OF PORTSMOUTH, RHODE ISLAND

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2012

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FINANCIAL SECTION

This Section contains the Following Subsections:

Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Braver PC
Accountants & Advisors

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island, as of and for the year ended June 30, 2012, 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Portsmouth, Rhode Island, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and supplementary pension and other post-employment benefits information on pages 3 through 11 and 62 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Portsmouth, Rhode Island's financial statements. The combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining defined contribution pension plans fund financial statements, the combining agency fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the combining nonmajor proprietary fund financial statements, the combining defined contribution pension plans fund financial statements, the combining agency fund financial statements and other supplementary information are fairly stated in all material respects in relation to the financial statements as a whole.

Braun P.C.

Providence, Rhode Island
December 19, 2012

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

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

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

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

Government-wide Financial Analysis

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

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

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

Town of Portsmouth Net Assets
June 30, 2012

	Governmental activities		Business-type Activities		Total			
	2012	2011	2012	2011	2012	2011	$ Change	% Change
Current and other assets	$ 12,983,243	$ 11,066,146	$ (10,623)	$ (72,941)	$ 12,972,620	$ 10,993,205	$ 1,979,415	18.0%
Capital Assets	28,743,928	29,742,882	2,733,488	2,712,558	$ 31,477,416	32,455,440	(978,024)	-3.0%
Total Assets	41,727,171	40,809,028	2,722,865	2,639,617	44,450,036	43,448,645	1,001,391	2.3%
Long-term liabilities outstanding	19,376,665	20,642,750	2,170,486	2,223,238	21,547,151	22,865,988	$ (1,318,837)	-5.8%
Other Liabilities	4,139,882	4,847,703	315,548	297,408	4,455,430	5,145,111	(689,681)	-13.4%
Total Liabilities	23,516,547	25,490,453	2,486,034	2,520,646	26,002,581	28,011,099	(2,008,518)	-7.2%
Net assets:								
Invested in capital assets, net of related debt	13,342,227	13,131,880	337,289	263,758	13,679,516	13,395,638	283,878	2.1%
Restricted	-	-	117,652	61,272	117,652	61,272	56,380	92.0%
Unrestricted	4,868,397	2,186,695	(218,110)	(206,059)	4,650,287	1,980,636	2,669,651	134.8%
Total net assets	$18,210,624	$15,318,575	$236,831	$118,971	$18,447,455	$15,437,546	$3,009,909	19.5%

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

Town of Portsmouth Changes in Net Assets
June 30, 2012

	Governmental Activities		Business-type Activities		Total			
	2012	2011	2012	2011	2012	2011	$ Change	% Change
Revenues:								
Program revenues:								
Charges for services	$3,125,255	$2,954,145	$1,381,447	$1,422,034	$4,506,702	$4,376,179	$130,523	3.0%
Operating grants and contributions	3,351,960	3,582,471	168,652	183,077	3,520,612	3,765,548	(244,936)	-6.5%
Capital grants and contributions	293,313	441,054			293,313	441,054	(147,741)	-33.5%
General revenues:								
Property taxes and payments in lieu	45,490,728	44,388,491			45,490,728	44,388,491	1,102,237	2.5%
State Aid, unrestricted	6,871,423	6,937,773			6,871,423	6,937,773	(66,350)	-1.0%
Investment and interest income	11,855	10,392	24		11,879	10,392	1,487	14.3%
Other revenues	1,164,085	884,770			1,164,085	884,770	279,315	31.6%
Transfers	(79,435)	(21,240)	79,435	21,240	-	-	-	
Total revenues	60,229,184	59,177,856	1,629,558	1,626,351	61,858,742	60,804,207	1,054,535	1.7%
Expenses:								
General government	4,607,181	5,024,199			4,607,181	5,024,199	(417,018)	-8.3%
Public safety	9,185,098	8,810,077			9,185,098	8,810,077	375,021	4.3%
Public services	2,791,589	3,557,560			2,791,589	3,557,560	(765,971)	-21.5%
Community services	1,346,146	1,274,895			1,346,146	1,274,895	71,251	5.6%
Education	38,514,354	38,798,267			38,514,354	38,798,267	(283,913)	-0.7%
Interest on long-term debt	524,720	525,631			524,720	525,631	(911)	-0.2%
Capital outlay	320,161	39,727			320,161	39,727	280,434	705.9%
Amortization expense	47,885	69,567			47,885	69,567	(21,682)	-31.2%
Non-operating expense	-	-			-	-	-	
School lunch fund			628,779	641,843	628,779	641,843	(13,064)	-2.0%
Transfer station fund			522,349	639,453	522,349	639,453	(117,104)	-18.3%
Wind turbine generator fund			310,035	310,526	310,035	310,526	(491)	-0.2%
Non-major funds			50,535	14,244	50,535	14,244	36,291	254.8%
Total expenses	57,337,134	58,099,923	1,511,698	1,606,066	58,848,832	59,705,989	(857,157)	-1.4%
Increase (decrease) in net assets	2,892,050	1,077,933	117,860	20,285	3,009,910	1,098,218	1,911,692	174.1%
Net assets - beginning of year	15,318,574	14,240,641	118,971	98,686	15,437,545	14,339,327	1,098,218	7.7%
Net assets - ending	$18,210,624	$15,318,574	$236,831	$118,971	$18,447,455	$15,437,545	$3,009,910	19.5%

Financial Analysis of the Government's Funds

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

Governmental funds The focus of Portsmouth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Portsmouth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, Portsmouth's governmental funds reported a combined ending fund balance of $9,939,282, an increase of $3,739,215 in comparison with the prior year's fund balance. Most of this total amount, $8,435,098 constitutes committed, assigned or unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable or restricted to indicate that it is not available for new spending because it is not in spendable form or it is subject to external restrictions.

The General Fund is the operating fund of the Town of Portsmouth. At the end of the current fiscal year, committed, assigned and unassigned fund balance of the General Fund was $5,056,723, while total fund balance reached $5,154,637. As a measure of the General Fund's liquidity, it may be useful to compare committed, assigned and unassigned fund balances and total fund balance to total fund expenditures. Committed, assigned and unassigned fund balances and total fund balance represent 8.8 and 9.0 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 $2,590,799 during the current fiscal year.

General Fund Budgetary Highlights

Actual revenues at June 30, 2012 were more than budgeted amounts by $830,271. The principal reason for this was greater than anticipated tax collections.

Actual expenditures were less than budgeted amounts by $544,988. The primary reasons for this result were vacant positions and a delay in borrowing.

Special Revenue Fund Budgetary Highlights (School Department)

In the 2011-2012 fiscal year, School Department net revenues were less than budgeted amounts by $229,601. The primary reason for this shortfall was not transferring revenue into the school fund from other sources due to less than anticipated school fund expenditures. These revenues will continue to be available for use in subsequent fiscal years.

Actual expenditures were less than budgeted amounts by $2,440,181. The principal reasons for this were special education tuition costs and salaries/benefits being less than anticipated.

Capital Asset and Debt Administration

Capital Assets The Town of Portsmouth's investment in capital assets for its governmental activities as of June 30, 2012, amounts to $30,988,504 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction in progress, buildings, building improvements, furniture and equipment, construction equipment and vehicles. Current year additions for general infrastructure assets are also included. The total decrease in the Town's investment in governmental activity capital assets for the current fiscal year was $978,024.

Long-term Debt At the end of the current fiscal year, the Town of Portsmouth had total bonded debt outstanding of $18,358,720, entirely backed by the full faith and credit of the Town. This includes $1,221,000 incurred in Fiscal Year 2011-12.

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, 2012. 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, 2012 were $18,447,455 which is an increase of $3,009,909 over the fiscal year ended June 30, 2011. Net assets at June 30, 2012 included $13,679,516 invested in capital assets, net of related debt, an increase of $283,878 over June 30, 2011; $117,652 of restricted net assets at June 30, 2012, an increase of $56,380 over June 30, 2011 and $4,650,287 of unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors, an increase of $2,669,651 over June 30, 2011.

- Total assets at June 30, 2012 were $44,450,036, which is an increase of $1,001,391 or 2.3% over June 30, 2011.

- Total liabilities at June 30, 2012 were $26,002,581, which is a decrease of $2,008,518 or 7.2% over June 30, 2011.

- The government's total net assets increased by $3,009,910.

- As of the close of the current fiscal year, the Town of Portsmouth's governmental funds reported combined ending fund balances of $9,939,282 which is an increase of $3,739,215 over June 30, 2011. Approximately 85 percent of this total amount or $8,434,738 is available for spending at the government's discretion (committed, assigned or unassigned fund balance).

- At the end of the current fiscal year, fund balance for the general fund was $5,154,637 or 9.0 percent of the Fiscal Year 2011-12 Adopted Expenditure Budget of $57,566,032. This represents an increase of $2,590,799 over June 30, 2011.

- The Town of Portsmouth's total long-term and short-term obligations (i.e., general obligation bonds, capital leases, notes payable, compensated absences, and OPEB liabilities) decreased by $1,379,262 (6.0 percent) during the current fiscal year. The key factors in this decrease were the issuance of $1,050,000 in general obligation bonds and the retirement of $2,529,800 in general obligation bonds.

Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement

for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

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

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

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, 2012 the Town had a debt limit of $97,257,711, which significantly exceeds the Town's outstanding general debt.

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

Additional information on the Town of Portsmouth's long-term debt can be found in Note #5 on pages 38-42 of this report.

Economic Activities and Factors Impacting Budgets and Rates

New economic development in Portsmouth will be primarily through growth of existing local businesses which may stimulate additional new development. There are new initiatives that may provide for a variety of new development possibilities.

Portsmouth has an impressive history as a leader in the marine trades industry. With three world class yacht companies in Portsmouth, a large community of smaller marine support businesses has developed that provide a wide range of specialized services for the boating industry and individual boat owners.

For the past eight years, the Rhode Island Economic Development Corporation, in cooperation with the Town, has been working with a partnership of marine companies to transfer ownership of excess Navy land. This prime waterfront land will be key in stimulating expansion for existing and new marine trades. When the transfer is completed, Portsmouth Marine Partners is poised for expansion. The expansion will accommodate much needed space for the boat builders and create new facilities for smaller marine support contractors. The transfer of the 30 acres will serve as a model for the future transfer of other larger parcels that the Navy has designated for disposal. There is very high demand for space in the area.

A survey of the marine companies in Portsmouth indicates that employment continues to be down from 2007 levels, but is on the rise. It appears that the cluster of local marine trades did not suffer as much as some other areas of New England. A recent jobs fair conducted by the RI Marine Trades Association was very successful in identifying employment opportunities and filling numerous full time above average wage positions. Eighteen companies participated in the event. In spite of the very poor employment picture for the State, principals at the companies indicate that the worst is over and that many eliminated positions will be reactivated.

Marine companies and associated marine trades have long been a significant contributor to the RI economy. The marine industry continues to be identified as a key growth sector for the State. The America's Cup trial races held in Newport in June 2012 were very successful and served to further stimulate the maritime economy. The rousing success of the Cup races has led to additional major marine races, regattas and associated events to be scheduled in the area. The race activity provided a big boost for the marine industry, as well as related tourism and hospitality businesses. The races attracted participants, observers and media from around the world.

In the early '90s, forward looking citizens and local governments saw the need to plan ahead. Years of planning and gathering of community desires led to the creation of the Aquidneck Island Planning Commission (AIPC). From this grassroots initiative came the West Side Master Plan (WSMP). The WSMP is the result of eleven years of regional planning efforts involving all three communities on Aquidneck Island. This unified plan has been unanimously adopted by all three communities. In Portsmouth, the focus for much of this plan is the potential reuse of 146 acres of former Navy petroleum tank farms along the Eastern shore of Narragansett Bay. The release of the Navy land has been a key planning topic for several years. In the spring of 2008, the Navy made it official that the former tank farms will be made available. The land is ideally situated along the West coast of Aquidneck Island, adjacent to Rt. 114, the existing cluster of Melville marine businesses and the Raytheon Company campus. There is much planning and analysis that must be accomplished to take advantage of the valuable land. The government procedures for selecting a recipient of the land are extensive and very rigorous.

Following disposal procedures established by the Navy, the Aquidneck Island Reuse Implementation Authority (AIRIA) is guiding future transfer and development opportunities for this prime real estate. With this formal body in position, the Town is following the federally approved mechanism for the transfer of the unused land for new development possibilities. The Navy has also put in place a local Re-Use Coordinator to shepherd the transfer process.

The Navy requested the establishment of the AIRIA so that it will be dealing with only one entity. The Town also created its own Portsmouth Redevelopment Agency (PRA). The local PRA is empowered to own, sell and lease land on behalf of the Town. Initial ideas for reuse of 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. There is also interest in creating a solar farm on a portion of the land.

Creating new space for marine trades and defense work will complement the existing concentration of similar businesses. The marine trades in the Melville area are in need of expansion space 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 enterprises and promote existing businesses.

Additional future economic growth is possible on the shores of Narragansett Bay adjacent to the focus area of the WSMP. Just south of the cluster of marine businesses in the Melville area is the site for the new Weaver Cove marina. Necessary DEM and CRMC permits have been approved for a 1,495 slip marina and related commercial marine facilities. Commencement of on shore construction has been slowed as portions of the land are contaminated from prior government uses. The potential for the new marina is drawing much attention, as it will ease a scarcity of boat slips in Rhode Island and act as a potential business growth generator. Having the new marina located with the existing marine companies makes it a win-win. The developer also plans to include facilities for on-shore support services and housing units in a village setting. By including significant public access to the shoreline, the planned project is gaining wide support. The completion of all phases of the project will involve over $130 million.

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

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

The Raytheon Company continues to be the largest employer in Portsmouth. The Portsmouth Seapower Capability Center is the global leader for naval and marine integrated systems for the defense industry and the civilian marine community. The company continues with major work in underwater detection and weapons systems as well as Navy missile systems. It has applied new uses for many of its systems in the field of homeland security; both for government projects and private industry. Raytheon has contracts with the Department of Defense and the Department of Homeland Security for shipboard guidance systems and harbor and port protection systems. Working with a $1.2 million congressional appropriation, it is developing and testing harbor and undersea detection systems to protect critical infrastructure. Employment levels have been stabilized with continuing work on Navy systems for all-weather carrier landings. Raytheon recently consolidated activity into two primary buildings. With this move, it is marketing two other buildings and surrounding acreage for sale or lease. The prime real estate is on busy West Main Road/Rt. 114 and convenient to off Island access. The land is also near the Naval Base and Naval Undersea

Warfare Center. The synergy of being located near existing defense and marine companies should make the space very attractive.

Vacant parcels in the Town Center area are available for development of a mixed use project. Proposed changes to East Main Road are planned to create a more pedestrian friendly corridor. The Rhode Island Department of Transportation has fully endorsed the conversion of the road from four narrow lanes to a series of three roundabouts. Public feedback at hearings is supportive. A new medical diagnostic services building was opened in the Town Center adjacent to a medical office building. The new facilities eliminate the need to travel to Newport and Fall River for medical attention. A new 12,000 sq. ft office building opened in 2007 and is now 100% leased.

On West Main Road/Rt. 114, the first two buildings of Clocktower Square are open and 100% full. New ownership of the undeveloped portion of the 9 acres has resulted in plans to move forward with another building. If completed, the $15 million, multi-phased project will consist of 8 buildings. The very attractive facilities have small local retail and medical offices, including scanning services.

Occupancy in the Portsmouth Business Park is holding steady at around 90% with only one lot unsold. The Park has 21 companies employing 186.

One of the most prominent and attractive properties in the area is the exclusive "Carnegie Abbey Club." The Carnegie developments include high-end vacation homes and condos which impact town services much less than conventional residential development. The new marina opened this year. The centerpiece of the project is the 14 story tower consisting of exclusive condominiums, penthouses and amenities. O'Neill Properties, the developer of the Carnegie projects, acquired 73 acres of waterfront property just north of the Carnegie facilities for its most recent project, "The Newport Club." They have approval for construction of a resort development that will include 152 vacation homes, a small marina and other club amenities. Work has already been completed on a large indoor equestrian riding and training center as well as model homes to market the project.

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

The unemployment rate as of June 30, 2012 is 7.1% (not seasonally adjusted). This is noteworthy as it is a significant decline from the 2009 high of 11.9%. This compares favorably with an unemployment rate of 9.8% for the State of Rhode Island and the national unemployment rate of 8.0%.

All of these factors were considered in preparing the Town of Portsmouth's budget for the Fiscal Year 2012-13.

Requests for Information

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

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Net Assets
June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 9,718,972	$ 4,974	$ 9,723,946
Real estate and personal property tax receivable, net	1,792,948		1,792,948
Ambulance receivables	238,573		238,573
Due from federal and state governments	261,874	9,775	271,649
Internal balances	165,494	(165,494)	0
Inventories	60,892	14,344	75,236
Prepaid expenditures	1,676		1,676
Other receivables, net	742,814	125,778	868,592
Total Current Assets	12,983,243	(10,623)	12,972,620
Noncurrent Assets:			
Capital assets (non-depreciable)	5,523,725		5,523,725
Capital assets (net of depreciation)	22,754,994	2,709,785	25,464,779
Debt issuance costs, net	216,448	23,703	240,151
Deferred gain on refunding	248,761		248,761
Total Non-Current Assets	28,743,928	2,733,488	31,477,416
TOTAL ASSETS	41,727,171	2,722,865	44,450,036
LIABILITIES			
Current Liabilities:			
Accounts payable	1,004,665	77,324	1,081,989
Accrued interest payable	120,960	4,198	125,158
Accrued expenses	472,188		472,188
Current portion of long-term debt	2,542,069	234,026	2,776,095
Total Current Liabilities	4,139,882	315,548	4,455,430
Noncurrent Liabilities:			
Unearned revenue	270,425	10,275	280,700
Accrued compensated absences	1,833,275		1,833,275
Net OPEB obligation	3,634,829		3,634,829
Long-term liabilities (net)	13,638,136	2,160,211	15,798,347
Total Noncurrent Liabilities	19,376,665	2,170,486	21,547,151
TOTAL LIABILITIES	23,516,547	2,486,034	26,002,581
NET ASSETS			
Invested in capital assets, net of related debt	13,342,227	337,289	13,679,516
Restricted for specific programs		117,652	117,652
Unrestricted	4,868,397	(218,110)	4,650,287
TOTAL NET ASSETS	$ 18,210,624	$ 236,831	$ 18,447,455

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Activities
For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental Activities:							
General government	$ 4,607,181	$ 1,457,302	$ 73,479	$ -	$ (3,076,400)		$ (3,076,400)
Public safety	9,185,098	559,735	70,993	136,741	(8,417,629)		(8,417,629)
Public services	2,791,589	36,045	-	156,572	(2,598,972)		(2,598,972)
Education	38,514,354	1,072,173	3,055,513	-	(34,386,668)		(34,386,668)
Community service	1,346,146		151,975	-	(1,194,171)		(1,194,171)
Capital outlay	320,161				(320,161)		(320,161)
Interest on long-term debt	524,720				(524,720)		(524,720)
Amortization expense	47,885				(47,885)		(47,885)
Total governmental activities	57,337,134	3,125,255	3,351,960	293,313	(50,566,606)		(50,566,606)
Business-type Activity:							
School lunch fund	628,779	458,888	168,652			$ (1,239)	(1,239)
Transfer station	522,349	582,454				60,105	60,105
Wind turbine generator fund	310,035	324,197				14,162	14,162
Non-major funds	50,535	15,908				(34,627)	(34,627)
Total business type activity	1,511,698	1,381,447	168,652			38,401	38,401
Totals	$ 58,848,832	$ 4,506,702	$ 3,520,612	$ 293,313	(50,566,606)	38,401	(50,528,205)
General revenues:							
Taxes:							
Property taxes and payments in lieu of taxes					45,490,728		45,490,728
State aid, unrestricted					6,871,423		6,871,423
Investment and interest income					11,855	24	11,879
Other revenues					1,164,085		1,164,085
Transfers					(79,435)	79,435	0
Total general revenues					53,458,656	79,459	53,538,115
Change in Net Assets					2,892,050	117,860	3,009,910
Net Assets - beginning of year					15,318,574	118,971	15,437,545
Net Assets - ending of year					$ 18,210,624	$ 236,831	$ 18,447,455

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Balance Sheet
Governmental Funds
June 30, 2012

	Major Funds			
	General Fund	School Unrestricted Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 8,774,923	$ 464,387	$ 479,662	$ 9,718,972
Real estate and personal property tax receivable (net)	1,792,948			1,792,948
Due from federal and state governments	-	184,193	77,681	261,874
Due from other funds	119,821	4,355,525	1,829,399	6,304,745
Ambulance receivable	374,377			374,377
Other receivables	283,592		459,222	742,814
Inventory	60,892			60,892
Prepaid expenditures	1,676			1,676
TOTAL ASSETS	$ 11,408,229	$ 5,004,105	$ 2,845,964	$ 19,258,298
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 177,700	$ 560,720	$ 25,981	$ 764,401
Accrued expenses	114,353	129,212	42,604	286,169
Due to other funds	4,102,769	1,004,642	1,031,840	6,139,251
Deferred revenue	1,618,506	-	270,425	1,888,931
Other liabilities	240,264			240,264
TOTAL LIABILITIES	6,253,592	1,694,574	1,370,850	9,319,016
FUND BALANCES:				
Non-spendable	60,892		4,821	65,713
Restricted	37,022		1,401,809	1,438,831
Committed	0	3,309,531	111,776	3,421,307
Assigned	309,379		-	309,379
Unassigned	4,747,344		(43,292)	4,704,052
TOTAL FUND BALANCES	5,154,637	3,309,531	1,475,114	9,939,282
TOTAL LIABILITIES AND FUND BALANCES	$ 11,408,229	$ 5,004,105	$ 2,845,964	$ 19,258,298

(CONTINUED)

See Notes to Basic Financial Statements

Reconciliation of the Governmental Funds Balance Sheet (B-1)
to the Government-Wide Statement of Net Assets (A-1)
June 30, 2012

TOTAL FUND BALANCES - Total Governmental Funds (B-1)	$ 9,939,282
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.	28,278,719
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.	1,618,506
Allowance for doubtful accounts for ambulance receivables are not recorded in the Governmental Fund financial statements because they are offset by deferred revenue.	(135,804)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(120,960)
Claims and judgments do not require current financial resources. Therefore, additional accrued expenses are not reported as a liability in Governmental Funds Balance Sheet.	(186,019)
Debt issuance costs, deferred gain on refunding and premium on bonds are deferred and amortized over the life of the related debt in the Government-Wide Financial Statements, but are reported as an expenditure and other financing source in the year of issuance in the Governmental Fund financial statements.	465,209
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.	(18,013,480)
OPEB liability is recorded in the governmental activities, but not recorded in the funds.	(3,634,829)
Net Assets of Governmental Activities	$ 18,210,624

(CONCLUDED)

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Revenues, Other Financing Sources
Expenditures, Other Financing Uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2012

	Major Funds			
	General Fund	School Unrestricted Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
General property taxes and payments in lieu of taxes	$ 46,753,588			$ 46,753,588
State aid and grants	825,594	$ 5,923,570	$ 2,086,204	8,835,368
State Fiscal Stabilization Funds	-	122,259		122,259
Licenses, permits and fees	252,500			252,500
Charges for services	616,814	1,030,874	108,639	1,756,327
Melville Ponds Campgrounds	209,628			209,628
Glen Manor House	389,225			389,225
Rescue wagon income	517,575			517,575
Fines and forfeitures	638,575			638,575
Interest and investment income	10,616		1,238	11,854
Contributions and private grants	-		71,261	71,261
Other revenues	443,422	110,462	3,018	556,902
Intergovernmental pension contribution	-	1,484,790		1,484,790
Total revenues	50,657,537	8,671,955	2,270,360	61,599,852
Expenditures				
Current:				
General government	4,409,952		19,153	4,429,105
Public safety	8,822,846		91,928	8,914,774
Public works	2,304,651		46,373	2,351,024
Education		34,635,427	1,698,805	36,334,232
Community services:				
Public and social services	580,780		148,698	729,478
Park & recreation	521,428		675	522,103
Intergovernmental pension contribution		1,484,790		1,484,790
Debt Service:				
Principal payments	2,529,800			2,529,800
Interest	615,883			615,883
Bond issuance costs	20,650		-	20,650
Capital:				
Capital expenditures			899,363	899,363
Total expenditures	19,805,990	36,120,217	2,904,995	58,831,202
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	30,851,547	(27,448,262)	(634,635)	2,768,650
Other financing sources (uses)				
Transfers in	1,251,469	29,398,093	514,233	31,163,795
Transfers out	(29,512,217)	(1,129,436)	(601,577)	(31,243,230)
Bond proceeds			1,050,000	1,050,000
Net other financing sources (uses)	(28,260,748)	28,268,657	962,656	970,565
Net change in fund balances	2,590,799	820,395	328,021	3,739,215
Fund balances - beginning of the year	2,563,838	2,489,136	1,147,093	6,200,067
Fund balances - ending of the year	$ 5,154,637	$ 3,309,531	$ 1,475,114	$ 9,939,282

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2)
For the year ended June 30, 2012

Net change in fund balances - total governmental funds (B-2)	$	3,739,215
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.		912,987
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.		(1,884,706)
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.		136,679
Repayment of bonds and capital leases is an expenditure in the Governmental Fund financial statements, but the payments reduce long-term liabilities in the Government-Wide financial statements.		2,544,127
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.		42,990
Bond proceeds are reported as other financing sources in the Governmental Fund financial statements. However, the proceeds are recorded as long-term liabilities in the Government-Wide financial statements		(1,050,000)
Bond issuance costs are reported as an expenditure in the Governmental Fund financial statements.		20,650
Amortization of deferred debt issuance costs, premium on bonds and gains on advance refunding are not reflected in Governmental Fund financial statements.		(15,604)
Bad debt expense is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but not reported in the Governmental Fund financial statements.		(21,930)
Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental Fund financial statements.		(1,262,860)
The increase in OPEB liability is not recorded in the Governmental Fund. The change from prior year is reflected in the Statement of Activities and Changes in Net Assets.		(269,498)
Change in net assets of Governmental Activities	$	2,892,050

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Net Assets
Proprietary Funds
June 30, 2012

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 4,974				$ 4,974
Due from other governmental units	9,775				9,775
Due from other funds	187,521	$ 77,231		$ 10,171	274,923
Accounts receivable		56,997	$ 68,781		125,778
Inventory	14,344				14,344
Debt issuance costs, net			23,703		23,703
Total current assets	216,614	134,228	92,484	10,171	453,497
Non-current assets:					
Capital assets:					
Depreciable assets - net	33,006	204,398	2,472,381		2,709,785
Total non-current assets	33,006	204,398	2,472,381		2,709,785
TOTAL ASSETS	249,620	338,626	2,564,865	10,171	3,163,282
LIABILITIES					
Current liabilities:					
Bonds payable		34,312	199,714		234,026
Accrued interest payable		112	4,086		4,198
Prepaid tuition				10,275	10,275
Due to other funds	185,475		254,942	-	440,417
Accounts payable		70,159	7,165		77,324
Total current liabilities	185,475	104,583	465,907	10,275	766,240
Non-current liabilities:					
Bonds payable, net of current portion		136,688	2,023,523		2,160,211
Total non-current liabilities		136,688	2,023,523		2,160,211
TOTAL LIABILITIES	185,475	241,271	2,489,430	10,275	2,926,451
NET ASSETS					
Invested in capital assets, net of related debt	33,006	55,139	249,144		337,289
Reserve for recycling		42,216			42,216
Reserve for contingencies			50,291		50,291
Reserve for repairs			25,145		25,145
Unrestricted	31,139		(249,145)	(104)	(218,110)
TOTAL NET ASSETS	$ 64,145	$ 97,355	$ 75,435	$ (104)	$ 236,831

See Notes to Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2012

	School Lunch Fund	Transfer Station	Wind Turbine Generator Fund	Non-major Funds	Total
Operating Revenues:					
Intergovernmental	$ 168,652				$ 168,652
Other revenues	458,888		$ 324,197		783,085
Charges for services		$ 582,454		$ 15,908	598,362
Total Operating Revenues	627,540	582,454	324,197	15,908	1,550,099
Operating Expenses:					
Cafeteria operations	625,364				625,364
Transfer Station operations		522,237			522,237
Wind Turbine Generator operations			48,410		48,410
Education				50,535	50,535
Depreciation and amortization	3,415		151,683		155,098
Total Operating Expenses	628,779	522,237	200,093	50,535	1,401,644
Income from operations	(1,239)	60,217	124,104	(34,627)	148,455
Non-operating Revenues (Expenses):					
Interest expense		(112)	(29,686)		(29,798)
Interest income	24				24
Distribution to Town General Fund			(22,472)		(22,472)
Distribution to School General Fund			(57,784)		(57,784)
Net Non-operating Revenues (Expenses)	24	(112)	(109,942)	0	(110,030)
Net income (loss) before transfers	(1,215)	60,105	14,162	(34,627)	38,425
Transfers in (out)		-		79,435	79,435
Change in net assets	(1,215)	60,105	14,162	44,808	117,860
Net assets - beginning of the year	65,360	37,250	61,273	(44,912)	118,971
Net assets - ending of the year	$ 64,145	$ 97,355	$ 75,435	$ (104)	$ 236,831

See Notes To Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2012

	School Lunch Fund	Transfer Station	Wind Turbine Generator	Non-major Funds	Total
Cash flows from operating activities:					
Cash received from customers	$ 458,888	$ 580,930	$ 335,861	$ 26,183	$ 1,401,862
Intergovernmental	170,583				170,583
Cash payments to suppliers for goods and services	(625,364)	(540,996)	(39,444)	(50,535)	(1,256,339)
Cash paid to employees			(2,262)		(2,262)
Net cash provided (used) by operating activities	4,107	39,934	294,155	(24,352)	313,844
Cash flows from non-capital financing activities:					
Operating transfers (to) from other funds		-	(80,256)	79,435	(821)
Interfund borrowings	(4,231)	(39,500)	24,325	(55,083)	(74,489)
Net cash used by non-capital financing activities	(4,231)	(39,500)	(55,931)	24,352	(75,310)
Cash flows from capital-related financing activities:					
Acquistion and construction of capital assets			(8,879)		(8,879)
Proceeds from issuance of bonds		(171,434)			(171,434)
Interest income	24				24
Principal paid on bonds		171,000	(199,714)		(28,714)
Interest paid on bonds			(29,631)		(29,631)
Net cash provided from (used) for capital-related financing activities	24	(434)	(238,224)		(238,634)
Net decrease in cash	(100)	0	0	0	(100)
Cash and cash equivalents, beginning of the year	5,074	0	0	0	5,074
Cash and cash equivalents, end of the year	$ 4,974	$ -	$ -	$ -	$ 4,974
Reconciliation of net income to net cash provided by operating activities:					
Income (loss) from operations	$ (1,239)	$ 60,217	$ 124,104	$ (34,627)	$ 148,455
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,415	4,286	151,683		159,384
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	1,931	(1,524)	11,664		12,071
Increase (decrease) in accounts payable		(23,045)	6,704	10,275	(6,066)
Total adjustments	5,346	(20,283)	170,051	10,275	165,389
Net cash provided by (used) by operating activities	$ 4,107	$ 39,934	$ 294,155	$ (24,352)	$ 313,844

See Notes to Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Net Assets
Fiduciary Funds
June 30, 2012

	Pension Trust Funds	Defined Contribution Pension Plans	OPEB Trust Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 491,758		$ 395,856	$ 447,776
Investments, at fair value	34,831,956	$ 2,300,431		
Accounts Receivable	81,144		6,323	243,044
Prepaid expenses	189,663			
Letter of credit				9,100
TOTAL ASSETS	35,594,521	2,300,431	402,179	699,920
LIABILITIES				
Other Liabilities	189,955			
Deposits held in custody for others				699,920
TOTAL LIABILITIES	189,955			699,920
NET ASSETS				
Held in trust for pension and OPEB benefits	35,404,566	2,300,431	402,179	
TOTAL NET ASSETS	35,404,566	2,300,431	402,179	
TOTAL LIABILITIES AND NET ASSETS	$ 35,594,521	$ 2,300,431	$ 402,179	$ 699,920

See Notes to Basic Financial Statements

TOWN OF PORTSMOUTH, RHODE ISLAND

Statement of Changes in Net Assets
Fiduciary Funds
For the year ended June 30, 2012

	Pension Trust Fund	Defined Contribution Pension Plans	OPEB Trust Fund
Additions:			
Contributions:			
Employer	$ 2,662,801	$ 49,075	$ 865,136
Plan member	609,412	117,609	66,657
Total contributions	3,272,213	166,684	931,793
Investment income:			
Net gain (loss) on value of investments	(954,683)	64,205	590
Net investment income (loss)	(954,683)	64,205	590
Total additions	2,317,530	230,889	932,383
Deductions:			
Benefits paid	2,479,186	217,272	732,096
Administrative and other	114,731	17,566	1,500
Total deductions	2,593,917	234,838	733,596
Changes in net assets	(276,387)	(3,949)	198,787
Net assets - beginning of year	35,680,952	2,304,380	203,392
Net assets - ending of the year	$ 35,404,565	$ 2,300,431	$ 402,179

See Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Reporting Entity

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

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

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

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

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

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

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

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

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

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

The Town of Portsmouth does not have any component units.

Recently Issued Accounting Standards

The Town has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 64 — Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53 , effective for the Town's fiscal year ending June 30, 2012. The adoption of this Statement did not have an impact on the Town's financial position or results in operation.

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

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Town's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 61 – The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Town's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Town's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Town's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Town's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, effective for the Town's fiscal year ending June 30, 2014.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards (Continued)

- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, effective for the Town's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 68 – Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Town's fiscal year ending June 30, 2015.

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.

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

(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.

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

The funds of the financial reporting entity are described below:

Major Governmental Funds

General Fund

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

School Unrestricted Fund

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

Proprietary Fund Financial Statements

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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

Proprietary Fund Financial Statements (Continued)

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

Wind Turbine Generator Fund- Major

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

Transfer Station Fund- Major

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

School Lunch Fund- Major

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

Summer School Enrichment Fund- Non-Major

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

Summer School Remedial Fund- Non-Major

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

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

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Pension Trust Funds

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

OPEB Trust Fund

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

Agency Funds

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

Non-Major Governmental Funds

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The 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, PPD Sex Offender grant, Illicit Discharge Detection, Bulletproof Vest Grant, EDC Workshop, Homeland Security Grant, EMA WMD, Commemorative Bench Program, Impact Fees, Jules Buela Grant, Click it or Ticket, Active Shooter Grant, Town Commons Grant, EMPG Shelter Generator, Alcohol Survey, AIPC West Side Project, 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, Blue Riptide Impaired/Drunk, Blue Riptide Speed Management, Senior Center Grant, Substance Abuse, Tech Upgrade & Doc Preservation, Tobacco Survey, Miscellaneous Grant/Donation, Fire Smoke Detector Inspection, Waste Water Facilities Plan, Byrne Grant, EMA Meds Plan and Pods, Low Income Spay/Neuter, Shelter Spay/Neuter, Child Passenger Safety Grant, EECBG ARRA, Conservation Commons, Trust Safety Grant, Portsmouth Tree Commission, Friends of Glen Park, VIS Grant, Gate Receipts, IDEA & IDEA ARRA, Title I,II, III & IV, ARRA Federal Jobs Fund, Race to the Top Grant, Perkins, Literacy Dropout, Technology, E2T2 MCI ARRA, Substance Abuse Task Force, RISCA,, Student Equity Investment, Gym Fundraising, Concord Consortium, Early Childhood, United Way Melville Playground, Stimulus ARRA, Van Beuren Grant, Champlin Foundation, DANA Science, Phase II Project, RISCA Creative Movement, and Feinstein Grant.

Capital Project Funds

These funds are used to account for financial resources to be used for the acquisition or construction of specific capital projects or items: Glen Manor, 05-06 Warrants, 06-07 Warrants, 07-08 Warrants, 08-09 Warrants, 09-10 Warrants, 10-11 Warrants, 10-12 Warrants, Various Equipment and Capital Fund.

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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.

Estimates

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

Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable and Taxes Receivable

Accounts receivable and taxes receivable are shown net of an allowance for uncollectible accounts. The allowances are calculated based on the age of the individual receivables. The allowance for uncollectible property taxes in the governmental and government wide statements amounted to $340,656 at June 30, 2012. 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Revenues

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

Expenditures

Expenditures are recognized when the related fund liability is incurred.

Capital Assets and Depreciation

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

All capital assets are capitalized at historical cost or estimated historical cost. Donated capital assets are recorded at the fair market value as of the date received. The Town follows the policy of not capitalizing assets with a cost of less than $5,000 and a useful life of less than 1 year. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not incurred during fiscal 2012.

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

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

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

Deferred Revenue

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Property Taxes

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

The Town is permitted by State Law to levy property taxes. Current tax collections for the Town were approximately 96% of the total 2010 levy.

The Town's fiscal 2011-2012 property taxes were levied on July 1, 2011 on assessed valuations as of December 31, 2010. Upon levy, taxes are due September 1 or may be paid quarterly by September 1, December 1, March 1, and June 1. Failure to make payments by due dates will result in a lien on the taxpayer's property.

Rhode Island general laws restricts the Town's ability to increase either its total tax levy or its tax rates by more than 4.25% over those of the preceding year. Total taxes of $45,807,376 resulting from tax rates of $22.50, and $13.91 per $1,000 of assessed valuation for motor vehicles, real estate and tangible property, and business inventory, respectively, were levied on July 1, 2011.

Intergovernmental

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

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

Interfund Transactions

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

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

Reciprocal interfund activities:

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

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

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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Interfund Transactions (Continued)

Non-reciprocal interfund activities:

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

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, 2012.

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

Accrued Liabilities and Long-Term Debt

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

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

Bond Premiums and Issuance Costs

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

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Encumbrances

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

Equity Classifications

Government-Wide Statements

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

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

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

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

Fund Statements

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

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

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

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

(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Equity (Continued)

Equity Classifications (Continued)

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

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

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

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

Claims and Judgments

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

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2. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 as follows:

Governmental Activities:	BEGINNING BALANCE	ADDITIONS	RETIREMENTS AND TRANSFERS	ENDING BALANCE AT 6/30/12
Nondepreciable assets:				
Land	$ 4,037,922			$ 4,037,922
Land easements	1,420,000			1,420,000
Construction in Progress	58,969	$ 65,803	$ 58,969	65,803
Total Capital assets not being depreciated	5,516,891	65,803	58,969	5,523,725
Depreciable assets:				
Land improvements	637,848			637,848
Buildings	21,825,672			21,825,672
Buildings and improvements	6,048,102	528,974		6,577,076
Machinery and equipment	5,079,804	527,277		5,607,081
Construction equipment	396,909			396,909
Infrastructure	19,298,067	55,287		19,353,354
Vehicles	4,758,163	48,772	320,740	4,486,195
Total Capital assets being depreciated	58,044,565	1,160,310	320,740	58,884,135
Less: accumulated depreciation for:				
Land improvements	255,222	28,888		284,110
Buildings	14,245,610	411,266		14,656,876
Buildings and improvements	1,045,002	269,615		1,314,617
Machinery and equipment	3,219,674	478,575		3,698,249
Construction equipment	314,707	11,130		325,837
Infrastructure	13,053,533	407,394		13,460,927
Vehicles	2,177,270	277,838	166,583	2,288,525
Total accumulated depreciation	34,311,018	1,884,706	166,583	36,029,141
Governmental Activities Capital assets, net	$ 29,250,438	$ (658,593)	$ 213,126	$ 28,378,719

Business-type activities	BEGINNING BALACE	ADDITIONS	RETIREMENTS AND TRANSFERS	BALANCE AT 6/30/12
Nondepreciable assets:				
Land	$ 37,251			$ 37,251
Total Capital assets not being depreciated	37,251			37,251
Depreciable assets:				
Land improvements		$ 8,879		8,879
Machinery and equipment	3,035,193	171,434		3,206,627
Total Capital assets being depreciated	3,035,193	180,313	-	3,215,506
Less: accumulated depreciation for:				
Land improvements	0	222		222
Machinery and equipment	385,734	157,016		542,750
Total accumulated depreciation	385,734	157,238	-	542,972
Business-type Activities Capital assets, net	$ 2,686,710	$ 23,075	$ -	$ 2,709,785

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2. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General government	$ 65,056
Public safety	292,483
Public works	519,022
Education	890,749
Community service	117,396
Total depreciation expense	$1,884,706

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

School lunch	$ 3,415
Transfer Station	4,286
Wind Turbine Generator	149,537
Total depreciation expense	$157,238

3. BUDGETARY AND LEGAL COMPLIANCE

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

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

The following individual funds reported deficits in the unreserved fund balances in the fund financial statements at June 30, 2012.

PPD Sex Offender	$(89)
Blue Riptide Speed Management	$(40)
Child Passenger Safety	$(188)
08-09 Warrants	$(18,884)
09-10 Warrants	$(111,417)
IDEA Part B	$(19)
Title I	$(43,947)
Title II	$(7,317)
Race to the Top	$(1,600)
Perkins	$(191)
Feinstein Grant	$(46)

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

(CONTINUED)

3. BUDGETARY AND LEGAL COMPLIANCE (Continued)

Legal Debt Margin

The Town's legal debt margin as set forth by State statute is limited to three percent of the total taxable assessed value which approximates $97,257,711. As of June 30, 2012, the Town was in compliance with this State statute. The debt subject to the debt limitation is based on the type of debt that is used.

4. CASH DEPOSITS and INVESTMENTS

Deposits

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

At year-end, the Town's carrying amount of cash deposits was $4,032,694 and the bank balance was $4,632,656. Of the bank balance, the entire amount was covered by Federal Depository Insurance.

Total cash deposits	$4,032,694
Add: Petty Cash	1,450
Add: U. S. Government money market funds	7,025,192
Less: Fiduciary funds cash, including time deposits (not included in the Government-wide statement)	(1,335,390)
Total cash and cash equivalents reported in the financial statements	$9,723,946

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

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

Investments

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

Concentration of Credit Risk

At June 30, 2012, the Town had a diversified portfolio in its Pension Trust Funds and was not deemed to be concentrated in any one investment category. Although all the investments were held in mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

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4. CASH DEPOSITS and INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Concentration of Credit Risk

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

Pension Funds

Investment	Percentage	Fair Value	Rating (Moody/S&P
Mutual Funds:			
DFA Emerging Markets - Core	3.82%	$1,417,545	N/A
DFA Emerging Markets - Value	2.23%	828,981	N/A
DFA 5 Year Global-Fixed Income	9.80%	3,638,082	N/A
DFA International-Equity	7.33%	2,720,441	N/A
DFA International RE - Securities	2.47%	916,953	N/A
DFA International Small Cap	3.66%	1,359,175	N/A
DFA International Small Com	1.22%	451,620	N/A
DFA 1 Year Fixed Income	16.31%	6,058,398	N/A
DFA RE - Securities	3.71%	1,378,849	N/A
DFA 2 Year Global - Fixed Income	6.53%	2,423,413	N/A
DFA US Core Equity 2	16.83%	6,251,745	N/A
DFA US Large Cap Value	8.10%	3,006,488	N/A
DFA US Vector Equity	11.80%	4,380,267	N/A
Stable Value/Money Market Funds	5.34%	1,981,224	N/A
Bonds Funds	0.06%	21,410	N/A
Balance/Asset Allocation Funds	0.51%	190,745	N/A
US Stock Funds	0.26%	95,395	N/A
International Stock Funds	0.04%	15,605	N/A
Pension Funds Total	100.00%	$37,136,336	

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, 2010 was $3,241,923,704, limiting the amount of nonexcepted general obligation bonds outstanding to $97,257,711. At June 30, 2012, bonds outstanding totaled $18,358,720.

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

The following is a summary of changes in long-term debt for the year ended June, 30, 2012:

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2011	Additions	Retirements	Balance, 6/30/2012	Interest Paid	Amounts Due Within One Year
General Long-Term Debt										
Governmental Activity										
General obligation,revenue bonds, and loans:										
School improvements	$9,240,000	12/7/2000	5.00-5.40%	11/1/2020	$475,000		$475,000	$0	$11,875	$0
Tax settlement bond	$2,200,000	2/17/2004	2.25%-4.75%	2/15/2019	1,200,000		150,000	1,050,000	42,712	150,000
School gymnasium	$3,500,000	6/27/2006	4.00-5.00%	4/1/2026	2,625,000		175,000	2,450,000	120,750	175,000
Road resurfacing	$227,261	1/24/2007	4.40%	1/15/2012	45,400		45,400	-	1,532	-
School information technology	$350,000	1/24/2007	4.50%	1/15/2012	70,000		70,000	-	2,363	-
Portsmouth Middle School sprinklers	$1,900,000	5/16/2007	4.00-5.50%	4/1/2022	1,380,000		130,000	1,250,000	63,476	125,000
School improvements	$350,000	5/16/2007	4.00-5.50%	4/1/2012	70,000		70,000	-	2,800	-
School improvements	$350,000	5/17/2008	3.98%	3/17/2013	140,000		70,000	70,000	4,876	70,000
School improvements	$344,836	5/17/2008	3.98%	3/17/2013	136,000		68,000	68,000	4,736	68,000
Town Improvements	$242,500	2/13/2009	3.51%	2/13/2014	144,000		48,000	96,000	4,633	48,000
Student Information Technology	$350,000	8/7/2008	3.75-4.00%	5/15/2014	210,000		70,000	140,000	8,225	70,000
School Building Repairs	$350,000	8/7/2008	3.75-4.00%	5/15/2013	140,000		70,000	70,000	5,426	70,000
School Information Technology	$350,000	2/13/2009	3.51%	2/13/2014	210,000		70,000	140,000	6,757	70,000
Portsmouth High School Sprinklers	$1,100,000	8/7/2008	3.75-6.00%	5/15/2024	950,000		75,000	875,000	44,588	75,000
School Improvements	$4,655,000	6/4/2009	2.00-5.00%	11/1/2020	4,525,000		65,000	4,460,000	137,262	535,000
Open Space/Recreation Bond	$1,980,000	6/15/2010	2.00-4.00%	6/15/2025	1,830,000		150,000	1,680,000	60,075	150,000
Town Improvements	$267,000	8/12/2009	4.10%	8/12/2014	186,900		53,400	133,500	7,115	53,400
School Information Technology	$350,000	8/12/2009	4.10%	8/12/2014	245,000		70,000	175,000	9,328	70,000
Rhode Island Clean Water Agency Loan	$150,000	10/20/2009	1.00%	9/1/2012	96,982		50,000	46,982	750	46,982
School Information Technology	$350,000	11/4/2010	2-3%	6/30/2016	350,000		70,000	280,000	9,053	70,000
School Improvements	$350,000	11/4/2010	2-3%	6/30/2016	350,000		70,000	280,000	9,053	70,000
Town Improvements	$345,000	11/4/2010	2-3%	6/30/2016	345,000		70,000	275,000	9,053	70,000
Fire Engine Purchase	$970,000	11/4/2010	2-3%	6/30/2016	970,000		195,000	775,000	25,219	195,000
Wastewater Plan	$750,000	11/4/2010	2-3%	6/30/2016	750,000		150,000	600,000	19,399	150,000
Building Repairs	$350,000	6/12/2012	1.326%	6/30/2017		$350,000	-	350,000	-	70,229
Building Repairs	$350,000	6/12/2012	1.326%	6/30/2017		350,000	-	350,000	-	70,229
School Information Technology	$350,000	6/12/2012	1.326%	6/30/2017		350,000	-	350,000	-	70,229
Total general obligation, revenue, and loans:					17,444,282	1,050,000	2,529,800	15,964,482	611,056	2,542,069
Deferred amount for issuance premiums					225,994	-	32,281	193,713	-	31,980
Compensated absences					1,969,954	4,575	141,254	1,833,275	-	-
Net OPEB Obligation					3,365,331	269,498		3,634,829		
Total general long-term debt					23,005,561	1,324,073	2,703,335	21,626,299	611,056	2,574,049

(CONTINUED)

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

Description of Purpose	Amount of Original Issue	Date of Issue	Rates	Date of Maturity	Balance, 6/30/2011	Additions	Retirements	Balance, 6/30/2012	Interest Paid	Amounts Due Within One Year
Capital lease payable:										
Hewlett Packard equipment lease	$41,111	1/31/2010	4.60%	1/31/2013	36,336	-	14,326	22,010	1,415	12,860
					36,336	-	14,326	22,010	1,415	12,860
Enterprise Funds Long-Term Debt										
General obligation bonds:										
Transfer Station Construction Project	$171,000	6/12/2012	1.326%	6/30/2017	-	171,000	-	171,000	-	34,312
Wind Turbine Construction Project	$2,600,000	11/4/2008	1.15%	12/15/2022	2,080,000		173,333	1,906,667	22,923	173,333
Wind Turbine Construction Project	$400,000	9/4/2008	2.00%	7/15/2023	342,952		26,381	316,571	6,705	26,381
Total enterprise fund long-term debt					2,422,952	171,000	199,714	2,394,238	29,628	234,026
Total long-term obligations					$ 25,464,849	$ 1,495,073	$ 2,917,375	$ 24,042,547	$ 642,099	$ 2,820,935

(CONTINUED)

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

At June 30, 2012 the annual debt service requirements to maturity for general obligation, revenue bonds and loans for general long-term debt are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION AND LOANS PRINCIPAL	INTEREST	TOTAL
2013	$2,542,069	$534,397	$3,076,466
2014	2,276,228	465,403	2,741,631
2015	2,011,528	401,422	2,412,950
2016	1,909,828	347,343	2,257,171
2017	1,354,829	286,078	1,640,907
2018-2022	4,675,000	763,233	5,438,233
2023-2026	1,195,000	117,638	1,312,638
	$15,964,482	$2,915,514	$18,879,996

At June 30, 2012 the future minimum lease payments to be paid on the lease are as follows:

FISCAL YEAR ENDING June 30,	CAPITAL LEASE PAYABLE PRINCIPAL	INTEREST	TOTAL
2013	$12,860	$790	$13,650
2014	9,150	167	9,317
	$22,010	$957	$22,967

(CONTINUED)

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

At June 30, 2012 the annual debt service requirements to maturity for general obligation and revenue bonds for enterprise fund long-term debt are as follows:

FISCAL YEAR ENDING June 30,	GENERAL OBLIGATION PRINCIPAL	INTEREST	TOTAL
2013	$234,026	$29,318	$263,344
2014	233,886	26,384	260,270
2015	233,886	23,403	257,289
2016	233,886	20,420	254,306
2017	233,886	17,448	251,334
2018-2022	999,920	46,939	1,046,859
2023-2024	224,748	1,556	226,304
	$2,394,238	$165,468	$2,559,706

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
2013	$85,643
2014	89,638
2015	93,671
2016	97,905
Total	$366,857

7. RISK MANAGEMENT

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

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7. RISK MANAGEMENT (Continued)

The Town and the School Department are members of the Rhode Island Interlocal Risk Management Trust (the Trust), a nonprofit public entity risk pool which provides insurance coverage to participants in exchange for an annual premium and a pro-rata share of certain administrative expenses. Coverage is provided in accordance with each member's policy, subject to maximum insurable limits and deductibles, through a pooling of risks among participants, supplemented by commercial reinsurance for excess losses. Management believes the Trust's reserves to be adequate to meet all reported claims, as well as an estimate of potential claims for losses incurred but not reported. Accordingly, no accrual has been made for potential liabilities arising from risks once they have been transferred to the Trust. The Town and the School Department are members of the Trust, a joint purchasing group which provides health and dental insurance coverage to participants in exchange for a premium. There have been no significant reductions in insurance coverage during the year ended June 30, 2012.

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

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

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

8. INTERFUND BALANCES

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

Interfund receivables and payables are as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	$ 119,821	$ 4,102,769
School Unrestricted Fund	4,355,525	1,004,642
Non-Major Governmental Funds	1,829,399	1,031,840
Proprietary School Lunch Fund	187,521	185,475
Proprietary Transfer Station Fund	77,231	-
Proprietary Wind Turbine Generator Fund		254,942
Non-Major Proprietary Funds	10,171	-
Total	$ 6,579,668	$ 6,579,668

(CONTINUED)

9. FUND BALANCES

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the District has classified governmental fund balances at June 30, 2012 as follows:

At June 30, 2012 Non-Spendable Fund Balance consisted of the following:

Inventory	$60,892
Funds held by contractual requirements	4,821
Total Non-spendable Fund Balance	$65,713

At June 30, 2012 Restricted Fund Balance consisted of the following:

Melville land acquisition	$37,022
Parks and recreation	3,079
Public services	187,280
Law enforcement and fire prevention	126,802
Education	390,112
Various future capital project operations	694,536
Total Restricted Fund Balance	$1,438,831

At June 30, 2012 Committed Fund Balance consisted of the following:

Committed for various capital projects	$111,776
Committed for Education	3,330,247
Total Committed Fund Balance	$3,442,023

At June 30, 2012 Assigned Fund Balance consisted of the following:

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

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10. POST EMPLOYMENT HEALTH CARE BENEFITS

Other Post-Employment Benefits (OPEB) – Town Employees

Plan Description

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

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

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

b. Classes of Employees Covered

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

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

The Town established a Trust Agreement (OPEB Trust) effective March 8, 2010, and has started to pre-fund OPEB liabilities as well as funding on a pay-as-you-go basis. The employees of Public Works, Fire and Police contributed .25%, 1.5% and 1.0% of salaries respectively to the OPEB Trust for the year ended June 30, 2012. The total employee contributions to the OPEB trust was $66,657 for the year ended June 30, 2012. The Town pays 100% of the cost of the individual health care and dental insurance for all retired eligible employees except for Public Works employees who contribute 20% of the medical and dental premiums. The Town pays the cost of the health care and dental insurance until the retired employee is eligible for Medicare benefits. Expenditures for the benefits described above for the year ended June 30, 2012 were $732,096.

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 1,248,914
Interest on net OPEB obligation	133,827
Adjustment to annual required contribution	(170,711)
Annual OPEB cost (expense)	1,212,030
Implicit rate subsidy	(77,166
Contributions made	(876,223)
Increase in net OPEB obligation	258,641
Net OPEB obligation - July 1, 2011	2,553,945
Net OPEB obligation - June 30, 2012	$ 2,812,586

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset/(Obligation)
6/30/2010	$1,569,039	41%	$(2,030,262)
6/30/2011	$1,315,857	60%	$(2,553,895)
6/30/2012	$1,212,030	78%	$(2,812,586)

(CONTINUED)

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements, presents multi-trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB – Town Employees with a valuation date of July 1, 2011, which is the most recent report available.

Actuarial accrued liability (AAL)	$ 12,527,599
Actuarial value of plan assets (AVA)	(203,392)
Unfunded actuarial accrued liability (UAAL)	12,324,207
Funded ratio (actuarial value of plan assets/AAL)	1.6%
Covered payroll (active plan members)	6,574,560
UAAL as a percentage of covered payroll	187.5%

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

Actuarial Methods and Assumptions

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

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

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

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Plan Description

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

Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

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

b. Classes of Employees Covered

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

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

Funding Policy

The School Department has not yet established a Trust to pre-fund OPEB liabilities. The amounts due for these benefits are funded on an at-will basis. In 2011, the School Department paid 100% of the cost of individual health care insurance and dental insurance benefits for all retired eligible employees, AFSCME and At Will employees for six years, NEA (Teachers) and Administrators for nine years, capped at the premium cost at the time of retirement. If a retiree chose not to participate in the medical plan, the retiree would receive a 50% reimbursement of the cost of a single coverage for a six year period, capped at the premium cost at the time of retirement.

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

The School Department funds post retirement benefits on a pay-as-you go basis. Expenditures for the benefits described above for the year ended June 30, 2012 were $296,382.

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10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

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

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 592,410
Interest on net OPEB obligation	32,455
Adjustment to annual required contribution	(46,923)
Annual OPEB cost (expense)	577,942
Implicit rate subsidy	(296,382)
Contributions made	(270,703)
Increase in net OPEB obligation	10,857
Net OPEB obligation - July 1, 2011	811,386
Net OPEB obligation - June 30, 2012	$ 822,243

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset/(Obligation)
6/30/2010	$511,670	63%	$(400,934)
6/30/2011	$1,064,164	61%	$(811,386)
6/30/2012	$577,942	96%	$(822,243)

(CONTINUED)

10. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Funded Status and Funding Progress

The required supplementary information, which follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the OPEB with a valuation date of July 1, 2011, which is the most recent report available.

Actuarial accrued liability (AAL)	$ 7,207,872
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	7,207,872
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$19,457,646
UAAL as a percentage of covered payroll	37.0%

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

Actuarial Methods and Assumptions

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

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

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

(CONTINUED)

11. CONTINGENT LIABILITIES AND COMMITTMENTS

Pending or threatened lawsuits against municipal governments arise in the ordinary course of operations. Generally, in the opinion of the administration, the ultimate resolution of any legal actions will not result in a material loss to the Town. However, at June 30, 2012, there are several claims against the Town for which the Town's legal counsel is unable to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

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

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

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

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

The School Department has a five year agreement, through June 30, 2015, with First Student to provide busing for the School Department based on the rate schedule specified in the agreement. Busing costs associated with this agreement totaled approximately $1,717,407 for the year ended June 30, 2012.

As of June 30, 2012, the School Department has encumbrances of $89,251 which is reported as committed fund balance in the School Unrestricted Fund.

(CONTINUED)

12. PENSION PLANS

Town Retirement Plan

Plan Description

The Town Retirement Plan is a single employer, contributory defined benefit pension plan which provides retirement, disability and death benefits to all full-time employees of the Town except School Department personnel certified by the Rhode Island Department of Education (Certified Employees) who are eligible to participate in the Employees' Retirements System of the State of Rhode Island. Police and Public Works employees hired on or after July 1, 2010 are not entitled to receive normal benefits. The Plan was established in accordance with the Town Charter and State statutes. The plan is reported as a Pension Trust Fund in the Town's financial statements. As of July 1, 2012, employee membership data for the Town Retirement Plan is as follows:

Active members	178
Retired members	101
Terminated with vesting	13
Disabled members	10
Beneficiaries of deceased members	10
Total	312

Benefit Provisions and Contributions

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

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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

Police Employees	60% of average monthly earnings reduced prorated for service less than 20 years plus 2% for 5 additional years beyond 20 years to a maximum of 70%. Does not apply to Police employees hired after July 1, 2010.
Fire Employees	60% of average monthly earnings prorated for service less than 20 years plus 2% for 7 additional years beyond 20 years to a maximum of 74%.
Town Hall Employees	60% of average monthly earnings prorated for service less than 20 years plus 2% for additional years beyond 20 years to a maximum of 74% except for PMEA employees whose normal benefit is 2.5% of average monthly earnings times years of credited services (maximum 27 years).
School Employees	2.5% of average monthly earnings multiplied by years of credited service and further prorated for service less than 20 years of service.
Public Works Employees	50% of average monthly earnings reduced prorated for less than 20 years of service. Employees who are age 60 with 20 years of services receive an additional 2.5% for each additional year beyond 20 and age 60 (maximum 67.5%) of average monthly salary multiplied by credited service. Does not apply to Public Works employees hired after July 1, 2010.

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

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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

The pre-retirement death benefits are as follows:

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

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

Employees are required to contribute to the Plan as follows:

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

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Benefit Provisions and Contributions (Continued)

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:

	2012	2011	2010
Annual pension costs	$ 2,662,801	$ 2,514,420	$ 2,590,523
Actual contribution	2,662,801	2,514,420	2,590,523
Net pension obligation	NONE	NONE	NONE
% of annual pensions costs contributed	100%	100%	100%

The annual required contribution was determined as part of an actuarial valuation as of July 1, 2010. Significant actuarial methods and assumptions are as follows:

Actuarial Cost Method

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

Asset Valuation Method

Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets and annual requirement contributions for the Plan were performed annually through June 30, 2012.

(CONTINUED)

12. PENSION PLANS (Continued)

Town Retirement Plan (Continued)

Assumptions

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

Funded Status of Plan

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

Actuarial Value of Asset	$ 36,496,791
Actuarial Accrued Liability (AAL)	$ 73,686,863
Unfunded AAL (UAAL)	$ (37,190,072)
Funded Ratio	49.5%
Covered Payroll	$ 8,388,446
UAAL as a percentage of covered payroll	443.3%

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 ('ERS")

Plan Description

All full-time teachers, including superintendents, principals, school nurses and certain other school officials in the School Department are considered Certified Employees and are eligible to participate in the ERS, a cost-sharing multiple-employer public retirement system. ERS provides retirement, death and disability and health care benefits, all of which are established by State statue. The payroll for employees covered by the System for the year ended June 30, 2012 was $16,668,189. The School Department's total payroll for the year ended June 30, 2012 was $20,762,260. ERS issues a publicly available financial statement that includes the financial statements and required supplementary information for ERS. That report may be obtained from the Employees' Retirement System of Rhode Island, 40 Fountain Street, Providence, RI 02903, or by accessing their website at www.ersri.org.

(CONTINUED)

12. PENSION PLANS (Continued)

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

Plan Description (Continued)

In November 2011, the State enacted The Rhode Island Retirement Security Act of 2011 (the Act) as described in S1111A and H6319A. The Act makes significant changes to the Employee Retirement System and becomes effective July 1, 2012. Two of the most significant changes resulting from the Act are a change in structure from a defined benefit plan to a hybrid plan that includes a smaller defined benefit plan and a supplemental defined contribution plan. In addition, there was a re-amortization of the Unfunded Actuarial Accrued Liability to 25 years from the current 19 year schedule as of June 30, 2010.

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

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

Schedule B Benefits: Classified employees who were hired after July 1, 2005, or current employees with less than 10 years of contributory services on or before July 1, 2005, who attain at least 10 years of credited service, will become entitled to a retirement benefit payable monthly for life. The retirement benefit is a percentage of the final average salary per year of credited service with a maximum benefit of 75% of "final average" salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pays. The unreduced retirement benefit becomes available at age 65 and 10 years of service; actuarially reduced retirement benefits become available at age 55 and 20 years of service. The retirement benefit is equal to 1.6 percent of their final average salary for each year of credited service up to 10 years, plus 1.8 percent of their final average salary in excess of 10 years through 20 years, plus 2.0 percent of their final average salary in excess of 20 years through 25 year of service, plus 2.25 percent of their final average salary in excess of 26 years through 30 years of service, plus 2.5% of their final average salary of 31 years of service through the 37th year. The ERS plan also provides a survivor benefit to public school teachers via a "Teachers Survivor Benefits Fund" in lieu of Social Security. The details of the survivor death benefit and other death benefits are provided in the financial section of the Annual Financial Report of the Employees' Retirement System of Rhode Island for the fiscal year ending June 30, 2012 which can be found at www.ersri.org.

(CONTINUED)

12. PENSION PLANS (Continued)

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

Plan Description (Continued)

Rhode General Laws set the contribution rates for participating State employees at 9.5% of salary. Annual contributions by both employees and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. Plan members are required by State statute to contribute 9.5% of their salary. The School Department's contributions are based on a percentage of annual compensation of active members, half of which is payable by the State of Rhode Island. The School Department's contributions made for the years ended June 30, 2012, 2011, 2010 are listed under contributions below and were equal to the required contributions for each year. The employer contribution rates for ERS are determined actuarially. Separate rates are determined for State Employees and for Teachers.

The amortized rate is the contribution required to amortize the unfunded actuarial liability over 21 years as a level percent of pay. For the Teachers, the State of Rhode Island pay 40% of the rate, adjusted so that the State pays the entire amortization charge for the 1990/91 and 1991/92 deferrals, and the town employing the Teacher pays the balance. The School Department was required to contribute 13.23%, 11.25% and 14.86% for all full-time employees for the fiscal years 2012, 2011 and 2010, respectively. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability.

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

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

B. Investment return - 8.25%, compounded annually.

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

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

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

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years plus 40% of contributions assessed to employers on payroll not reimbursable through Federal programs. For fiscal year 2012, actuarial required contributions were 22.32% of the participant's salary. This resulted in contribution rates paid by the State on behalf of the School Department of 9.09% of non-federally reimbursable payrolls totaling $1,484,790 for the year ended June 30, 2012, which has been included as revenues and expenditures in the School Department's unrestricted fund. The School Department contributed the remaining 13.23% of the required 22.32%.

(CONTINUED)

12. PENSION PLANS (Continued)

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

Plan Description (Continued)

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

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

Contributions

The School Department's required contributions and actual contributions made for the years ended June 30, 2012, 2011, and 2010 were as follows:

FISCAL YEAR ENDED	ANNUAL REQUIRED CONTRIBUTION	ACTUAL CONTRIBUTION	PERCENTAGE CONTRIBUTION
6/30/2010	$ 1,981,787	$ 1,981,787	100%
6/30/2011	$ 1,378,156	$ 1,378,156	100%
6/30/2012	$ 1,632,808	$ 1,632,808	100%

Defined Contribution Pension Plans

Defined Supplemental 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% of earnings and 3.00% of earnings, respectively. During fiscal year 2011, contributions made under this plan by participants and employer were $99,401 and $35,584, respectively.

Plan Description

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

A. Plan Administrator – The ICMA Retirement Corporation

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

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

(CONTINUED)

12. PENSION PLANS (Continued)

Defined Contribution Pension Plans (Continued)

Police Plan

The Town of Portsmouth has adopted a defined contribution money purchase plan for all full time police officers who were hired after July 1, 2010. The required contribution for the Town and participants is 8.00% of earnings and 8.00% of earnings, respectively. During fiscal year 2012, contributions made under this plan by participants and employer were $9,892 and $9,892, 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 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.

DPW Plan

The Town of Portsmouth has adopted a defined contribution money purchase plan for NAGE Local 280 members who were hired after July 1, 2010. The required contribution for the Town and participants is 8.00% of earnings and 8.00% of earnings, respectively. During fiscal year 2012, contributions made under this plan by participants and employer were $1,286 and $1,286, 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.

(CONTINUED)

12. PENSION PLANS (Continued)

Defined Contribution Pension Plans (Continued)

DPW Plan (Continued)

Plan Description (Continued)

A. Plan Administrator – The ICMA Retirement Corporation

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

C. Trust- The Trust 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.

Town Administrator Plan

On February 13, 2012, the Town of Portsmouth has adopted a defined contribution money purchase plan for the Town Administrator. The required contribution for the Town and participants is 8.00% of earnings and 8.00% of earnings, respectively. During fiscal year 2012, contributions made under this plan by participants and employer were $3,877 and $3,877, 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 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.

13. DEFERRED COMPENSATION PLAN

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

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

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Required Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2012

	Original Budget	Appropriation Transfers and Additions	Final Budget	Actual	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues						
Property taxes	$ 45,785,205	$ -	$ 45,785,205	$ 46,647,965	$ -	$ 862,760
Intergovernmental revenue	959,459	-	959,459	931,217	-	(28,242)
Licenses, permits and fees	856,300	-	856,300	869,314	-	13,014
Fines & forfeitures	254,700	-	254,700	638,575	-	383,875
Earnings on investments	20,000	-	20,000	10,616	-	(9,384)
Other revenues	1,923,602	28,000	1,951,602	1,559,850	-	(391,752)
Total revenues	49,799,266	28,000	49,827,266	50,657,537	-	830,271
Expenditures						
Current:						
General government	4,657,426	(16,500)	4,640,926	4,409,952		230,974
Public safety	8,907,743	36,500	8,944,243	8,822,846		121,397
Public works	2,403,378	(20,000)	2,383,378	2,304,651		78,727
Community services:						
Recreation, parks and grounds	506,954	-	506,954	521,428		(14,474)
Public and social services	617,588	-	617,588	580,780		36,808
Debt Service	3,257,889	-	3,257,889	3,166,333		91,556
Total expenditures	20,350,978	-	20,350,978	19,805,990	-	544,988
Excess (deficiency) of revenues over expenditures	29,448,288	28,000	29,476,288	30,851,547	-	1,375,259
Other financing sources (uses) transfer between funds	(29,448,288)	(28,000)	(29,476,288)	(28,260,748)		1,215,540
Total other financing sources (uses)	(29,448,288)	(28,000)	(29,476,288)	(28,260,748)	-	1,215,540
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ -	$ 2,590,799	$ -	$ 2,590,799

TOWN OF PORTSMOUTH, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Encumbrances Carried Over	Variance Favorable (Unfavorable)
Revenues					
Intergovernmental revenue	$ 6,233,255	$ 6,233,255	$ 5,923,570	$ -	$ (309,685)
State Fiscal Stabilization Funds	122,259	122,259	122,259		-
Other revenues	1,061,252	1,061,252	1,141,336		80,084
Total revenues	7,416,766	7,416,766	7,187,165	-	(229,601)
Expenditures					
Education	37,164,859	37,164,859	34,635,427	89,251	2,440,181
Total expenditures	37,164,859	37,164,859	34,635,427	89,251	2,440,181
Excess (deficiency) of revenues over expenditures	(29,748,093)	(29,748,093)	(27,448,262)	(89,251)	2,210,580
Other financing sources (uses):					
Transfer from General Fund	29,398,093	29,398,093	29,398,093		-
Transfer to General Fund			(1,000,000)		(1,000,000)
Transfer to other funds			(129,436)		(129,436)
Use of accumulated fund balance	350,000	350,000	-		(350,000)
					-
Total other financing sources (uses)	29,748,093	29,748,093	28,268,657	-	(1,479,436)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	$ -	$ -	$ 820,395	$ (89,251)	$ 731,144

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 of America (U.S. GAAP) in several regards. Budgets are adopted on the modified accrual basis of accounting, except that budgetary expenditures include encumbrances in the year incurring the commitment to purchase, and budgetary revenues include subsidies from fund balance previously recognized under U.S. GAAP.

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

Budgetary Compliance:

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

The recreation, parks and grounds exceeded the appropriation by $14,474. There were no other municipal department expenditures that exceeded appropriations (after approved transfers) for the year ended June 30, 2012.

(CONCLUDED)

Required Supplementary Information
Pension Plan
Schedule of Funding Progress
June 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
1/1/1999	$ 11,604,444	$ 14,874,442	$ 3,269,998	78.0%	$ 5,431,775	60.2%
1/1/2000	$ 13,366,941	$ 16,682,652	$ 3,315,711	80.1%	$ 5,656,718	58.6%
1/1/2001	$ 14,764,504	$ 20,772,711	$ 6,008,207	71.1%	$ 6,121,015	98.2%
1/1/2002	$ 15,775,149	$ 22,798,424	$ 7,023,275	69.2%	$ 6,347,972	110.6%
1/1/2003	$ 15,770,989	$ 24,582,923	$ 8,811,934	64.2%	$ 6,619,388	133.1%
1/1/2004	$ 19,407,779	$ 28,684,523	$ 9,276,744	67.7%	$ 6,696,215	138.5%
1/1/2005	$ 22,451,034	$ 33,089,944	$ 10,638,910	67.8%	$ 6,732,372	158.0%
7/1/2006	$ 25,129,703	$ 38,459,122	$ 13,329,419	65.3%	$ 7,767,018	171.6%
7/1/2007	$ 27,628,308	$ 43,087,640	$ 15,459,332	64.1%	$ 7,958,303	194.3%
7/1/2008	$ 30,441,304	$ 47,736,361	$ 17,295,057	63.8%	$ 8,221,692	210.36%
7/1/2009	$ 31,609,237	$ 51,284,315	$ 19,675,078	61.6%	$ 8,596,994	228.86%
7/1/2010	$ 32,779,646	$ 54,054,944	$ 21,275,298	60.6%	$ 8,507,853	250.07%
7/1/2011	$ 35,266,853	$ 57,377,287	$ 22,110,434	61.5%	$ 8,781,718	251.78%
7/1/2012	$ 36,496,791	$ 73,686,863	$ 37,190,072	49.5%	$ 8,388,446	443.35%

(CONTINUED)

Required Supplementary Information
Pension Plan
Schedule of Funding Progress
June 30, 2012

Schedule of Employer Contribution

Actuarial Valuation Date	Required Contribution	Actual Contribution	Percent of ARC Contributed
1/1/1999	$ 802,090	$ 831,195	103.63%
1/1/2000	$ 799,190	$ 811,401	101.53%
1/1/2001	$ 1,088,547	$ 1,088,547	100.00%
1/1/2002	$ 1,162,063	$ 1,162,063	100.00%
1/1/2003	$ 1,292,432	$ 1,292,432	100.00%
1/1/2004	$ 1,370,682	$ 1,370,682	100.00%
1/1/2005	$ 1,552,168	$ 1,552,168	100.00%
7/1/2006	$ 1,671,713	$ 1,671,713	100.00%
7/1/2007	$ 2,088,317	$ 2,088,317	100.00%
7/1/2008	$ 2,346,316	$ 2,346,316	100.00%
7/1/2009	$ 2,590,523	$ 2,590,523	100.00%
7/1/2010	$ 2,514,420	$ 2,514,420	100.00%
7/1/2011	$ 2,662,801	$ 2,662,801	100.00%

(CONTINUED)

Required Supplementary Information

Pension Plan

Schedule of Funding Progress

Year Ended June 30, 2012

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, 2012
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage-closed
Remaining amortization period	27 years
Asset valuation method	Market with gain/loss recognition over five years
Actuarial assumptions:	
Investment rate of return	6.75% per annum
Projected salary increase	Percentage based on age
Cost-of- living adjustments	Public works employees -2.0% Fire employees (retired before 6/30/2007) - 2.0% Fire employees (retired after 6/30/2007) - 3.0% Police employees - 3.0% Town hall employees - 2.0% School management and Non-Certified employees - 1.7 % Town management (retired before 7/1/2004) - 2.0% Town management (retired after 7/1/2004) - 3.0%
Assumed Retirement Age	Employees are assumed to retire as follows: Police, Fire, School, Public Works and Town – Rates based on length of service

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage Of Covered Payroll ((b-a)/c)
Municipal employees						
7/1/2008	N/A	$13,026,759	$13,026,759	N/A	$5,510,188	236.4%
7/1/2009	N/A	$13,026,759	$13,026,759	N/A	$5,510,188	236.4%
7/1/2010	$153,249	$13,248,340	$13,095,091	1.2%	$6,383,155	205.2%
7/1/2011	$203,392	$12,527,599	$12,324,207	1.6%	$6,574,650	187.5%
School employees						
7/1/2008	0	$4,514,458	$4,514,458	N/A	N/A	N/A
7/1/2009	0	$4,514,458	$4,514,458	N/A	N/A	N/A
7/1/2010	0	$10,258,675	$10,258,675	N/A	$18,890,918	54.3%
7/1/2011	0	$7,207,872	$7,207,872	N/A	$19,457,646	37.0%

(CONTINUED)

TOWN OF PORTSMOUTH

Required Supplementary Information

Other Post Employment Benefits

Schedule of Funding Progress

Year Ended June 30, 2011

Actuarial Valuation Date	Required Contribution	Actual Contribution	Percent of ARC Contributed
Municipal employees			
6/30/2009	$1,569,039	$462,590	29.5%
6/30/2010	$1,569,039	$645,276	41.1%
6/30/2011	$1,345,177	$792,174	58.9%
6/30/2012	$1,248,914	$953,389	76.3%
School employees			
6/30/2009	$511,670	$299,602	58.5%
6/30/2010	$511,670	$322,804	63.1%
6/30/2011	$1,071,313	$653,712	61.1%
6/30/2012	$592,410	$567,085	95.7%

(CONTINUED)

Other Supplementary Information

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

ASSETS	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
Cash, cash equivalents and investments	$ 206,495	$ 127,900	$ 145,267	$ 479,662
Accounts receivable	459,222	-	-	459,222
Due from federal and state governments	77,681	-	-	77,681
Due from other funds	1,134,895	694,504	-	1,829,399
TOTAL ASSETS	$ 1,878,293	$ 822,404	$ 145,267	$ 2,845,964
LIABILITIES				
Accounts payable	$ 25,953	$ 28	$ -	$ 25,981
Accrued expenses	42,604	-	-	42,604
Due to other funds	885,475	146,365	-	1,031,840
Deferred revenue	270,425	-	-	270,425
TOTAL LIABILITIES	1,224,457	146,393	-	1,370,850
FUND BALANCE				
Nonspendable	-	-	4,821	4,821
Restricted	707,273	694,536	-	1,401,809
Committed	-	111,776	-	111,776
Assigned	-	-	-	-
Unassigned	(53,437)	(130,301)	140,446	(43,292)
TOTAL FUND BALANCE	653,836	676,011	145,267	1,475,114
TOTAL LIABILITIES AND FUND BALANCE	$ 1,878,293	$ 822,404	$ 145,267	$ 2,845,964

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Revenues Other Financing Sources, Expenditures and Other Financing Uses, and Changes in Fund Balance
Non-Major Governmental Funds
June 30, 2012

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES:				
State aid and grants (Intergovernmental)	$ 2,086,204	$ -	$ -	$ 2,086,204
Charges for services	108,639	-	-	108,639
Impact aid	-	-	-	-
Investment and interest income	-	91	1,147	1,238
Contributions and private grants	71,261	-	-	71,261
Other revenue	3,018	-	-	3,018
TOTAL REVENUES	2,269,122	91	1,147	2,270,360
EXPENDITURES:				
Current:				
General government	19,153	-	-	19,153
Public safety	91,928	-	-	91,928
Public works	46,373	-	-	46,373
Education	1,698,805	-	-	1,698,805
Community services	148,698	-	-	148,698
Capital expenditures	123,871	775,492	-	899,363
Debt issuance costs	-	-	-	-
Park & recreation	675	-	-	675
TOTAL EXPENDITURES	2,129,503	775,492	-	2,904,995
Excess of revenue over(under) expenditures before transfers	139,619	(775,401)	1,147	(634,635)
Other financing sources (uses):				
Transfers from other funds	110,379	403,854	-	514,233
Transfers to other funds	(110,199)	(491,378)	-	(601,577)
Note Proceeds	-	0		-
Bond Proceeds	-	1,050,000	-	1,050,000
Bond premiums	-	0	-	-
Net other financing sources (uses)	180	962,476	-	962,656
Excess of revenues and other sources over (under) expenditures and other uses	139,799	187,075	1,147	328,021
FUND BALANCES, BEGINING OF YEAR	514,037	488,936	144,120	1,147,093
FUND BALANCES, ENDING OF YEAR	$ 653,836	$ 676,011	$ 145,267	$ 1,475,114

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Net Assets
Non-Major Proprietary Funds
June 30, 2012

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
ASSETS			
Current assets:			
Due from other funds	$ -	$ 10,171	$ 10,171
Total current assets	-	10,171	10,171
TOTAL ASSETS	-	10,171	10,171
LIABILITIES			
Current liabilities:			
Prepaid tuition		10,275	10,275
Total current liabilities	-	10,275	10,275
TOTAL LIABILITIES	-	10,275	10,275
NET ASSETS			
Unrestricted	-	(104)	(104)
TOTAL NET ASSETS	$ -	$ (104)	$ (104)

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Revenues, Expenses and Changes in Net Assets
Non-Major Proprietary Funds
For the year ended June 30, 2012

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
Operating Revenues:			
Intergovernmental			
Other revenues			
Charges for services	$ -	$ 15,908	$ 15,908
Total Operating Revenues	-	15,908	15,908
Operating Expenses:			
Education	-	50,535	50,535
Total Operating Expenses	-	50,535	50,535
Income from operations	-	(34,627)	(34,627)
Non-operating Revenues (Expenses):			
Transfers in (out)	27,895	51,540	79,435
Change in net assets	27,895	16,913	44,808
Net assets - beginning of the year	(27,895)	(17,017)	(44,912)
Net assets - ending of the year	$ -	$ (104)	$ (104)

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Cash Flows
Non-Major Proprietary Funds
For the year ended June 30, 2012

	Summer School Enrichment Fund	Summer School Remedial Fund	Total
Cash flows from operating activities:			
Cash received from customers	$ -	$ 26,183	$ 26,183
Intergovernmental			-
Cash payments to suppliers for goods and services	-	(50,535)	(50,535)
Net cash used by operating activities	-	(24,352)	(24,352)
Cash flows from non-capital financing activities:			
Operating transfers (to) from other funds	27,895	51,540	79,435
Interfund borrowings	(27,895)	(27,188)	(55,083)
Net cash provided by non-capital financing activities	-	24,352	24,352
Net increase in cash	-	0	0
Cash and cash equivalents, beginning of the year		0	0
Cash and cash equivalents, end of the year	$ -	$ -	$ -
Reconciliation of net income to net cash provided by operating activities:			
Income from operations	$ -	$ (34,627)	$ (34,627)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Changes in assets and liabilities:			
Increase in prepaid tuitions	-	10,275	10,275
Total adjustments	-	10,275	10,275
Net cash used by operating activities	$ -	$ (24,352)	$ (24,352)

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Net Assets
Defined Contribution Pension Plans
June 30, 2012

	Defined Supplemental Plan	DPW Plan	Police Plan	Town Administrator Plan	Total
ASSETS					
Investments, at fair value	$ 2,269,553	$ 2,568	$ 20,564	$ 7,746	$ 2,300,431
TOTAL ASSETS	2,269,553	2,568	20,564	7,746	2,300,431
NET ASSETS					
Held in trust for pension benefits	2,269,553	2,568	20,564	7,746	2,300,431
Total net assets	2,269,553	2,568	20,564	7,746	2,300,431
Total liabilities and net assets	$ 2,269,553	$ 2,568	$ 20,564	$ 7,746	$ 2,300,431

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Net Assets
Defined Contribution Pension Plans
For the year ended June 30, 2012

	Defined Supplemental Plan	DPW Plan	Police Plan	Town Administrator Plan	Total
Additions:					
Contributions:					
Employer	$ 34,020	$ 1,286	$ 9,892	$ 3,877	$ 49,075
Plan member	102,554	1,286	9,892	3,877	117,609
Total contributions	136,574	2,572	19,784	7,754	166,684
Investment income:					
Net gain (loss) on value of investments	63,404	(4)	813	(8)	64,205
Net investment income (loss)	63,404	(4)	813	(8)	64,205
Total additions	199,978	2,568	20,597	7,746	230,889
Deductions:					
Benefits paid	217,272				217,272
Administrative and other	17,533		33		17,566
Total deductions	234,805		33		234,838
Changes in net assets	(34,827)	2,568	20,564	7,746	(3,949)
Net assets - beginning of year	2,304,380	-	-	-	2,304,380
Net assets - ending of the year	$ 2,269,553	$ 2,568	$ 20,564	$ 7,746	$ 2,300,431

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2012

Town Activity Funds	Beginning Balance	Additions	Deductions	Ending Balance
Soil Agency Fund				
ASSETS				
Accounts Receivable	$ 221,077	$ 40,600	$ 85,050	$ 176,627
Letters of Credit	9,100			9,100
TOTAL ASSETS	$ 230,177	$ 40,600	$ 85,050	$ 185,727
LIABILITY				
Deposits Held in Custody for Others	$ 230,177	$ 40,600	$ 85,050	$ 185,727
Library State Aid				
ASSET				
Accounts Receivable	$ -	$ 102,566	$ 102,566	$ -
LIABILITY				
Deposits Held in Custody for Others	$ -	$ 102,566	$ 102,566	$ -
GMH Deposit Agency Fund				
ASSET				
Accounts receivable	$ 18,500	$ 34,500	$ 33,500	$ 19,500
TOTAL ASSETS	$ 18,500	$ 34,500	$ 33,500	$ 19,500
LIABILITIES				
Accounts payable	$ 1,500	$ -	$ 1,500	$ -
Deposits Held in Custody for Others	17,000	34,500	32,000	19,500
TOTAL LIABILITIES	$ 18,500	$ 34,500	$ 33,500	$ 19,500
Probate Court Agency Fund				
ASSET				
Cash and cash equivalents	$ -	$ 101,459	$ -	$ 101,459
LIABILITY				
Deposits Held in Custody for Others	$ -	$ 101,459	$ -	$ 101,459
Glen Park Damage Deposit				
ASSET				
Accounts receivable	$ 600	$ 1,050	$ 450	$ 1,200
LIABILITY				
Deposits Held in Custody for Others	$ 600	$ 1,050	$ 450	$ 1,200
Prescott Point Fund				
ASSET				
Cash and cash equivalents	$ 100,139	$ 262	$ -	$ 100,401
LIABILITY				
Deposits Held in Custody for Others	$ 100,139	$ 262	$ -	$ 100,401
TOTAL TOWN ACTIVITY AGENCY FUNDS				
ASSET				
Cash	$ 100,139	$ 101,721	$ -	$ 201,860
Accounts receivable	240,177	178,716	221,566	197,327
Letters of Credit	9,100	-	-	9,100
TOTAL ASSETS	$ 349,416	$ 280,437	$ 221,566	$ 408,287
LIABILITY				
Accounts payable	$ 1,500	$ -	$ 1,500	$ -
Deposits Held in Custody for Others	347,916	280,437	220,066	408,287
TOTAL LIABILITIES	$ 349,416	$ 280,437	$ 221,566	$ 408,287

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2012

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

TOWN OF PORTSMOUTH, RHODE ISLAND

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2012

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

TOWN OF PORTSMOUTH, RHODE ISLAND

SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2012

Tax Roll Year	Balance Uncollected July 1, 2011	2011 Assessment	Additions	Abatements & Adjustments	Amount to be Collected	Current Year Collections	Refunds	Balance June 30, 2012
2011		$ 45,807,376	$ 86,874	$ 204,841	$ 45,689,409	$ 43,972,304	$ 27,078	$ 1,744,183
2010	$ 3,001,691		4,146	227,553	2,778,284	2,647,532	600	131,352
2009	127,923		4,175	79,445	52,653	88,049	79,333	43,937
2008	43,713		4,972	1,779	46,906	10,936	2,486	38,456
2007	31,733		5,085	2,219	34,599	9,464	3,349	28,484
2006	18,815				18,815	537		18,278
2005	16,901				16,901	-		16,901
2004	13,393				13,393	3		13,390
2003	14,864				14,864	274		14,590
2002	13,269				13,269	-		13,269
2001	49,835				49,835	113		49,722
2000	37,733			37,614	119	119		-
1999	-			(71)	71	71		-
Total	3,369,870	$ 45,807,376	$ 105,252	$ 553,380	$ 48,729,118	$ 46,729,402	$ 112,846	2,112,562
Less: Allowance for Uncollectible accounts	(499,657)							(340,656)
Net	$ 2,870,213							$ 1,771,906

Schedule of property valuation assessed as of December 31, 2010:

	Valuation	Levy
Real property	$ 3,194,188,000	$ 43,105,307
Motor vehicles	167,343,161	1,881,879
Tangible personal property	58,963,767	820,190
Total	3,420,494,928	45,807,376
Less: Exemptions and motor vehicle phase out		
Real property	(94,871,230)	-
Motor vehicles	(83,697,717)	-
Tangible personal property	(2,276)	-
Total	$ 3,241,923,705	$ 45,807,376