

CITY OF NEWPORT, RHODE ISLAND

General Purpose Financial Statements

For The fiscal Year Ended June 30, 2001

CITY OF NEWPORT, RHODE ISLAND

General Purpose Financial Statements

For The Fiscal Year Ended June 30, 2001

Table of Contents

FINANCIAL SECTION:

Independent Auditor's Report 1-2

Financial Statements:

General Purpose Financial Statements
(Combined Statements - Overview):

Combined Balance Sheet – All Fund Types, Account Groups
And Discretely Presented Component Units 3-4

Combined Statement of Revenues, Expenditures, and Changes in
Unreserved Fund Balance – All Governmental Fund Types, Expendable
Trust Funds and Discretely Presented Component Units 5

Combined Statement of Revenues and Expenditures – Budget
(Non-GAAP Budgetary Basis) and Actual –
General and Special Revenue Funds 6

Combined Statement of Revenues, Expenses, and Changes in Unreserved
Retained earnings – Proprietary Fund Types and Similar Trust Funds 7

Combined Statement of Revenues and Expenses – Budget (Non-GAAP
Budgetary Basis) and Actual – Enterprise and Internal Service Funds 8

Combined Statements of Cash Flows – All Proprietary Fund Types
And Similar Trust Funds 9

Summary of Plan Net Assets – Pension Trust Funds 10

Combined Statement of Changes in Net Plan Assets – Pension Trust Funds 11

Notes to General Purpose Financial Statements 12-38
These notes are an integral part of the Lifiable Financial Statements

CITY OF NEWPORT, RHODE ISLAND

General Purpose Financial Statements

For The Fiscal Year Ended June 30, 2001

Table of Contents - Continued

Combining Statements and Individual Funds

Governmental Fund Types

General Fund:

Balance Sheet	39
Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance	40
Schedule of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual	41

Special Revenue Funds:

Combining Balance Sheet	42
Combining Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances	43
School Unrestricted Fund – Schedule of Revenues and Expenditures Budget (Non-GAAP Budgetary Basis) and Actual	44

Capital Projects:

Combining Balance Sheet	45
Combining Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balances	46

Enterprise Funds:

Combining Balance Sheet	47
Combining Statement of Revenues, Expenses and Changes in Unreserved Retained Earnings	48
Combining Statement of Cash Flows	49
Combining Statement of Revenues and Expenses – Budget (Non-GAAP Budgetary Basis) and Actual	50-52

Internal Service Fund:

Balance Sheet	53
Statement of Revenues, Expenses and Changes in Unreserved Retained Earnings	54
Statement of Cash Flows	55
Statement of Revenues and Expenses – Budget (Non-GAAP Budgetary Basis) and Actual	56

CITY OF NEWPORT, RHODE ISLAND

General Purpose Financial Statements

For The Fiscal Year Ended June 30, 2001

Table of Contents - Continued

Fiduciary Fund Types:

Combining Balance Sheet	57
Expendable Trust Funds:	
Balance Sheet	58
Statement of Revenues, Expenditures, and Changes in Fund Balances	59
Non-Expendable Trust Funds:	
Combining Balance Sheet	60
Combining Statement of Revenues, Expenses and Changes in Fund Balances	61
Combining Statement of Cash Flows	62
Pension Trust Funds:	
Combining Statement of Plan Net Assets	63
Combining Statement of Changes in Plan Net Assets	64
Agency Funds:	
Combining Statement of Changes in Assets and Liabilities	65

Account Groups:

General Long – Term Debt:	
Schedule of General Long – Term Debt	66
Schedule of Changes in General Long – Term Debt	67
General Fixed Assets:	
Schedule of General Fixed Assets	68
Schedule of General Fixed Assets by Function and Activity	69
Schedule of Changes in General Fixed Assets by Function and Activity	70
Supplementary Information:	
Schedule of Employer Contributions – Fire and Police Pension Plans	71
Schedule of Funding Progress – Fire and Police Pension Plans	72

CITY OF NEWPORT, RHODE ISLAND

General Purpose Financial Statements

For The Fiscal Year Ended June 30, 2001

Table of Contents - Continued

Single Audit Section:

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73-74
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	75-76
Schedule of Expenditures of Federal Awards	77-78
Schedule of Findings and Questioned Costs	79-83
Notes to the Schedule of Expenditures of Federal Awards	84

Concluded

FINANCIAL SECTION

This Section Contains the Following Subsections:

Auditor's Report
General Purpose Financial Statements
Combining and Individual Funds
Supplementary Information

HAGUE, SAHADY & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

126 President Avenue

Fall River, MA 02720

TEL. (508) 675-7889

FAX (508) 675-7859

Honorable Mayor and Members of the City Council
City of Newport
Newport, Rhode Island

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the City of Newport, Rhode Island, as of and for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the City of Newport's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacies in the City of Newport, Rhode Island's accounting records, we were unable to form an opinion regarding the carrying value of cash in the accompanying combined balance sheet. The reconciled book balance of cash and the carrying value of cash differ by \$245,770.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had cash been susceptible to satisfactory audit tests, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Newport, Rhode Island as of June 30, 2001, and the results of its operations and cash flows of its proprietary and nonexpendable trust funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20 to the combined financial statements, the City of Newport, Rhode Island changed its method of accounting for contributed capital in both its Enterprise and Internal Service Funds.

The combining, individual fund, and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Newport, Rhode Island. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects in relation to the general purpose financial statements taken as a whole.

The historical pension information on pages 71 through 72 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and therefore express no opinion on it.

In accordance with Government Auditing Standards, we have also issued reports dated July 30, 2002, on our consideration of the City of Newport, Rhode Island's internal control and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Newport, Rhode Island, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are not a required part of the general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects in relation to the general purpose financial statements taken as a whole.

Haque, Sekady & Co PC

July 30, 2002

CITY OF NEWPORT, RHODE ISLAND

Combined Balance Sheet - All Fund Types and Account Groups and Discretely Presented Component Units

June 30, 2001

	Governmental Fund Types			Proprietary Fund Types	
	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds	Internal Service Funds
ASSETS					
Cash	\$ 5,354,463	\$ 2,135,791	\$ 8,369,595	\$ 4,684,753	\$ 78,855
Investments	3,842,328	4,826,729	-	175,268	-
Property taxes receivable	2,938,391	-	-	-	-
Motor vehicle excise tax receivable	2,213,306	-	-	-	-
Due from federal or state governments	1,093,497	1,302,025	14,589	341,225	-
User charges receivable, net	-	-	-	2,423,038	-
Accounts receivable	-	1,651,631	-	650,769	2,300
Department receivables	-	-	-	-	-
Notes receivable	-	-	-	-	-
Receivable, other	783,199	2,344,717	-	-	-
Advances to other funds	-	622,615	-	-	-
Accrued interest	-	-	-	-	-
Due from other funds	26,514	360,800	-	10,781	61,086
Inventories	-	-	-	340,746	43,391
Prepaid expenses	-	61,000	-	739,375	-
Property and equipment, net	-	-	-	82,605,623	160,072
Amounts to be provided for the retirement of debt	-	-	-	-	-
Total assets	\$ 16,251,698	\$ 13,305,308	\$ 8,384,184	\$ 91,971,578	\$ 345,704
LIABILITIES AND FUND EQUITIES (DEFICITS)					
Liabilities:					
Accounts payable and accrued expenses	\$ 2,702,786	\$ 1,019,567	\$ 905,338	\$ 1,968,447	\$ 142,357
Due to federal or state governments	-	-	-	-	-
Bond anticipation notes payable	-	-	13,000,000	-	-
Deferred revenue	4,563,883	4,993,444	-	330,792	-
Due to other funds	185,781	98,400	-	-	-
Amounts held in reserve	89,054	-	-	2,257	-
Deposits held in custody	-	1,067	-	-	-
Other liabilities	406,520	-	-	80,849	-
Notes payable	-	-	-	3,405,293	-
Compensated absences	-	-	-	-	-
Advances from other funds	-	-	-	622,615	-
Serial bonds payable	-	-	-	16,366,969	-
Net pension obligation	-	-	-	-	-
Total liabilities	7,948,024	6,112,478	13,905,338	22,777,222	142,357
Fund equities:					
Investment in general fixed assets	-	-	-	-	-
Contributed capital	-	-	-	42,412,543	79,150
Retained earnings:	-	-	-	-	-
Reserved	-	-	-	497,873	-
Unreserved	-	-	-	26,283,940	124,197
Fund balances (deficit):	-	-	-	-	-
Reserved	683,898	-	-	-	-
Unreserved	7,619,776	7,192,830	(5,521,154)	-	-
Total fund balances	8,303,674	7,192,830	(5,521,154)	69,194,356	203,347
Total liabilities and fund balances	\$ 16,251,698	\$ 13,305,308	\$ 8,384,184	\$ 91,971,578	\$ 345,704

(Continued)

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Combined Balance Sheet - All Fund Types and Account Groups and Discretely Presented Component Units

(continued)

June 30, 2001

	Fiduciary	Account Groups		Primary	Component Units		Reporting
	Fund Type	General	General		Government	Newport	
	Trust and	Fixed Asset	Long-Term	Total	Public	Agency	Total
	Agency	Account	Debt Account	(Memorandum	Library	of Newport	(Memorandum
	Funds	Group	Group	Only)			Only)
ASSETS							
Cash	\$ 943,914	\$ -	\$ -	\$ 21,567,371	\$ 135,632	\$ 118,580	\$ 21,821,583
Investments	51,804,359	-	-	60,648,684	294,437	-	60,943,121
Property taxes receivable	-	-	-	2,938,391	-	-	2,938,391
Motor vehicle excise tax receivable	-	-	-	2,213,306	-	-	2,213,306
Due from federal or state governments	-	-	-	2,751,336	269,033	-	3,020,369
User charges receivable, net	-	-	-	2,423,038	-	-	2,423,038
Accounts receivable	-	-	-	2,304,700	-	-	2,304,700
Department receivables	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
Receivable, other	-	-	-	3,127,916	755,000	-	3,882,916
Advances to other funds	-	-	-	622,615	-	-	622,615
Accrued interest	-	-	-	-	14,447	-	14,447
Due from other funds	-	-	-	459,181	-	-	459,181
Inventories	-	-	-	384,137	-	-	384,137
Prepaid expenses	-	-	-	800,375	-	-	800,375
Property and equipment, net	-	31,645,420	-	114,411,115	3,566,543	620,610	118,598,268
Amounts to be provided for the retirement of debt	-	-	20,083,952	20,083,952	-	200,000	20,283,952
Total assets	\$ 52,748,273	\$ 31,645,420	\$ 20,083,952	\$ 234,736,117	\$ 5,035,092	\$ 939,190	\$ 240,710,399
LIABILITIES AND FUND EQUITIES (DEFICITS)							
Liabilities:							
Accounts payable and accrued expenses	\$ 58,418	\$ -	\$ -	\$ 6,796,913	\$ 874,588	\$ 322,702	\$ 7,994,203
Due to federal or state governments	-	-	-	-	-	-	-
Bond anticipation notes payable	-	-	-	13,000,000	-	-	13,000,000
Deferred revenue	-	-	-	9,888,119	-	-	9,888,119
Due to other funds	-	-	-	284,181	175,000	-	459,181
Amounts held in reserve	-	-	-	91,311	-	-	91,311
Deposits held in custody	240,000	-	-	241,067	-	-	241,067
Other liabilities	-	-	792,851	1,280,220	-	-	1,280,220
Notes payable	-	-	655,000	4,060,293	-	200,000	4,260,293
Compensated absences	-	-	6,684,895	6,684,895	-	-	6,684,895
Advances from other funds	-	-	-	622,615	-	-	622,615
Serial bonds payable	-	-	4,948,033	21,315,002	-	-	21,315,002
Net pension obligation	-	-	7,003,173	7,003,173	-	-	7,003,173
Total liabilities	298,418	-	20,083,952	71,267,789	1,049,588	522,702	72,840,079
Fund equities:							
Investment in general fixed assets	-	31,645,420	-	31,645,420	3,566,543	620,610	35,832,573
Contributed capital	-	-	-	42,491,693	-	-	42,491,693
Retained earnings:	-	-	-	-	-	-	-
Restricted	-	-	-	497,873	-	-	497,873
Unrestricted	-	-	-	26,408,137	-	-	26,408,137
Fund balances (deficit):	-	-	-	-	-	-	-
Reserved	44,821,478	-	-	45,505,376	138,676	-	45,644,052
Unreserved	7,628,377	-	-	16,919,829	280,285	(204,122)	16,995,992
Total fund balances	52,449,855	31,645,420	-	163,468,328	3,985,504	416,488	167,870,320
Total liabilities and fund balances	\$ 52,748,273	\$ 31,645,420	\$ 20,083,952	\$ 234,736,117	\$ 5,035,092	\$ 939,190	\$ 240,710,399

(Concluded)

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Combined Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balances (Deficits) - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units

Year Ended June 30, 2001

	Governmental Fund Types			Fiduciary Fund Types		Total Primary Government Memorandum (Memorandum Only)	Component Units			Total Reporting Entity (Memorandum Only)
	General Fund	Special Revenue Funds	Capital Project Funds	Expendable Trust Funds	Newport Public Library		Redevelopment Agency of Newport	Total Reporting Entity (Memorandum Only)		
Revenues	\$ 56,146,876	\$ 18,812,085	\$ 462,003	\$ 107,990	\$ 75,528,954	\$ 3,546,967	\$ 50,400	\$ 79,126,321		
Expenditures	34,970,654	38,096,152	5,916,843	109,636	79,093,285	3,398,578	14,423	82,506,286		
Excess (deficiency) of revenues over expenditures	21,176,222	(19,284,067)	(5,454,840)	(1,646)	(3,564,331)	148,389	35,977	(3,379,965)		
Other financing sources (uses):										
Proceeds from long-term borrowings	-	-	-	-	-	-	-	-		
Transfers from other funds	799,743	19,158,925	-	-	19,958,668	-	-	19,958,668		
Transfers to other funds	(18,905,016)	(1,053,652)	-	-	(19,958,668)	-	-	(19,958,668)		
Total other financing sources (uses)	(18,105,273)	18,105,273	-	-	-	-	-	-		
Excess (deficiency) of revenues and other sources over expenditures and other uses (increase) decrease in reserve	3,070,949	(1,178,794)	(5,454,840)	(1,646)	(3,564,331)	148,389	35,977	(3,379,965)		
Beginning fund balance (deficit) - unreserved	353,806	7,585,505	241,453	167,044	12,189,023	(74,467)	(240,099)	12,155,287		
Prior period adjustment	-	786,119	(307,767)	-	478,352	-	-	478,352		
Ending fund balance (deficit) - unreserved	\$ 7,619,776	\$ 7,192,830	\$ (5,521,154)	\$ 165,398	\$ 9,456,850	\$ 280,285	\$ (204,122)	\$ 9,533,013		

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Combined Statement of Revenues and Expenditures - Budget (Non-GAAP Budgetary Basis) and Actual
General and Special Revenue Funds

For the Fiscal Year Ended June 30, 2001

	General Fund				Special Revenue Funds			
	Adopted Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance	Adopted Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Revenues:								
Local taxes	\$ 43,807,277	\$ 43,919,277	\$ 46,206,830	\$ 2,287,553	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	2,774,536	2,722,036	2,623,317	(98,719)	11,632,308	11,632,308	10,923,283	(709,025)
User charges and fees	518,050	463,400	422,170	(41,230)	-	-	-	-
Licenses and permits	3,793,125	3,560,275	4,147,272	586,997	-	-	-	-
Investment income	312,300	333,300	677,947	344,647	-	-	-	-
Other revenues	3,395,408	3,714,408	2,069,340	(1,645,068)	-	-	-	-
Total revenues	54,600,696	54,712,696	56,146,876	1,434,180	11,632,308	11,632,308	10,923,283	(709,025)
Expenditures:								
General Government:								
Mayor and City Council	75,305	86,055	83,025	3,030	-	-	-	-
City Manager	236,817	254,941	252,493	2,448	-	-	-	-
City Solicitor	278,154	277,723	277,723	431	-	-	-	-
Canvassing	168,274	169,354	128,165	41,189	-	-	-	-
Financing and support services	2,867,478	2,871,737	2,609,329	262,408	-	-	-	-
Reserve accounts	968,811	-	-	-	-	-	-	-
Public Safety:								
Police Department	7,935,956	7,935,956	7,780,846	155,110	-	-	-	-
Fire Department	7,186,354	7,186,353	7,114,583	71,770	29,940,216	29,940,216	30,712,612	(772,396)
Education	-	-	-	-	-	-	-	-
Public Health:								
Public Works	2,343,939	2,379,218	2,146,087	233,131	-	-	-	-
Solid Waste Operations	1,624,933	1,624,933	1,526,170	98,763	-	-	-	-
Planning, Zoning, and Development	1,431,082	1,427,682	1,276,008	151,674	-	-	-	-
Recreation and parks	2,164,218	2,177,773	1,979,385	198,388	-	-	-	-
Human services	1,220,931	1,220,931	1,419,056	(198,125)	-	-	-	-
Pension expenses	6,742,089	7,512,900	7,682,350	(169,450)	-	-	-	-
Contingencies	-	230,354	-	230,354	-	-	-	-
Debt service	532,914	532,914	353,674	179,240	515,533	515,533	517,543	(2,010)
Total expenditures	35,777,255	35,889,255	34,628,894	1,260,361	30,455,749	30,455,749	31,230,155	(774,406)
Excess of revenues over expenditures	18,823,441	18,823,441	21,517,982	2,694,541	(18,823,441)	(18,823,441)	(20,306,872)	(1,483,431)
Other financing sources (uses):								
Transfers from other funds	-	-	799,743	799,743	18,823,441	18,823,441	19,077,350	253,909
Transfers to other funds	(18,823,441)	(18,823,441)	(18,905,016)	(81,575)	-	-	-	-
Total other financing sources (uses)	(18,823,441)	(18,823,441)	(18,105,273)	718,168	18,823,441	18,823,441	19,077,350	253,909
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ -	\$ 3,412,709	\$ 3,412,709	\$ -	\$ -	\$ (1,229,522)	\$ (1,229,522)

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

**Combined Statement of Revenues, Expenses, and Changes In Unreserved Retained Earnings
All Proprietary Fund Types and Non-Expendable Trust Funds**

Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types		Total Primary Government (Memorandum Only)
	Enterprise Funds	Internal Service Funds	Non-Expendable Trust Funds	Pension Trust Funds	
Operating revenues:					
Charges for usage and services	\$ 14,623,186	\$ 836,128	\$ -	\$ -	\$ 15,459,314
Contributions	-	-	6,345	6,927,814	6,934,159
Intergovernmental	-	-	-	-	-
Other	849,928	-	-	4,810	854,738
Total operating revenues	15,473,114	836,128	6,345	6,932,624	23,248,211
Operating expenses:					
Pension Benefits	-	-	-	5,849,379	5,849,379
Salaries and benefits	3,480,505	306,306	-	-	3,786,811
Materials and supplies	632,474	254,205	-	-	886,679
Waste disposal	648,776	903	-	-	649,679
Repair and maintenance	258,560	160,752	-	-	419,312
Depreciation	2,734,130	21,966	-	-	2,756,096
Support services	2,763,857	2,723	153,907	-	2,920,487
Utilities	1,020,114	15,498	-	-	1,035,612
Administrative	739,459	96,265	-	133,979	969,703
Property taxes	78,984	-	-	-	78,984
Total operating expenses	12,356,859	858,618	153,907	5,983,358	19,352,742
Operating income (loss)	3,116,255	(22,490)	(147,562)	949,266	3,895,469
Nonoperating revenues (expenses):					
Investment income	65,254	-	(132,131)	(1,962,903)	(2,029,780)
Interest expense	(1,018,689)	-	-	-	(1,018,689)
Total nonoperating revenues (expenses)	(953,435)	-	(132,131)	(1,962,903)	(3,048,469)
Income (loss) before operating transfers	2,162,820	(22,490)	(279,693)	(1,013,637)	847,000
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Net income (loss)	2,162,820	(22,490)	(279,693)	(1,013,637)	847,000
Depreciation charged to contributed capital	-	-	-	-	-
(Increase) decrease in reserve	(497,873)	-	-	-	(497,873)
Retained earnings/unreserved fund balance/ net assets held in trust - July 1, 2000	24,523,747	146,687	7,773,294	45,600,527	78,044,255
Prior period adjustment	95,246	-	(30,622)	234,588	299,212
Retained earnings/unreserved fund balance/ net assets held in trust - June 30, 2001	\$ 26,283,940	\$ 124,197	\$ 7,462,979	\$ 44,821,478	\$ 78,692,594

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND
Combined Statement of Revenues and Expenses - Budget (Non-GAAP Budgetary Basis) and Actual
Enterprise and Internal Service Funds
For the Fiscal Year Ended June 30, 2001

	Enterprise Funds			Internal Service Funds			Favorable (Unfavorable) Variance
	Adopted Budget	Amended Budget	Actual	Adopted Budget	Amended Budget	Actual	
Revenues:							
User fees	\$ 14,779,563	\$ 17,013,307	\$ 14,623,186	\$ 867,536	\$ 867,536	\$ 836,128	\$ (31,408)
Other revenue	4,591,955	4,591,955	849,928	-	-	-	-
Total revenue	19,371,518	21,605,262	15,473,114	867,536	867,536	836,128	(31,408)
Expenses:							
Salaries and benefits	2,700,385	3,610,194	3,480,505	284,404	284,404	306,306	(21,902)
Materials and supplies	605,290	709,238	823,927	243,914	244,490	254,205	(9,715)
Waste removal	-	658,457	648,776	1,500	1,500	903	597
Repair and maintenance	220,425	308,551	274,624	177,870	176,048	160,752	15,296
Depreciation	-	-	-	-	-	-	-
Support services	3,264,135	3,531,305	2,904,350	9,605	9,528	2,723	6,805
Utilities	886,724	1,132,877	1,020,114	21,630	21,630	15,498	6,132
Administrative and other	625,875	730,200	747,624	107,771	110,428	96,265	14,163
Property taxes	142,856	170,261	78,984	-	-	-	-
Total expenses	8,445,690	10,851,103	9,978,904	846,694	848,028	836,652	11,376
Excess (deficiency) of revenues over expenses	10,925,828	10,754,359	5,494,210	20,842	19,508	(524)	(20,032)
Other financing sources (uses):							
Transfers from other funds	9,144	9,144	-	-	-	-	-
Transfers to other funds	(373,335)	(373,335)	-	-	-	-	-
Interest income	-	65,254	65,254	-	-	-	-
Interest expense	(1,339,215)	(1,340,677)	(944,987)	-	-	-	-
Total other financing sources (uses):	(1,703,406)	(1,704,868)	(879,733)	-	-	-	-
Other							
Debt principal	(3,117,414)	(3,117,414)	(2,798,225)	-	-	-	-
Debt service reserve	(308,642)	(308,642)	308,642	-	-	-	-
Capital additions	(5,509,725)	(5,454,125)	(2,518,768)	-	-	1,565	(1,565)
Contribution to fund balance	(88,703)	-	-	-	-	-	-
Contingency	(22,979)	(52,618)	52,618	20,842	19,508	-	19,508
Lease payments	(174,959)	(116,692)	-	-	-	-	-
Total other	(9,222,422)	(9,049,491)	(5,316,993)	20,842	19,508	1,565	17,943
Excess of revenues and other sources over expenditures and other uses, budgetary basis	-	(702,516)	(702,516)	-	-	(2,089)	(2,089)

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Combined Statement of Cash Flows - All Proprietary Fund Types And Similar Trust Funds

For the Year Ended June 30, 2001

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total Primary Government (Memorandum Only)</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Nonexpendable Trust Funds</u>	
Cash flows from operating activities				
Cash received from customers	\$ 16,004,306	\$ 835,134	\$ -	\$ 16,839,440
Cash payments to suppliers for goods and services	(5,971,359)	(421,327)	-	(6,392,686)
Cash payments to employees for services	(3,732,231)	(299,438)	-	(4,031,669)
Payment of property taxes	(78,984)	-	-	(78,984)
Payment of administrative expense	(739,460)	(96,265)	(139,620)	(975,345)
Donations received	-	-	6,345	6,345
Net cash provided by (used for) operating activities	<u>5,482,272</u>	<u>18,104</u>	<u>(133,275)</u>	<u>5,367,101</u>
Cash flows from non-capital financing activities				
Interfund loans and transfers	(2,441,213)	(451,122)	(8,782)	(2,901,117)
Net cash provided by (used for) non-capital financing activities	<u>(2,441,213)</u>	<u>(451,122)</u>	<u>(8,782)</u>	<u>(2,901,117)</u>
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(2,230,958)	(1,565)	-	(2,232,523)
Principal paid on bonds, notes and loans	1,031,305	-	-	1,031,305
Net cash provided by (used for) capital and related financing activities	<u>(1,199,653)</u>	<u>(1,565)</u>	<u>-</u>	<u>(1,201,218)</u>
Cash flows from investing activities				
Interest and dividends on investments	65,254	-	466,198	531,452
Increase in investments	1	-	(447,670)	(447,669)
Interest expense	(1,018,689)	-	-	(1,018,689)
Net cash provided by (used for) investing activities	<u>(953,434)</u>	<u>-</u>	<u>18,528</u>	<u>(934,906)</u>
Net increase (decrease) in cash and cash equivalents	887,972	(434,583)	(123,529)	329,860
Cash and cash equivalents at beginning of year	3,701,535	513,438	(14,775)	4,200,198
Effect of prior period adjustment	95,246	-	(30,622)	64,624
Cash and cash equivalents at end of year	<u>\$ 4,684,753</u>	<u>\$ 78,855</u>	<u>\$ (168,926)</u>	<u>\$ 4,594,682</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income (Loss)	\$ 3,116,255	\$ (22,490)	\$ (147,562)	\$ 2,946,203
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	2,734,130	21,966	-	2,756,096
Changes in assets and liabilities:				
(Decrease) Increase in accounts payable/other liabilities	(900,616)	22,252	14,287	(864,077)
Decrease (Increase) in accounts receivable/other assets	532,503	(3,624)	-	528,879
Total adjustments	<u>2,366,017</u>	<u>40,594</u>	<u>14,287</u>	<u>2,420,898</u>
Net cash provided by operating activities	<u>\$ 5,482,272</u>	<u>\$ 18,104</u>	<u>\$ (133,275)</u>	<u>\$ 5,367,101</u>

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Summary of Plan Net Assets - Pension Trust Funds

June 30, 2001

ASSETS	
Cash	\$ 707,442
Receivables:	
Employer	-
Other	-
Interest and dividends	-
Total receivables	-
Investments, at fair value:	
Cash equivalents	-
Equities:	
Domestic	40,005,675
Mutual funds	-
Equities - ADRs	-
Equities - International	4,140,817
Total investments	44,146,492
Total assets	\$ 44,853,934
LIABILITIES	
Refund payables and other	\$ 32,456
Net assets held in trust for pension benefits	44,821,478
Total liabilities	\$ 44,853,934

The accompanying notes are an integral part of the general purpose financial statements

CITY OF NEWPORT, RHODE ISLAND

Combined Statement of Changes In Plan Net Assets - Pension Trust Funds

For the Year Ended June 30, 2001

Additions to Plan Assets:

Contributions:

Employee	\$ 645,867
Employer	6,281,947
Other income	4,810
	<hr/>
Total contributions	6,932,624

Investment income:

Net appreciation (depreciation) in fair value of investments	(4,605,363)
Interest and dividends	1,359,311
Realized gain (loss) in investments	1,335,693
	<hr/>
Less: investment expense	52,544
Total investment income	(1,962,903)
Total additions	4,969,721

Deductions from Plan Assets:

Pension benefits paid	5,849,379
Administrative and other expenses	133,979
	<hr/>
Total deductions	5,983,358

Net increase in Plan Assets (1,013,637)

Net Assets Held in Trust for Pension Benefits:

Beginning of year	45,600,527
Prior period adjustment	234,588
	<hr/>
End of year	\$ 44,821,478

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements

June 30, 2001

1. Summary of Significant Accounting Policies

The City maintains its accounting records in accordance with generally accepted governmental accounting practices. The following is a summary of significant accounting policies.

Reporting Entity

The City of Newport was founded in 1639, incorporated under the laws of the State of Rhode Island in 1784 and rechartered in 1853. The City is governed by a home rule charter which provides for a Council/City Manager form of government. Legislative authority is vested in a seven-member City Council, of which three are elected at large and four from voting wards. The Mayor is chosen by councilmen from among its three at-large members. A seven-member School committee all elected at large, is vested with autonomous legislative authority over the public school system. Members of both the City Council and School Committee are elected to non- partisan biennial terms.

The City Manager is appointed by the Council and serves as the chief executive officer over all municipal services excepting those performed by the Solicitor, Canvassing Authority, and municipal judges, each of whom is appointed by and reports directly to the Council. Municipal services include public safety; potable water and wastewater collection, treatment and distribution; solid waste collection and disposal; street and sidewalk maintenance and operations which support economic and residential development, open space preservation and State law and City code enforcement.

The Superintendent of Schools, appointed by the School Committee, is the chief executive officer for the school system. The school system provides elementary and primary education to City residents and vocational programs to other Newport County residents.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Newport (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance part of the City's operations. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

The Governmental Accounting Standards Board through the issuance of GASB- 14 established criteria for determining which organizations should be included in a governmental financial reporting entity.

The standards established in GASB-14 are based on the philosophy of "building from the bottom up". GASB Concepts Statement-1 (Objectives of Financial Reporting) asserts that accountability "requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used". Financial accountability can be satisfied by at least one of the following criteria:

Fiscal Accountability - when management is appointed by and held accountable to a governing authority that is included in the entity and the activity being managed falls within the entity.

Imposition Of Will -This ability includes, but is not limited to, the authority to review and approve budgetary requests, adjustments, and amendments. An authoritative appointment is one where the entity's chief elected official maintains a significant continuing relationship with the appointed officials with respect to carrying out an important public function.

Financial Benefit/Burden - When a separate agency produces a financial benefit for or imposes a financial burden on a unit of government, that agency is part of the reporting entity.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Reporting Entity (Continued)

Financial Interest - Fiscal authority normally includes the authority for final approval over budgetary appropriations, responsibility for funding deficits and operating deficiencies, disposal of surplus funds, control over the collection and disbursement of funds, and maintenance of title to assets.

Financial Responsibility - Manifestations of financial inter-dependency include responsibility for financing deficits, entitlements to surpluses, and guarantees of or "moral responsibility" for, debt.

There may be, however, factors other than oversight that are so significant that exclusion of a reporting entity's financial statements would be misleading. These other factors include:

(a) Scope Of Public Service - Aspects to be considered include who the activity benefits and whether it is conducted within the entity's geographic boundaries and generally available to its citizens.

(b) Special Financing Relationship - Such a relationship may have been created to benefit the entity by providing for the issuance of debt on behalf of the entity.

In accordance with these criteria, the City includes all of the funds and account groups of the City and the following component units in the general purpose financial statements:

Newport Public Library

Incorporated under Rhode Island law in 1869, the Newport Public Library (the Library) provides free educational and reference resources to residents of the City as well as other patrons. The Library is governed by a Board of Trustees which must be composed of at least nine and no more than fifteen members, one of whom is a member of the City Council. Operations of the Library are primarily financed through an appropriation from the City's General Fund. Complete financial statements for the Library may be obtained from its business office on 300 Spring Street, Newport, RI 02840.

Redevelopment Agency Of Newport

The Redevelopment Agency (the Agency) was created and organized as a legally separate public body under the Rhode Island Community Redevelopment Act of 1949 pursuant to the Housing Act of 1949, which charged it with fostering public and private rehabilitation and redevelopment projects in blighted areas within the City. The Agency is governed by its five members who are appointed by the City Council. Officers are elected from among these members. Furthermore, the City exerts significant control over its functions since the Agency is empowered to act in areas only after appropriate designation by the Council. Separate financial statements for the Agency are not separately issued.

Not included is the following entity which is considered autonomous for financial reporting purposes:

Newport Housing Authority

The City Council is responsible for appointing members to the Board of Directors of the Newport Housing Authority (the Authority). However, the City's jurisdiction does not extend beyond such appointments, nor does it subsidize any of its operating or capital budgets. Accordingly, the Authority has not been included within the City's financial reporting entity.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, 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. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and means by which spending activities are controlled.

The following fund types and account groups are used by the City:

Governmental Funds

Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for as pension trust and nonexpendable trust funds). The following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for resources devoted to financing the general services that the City provides for its citizens. General tax revenues and other sources of revenue not required to be accounted for in another fund are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are restricted by law or administrative action, to expenditures for a specific purpose.

Capital Project Funds - Capital Projects are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Proprietary Funds

Proprietary funds are used to measure the flow of economic resources provided for and consumed by operations characteristic of private business. Here, the measurement focus is on changes in total current assets which have occurred over the fiscal year, regardless of their current availability. In lieu of a profit motive, these funds strive for self-sufficiency by recovering costs through charges assessed to principal beneficiaries. The following proprietary funds are used by the City:

Enterprise Funds - Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises -where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Internal Service Fund - Internal Service Funds account for the furnishing of services to other City government users. The principal objective of these funds is to allocate the costs, both operational and capital, of centralized services to the City government users.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee or agency capacity. Measurement of the flow of resources is secondary and its focus varies among these funds. The following types of fiduciary funds are used by the City:

Nonexpendable Trust Funds - are used to account for funds whereby only investment earnings can be used for expenditures. The decedent's original bequest cannot be used.

Expendable Trust Funds - are monies received by third parties and used to account for a variety of designated purposes. Both the corpus and earnings can be used.

Pension and Similar Trust Funds - are used to account for contributions made by the City and its participating employees to provide retirement and other post employment benefits to the participating employees.

Agency Funds - are established when the City holds custody to assets of others in an agency capacity. Unlike other fiduciary funds, City ownership interest does not exist in the assets held by agency funds.

Account Groups

Account groups are a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the governmental funds because they do not affect net expendable available financial resources.

General Fixed Assets Account Group - The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All governmental funds are accounted for in a spending or "financial flow" measurement focus. When purchased, such assets are recorded as expenditures in the governmental type funds. Fixed assets in the proprietary funds are capitalized in the funds in which they are utilized.

General Long-Term Debt Account Group - The General Long-Term Debt Account Group reflects liability of the City's long-term debt. The balance payable is offset by resources to be provided through taxation and assessment in future years for the retirement of such debt.

Basis Of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The City applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations issued before December 1, 1989, unless those principles conflict with pronouncements of the GASB. After that date, the City has elected to apply only

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Basis of Accounting and Measurement Focus (Continued)

GASB pronouncements.

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

All Governmental Funds And Expendable Trust Funds - are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual i.e., both measurable and available. Licenses and permits, charges for services, fines, forfeits, and miscellaneous revenues are recorded when received in cash. General property taxes and investment earnings are recorded when earned (when they are measurable and available). The City considers property taxes available if they are collected within 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations which are recognized when paid. Purchases of property, equipment and inventory items are recorded as expenditures when they are incurred.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. For one type, monies must be expended on the specific purpose or project before any amounts will be paid to the City, therefore, revenues are recognized based upon the expenditures recorded. For the other type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements. These resources are represented by non-current receivables and are deferred until they become current receivables.

Non-current portions of long-term receivables of governmental fund types are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types includes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund types expenditures or fund liabilities. They are instead reported as liabilities in the general long-term obligation account group.

The Proprietary Funds And Nonexpendable Trust Funds - use the accrual basis of accounting and the flow of all economic resources. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and its revenues are recognized when they are earned and its expenses are recognized when they are incurred.

The City of Newport's Pension Trust maintains its records on the accrual basis of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized in the period earned. The net appreciation (depreciation) in the fair value of investment income is based on the valuation of investments as of the balance sheet date.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Basis of Accounting and Measurement Focus (Continued)

Agency Funds - The assets and liabilities are held in an agency capacity and accordingly, there is no measurement of economic resources.

Budget and Budgetary Accounting

A budget is adopted for the General, Enterprise, Internal Service and School Unrestricted Special Revenue Funds on the modified accrual basis with the exception that encumbrances are treated as budgeted expenditures in the year of the commitment to purchase.

In accordance with City Charter, the City Manager must present to the Council a recommended annual budget for the operations of all municipal departments no later than 45 days prior to the commencement of each fiscal year. The recommended budget must include an appropriation to fund school appropriations in excess of their anticipated revenues as requested by the Superintendent and approved by the School Committee. The Council may amend recommended municipal appropriations but not those of the school. The budget must be adopted by ordinance by the last Council meeting prior to the new fiscal year.

Budgets are adopted on a legally enacted budgetary basis which differs from generally accepted accounting principles (GAAP) in several regards. Budgetary revenues are recognized on a cash basis and include subsidies from fund equity previously recognized under GAAP. Budgetary expenditures and expenses for goods and non-employment services are recognized when legally binding orders referred to as encumbrances are placed. All other expenditures and expenses are recognized on the cash basis. Governmental fund budgetary expenditures include funding of reserves in advance of the periods when recognized under GAAP. Proprietary fund budgetary expenses include capital improvements and debt principal payments not recognized under GAAP but exclude depreciation, a GAAP-recognized expense.

In addition to limits enforced by the budget ordinance, the City Charter further restricts the incurrence of municipal expenditures or expenses to budgeted revenues at the fund level. The City Manager must periodically review revenues and reduce annual appropriations sufficiently to cover any shortfalls in budgeted revenues.

Costs of operations for all departments established within the City Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund, the School Unrestricted Fund (a special revenue fund), and all proprietary funds. Municipal budgetary control is legally enforced at the department level. Appropriation transfers between departments require approval by five of the seven-member Council. Other appropriation increases require both the establishment of a funding source and passage of a budget amendment ordinance. Intra-departmental transfers of municipal appropriations may be made with the approval of the City Manager. Unencumbered and unexpended appropriations lapse at fiscal year-end. School budgetary control is legally enforced only at the Unrestricted fund level; inter-departmental transfers may be made without School Committee approval.

The actual expenditures in the Combined Statement of Revenue and Expenditures -Budget and Actual -General Fund and Enterprise fund are presented on the budgetary basis which includes the net effect of not budgeting for certain other items. Thus, the actual revenue and expenditures differ from those in the Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances -All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units and the Combined Statement of Revenues, Expenses and Changes in Unreserved Retained Earnings/Fund Balances - Proprietary Funds and Non-Expendable Trust Fund which are presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Budget and Budgetary Accounting (Continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and the Enterprise Fund. Encumbrances are commitments related to unperformed contracts for goods or services. When a purchase order or commitment is placed, the City reduces the amount of budgetary authority remaining in a budget category and records an encumbrance. When goods or services are received, the encumbrance balance is reduced and an expenditure and liability is recorded. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

Cash and Cash Equivalents

Deposits (cash and certificates of deposits) are carried at cost which approximates market. All highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

The City's deposits are subject to certain State and municipal restrictions. Under Rhode Island general laws, depository institutions must insure deposits of the City or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain Federally prescribed minimum capital standards must insure deposits or provide collateral regardless of maturities. The City Council has further enacted restrictions which essentially limit short-term investments to only U.S. Treasuries or in debt instruments issued by agencies of the U.S. Government. There is also a requirement that maturities of these instruments be matched to any underlying liabilities.

Investments

Investments of the primary government are recorded at market value as required by GASB-31. All other investments are stated at cost or amortized cost. The City accounts for the carrying value of investments by utilizing the specific identification method. Market value is determined by the last reported bid price on the last business day of the year. Gains or losses on the sale of investments are recognized, as investment income on the first-in, first-out (FIFO) method.

The City Council restricts both the type and maturity of instruments in which City assets other than those of fiduciary funds and deferred compensation plans may be invested. Acceptable investments include certificates of deposit, debt instruments issued by the U.S. Treasury and agencies of the Federal government, or high grade municipal securities. maturities must be matched to meet the underlying obligations for which invested proceeds were collected. Authority for investing fiduciary assets is vested with a citizens' commission appointed by and accountable to the City Council.

There is inherent custodial credit risk in each of the City's Investments. This risk can be categorized in three levels. Level A risk includes securities that are either insured, registered in the City's name, or held by an agent under the City's name. Securities not satisfying Level A risk criteria but held by the counterparty's trust department or agent under the City's name are of Level B risk. Finally, securities not satisfying Level A risk criteria and held by the counterparty, its trust department, or its agent under other than the City's name are of Level C risk.

Property Taxes

Real estate, personal property and other excise tax levies are recorded as receivables in the fiscal year of the

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. Summary of Significant Accounting Policies (Continued):

Property Taxes (Continued)

levy and as revenues when collected within the current year or expected to be collected within 60 days after the end of the current year. Taxes not collected within this time period are classified as deferred revenue. Deferred revenues are those where asset recognition criteria have been met but for which revenue criteria have not been met.

Taxes are levied and liened each July 1 on (a) the full and fair value of real and tangible personal property owned within the City the previous December 31; and (b) the value, as determined by the Rhode Island Vehicle Valuation commission, of vehicles registered within the City the previous calendar year, prorated for the actual number of days so registered. Taxes are levied for the year commencing on that date, payable in equal quarterly installments on the fifth days of August, November, February and May. Overdue taxes are assessed penalties and will be collected through the sale of tax titles if required. For that reason, no allowances are made for uncollectible accounts.

Rhode Island general laws restrict the City's ability to increase either its total tax levy or its tax rates by more than 5.5% over those of the preceding year.

Inventory

Inventories which are not significant in the General and Special Revenue Funds are considered to be expenditures at the time of purchase. Proprietary Internal Service Fund inventories are valued at cost using the first-in, first-out method of valuation.

Property, Plant and Equipment

(a) General Fixed Assets and Capital Improvement Expenditures

Costs incurred by governmental and fiduciary funds for the purchase or construction of property, plant and equipment which benefit three or more accounting periods are recorded net of trade-in value as capital improvement expenditures in each acquiring fund and at gross cost in the General Fixed Assets Account Group. Interest incurred during construction is not capitalized as part of general fixed asset costs. Donated property, plant and equipment which benefit three or more accounting periods are recorded as general fixed assets at their fair market value on the date of donation. Capital improvement expenditures for infrastructural assets and other immovable assets which are of value only to the City are not recorded as general fixed assets. Depreciation is not recognized on assets within the General Fixed Assets Account Group.

(b) Property, Plant and Equipment and Contributed Equity

Costs incurred by proprietary funds for the purchase or construction of capital assets, including interest costs during construction, which benefit three or more accounting periods are capitalized as property, plant and equipment by each acquiring fund. Donated property, plant and equipment which benefit three or more accounting periods are capitalized at their fair market value on the date of donation.

Amounts assessed by proprietary funds for the acquisition of property, plant and equipment and externally restricted for such purposes are recorded as contributed capital. Contributed capital is also recognized for the fair market value of property, plant and equipment donated to proprietary funds. Property, plant, and equipment of proprietary funds are depreciated over their estimated lives using the

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. **Summary of Significant Accounting Policies (Continued):**

Property, Plant and Equipment (Continued)

straight-line method of depreciation. Depreciation recognized on assets financed through restricted assessments or acquired by donation is reported as a reduction in contributed capital.

Deferred Revenues

Deferred revenues represent 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 revenue that is measurable, but not available.

In the Special Revenue Funds, deferred revenue represents amounts received in advance of expenditures incurred for certain grants.

Accrued Expenses

Expenses are recognized in the proprietary, pension trust, and non-expendable trust funds in the period in which a liability is incurred. In governmental and expendable trust funds, expenditures are generally recognized when a liability is incurred, except for interest payments which are recognized when paid, and for liabilities for certain claims and judgments, accrued compensated absences, and unfunded pension contributions, each of which are recognized to the extent they will be paid using expendable available financial resources. Financial resources are considered expendable if they have been appropriated in the current or preceding accounting period. Financial resources are considered available if they will be used to liquidate the liability within 60 days subsequent to the accounting period.

Governmental funds' actuarial pension benefit obligations are recognized as liabilities in the general long-term obligations account group only to the extent of the unpaid annually required contributions. All other obligations incurred by governmental and expendable trusts which have not been recognized as expenditures are recorded as a liability in the general long-term obligations account group.

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available on future operations or distribution. The reserved fund balances for government funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Capital Leases

Property, plant and equipment acquired by governmental and fiduciary funds through lease-purchase financing is recorded in the General Fixed Assets Account Group using criteria established by the Financial Accounting Standards Board's Statement No.13. A liability for the same amount is recorded in the General Long-Term Obligations Account Group. Property, plant and equipment acquired by proprietary funds through lease-purchase financing is capitalized, and a corresponding liability recorded, by each acquiring fund.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

1. Summary Of Significant Accounting Policies (Continued):

Bond and Loans Authorized, and Loans Authorized but Unissued

Bonds issued to finance activities of governmental funds are reported at face value in the General Long-Term Debt Account Group, while those financing proprietary funds activities are carried as liabilities of the recipient funds.

Interfund Transactions

Quasi-external transactions are accounted for as fund revenues, expenditures or expenses. Transactions which constitute reimbursement of a fund for expenditures or expenses initially made from it which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

All interfund transactions except advances, quasi-external transactions and reimbursements are accounted for as transfers. All other interfund transactions are treated as operating transfers.

Total Columns on Combined Statement

Amounts in the "Totals (Memorandum Only)" columns in the preceding financial statements represent a summation of the combined financial statement line of the fund types and account groups and are presented for analytical purposes only. The summation includes fund types and account groups that use different basis of accounting, include interfund transactions that have not been eliminated and the caption "amounts to be provided" which is not an asset in the usual sense. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City.

2. Budgetary-GAAP Reporting Reconciliation

The accompanying Combined Statement of Revenues, Expenditures/Expenses Budgetary Basis presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, entity and timing differences in the excess (deficiency) of revenues and other sources of financial resources over expenditures/expenses and other uses of financial resources for the year ended June 30, 2001 is presented below:

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

2. Budgetary-GAAP Reporting Reconciliation (cont'd)

	<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Internal Service</u>	<u>Enterprise</u>
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	\$ 3,412,709	\$ (1,229,522)	-	-
Net income (loss) - (budgetary basis)	-	-	\$ (2,089)	\$ (702,516)
Adjustments of budgetary basis to GAAP basis:				
Net increase (reduction) for encumbrances previously recognized under GAAP	(341,760)	-	-	497,873
Net increase (reduction) for accrued revenues recognized under GAAP but not yet budgeted	-	-	-	-
Addition for principal payment on capital leases	-	-	-	-
Addition for principal payments on long-term debt	-	-	-	2,870,635
Addition for capital improvements capitalized under GAAP	-	-	1,565	2,230,958
Reduction for depreciation expense recognized under GAAP	-	-	(21,966)	(2,734,130)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ 3,070,949</u>	<u>\$ (1,229,522)</u>		
Net income (loss) - (GAAP basis)			<u>\$ (22,490)</u>	<u>\$ 2,162,820</u>

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

3. Excess of Expenditures Over Appropriations

The legal level of control for which expenditures cannot exceed appropriation is at the category level within a department. The table below shows the amounts by which certain municipal department expenditures exceed fiscal year 2001 appropriations (after approved transfers) and, where applicable, actual 2001 revenues:

<u>Department</u>	<u>Fund or Fund-Type</u>	<u>Expenditures In Excess of Budget</u>
Human Services	General	\$ 198,125
Pension Expenses	General	169,450
General Education	Special Revenue	772,396
Debt Service	Special Revenue	2,010
Salaries and Benefits	Internal Service	21,902
Materials and Supplies	Internal Service	9,715
Support Services	Easton's Beach	3,551
Utilities	Easton's Beach	6,684
Salaries and Benefits	Water Fund	62,596
Materials and Supplies	Water Fund	142,895
Repairs and Maintenance	Water Fund	8,064
Utilities	Water Fund	73,486
Administration and Other	Water Pollution Fund	38,864

4. Cash, Cash Equivalents, and Deposits

At June 30, 2001, the carrying value of the City's (primary government's) deposits is \$21,567,371 and the carrying value of the component units' deposits is \$245,212 for a total reporting entity total of \$21,821,583. The bank balance was \$12,901,743, not including investments in repurchase agreements. The City also has \$5,057,845 invested in short-term certificates of deposit, which are collateralized by U.S. Treasury obligations held in trust by the bank. Bank collected balances, defined as statement balances reduced by deposit float, are invested in short-term U.S. Treasury notes registered in the City's name whenever practical. Collected balances not directly invested are consolidated into repurchase agreements between the City and its principal bank and collateralized by U.S. Treasury obligations held in trust by the bank. At June 30, 2001, \$5,619,484 was invested in a repurchase agreement maturing July 1, 2001.

Federal deposit insurance and collateralized performance accounts are used to eliminate any custodial risk in the non-invested deposits maintained at financial institutions. However, at June 30, 2001, bank-reported balances exceeded insurance coverage by \$2,040,099 for the primary government. Excess balances over insurance coverage are primarily attributable to check float inherent in normal banking operations and in the maintenance of accounts restricted for receipt of Federal grant proceeds.

The following summary presents the level of custodial credit risk inherent in the deposits of the City and its component units at June 30, 2001. Level A risk includes deposits that are either insured or collateralized with securities registered in the City's name, or held by an agent under the City's name. Collateralized securities not satisfying level A risk criteria but held by the financial institution's trust department or agent under the City's name are of level B risk. Finally, uncollateralized deposits or deposits collateralized with securities held by the financial institution, its trust department, or its agent under other than the City's name are of level C risk.

Pursuant to RI Public Utilities Commission's Docket 2985, as of June 30, 2001, \$122,003, \$946,148 and \$35,272 of annual revenues must be restricted for debt service, IFR/capital spending and chemicals, respectively. Therefore, restricted funds available at July 1, 2001 should be 1,103,423. At June 30, 2001, \$227,190 was restricted leaving a required funding amount of \$876,233.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

5. Investments

At June 30, 2001, all of the City's investments are classified as having Level A custodial risk and consist of the following:

	<u>Custodial Risk Category A</u>	<u>Not Categorized</u>	<u>Fair Value</u>
Primary government:			
U.S. agency debt obligations	\$ 218,128	\$ -	\$ 218,128
Corporate bonds	2,668,598	-	2,668,598
Domestic equities	46,484,550	-	46,484,550
International equities	4,152,795	-	4,152,795
Unallocated by City	<u>7,124,613</u>	<u>-</u>	<u>7,124,613</u>
Primary government total	<u>\$ 60,648,684</u>	<u>\$ -</u>	<u>\$ 60,648,684</u>
Component units:			
Mutual Funds	\$ 276,046	\$ -	\$ 276,046
Money market funds	<u>18,391</u>	<u>-</u>	<u>18,391</u>
Component units total	<u>\$ 294,437</u>	<u>\$ -</u>	<u>\$ 294,437</u>
Total	<u>\$ 60,943,121</u>	<u>\$ -</u>	<u>\$ 60,943,121</u>

6. Interfund Receivables and Payables

At June 30, 2001 the individual funds' assets and liabilities (due to / from accounts) are as follows:

	Due From Other Funds	Due To Other Funds
UDAG Fund	350,000	-
Community Development Act	10,800	-
EDA Revolving Funds	-	10,800
Total Special Revenue Funds	<u>360,800</u>	<u>98,400</u>
Internal Service Fund:		
Equipment Operation Fund	<u>61,086</u>	<u>-</u>
Enterprise Fund:		
Water Fund	5,656	-
W.P.C. Fund	5,125	-
Total Enterprise Funds	<u>10,781</u>	<u>-</u>
Component Units:		
Newport Public Library	<u>-</u>	<u>175,000</u>
Total Due From / Due To	<u>\$ 459,181</u>	<u>\$ 459,181</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

7. Bonded Debt Outstanding

Bonds issued to finance activities of governmental funds are reported at face value in the General Long-Term Obligations Account Group, while those financing proprietary funds activities are carried as liabilities of the recipient funds.

Bonded debt currently outstanding has been used to finance sewer and water enterprise activities (reported as proprietary fund liabilities) and governmental and school activities (reported within the General Long-Term Obligation Account Group). Changes in bonded debt outstanding during fiscal year 2001 are summarized as follows:

	Date Issued	Maturity Date	Interest Rate (%)	Outstanding July 1, 2000	Additions in 2001	Retired in 2001	Outstanding June 30, 2001	Interest Paid in 2001
General Long-Term Debt Account Group:								
Roadway improvements	1991	2011	5.8 to 6.5	\$ 838,984	- \$	76,271 \$	762,713 \$	\$ 52,016
Triplett School acquisition	1991	2011	5.8 to 6.5	811,016	-	73,729	737,287	50,283
Police station construction	1992	2003	4.75 to 6.2	344,044	-	86,011	258,033	18,266
Fire station, open spaces	1994	2001	3.6 to 4.7	355,000	-	105,000	250,000	16,110
High school renovations	1994	2012	3.3 to 5.125	3,185,000	-	245,000	2,940,000	148,531
Total General Long-Term Debt Account Group				\$ 5,534,044 \$	- \$	586,011 \$	4,948,033 \$	\$ 285,206
Enterprise Funds:								
Sewer plant construction	1992	2003	4.75 to 6.2	\$ 548,427 \$	- \$	137,106 \$	411,321 \$	\$ 29,114
Sewer improvements	1994	2001	3.6 to 4.4	70,000	-	70,000	-	3,080
Sewer plant construction	1994	2006	3.6 to 4.9	1,005,000	-	205,000	800,000	46,225
CSO plant construction	1994	2010	3.6 to 5.125	4,690,000	-	570,000	4,120,000	218,007
Total Water Pollution Control Fund				6,313,427	-	982,106	5,331,321	286,426
Water pipeline construction	1992	2011	4.75 to 6.65	2,700,000	-	225,000	2,475,000	165,431
Water improvements	1992	2003	4.75 to 6.2	247,530	-	61,882	185,648	13,141
Water improvements	1994	2001	3.6 to 4.4	45,000	-	45,000	-	1,980
Water plant construction	1994	2010	3.6 to 5.125	4,505,000	-	675,000	3,830,000	212,793
Water pipeline construction	1994	2012	3.3 to 5.125	4,930,000	-	385,000	4,545,000	229,366
Total Water Fund				12,427,530	-	1,391,882	11,035,648	622,711
Total Enterprise Funds Long-Term Debt				\$ 18,740,957 \$	- \$	2,373,988 \$	16,366,969 \$	\$ 919,137

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

7. Bonded Debt Outstanding (Continued)

The City has refunded its general obligation bonds, which were originally issued in 1989 and 1990. Both were refunding, which met the criteria for treatment as in-substance defeasances of the refunded bonds. Refunding bonds are indicated with an (r) following the year of issuance in the summary listed on the previous page.

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of Newport properties at December 31, 2000 was \$ 1,939,055,228 limiting the amount of non-excepted general obligation bonds outstanding to \$58,171,657. Bonds of \$4,948,033 are outstanding at June 30, 2001 are general obligations and subject to the statutory limitation.

Bonded indebtedness on June 30, 2002 matures over fiscal years through 2013 as follows:

	2002	2003	2004	2005	2006	2007-2011	after 2011	Total
Deceased in substance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enterprise funds:								
Principal	\$ 2,343,516	\$ 2,263,989	\$ 2,244,464	\$ 1,435,000	\$ 1,420,000	\$ 5,715,000	\$ 945,000	\$ 16,366,969
Interest	795,576	683,451	578,085	474,848	402,514	959,226	34,158	3,927,858
Total	\$ 3,139,092	\$ 2,947,440	\$ 2,822,549	\$ 1,909,848	\$ 1,822,514	\$ 6,674,226	\$ 979,158	\$ 20,294,827
General long-term Obligations								
Principal	\$ 566,284	\$ 561,011	\$ 565,538	\$ 395,000	\$ 395,000	\$ 1,975,000	\$ 490,200	\$ 4,948,033
Interest	249,262	220,217	193,354	166,297	145,371	387,358	21,974	1,383,833
Total	\$ 815,546	\$ 781,228	\$ 758,892	\$ 561,297	\$ 540,371	\$ 2,362,358	\$ 512,174	\$ 6,331,866

Future payments of bonds defeased in substance, including call premiums, are provided from a trust funded with the proceeds of the refunding bonds. Defeased bonds were called in fiscal years 2000 and 2001 at premiums of 2% of the face value of the bonds called.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

7. Bonded Debt Outstanding (Continued)

Authorized and unissued debt at June 30, 2001 is as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Authorized</u>	<u>Subsidy</u>	<u>Amount</u>
Water improvements	04/01/00	\$ 3,000,000	\$ -	\$ 3,000,000
Sewer improvements	05/02/01	13,000,000	-	13,000,000
Library	11/03/98	3,000,000	-	3,000,000
Thompson Middle School	11/02/99	19,035,000	-	19,035,000
Authorized but unissued		<u>\$ 38,035,000</u>	<u>\$ -</u>	<u>\$ 38,035,000</u>

8. Notes Payable

In December 1994, the City borrowed \$1,350,000 from a bank and loaned the proceeds to a developer to finance the purchase and renovation of a former City building. The underlying note receivable has a stated interest rate of 2.2% per annum and provides for annual repayments out of the developer's net cash flow, as defined, until 2012 when all outstanding principal and interest is due. The note receivable is secured by the renovated building and is recorded as a long-term receivable with a corresponding reservation of fund equity in the Community Development Act Fund, a special revenue fund. At June 30, 2001, \$1,350,000 was receivable.

The City's note payable is guaranteed by the U.S. Department of Housing and Urban Development (HUD) under Section 108 of the Nation Housing Act of 1986. The State of Rhode Island has committed to provide the City \$160,000 of Community Development Block Grant proceeds from HUD annually to subsidize the difference between amounts collected from the developer and amounts due to the bank. At June 30, 2001, \$655,000 was outstanding on this bond as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 145,000	\$ 48,035	\$ 193,035
2003	155,000	35,689	190,689
2004	170,000	22,274	192,274
2005	185,000	7,622	192,622
2006	-	-	-
Totals	<u>\$ 655,000</u>	<u>\$ 113,620</u>	<u>\$ 768,620</u>

In 1984, the Redevelopment Agency of Newport, a component unit, purchased a vacant building in an area of the City designed for redevelopment. As part of the financing for this purchase, the State of Rhode Island loaned the Redevelopment Agency \$200,000. The underlying note bears no stated interest rate nor maturity and is secured with a mortgage on the building. As of June 30, 2001, \$200,000 was payable. The note is required to be paid only upon the sale of the building.

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

8. Notes Payable (Continued)

The City's Water Pollution Control Fund has an outstanding revenue bond anticipation notes with the Rhode Island Clean Water Finance Agency to finance improvements to the Newport Water Pollution Control System. The first note of \$800,000 was issued May 15, 2001 and is due September 1, 2002. The subsidized (by State) interest cost is 3.05725%. The city has a second note of \$373,349. Both of these notes have been subsequently replaced by drawdown revenue bonds of \$13,000,000 dated April 2002.

The City's Water Pollution Control Fund has outstanding notes payable to Earthtech, the operator of the Water Pollution Control System, in the amount of \$2,231,944, with interest rates of 7.7% to 8.3%, due January 2021. This note matures over fiscal years 2002 to 2021 as follows:

	2002	2003	2004	2005	2006	and after	Total
Principal	\$ 68,372	\$ 53,089	\$ 57,464	\$ 62,202	\$ 67,330	\$ 1,923,487	\$ 2,231,944
Interest	174,185	170,145	165,768	161,050	155,904	1,406,117	2,233,169
Total	<u>\$ 242,557</u>	<u>\$ 223,234</u>	<u>\$ 223,232</u>	<u>\$ 223,252</u>	<u>\$ 223,234</u>	<u>\$ 3,329,604</u>	<u>\$ 4,465,113</u>

The City has a \$13,000,000 bond anticipation note dated March 15, 2001 and due December 14, 2001. The purpose of the notes is to finance the renovation and construction of the Thompson Middle School and to finance the construction of an addition to, and the renovation of, the Newport Public Library. The note bears an interest rate of 3.5%. The note has been subsequently redeemed with bonds.

9. Leases

No capital lease purchase commitments were in existence at June 30, 2001.

Operating Leases

The City leases certain office equipment under multi-year agreements, which are subject to annual appropriation. Additionally, the Water Fund assesses the General Fund an annual lease charge of \$299,712 for providing a public fire protection system owned by the Water Fund pursuant to tariffs mandated by the Rhode Island Public Utilities Commission. Lease expenditures and expenses for fiscal year 2001 and minimum lease obligations for the next five years as of June 30, 2001 were as follows:

<u>Fund or Fund-Type</u>	<u>Expenditures Or Expenses</u>					<u>Minimum Lease Obligations</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712	\$ 299,712
Enterprise Funds	-	-	-	-	-	-	-	-	-	-
Total Lease Obligations	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>	<u>\$ 299,712</u>

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

10. Advances

The Urban Development Grant Fund (UDAG) loaned the City of Newport \$1,000,000 for Easton's Beach renovations in July 1994. The note is a 15-year note bearing interest at 4.0%. The balance due at 6/30/01 is \$622,615 and interest of \$5,576 is accrued.

The following schedule details amounts to be paid per year, broken down by principal and interest:

Fiscal Year Ended:	Principal	Interest	Total
2002	\$ 65,041.00	\$ 23,287.00	\$ 88,328.00
2003	\$ 67,682	\$ 20,619	\$ 88,301
2004	70,430	17,844	88,274
2005	73,289	14,955	88,244
2006	76,265	11,950	88,215
2007 and after	<u>269,908</u>	<u>16,570</u>	<u>286,478</u>
Total	<u>\$ 622,615</u>	<u>\$ 105,225</u>	<u>\$ 727,840</u>

The City's Water Fund borrowed \$2,700,000 in April 1991 from the UDAG Fund for improvements to the water treatment plant. This was a 10-year note bearing interest at 7.0%. The final payment of \$361,735 was paid in Fiscal Year 2001.

11. Reserved Fund Balances

The City of Newport records several types of reserves. The reserves indicate that a portion of fund balance is segregated for specific use.

The following is a list of all reserves used by the City of Newport:

General Fund	
Reserve for encumbrances	\$683,898
Enterprise Funds	
Easton's Beach	
Reserve for encumbrances	3664
Parking operations	
Reserve for encumbrances	378
Water Fund	
Reserve for encumbrances	487,142
Water Pollution Control	
Reserve for encumbrances	6,689

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

11. Reserved Fund Balances (Continued)

Pension Trust Funds	
Police pension	
Reserve per trust agreements	28,786,728
Fire pension	
Reserve per trust agreements	16,034,750

12. Prior Period Adjustments

In some instances beginning fund equity has been restated as a result of adjustments made to correct or reclassify prior year balances. Such adjustments, summarized by fund type are as follows:

	<u>Prior Period Adjustment</u>
Special Revenue Funds	
School Unrestricted Fund	\$ 696,009
To reclass expenditures related to Thompson Middle school renovation and reverse double recording of expenditures	
School Restricted Funds	90,110
To reclass the beginning balance of Health Insurance fund	
Capital Projects Funds	
Thompson Middle School	(307,767)
To reclass expenditures related to Thompson Middle School renovation	
Enterprise Funds	
Water Pollution Control Fund	95,246
To reclass fixed assets that had been reported as expenses	
Non-expendable Trust Funds	
Scholarship Trusts - To move trust account opening balance to trust fund	(3,665)
Other Non-expendable Trusts - to reclass trust fund and restate awards as as expenditures	(26,957)
Pension Trust Funds	
Police Pension Fund - to record year end 06/30/00 management fees	(79,974)
Fire Pension Fund	
To record year end June 30, 2000 invested management fees and to correct accrued payroll re: IAFF settlement paid in October 1999	341,352
Extended Benefits - to move teachers' health insurance copay benefits to School Restricted Fund	<u>(26,790)</u>
Total Adjustments	<u>\$ 777,564</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

13. Deficit Fund Balances

The following individual funds had deficit fund balances at June 30, 2001:

Capital Projects Funds:	
Roadway Repairs	(157,892)
Halsey Street Extension	(169,538)
North End Master Plan	(2,303)
Vehicle Circulation Plan	(40,600)
Economic Development Gateway Center	(20,000)
North End Project	(458)
Ranger Road	<u>(2,400)</u>
Total Deficit Fund Balances, June 30, 2001	<u>\$ (393,191)</u>

The deficits in the Halsey Street Extension fund and the Ranger Road fund will be funded in the future with State Grants. The remaining deficits have been funded through appropriations in the year ended June 30, 2002.

14. Contingencies

There are several lawsuits and claims in which the City is involved. Both City officials and their legal counsel are unable to express an opinion as to the ultimate outcome of the cases, and no provision for loss has been made in accompanying financial statements. It is the opinion of both the City officials and their legal counsel that the results of the cases would have no materially adverse effect on the financial position as of June 30, 2001.

15. Risk Management

Through its operations, the City is exposed to various risks of loss related to torts, general liability, errors and omissions, and property losses due to theft, damage, or destruction, each of which is insured through a public entity risk pool; and to employee injuries and claims for unemployment, for which the City retains the risk of loss. Terms of collective bargaining agreements also require the City to assume risks of employee financial losses resulting from health and dental catastrophes and death, each of which the City has transferred to commercial insurers.

The City is a member of the Rhode Island Inter-local Risk Management Trust (the Trust), a non-profit 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 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 City maintains \$2,000,000 of liability insurance per incident and insures property for replacement cost. Settled claims have not exceeded coverage through the Trust in any of the past three years.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

16. Subsequent Events

On December 15, 2001 the following bonds were issued: \$15,700,000 of School bonds, \$3,000,000 of Library bonds.

On April 23, 2002 \$13,000,000 of Sewer Improvements revenue bonds were issued.

17. Pension Plans:

The City has established a defined contribution pension plan for the City Manager. Substantially all remaining full-time employees are participants in one of four defined benefit pension plans, dependent upon which, if any, collective bargaining unit they are affiliated.

(a) Money-Purchase Pension Plan

The City Manager is the only employee eligible to participate in the Money-Purchase Pension Plan, a defined contribution plan established in accordance with Internal Revenue Code Section 401(a). The plan is administered by the International City Managers Association and offers its members continuity of participation during changes in employment. Benefits are payable upon retirement from among a variety of options selected by participants. For fiscal year 2001, total City payroll was \$40,510,775, of which \$93,638 was covered for the one employee under the plan.

By the terms of an employment contract, the City makes contributions on behalf of the City Manager equal to 10% of his salary. In turn, the City Manager is ineligible to participate in any of the City's defined benefit plans. Terms of this employment contract are subject to review annually.

During 2001, the City's required contribution was \$9,364, all of which was paid. No additional contributions were made by the City Manager.

(b) Employees' Retirement System Of the State Of Rhode Island

All City of Newport certified school personnel participate in the Employees' Retirement System of the State of Rhode Island ("System"), a cost-sharing multiple-employer defined benefit plan. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Town. The financial report may be obtained by writing to Employees Retirement System of Rhode Island, 40 Fountain Street, Providence, Rhode Island, 02903-1854 or by calling (401) 222-2203. Total covered payroll under the plan during 2001 was \$15,902,073, of which \$658,379 was charged to Federally reimbursed programs. Total City payroll was \$40,510,775 for the same period. The City's required and actual contributions to the Teachers' Plan for fiscal years 2001, 2000, and 1999 were \$1,500,278, \$1,329,476, and \$1,031,539, respectively.

Plan Description. All City certified school personnel are eligible to participate in the System if they are certified by the Board of Regents, engaged in teaching as principal occupation and are regularly employed on at least a half time basis. Employees who retire at or after age 60 with 10 years of credited service, or after 28 years of credited service regardless of age are entitled to a retirement benefit. The retirement benefit is equal to 1.7% of their final-average salary for each year of credited service up to 10 years, plus 1.9% of their final average salary in excess of 10 years through 20 years, plus 3% of their final average salary in excess of 20 years up to the 34th years of service, plus 2% of their final average salary for the 35th year, up to a maximum benefit of 80% of their final average

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements - Continued

June 30, 2001

17. Pension Plans: (Continued)

(b) Employees' Retirement System Of the State Of Rhode Island (Continued)

salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses, or severance pay. Employees are vested in their retirement benefits on completion of 10 years of service. Retirees' benefits are adjusted annually by 3% compounded, to allow for increases in cost of living. Cost of living adjustments begin on the January 1st following the third anniversary of an employee's retirement. There were no changes in the method and assumptions in the June 30, 1998 actuarial valuation to determine plan cost. The system also provides death and disability benefits.

Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the System are prepared on the accrual basis of accounting. Under this method revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan 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 the terms of the each plan. Dividend income is recorded on the ex-dividend date. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for fiduciary type activities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

Method Used to Value Investments. Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Investment transactions are recorded on a trade date basis.

Contributions and Reserves. There were no long-term contracts for contributions to the plan or amounts outstanding as of the reporting date.

Concentrations. There are no investments in any one organization that represents more than 5% of the plan net assets.

(c) Municipal Employees' Retirement System Of the State Of Rhode Island

The City of Newport participates in the Municipal Employee's Retirement System ("System"), an agent multiple employer defined benefit pension plan administered by the State of Rhode Island. The System issues a publicly available financial report that includes financial statements and required supplementary information for the City. The financial report may be obtained by writing to Employees Retirement System of Rhode Island, 40 Fountain Street, Providence, Rhode Island, 02903-1854 or by calling (401) 222-2203. For fiscal year 2001, total City payroll was \$40,510,775 of which \$9,549,216 was covered for employees under the plan.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

17. Pension Plans: (Continued)

(c) Municipal Employees' Retirement System Of the State Of Rhode Island (continued)

Plan Description. Excepting only certain classified positions including the City Manager, all city employees not covered under the Teachers' Plan are eligible to participate in the Municipal Employee's Retirement System. The System generally provides retirement benefits as required by State Statute of 2% of final average salary per year of service with maximum benefit of 75 % of final average salary. Benefits are available to members at least age 58 with 10 years of service or after 30 years regardless of age. Under the 25 year service pension normal plan, police and firemen may retire with unreduced accrued benefits at age 55 with 10 years of service or after 25 years regardless of age. The benefit accrual rate is 2 percent of final average salary per year of service. An optional plan provides a benefit equal to 2.5 percent of final average salary per year of service. The plan also provides non-occupational disability benefits after 5 years of service, occupational disability benefits with no minimum service requirement, survivor's benefits, and certain lump sum death benefits. Employees are vested in their retirement benefits upon completion of 10 years of service. Retirees' benefits are adjusted annually by 3 percent compounded, to allow for increases in cost of living.

Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the System are prepared on the accrual basis of accounting. Under this method revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan 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 the terms of the each plan. Dividend income is recorded on the ex-dividend date. The Governmental Accounting Standards Board (GASB) has the responsibility for establishing generally accepted accounting principles for fiduciary type activities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

Method Used to Value Investments. Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments which are not traded on a national security exchange are valued by the respective fund manager. Short-term investments are stated at cost which approximates fair value. Investment transactions are recorded on a trade date basis.

Contributions and Reserves

Contributions and Reserves. There were no long-term contracts for contributions to the plan or amounts outstanding as of the reporting date.

Concentrations. There are no investments in any one organization that represents more than 5% of the plan net assets.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

17. Pension Plans: (Continued)

(d) Firemen's Pension Plan and Policemen's Pension Plan

Plan descriptions. The City has separately established the Firemen's Pension Plan (Fire Plan) and the Policemen's Pension Plan (Police Plan). Each is a single-employer defined benefit pension plan which provides retirement, disability and death benefits to its participants. All fire department employees covered under a collective bargaining agreement with the International Association of Firefighters, Local 1080 are participants of the Fire Plan. All police officers covered under a collective bargaining agreement with the Fraternal Order of Police, Lodge Number 8 are participants of the Police Plan. The covered payroll during 2001 was \$4,321,161 and \$3,737,343 under the fire and police plans, respectively. The City's total payroll during that period was \$40,510,775. Each plan is reported as a pension trust fund in the City's general purpose financial statements.

Rights to pension benefits become fully vested for fire and police participants after 10 years of service. Both groups are eligible to retire after 20 years of service. Benefits are equal to 50% of salary with an additional 2% (for firemen) or 2.5% (for policemen) for each year of service in excess of 20 until a maximum of 70% of salary is attained. An additional \$100 per year can be earned for each year of service in excess of 25, to a maximum of \$1,000 per year.

Pre-retirement benefits at a minimum of 25% and 50% of salary are provided to disabled fire and police participants, respectively. However, fire employees are eligible for an additional 2.5% of salary for each year of service in excess of 10 until a maximum benefit of 62.5% of salary is attained. Surviving spouses under both plans are also eligible for pre-retirement death benefits of 67.5% of salary, subject to a pro-rata reduction for participants having fewer than 20 years of service.

As of June 30, 2001, membership in each plan was as follows:

	<u>Fire Plan</u>	<u>Police Plan</u>
Active employees hired before June 20, 1984	37	25
Active employees hired on or after July 1, 1984	61	62
Total active employees	98	87
Inactive employees with vested rights	-0-	-0-
Pensioners and beneficiaries	100	108
Total plan members	198	195

Funding policy and contributions. Under the terms of their collective bargaining agreements, firefighters and policemen are required to contribute 8% of salary to their respective pension plans. For funding purposes, the City divides the membership of each pension plan into two groups, one composed of current and former employees hired prior to July 1, 1984, the other composed of those hired after June 30, 1984. The City's required contributions are separately determined for both membership groups within each plan. For the former, required contributions include normal costs with interest and an amount sufficient to amortize the accrued actuarial liabilities in level dollar amounts over an open 30 year period. The latter group has never incurred unfunded accrued actuarial liabilities; therefore, required contributions cover only normal costs.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

17. Pension Plans: (Continued)

(d) Firemen's Pension Plan and Policemen's Pension Plan (Continued)

Rhode Island general laws and collective bargaining agreements establish minimum employer funding independent of the City's funding policy, incorporating the collected amounts of certain types of revenues related to public safety services. However, the City's policy results in required contributions in excess of the statutory and contractual minimum levels.

Annual Pension Costs And Net Pension Obligations - Separate actuarial valuations for each plan were performed as of June 30, 2001. The following table summarizes annual pension costs for both the Police Plan and Fire Plan:

	<u>Fire Plan</u>	<u>Police Plan</u>
Annual required contribution (ARC)	\$ 3,281,802	\$ 1,696,189
Amount representing interest on NPO	582,188	(204,762)
Adjustment to ARC	(350,116)	123,140
Total annual pension costs	\$ 3,513,874	\$ 1,614,567

A summary of annual pension costs, contributions, and net pension obligations (NPO) of each plan over the preceding three years is as follows:

*as restated by actuary

	<u>Fire Plan</u>		
	<u>2001</u>	<u>2000*</u>	<u>1999</u>
Annual pension costs	\$ 3,513,874	\$ 3,221,234	\$ 3,179,232
Actual contributions	3,567,527	3,860,777	3,189,318
Increase (decrease) in NPO	(53,653)	(639,543)	(10,086)
Net pension obligation, beginning	7,056,826	7,696,369	7,706,455
Net pension obligation, ending	\$ 7,003,173	\$ 7,056,826	\$ 7,696,369
% of annual pension costs contributed	101.5%	119.9%	100.3%
	<u>Police Plan</u>		
	<u>2001</u>	<u>2000*</u>	<u>1999</u>
Annual pension costs	\$ 1,614,567	\$ 2,037,955	\$ 2,243,041
Actual contributions	2,703,167	2,510,675	3,137,686
Increase (decrease) in NPO	(1,088,600)	(472,720)	(894,645)
Net pension obligation, beginning	none	none	none
Net pension obligation, ending	none	none	none
% of annual pension costs contributed	167.4%	123.2%	139.9%

Actuarial Methods And Significant Assumptions – Actuarial valuations utilize the projected unit credit method to determine both the actuarial accrued liabilities and annual required contributions to each plan. Pension assets are valued at their fair market value as established by quotations from

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

17. Pension Plans: (Continued)

(d) Firemen's Pension Plan and Policemen's Pension Plan (Continued)

applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for both plans are performed biennially as of June 30.

Significant actuarial assumptions used in each valuation are summarized as follows:

Asset appreciation:	8.25% annually
Salary increases:	5.75% annually
Retirement probability:	5% for fire and 20% for police after 20 years 2% for fire and 10% for police in each of years 21-24 40% for both groups after 25 years 20% for both groups in each of years 26-34 100% for both groups after 35 years
Mortality:	Healthy members – GAM Mortality table Disabled members – 1985 Wyatt Pension Disability Tables
Disability:	60% of 1985 Wyatt Pension Disability Tables, occupational class 4, unisex rates
Surviving Spouses:	90% of active and 75% of retired members are married, wives are 3 years younger than their husbands

Concentrations – As of June 30, 2002 and during the year then ended, no pension assets were invested in any organization which collectively held 5% or more of the total assets of either plan.

18. Other Post-Employment Benefits

In addition to those retirement, disability and death benefits described in the preceding Note, the City provides health and life insurance benefits to retirees their dependents and their beneficiaries in accordance with City ordinance and by terms of their collective bargaining agreements. Retirees or their beneficiaries may select from among the same plans offered to active employees until they attain the age of 65, at which time coverage is switched to a City-designated insurer. As of June 30, 2002, in excess of 345 retirees were eligible to receive health and life insurance benefits.

A portion of health insurance premiums is borne by the City, dependent upon each retiree's covered group, date of retirement and credited service. For members covered under the Police Pension Plan retiring after June 30, 1987, the city pays 50% of premiums plus an additional 5% of premiums for each year of service between 11 and 20 years, until 100% is paid. Retirees prior to that date are responsible for premiums for each year between 11 and 25 years, until 100% is paid. Premiums for retirees of both the Teachers' Plan and the Municipal Plan are fully paid by the City, provided the retiree was eligible for retirement at the time of separation from service. Beyond health insurance, the City bears only the cost of providing certain Police Pension Plan members a \$25,000 life insurance policy. Members of each group may elect dental and life insurance coverage at their expense.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2001

18. Other Post-Employment Benefits (Continued)

During fiscal year 2001, expenditures or expenses of \$2,358,258, net of contributions, were recorded for post-employment benefits of retirees or beneficiaries and their dependents, distributed as follows:

General Fund	\$ 182,211
Special Revenue Funds-School Unrestricted	1,126,482
Enterprise Funds	170,880
Pension Trust Funds	<u>878,685</u>
	<u>\$ 2,358,258</u>

19. Deferred Compensation Plans

The City has established a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to all municipal employees, permits them to defer a portion of their salaries until termination, retirement or death. In some cases, deferred salary may also be made available to employees who successfully demonstrate unforeseen emergencies after authorization by a committee established under the plan. The annual limitation of salary deferrable under the plan for calendar year 2001 was \$8,500 per employee.

All compensation deferred under the plan, any investments purchased with this compensation and income and gains attributable to those investments are held in a separate trust and are, therefore, not reported on the accompanying financial statements.

20. Change in Accounting Principal

The City changed its method of reporting capital contributions. The City has historically reduced capital contributions by depreciation expense on an annual basis. The City has chosen to discontinue this practice in the year ending June 30, 2001. Capital contributions at June 30, 2001 are the same as in the prior year adjusted only for any capital contributions made during the 2001 fiscal year.

COMBINING AND INDIVIDUAL FUNDS

Detailed financial statements for each fund are presented in an combining or individual fund statement under the dividers labeled accordingly.

GENERAL FUND

The General Fund is the central operating fund of the City of Newport. It records all financial transactions resulting from the provision of services and resources - other than those required to be recorded in specific funds - which foster the health, safety, and welfare of the general public.

Generally, beneficiaries are not distinct and identifiable, nor can specific benefits be measured. Although supplemental revenue sources defray some of their costs, the balance must be recovered equitably from citizens through ad valorem taxes assessed on real and personal property located with the City.

In addition to accounting for the costs of services and resources, the General Fund is the centralized recipient and custodian of all financial assets accumulated to finance these costs. Capital assets acquired through General Fund expenditures are recorded in the General Fixed Assets Group of Accounts.

CITY OF NEWPORT, RHODE ISLAND

General Fund

Balance Sheet

June 30, 2001

ASSETS

Cash	\$	5,354,463
Investments		3,842,328
Property taxes receivable		2,938,391
Motor vehicle excise receivable		2,213,306
Due from federal or state governments		1,093,497
Departmental receivables		-
Note receivable		-
Receivable, other		783,199
Due from other funds		26,514
Prepaid expenses		-
		<hr/>
Total assets	\$	<u>16,251,698</u>

LIABILITIES AND FUND EQUITY

Liabilities:		
Accounts payable	\$	1,245,109
Accrued expenses		1,457,677
Due to federal or state governments		-
Amounts held in reserve		89,054
Deferred revenue		4,563,883
Due to other funds		185,781
Other liabilities		406,520
		<hr/>
Total liabilities		<u>7,948,024</u>
Fund balances (deficit):		
Reserved		683,898
Unreserved:		
Undesignated		7,619,776
		<hr/>
Total fund balance		<u>8,303,674</u>
		<hr/>
Total liabilities and fund balance	\$	<u>16,251,698</u>

CITY OF NEWPORT, RHODE ISLAND

General Fund

Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balance

For the Year Ended June 30, 2001

Revenues:

Local taxes	\$ 46,206,830
Intergovernmental revenues	2,623,317
User charges and fees	422,170
Licenses and permits	4,147,272
Use of money and property	677,947
Other revenues	2,069,340
Total revenues	<u>56,146,876</u>

Expenditures:

General government	3,344,593
Public safety	14,986,866
Public health	4,007,800
Planning, Zoning, and Development	1,211,114
Recreation and parks	1,965,201
Human services	1,419,056
Pension Expenses	7,682,350
Debt service	353,674
Total expenditures	<u>34,970,654</u>

Other financing sources and uses:

Transfers from other funds	799,743
Transfers to other funds	<u>(18,905,016)</u>
Total other financing sources and uses	<u>(18,105,273)</u>

Excess of sources over expenditures and other uses	3,070,949
(Increase) decrease in reserve	353,806
Unreserved fund balance, July 1, 2000	<u>4,195,021</u>
Unreserved fund balance, June 30, 2001	<u>\$ 7,619,776</u>

CITY OF NEWPORT, RHODE ISLAND

**Statement of Revenues and Expenditures
Budget (Non-GAAP Basis) and Actual**

For the Year Ended June 30, 2001

	General Fund			
	<u>Adopted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:				
Local taxes	43,807,277	43,919,277	46,206,830	2,287,553
Intergovernmental revenues	2,774,536	2,722,036	2,623,317	(98,719)
User charges and fees	518,050	463,400	422,170	(41,230)
Licenses and permits	3,793,125	3,560,275	4,147,272	586,997
Use of money and property	312,300	333,300	677,947	344,647
Other revenues	3,395,408	3,714,408	2,069,340	(1,645,068)
Total revenues	<u>54,600,696</u>	<u>54,712,696</u>	<u>56,146,876</u>	<u>1,434,180</u>
Expenditures:				
General Government:				
Mayor and City Council	75,305	86,055	83,025	3,030
City Manager	236,817	254,941	252,493	2,448
City Solicitor	278,154	278,154	277,723	431
Canvassing	168,274	169,354	128,165	41,189
Finance and support services	2,867,478	2,871,737	2,609,329	262,408
Reserve accounts	968,811	-	-	-
Public Safety:				
Police Department	7,935,956	7,935,956	7,780,846	155,110
Fire Department	7,186,354	7,186,353	7,114,583	71,770
Public Health:				
Public Works	2,343,939	2,379,218	2,146,087	233,131
Solid Waste Operations	1,624,933	1,624,933	1,526,170	98,763
Planning, Zoning, and Development	1,431,082	1,427,682	1,276,008	151,674
Recreation and parks	2,164,218	2,177,773	1,979,385	198,388
Human services	1,220,931	1,220,931	1,419,056	(198,125)
Pension expenses	6,742,089	7,512,900	7,682,350	(169,450)
Contingencies	-	230,354	-	230,354
Debt service	532,914	532,914	353,674	179,240
Total expenditures	<u>35,777,255</u>	<u>35,889,255</u>	<u>34,628,894</u>	<u>1,260,361</u>
Excess of revenues over expenditures	<u>18,823,441</u>	<u>18,823,441</u>	<u>21,517,982</u>	<u>2,694,541</u>
Other financing sources (uses):				
Transfers from other funds	-	-	799,743	799,743
Transfers to other funds	(18,823,441)	(18,823,441)	(18,905,016)	(81,575)
Total other financing sources (uses)	<u>(18,823,441)</u>	<u>(18,823,441)</u>	<u>(18,105,273)</u>	<u>718,168</u>
Excess of revenues and other sources over expenditures and other uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,412,709</u>	<u>\$ 3,412,709</u>

SPECIAL REVENUE FUNDS

The City has established special revenue funds to record the receipt and custody of proceeds to be used for financing programs specified by external grantor organizations or City Council policy, as well as the ultimate expenditure of those proceeds in accordance with grantor or Council covenants. Capital assets acquired through special revenue fund expenditures are recorded in the General Fixed Assets Group of Accounts .

School Restricted Funds record the receipt and expenditure of grants provided primarily by Federal agencies and the State of Rhode Island to fund specific programs. Among these programs, a regional vocational center serves the special needs of all Newport County children.

Urban Development Action Grants (UDAG) Fund was initially seeded by the U.S. Department of Housing and Urban Development (HUD) to provide grant and loan assistance for business development with job creation within the City. Subsequent to HUD close-out, the grant is now used as a revolving loans program. Loan interest is utilized to finance capital improvement needs within the City. This fund accounts for the administration and custody of the revolving loans program.

Community Development Act Fund records the receipt, custody, and expenditure of proceeds from HUD as part of its Small Cities program. Each year, block grants are received to assist low and moderate income residents, either through direct loans for home construction and renovation, pass-through grants to provider agencies, or the funding of public improvements which service low and moderate income residents.

State Grants Fund records the receipt, custody, and expenditure of directly appropriated or pass-through grants from the State of Rhode Island for various specific programs.

Economic Development Agency (EDA) Revolving Fund. is similar in nature to the UDAG Fund, this fund accounts for the administration of a revolving loan program to assist businesses which create or protect employment within the City. However, these loans are not limited to tangible development and interest earnings as well as principal are reloaned upon payment.

Property Acquisition Fund records the sale of general fixed assets and accounts for the custody and expenditure of proceeds in accordance with city ordinances restricting their use to acquiring or improving similar assets.

Bramley Bill Fund is a state grant fund for the promotion of drug awareness and prevention which has been separately presented as prescribed by terms of its grant.

CITY OF NEWPORT, RHODE ISLAND

Special Revenue Funds

Combining Balance Sheet

June 30, 2001

	School Unrestricted Fund	School Restricted Funds	UDAG Fund	Community Development Act	State Grants Fund	EDA Revolving Fund	Property Acquisition Fund	Bramley Bill Fund	Total
ASSETS									
Cash	\$ 1,116,145	\$ (414,339)	\$ 3,160,281	\$ (40,377)	\$ 140,778	\$ 232,281	\$ (2,051,867)	\$ (7,111)	\$ 2,135,791
Investments	-	-	-	-	-	-	4,826,729	-	4,826,729
Accounts receivable	163,674	11,989	578,616	794,201	10,002	93,149	-	-	1,651,631
Due from federal and state governments	-	748,218	-	267,614	273,081	-	-	13,112	1,302,025
Receivables, other	-	-	6,226	2,269,364	-	69,127	-	-	2,344,717
Advances to other funds	-	-	622,615	-	-	-	-	-	622,615
Due from other funds	-	-	350,000	10,800	-	-	-	-	360,800
Prepaid expenses	-	61,000	-	-	-	-	-	-	61,000
Total assets	\$ 1,279,819	\$ 406,868	\$ 4,717,738	\$ 3,301,602	\$ 423,861	\$ 394,557	\$ 2,774,862	\$ 6,001	\$ 13,305,308

LIABILITIES AND FUND EQUITIES (DEFICITS)

Liabilities:									
Accounts Payable	\$ 494,453	\$ 83,275	\$ 94,033	\$ 6,404	\$ 94,470	\$ -	\$ -	\$ 1,953	\$ 774,588
Accrued expenses	238,753	-	6,226	-	-	-	-	-	244,979
Note payable	-	-	-	-	-	-	-	-	-
Due to other funds	61,086	-	-	-	-	10,800	26,514	-	98,400
Deposits held	-	1,067	-	-	-	-	-	-	1,067
Deferred revenues	-	-	1,551,231	3,063,566	216,372	162,275	-	-	4,993,444
Total liabilities	794,292	84,342	1,651,490	3,069,970	310,842	173,075	26,514	1,953	6,112,478
Fund balances Unreserved	485,527	322,526	3,066,248	231,632	113,019	221,482	2,748,348	4,048	7,192,830
Total fund balances	485,527	322,526	3,066,248	231,632	113,019	221,482	2,748,348	4,048	7,192,830
Total liabilities and fund balances	\$ 1,279,819	\$ 406,868	\$ 4,717,738	\$ 3,301,602	\$ 423,861	\$ 394,557	\$ 2,774,862	\$ 6,001	\$ 13,305,308

CITY OF NEWPORT, RHODE ISLAND

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balances

June 30, 2001

	School Unrestricted Fund	School Restricted Funds	UDAG Fund	Community Development Act	State Grants Fund	EDA Revolving Fund	Property Acquisition Fund	Bramley Bill Fund	Total
Revenues:									
Federal and state grant income	\$ 10,310,876	\$ 3,303,367	\$ -	\$ 885,032	\$ 811,615	\$ -	\$ -	\$ 51,921	\$ 15,362,811
Intergovernmental	-	-	-	-	-	-	-	-	-
Other revenue	612,407	1,602,568	-	-	-	-	-	-	2,214,975
Program income	-	-	440,588	210,822	-	20,442	-	-	671,852
Investment income	-	-	93,975	50,802	-	14,494	403,176	-	562,447
Sale of capital equipment / land	-	-	-	-	-	-	-	-	-
Total revenues	10,923,283	4,905,935	534,563	1,146,656	811,615	34,936	403,176	51,921	18,812,085
Expenditures:									
General government	-	-	-	-	779,818	16,025	-	-	795,843
General education	30,712,612	4,625,369	-	-	-	-	-	-	35,337,981
Debt service	517,543	-	-	-	-	-	-	-	517,543
Human services	-	-	350,000	1,042,864	-	-	-	51,921	1,444,785
Total expenditures	31,230,155	4,625,369	350,000	1,042,864	779,818	16,025	-	51,921	38,096,152
Excess (deficiency) of revenues over expenditures	(20,306,872)	280,566	184,563	103,792	31,797	18,911	403,176	-	(19,284,067)
Other financing sources (uses):									
Operating transfers in	19,077,350	-	-	-	81,575	-	-	-	19,158,925
Operating transfers (out)	-	(253,909)	-	-	-	-	(799,743)	-	(1,053,652)
Total other financing sources (uses)	19,077,350	(253,909)	-	-	81,575	-	(799,743)	-	18,105,273
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,229,522)	26,657	184,563	103,792	113,372	18,911	(396,567)	-	(1,178,794)
Unreserved fund balances (deficits), July 1, 2000	1,019,040	205,759	2,881,685	127,840	(353)	202,571	3,144,915	4,048	7,585,505
Prior period adjustment	696,009	90,110	-	-	-	-	-	-	786,119
Unreserved fund balances (deficits), June 30, 2001	\$ 485,527	\$ 322,526	\$ 3,066,248	\$ 231,632	\$ 113,019	\$ 221,482	\$ 2,748,348	\$ 4,048	\$ 7,192,830

CITY OF NEWPORT, RHODE ISLAND

Special Revenue Funds

School Unrestricted Fund

Schedule of Revenues and Expenditures Budget (Non-GAAP Basis) to Actual

June 30, 2001

	School Unrestricted Fund			
	Adopted Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Revenues:				
Federal revenues	\$ 628,147	\$ 628,147	\$ 564,754	\$ (63,393)
State revenue	9,212,750	9,212,750	9,746,122	533,372
Local revenue	1,791,411	1,791,411	612,407	(1,179,004)
Total revenues	11,632,308	11,632,308	10,923,283	(709,025)
Expenditures:				
General education	29,940,216	29,940,216	30,712,612	(772,396)
Debt service	515,533	515,533	517,543	(2,010)
Total expenditures	30,455,749	30,455,749	31,230,155	(774,406)
Excess of revenues over expenditures	(18,823,441)	(18,823,441)	(20,306,872)	(1,483,431)
Other financing sources (uses):				
Transfers from other funds	18,823,441	18,823,441	19,077,350	253,909
Transfers to other funds			-	-
Total other financing sources (uses)	18,823,441	18,823,441	19,077,350	253,909
Excess of revenues and other sources over expenditures and other uses - budgetary basis	\$ -	\$ -	\$ (1,229,522)	\$ (1,229,522)

Capital Projects Funds

Roadway Improvements Fund accounts for the receipt, custody, and expenditure of \$1,500,000 from a 1991 general obligation bond issue to repair or improve roadways within the city.

Halsey Street Extension project consists of two phases: (1) completing an existing road so that it leads directly to the City's Public Works facilities, closing off access to the surrounding neighborhoods, and (2) reconstructing the present entrance into the public works garage to better accommodate the "tradesman center" (private offices and shops).

North End Master Plan - design planner Cal Thorpe & Assoc. from Berkeley, CA was engaged in fiscal years 1997 and 1998 to develop a master plan for urban redevelopment of the City's North end, including "hope 6," housing redevelopment; new CCRI campus; redevelopment of former mall; state's investment in reworking bridge ramp; related development. Workshops are presently continuing with the City Council. The sources of funding include CDBG and UDAG funds.

Washington Street Lighting project consists of replacement of lighting in Washington Square.

Vehicle Circulation Plan project consists of engaging an independent company (Parson- Brinkerhoff) to conduct a study to address the City's issues related to traffic control and parking in order to protect affected neighborhoods. The study has been completed. The City is now in the implementation phase. Funding consists of a \$20,000 private grant in the form of a charitable trust with matching funds appropriated in FY 99 & 00 from the General Fund.

Economic Development Gateway Center project consists of engaging an independent company to conduct a study for the purpose of determining the best (and maximum revenue producing) use, possibly a new hotel, of the city owned Gateway building and property (approximately 6 acres), also known as the "visitors center." Funding consists of funds appropriated in FY 99 & 00 from the General Fund.

North End project consists of the implementation phase of the North End Master Plan described above in the North End Master Plan Capital Project.

Library Renovation project consists of the construction of a new addition to the Newport Public Library. In addition to the cost of construction, funds may also be used for the renovation, rehabilitation, improvement, furnishing and equipping of the facility. For the purpose(s) of refunding bond anticipation notes and providing new money to the project, notes in the amount of \$3,000,000 were issued on March 15, 2001, pursuant to Chapter 228 of the Rhode Island Public laws of 1998 and a Resolution of the City Council. These notes are due December 14, 2001; the interest rate is 3.50%.

Thompson Middle School project consists of the construction, improvement, furnishing and equipping the Thompson Middle School, at a total project cost not to exceed \$19,035,000. For the purposes(s) of providing new money for the project, notes in the amount of \$10,000,000 were issued on March 15, 2001, pursuant to Chapter 397 of the Rhode Island Public Laws of 1999 and a Resolution of the City Council. These notes are due December 14, 2001; the interest rate is 3.50%.

Ranger Road project consists of infrastructure improvements, including road, water, sewer, electric, gas, stormwater system and landscaping to 14 acres of land to be used for a Community College of Rhode Island campus. Funding is primarily from federal and state grants.

CITY OF NEWPORT, RHODE ISLAND

Capital Projects Funds

Combining Balance Sheet

June 30, 2001

	Open Space	Roadway Repairs	Halsey Street Extension	North End Master Plan	Washington Square Lighting	Vehicle Circulation Plan	Economic Development Gateway Ctr.	North End Project	Library Renovation	Thompson Middle School	Ranger Road	Total
Cash	\$ 49,209	\$ (157,892)	\$ (184,127)	\$ (2,303)	\$ 20,837	\$ (40,600)	\$ (20,000)	\$ (458)	\$ 105,696	\$ 8,601,633	\$ (2,400)	\$ 8,369,595
Federal and state receivables	-	-	14,589	-	-	-	-	-	-	-	-	14,589
Total assets	\$ 49,209	\$ (157,892)	\$ (169,538)	\$ (2,303)	\$ 20,837	\$ (40,600)	\$ (20,000)	\$ (458)	\$ 105,696	\$ 8,601,633	\$ (2,400)	\$ 8,384,184
LIABILITIES AND FUND BALANCES (DEFICITS)												
Liabilities:												
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 2,295	\$ -	\$ -	\$ -	\$ -	\$ 903,043	\$ -	\$ 905,338
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Bond anticipation notes payable	-	-	-	-	-	-	-	-	3,000,000	10,000,000	-	13,000,000
Total liabilities	-	-	-	-	2,295	-	-	-	3,000,000	10,903,043	-	13,905,338
Fund balances (deficits):												
Unreserved, undesignated	49,209	(157,892)	(169,538)	(2,303)	18,542	(40,600)	(20,000)	(458)	(2,894,304)	(2,301,410)	(2,400)	(5,521,154)
Total fund balances (deficits)	49,209	(157,892)	(169,538)	(2,303)	18,542	(40,600)	(20,000)	(458)	(2,894,304)	(2,301,410)	(2,400)	(5,521,154)
Total liabilities and fund balances (deficits)	49,209	\$ (157,892)	\$ (169,538)	\$ (2,303)	\$ 20,837	\$ (40,600)	\$ (20,000)	\$ (458)	\$ 105,696	\$ 8,601,633	\$ (2,400)	\$ 8,384,184

CITY OF NEWPORT, RHODE ISLAND

Capital Projects Funds

Combining Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balances (Deficits)

June 30, 2001

	Open Space	Roadway Repairs	Halsey Street Extension	North End Master Plan	Washington Square Lighting	Vehicle Circulation Plan	Economic Development Gateway Ctr	North End Project	Library Renovation	Thompson Middle School	Ranger Road	Total
Revenues:												
Investment income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,821	\$ 176,380	\$ -	\$ 217,201
Contributions	-	-	-	-	12,455	-	-	-	-	-	-	12,455
Other	-	-	-	-	-	-	-	-	7,440	24,907	200,000	232,347
Total revenues	-	-	-	-	12,455	-	-	-	48,261	201,287	200,000	462,003
Expenditures	-	187,527	-	-	4,558	-	-	-	2,208,575	3,315,783	202,400	5,916,843
Excess (deficiency) of revenues over expenditures	-	(187,527)	-	-	7,897	-	-	-	(2,160,314)	(3,112,496)	(2,400)	(5,454,840)
Other financing sources (uses):												
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	(187,527)	-	-	7,897	-	-	-	(2,160,314)	(3,112,496)	(2,400)	(5,454,840)
Unreserved fund balances (deficits), July 1, 2000	49,209	29,635	(169,538)	(2,303)	10,645	(40,600)	(20,000)	(458)	(733,990)	1,118,853	-	241,453
Prior Period Adjustment	-	-	-	-	-	-	-	-	-	(307,767)	-	(307,767)
Unreserved fund balances (deficits), June 30, 2001	\$ 49,209	\$ (157,892)	\$ (169,538)	\$ (2,303)	\$ 18,542	\$ (40,600)	\$ (20,000)	\$ (458)	\$ (2,894,304)	\$ (2,301,410)	\$ (2,400)	\$ (5,521,154)

ENTERPRISE FUNDS

The City has established enterprise funds to account for the provision of certain services in a manner similar to private-sector business which benefit a distinct and identifiable class of users. These funds record the custody of financial and capital assets and capture incurred costs for the purpose of recovering them on a commodity basis from each user. In addition to operating and capital components, costs generally include funding of retained earnings sufficient to stabilize costs during periods of under-utilization.

Easton's Beach Fund records the financial activities of operating Easton's Beach, the largest and most visited of the City's public beaches. Costs incurred in the maintenance and improvement of Easton's Beach are borne solely by its users through charges primarily for parking, bath house rentals and concessions.

Parking Operations Fund records the financial activities associated with the management of public parking within the City, including the operation of two public parking lots. Costs incurred in this management are recovered by users of public parking through parking lot fees, space rentals and parking meter charges.

Water Fund records the costs of collection and treatment of raw water and the distribution of potable water for user consumption and fire protection. The City's water system directly serves retail users throughout Newport and in parts of two neighboring towns. Through two wholesale contracts, the system also serves the U.S. Naval Base and customers of a neighboring water and fire district. Costs of servicing users are recovered through both fixed and commodity charges under tariffs regulated by the Rhode Island Public Utilities Commission.

Water Pollution Control Fund records the costs of collection and treatment of wastewater, the extraction and treatment of sludge and the discharge of treated effluent. These costs are recovered from the retail customers through rates assessed on their metered water charges; and from the contractual apportionment of costs allocable to the U.S. Navy and the neighboring Town of Middletown.

CITY OF NEWPORT, RHODE ISLAND

Enterprise Funds

Combining Balance Sheet

June 30, 2001

ASSETS	Easton's Beach Fund	Parking Operations Fund	Water Fund	W.P.C. Fund	Total
Current Assets:					
Cash and cash equivalents	\$ 88,463	\$ 3,107,976	\$ 664,904	\$ 823,410	\$ 4,684,753
Investments	-	-	91,945	83,323	175,268
Accounts receivable:					
User fees (net of allowances)	-	-	1,238,270	1,184,768	2,423,038
Other	-	-	389,488	261,281	650,769
Deferred privatization costs	-	-	-	-	-
Due from federal and state governments	-	-	-	341,225	341,225
Due from other funds	-	-	5,656	5,125	10,781
Inventories	-	-	327,812	12,934	340,746
Accrued interest	-	-	-	-	-
Prepaid expenses	-	-	276,000	463,375	739,375
Total current assets	88,463	3,107,976	2,994,075	3,175,441	9,365,955
Capital Assets	2,471,497	1,894,123	54,025,366	67,757,437	126,148,423
Less accumulated depreciation	(495,632)	(710,869)	(19,151,650)	(23,184,649)	(43,542,800)
Net capital assets	1,975,865	1,183,254	34,873,716	44,572,788	82,605,623
Total assets	\$ 2,064,328	\$ 4,291,230	\$ 37,867,791	\$ 47,748,229	\$ 91,971,578
LIABILITIES AND FUND EQUITY (DEFICITS)					
Current liabilities:					
Accounts Payable	\$ 34,091	\$ 6,346	\$ 363,898	\$ 661,029	\$ 1,065,364
Accrued expenses	8,822	-	857,937	36,324	903,083
Due to other funds	-	-	-	-	-
Amounts held in escrow	-	-	-	-	-
Deferred revenues	-	-	330,792	-	330,792
Other liabilities	-	-	80,849	-	80,849
Notes payable	-	-	-	1,241,721	1,241,721
Current portion bonds payable	-	-	1,418,626	924,890	2,343,516
Amounts held in reserve	-	-	-	2,257	2,257
Total current liabilities	42,913	6,346	3,052,102	2,866,221	5,967,582
Long-term liabilities					
Advances from other funds	622,615	-	-	-	622,615
Notes payable	-	-	-	2,163,572	2,163,572
Bonds payable	-	-	9,617,022	4,406,431	14,023,453
Total long-term liabilities	622,615	-	9,617,022	6,570,003	16,809,640
Total liabilities	665,528	6,346	12,669,124	9,436,224	22,777,222
Fund equity (deficits):					
Contributed capital	-	722,309	6,913,385	34,776,849	42,412,543
Retained earnings, reserved	3,664	378	487,142	6,689	497,873
Retained earnings, unreserved	1,395,136	3,562,197	17,798,140	3,528,467	26,283,940
Total fund equity	1,398,800	4,284,884	25,198,667	38,312,005	69,194,356
Total liabilities and fund balances	\$ 2,064,328	\$ 4,291,230	\$ 37,867,791	\$ 47,748,229	\$ 91,971,578

CITY OF NEWPORT, RHODE ISLAND

Enterprise Funds

Combining Statement of Revenues, Expenses, and Changes in Unreserved Retained Earnings

For the Year Ended June 30, 2001

	<u>Easton's Beach Fund</u>	<u>Parking Operations Fund</u>	<u>Water Fund</u>	<u>W.P.C. Fund</u>	<u>Total</u>
Operating revenues:					
User fees	\$ 399,263	\$ 796,915	\$ 7,644,448	\$ 5,782,560	\$ 14,623,186
Other revenues	89,403	68,001	637,486	55,038	849,928
Total operating revenues	<u>488,666</u>	<u>864,916</u>	<u>8,281,934</u>	<u>5,837,598</u>	<u>15,473,114</u>
Operating expenses:					
Salaries and benefits	208,883	-	2,486,475	785,147	3,480,505
Materials and supplies	8,311	-	576,250	47,913	632,474
Waste disposal	-	-	-	648,776	648,776
Repairs and maintenance	32,360	8,634	118,618	98,948	258,560
Depreciation	72,680	64,939	1,049,052	1,547,459	2,734,130
Support services	25,410	97,407	9,080	2,631,960	2,763,857
Utilities	24,551	5,076	514,837	475,650	1,020,114
Administrative and other	17,971	16,943	521,143	183,402	739,459
Property taxes	-	-	78,984	-	78,984
Total operating expenses	<u>390,166</u>	<u>192,999</u>	<u>5,354,439</u>	<u>6,419,255</u>	<u>12,356,859</u>
Net Operating income (loss)	<u>98,500</u>	<u>671,917</u>	<u>2,927,495</u>	<u>(581,657)</u>	<u>3,116,255</u>
Non-operating revenues (expenses):					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	-	-	-	-	-
Interest income	-	-	34,937	30,317	65,254
Interest expense	<u>(25,850)</u>	<u>-</u>	<u>(622,711)</u>	<u>(370,128)</u>	<u>(1,018,689)</u>
Total non-operating revenues (expenses)	<u>(25,850)</u>	<u>-</u>	<u>(587,774)</u>	<u>(339,811)</u>	<u>(953,435)</u>
Net income (loss)	72,650	671,917	2,339,721	(921,468)	2,162,820
Depreciation charged to contributed capital	-	-	-	-	-
(Increase) decrease in reserve	(3,664)	(378)	(487,142)	(6,689)	(497,873)
Retained earnings unreserved, July 1, 2000	1,326,150	2,890,658	15,945,561	4,361,378	24,523,747
Prior Period Adjustment	-	-	-	95,246	95,246
Retained earnings unreserved, June 30, 2001	<u>\$ 1,395,136</u>	<u>\$ 3,562,197</u>	<u>\$ 17,798,140</u>	<u>\$ 3,528,467</u>	<u>\$ 26,283,940</u>

CITY OF NEWPORT, RHODE ISLAND

**Enterprise Funds
Combining Statement Of Cash Flows
For The Year Ended June 30, 2001**

	<u>Easton's Beach Fund</u>	<u>Parking Operations Fund</u>	<u>Water Fund</u>	<u>W.P.C. Fund</u>	<u>Total</u>
Cash flows from operating activities					
Cash received from customers	\$ 488,666	\$ 864,916	\$ 8,133,960	\$ 6,516,764	\$ 16,004,306
Cash payments to suppliers for goods and services	(63,096)	(112,042)	(1,382,172)	(4,414,049)	(5,971,359)
Cash payments to employees for services	(227,648)	-	(2,496,717)	(1,007,866)	(3,732,231)
Payment of property taxes	-	-	(78,984)	-	(78,984)
Payment of administrative expense	(17,971)	(16,944)	(521,143)	(183,402)	(739,460)
Cash received (payment) for miscellaneous items	-	-	-	-	-
Net cash provided by (used for) operating activities	<u>179,951</u>	<u>735,930</u>	<u>3,654,944</u>	<u>911,447</u>	<u>5,482,272</u>
Cash flows from non-capital financing activities					
Interfund loans and transfers	(271,805)	(12,444)	(899,913)	(1,257,051)	(2,441,213)
Net cash provided by (used for) non-capital financing activities	<u>(271,805)</u>	<u>(12,444)</u>	<u>(899,913)</u>	<u>(1,257,051)</u>	<u>(2,441,213)</u>
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(25,737)	-	(984,211)	(1,221,010)	(2,230,958)
Principal (paid) received on bonds, notes and loans	-	-	(1,391,882)	2,423,187	1,031,305
Net cash provided by (used for) capital and related financing activities	<u>(25,737)</u>	<u>-</u>	<u>(2,376,093)</u>	<u>1,202,177</u>	<u>(1,199,653)</u>
Cash flows from investing activities					
Interest and dividends on investments	-	-	34,937	30,317	65,254
Increase in investments	-	-	-	1	1
Interest expense	(25,850)	-	(622,711)	(370,128)	(1,018,689)
Net cash provided by (used for) investing activities	<u>(25,850)</u>	<u>-</u>	<u>(587,774)</u>	<u>(339,810)</u>	<u>(953,434)</u>
Net increase (decrease) in cash and cash equivalents	<u>(143,441)</u>	<u>723,486</u>	<u>(208,836)</u>	<u>516,763</u>	<u>887,972</u>
Cash and cash equivalents at beginning of year	231,904	2,384,490	873,740	211,401	3,701,535
Effect of prior period adjustment	-	-	-	95,246	95,246
Cash and cash equivalents at end of year	<u>\$ 88,463</u>	<u>\$ 3,107,976</u>	<u>\$ 664,904</u>	<u>\$ 823,410</u>	<u>\$ 4,684,753</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (Loss)	\$ 98,500	\$ 671,917	\$ 2,927,495	\$ (581,657)	\$ 3,116,255
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	72,680	64,939	1,049,052	1,547,459	2,734,130
Changes in assets and liabilities:					
(Decrease) Increase in accounts payable/other liabilities	8,771	(926)	(171,404)	(737,057)	(900,616)
Decrease (Increase) in accounts receivable/other assets	-	-	(150,199)	682,702	532,503
Total adjustments	<u>81,451</u>	<u>64,013</u>	<u>727,449</u>	<u>1,493,104</u>	<u>2,366,017</u>
Net cash provided by operating activities	<u>\$ 179,951</u>	<u>\$ 735,930</u>	<u>\$ 3,654,944</u>	<u>\$ 911,447</u>	<u>\$ 5,482,272</u>

CITY OF NEWPORT, RHODE ISLAND

Enterprise Funds

Combining Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)

For the Year Ended June 30, 2001

	Easton's Beach Fund			Parking Operations Fund			Favorable (Unfavorable) Variance
	Adopted Budget	Adjusted Budget	Actual	Adopted Budget	Adjusted Budget	Actual	
Revenues:							
User fees	\$ 429,103	\$ 429,103	\$ 399,263	\$ 862,000	\$ 862,000	\$ 796,915	\$ (65,085)
Other revenue	85,855	85,855	89,403	17,100	17,100	68,001	50,901
Total revenues	514,958	514,958	488,666	879,100	879,100	864,916	(14,184)
Expenses:							
Salaries and benefits	236,022	235,022	208,883	-	-	-	-
Materials and supplies	16,725	19,103	11,975	-	-	-	-
Waste removal	-	-	-	-	-	-	-
Repair and maintenance	36,004	34,704	32,360	12,000	12,000	8,634	3,366
Depreciation	-	-	-	-	-	-	-
Support services	20,737	21,859	25,410	233,000	230,000	97,785	132,215
Utilities	17,867	17,867	24,551	7,200	10,200	5,076	5,124
Administrative and other	18,640	19,440	17,971	30,565	30,565	16,943	13,622
Property taxes	-	-	-	-	-	-	-
Total expenses	345,995	347,995	321,150	282,765	282,765	128,438	154,327
Excess (deficiency) of revenues over expenditures	168,963	166,963	167,516	596,335	596,335	736,478	140,143
Other financing sources (uses):							
Transfers from other funds	9,144	9,144	-	-	-	-	-
Transfers to other funds	-	-	-	(373,335)	(373,335)	-	373,335
Interest expense	(31,258)	(31,258)	(25,850)	-	-	-	-
Total other financing sources (uses)	(22,114)	(22,114)	(25,850)	(373,335)	(373,335)	-	373,335
Other:							
Debt principal and interest	(57,720)	(57,720)	(62,502)	-	-	-	-
Debt service reserve	-	-	-	-	-	-	-
Capital additions	(76,725)	(74,725)	(25,737)	(223,000)	(223,000)	-	223,000
Contribution to fund balance	-	-	-	-	-	-	-
Contingency	(1,979)	(1,979)	-	-	-	-	-
Lease payments	(10,425)	(10,425)	-	-	-	-	-
Total other	(146,849)	(144,849)	(88,239)	(223,000)	(223,000)	-	223,000
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ -	\$ 53,427	\$ -	\$ -	\$ 736,478	\$ 736,478

CITY OF NEWPORT, RHODE ISLAND

Enterprise Funds

Combining Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)

For the Year Ended June 30, 2001

	Water Fund			Water Pollution Control Fund			Favorable (Unfavorable) Variance
	Adopted Budget	Adjusted Budget	Actual	Adopted Budget	Adjusted Budget	Actual	
Revenues:							
User fees	\$ 7,799,160	\$ 7,799,160	\$ 7,644,448	\$ 5,689,300	\$ 7,923,244	\$ 5,782,560	\$ (2,140,684)
Other revenue	2,789,000	2,789,000	637,486	1,700,000	1,700,000	55,038	(1,644,962)
Total revenues	10,588,160	10,588,160	8,281,934	7,389,300	9,623,244	5,837,598	(3,785,646)
Expenses:							
Salaries and benefits	2,423,448	2,423,879	2,486,475	40,915	951,293	785,147	166,146
Materials and supplies	587,665	621,144	764,039	900	69,011	47,913	21,098
Waste removal	-	-	-	-	658,457	648,776	9,681
Repair and maintenance	172,421	126,618	134,682	-	135,229	98,948	36,281
Depreciation	-	-	-	-	-	-	-
Support services	20,249	11,140	9,195	2,990,149	3,268,306	2,771,960	496,346
Utilities	436,907	441,351	514,837	424,750	663,459	475,650	187,809
Administrative and other	474,037	528,968	522,619	102,633	151,227	190,091	(38,864)
Property taxes	142,856	170,261	78,984	-	-	-	-
Total expenses	4,257,583	4,323,361	4,510,831	3,559,347	5,896,982	5,018,485	878,497
Excess (deficiency) of revenues over expenditures	6,330,577	6,264,799	3,771,103	3,829,953	3,726,262	819,113	(2,907,149)
Other financing sources (uses):							
Transfers from other funds	-	-	-	-	-	-	-
Transfers to other funds	-	-	-	-	-	-	-
Interest income	-	-	34,937	-	-	30,317	30,317
Interest expense	(681,615)	(681,615)	(622,711)	(626,342)	(627,804)	(296,426)	331,378
Total other financing sources (uses)	(681,615)	(681,615)	(587,774)	(626,342)	(627,804)	(266,109)	361,695
Other							
Debt principal	(1,753,617)	(1,753,617)	(1,753,617)	(1,306,077)	(1,306,077)	(982,106)	323,971
Debt service reserve	(308,642)	(308,642)	-	-	-	-	-
Capital additions	(3,460,000)	(3,456,400)	(1,272,021)	(1,750,000)	(1,700,000)	(1,221,010)	478,990
Contribution to fund balance	(88,703)	-	-	-	-	-	-
Contingency	(18,000)	(50,639)	-	(3,000)	-	-	-
Lease payments	(20,000)	(13,886)	-	(144,534)	(92,381)	-	92,381
Total other	(5,648,962)	(5,583,184)	(3,025,638)	(3,203,611)	(3,098,458)	(2,203,116)	895,542
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ -	\$ 157,691	\$ -	\$ -	\$ (1,650,112)	\$ (1,650,112)

CITY OF NEWPORT, RHODE ISLAND

Enterprise Funds

Combining Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)

For the Year Ended June 30, 2001

	Total Enterprise Funds			Variance Favorable (Unfavorable)
	Adopted Budget	Adjusted Budget	Actual	
Revenues:				
User fees	\$ 14,779,563	\$ 17,013,507	\$ 14,623,186	\$ (2,390,321)
Other revenue	4,591,955	4,591,955	849,928	(3,742,027)
Total revenues	19,371,518	21,605,462	15,473,114	(6,132,348)
Expenses:				
Salaries and benefits	2,700,385	3,610,194	3,480,505	129,689
Materials and supplies	605,290	709,258	823,927	(114,669)
Waste removal	-	658,457	648,776	9,681
Repair and maintenance	220,425	308,551	274,624	33,927
Depreciation	-	-	-	-
Support services	3,264,135	3,531,305	2,904,350	626,955
Utilities	886,724	1,132,877	1,020,114	112,763
Administrative and other	625,875	730,200	747,624	(17,424)
Property taxes	142,856	170,261	78,984	91,277
Total expenses	8,445,690	10,851,103	9,978,904	872,199
Excess (deficiency) of revenues over expenditures	10,925,828	10,754,359	5,494,210	(5,260,149)
Other financing sources (uses):				
Transfers from other funds	9,144	9,144	-	(9,144)
Transfers to other funds	(373,335)	(373,335)	-	373,335
Interest income	-	-	65,254	65,254
Interest expense	(1,339,215)	(1,340,677)	(944,987)	395,690
Total other financing sources (uses)	(1,703,406)	(1,704,868)	(879,733)	825,135
Other				
Debt principal	(3,117,414)	(3,117,414)	(2,798,225)	319,189
Debt service reserve	(308,642)	(308,642)	-	308,642
Capital additions	(5,509,725)	(5,454,125)	(2,518,768)	2,935,357
Contribution to fund balance	(88,703)	-	-	-
Contingency	(22,979)	(52,618)	-	52,618
Lease payments	(174,959)	(116,692)	-	116,692
Total other	(9,222,422)	(9,049,491)	(5,316,993)	3,732,498
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ -	\$ (702,516)	\$ (702,516)

INTERNAL SERVICE FUND

The City utilizes one internal service fund to account for the financial activities associated with providing services to other City users in a manner similar to private-sector business. This fund records the custody of financial and capital assets used to provide services and captures incurred operating and capital costs for the purpose of recovering them on a commodity basis from each City user.

Equipment Operations Fund records all transactions associated with the operations of a central City garage which maintains a fleet of more than 140 motor vehicles. Direct costs for fuel, lubricants, repairs and insurance and direct charges for overhead are charged to each user at the point of service. Financial and capital assets used by the garage are recorded in the Equipment Operations Fund; the vehicle fleet are assets of each respective user fund or of the General Fixed Assets Account Group.

CITY OF NEWPORT, RHODE ISLAND

Internal Service Fund

Balance Sheet

June 30, 2001

ASSETS

Current assets:

Cash and cash equivalents	\$	78,855
Accounts receivable, other		2,300
Due from other funds		61,086
Inventories		43,391

Total current assets 185,632

Capital assets

Less accumulated depreciation		356,561
		<u>(196,489)</u>

Net capital assets 160,072

Total assets \$ 345,704

LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable	\$	27,380
Accrued expenses		114,977
Due to other funds		-

Total current liabilities 142,357

Fund equity:

Contributed capital		79,150
Retained earnings, unreserved		<u>124,197</u>

Total fund equity 203,347

Total liabilities and fund equity \$ 345,704

CITY OF NEWPORT, RHODE ISLAND

Internal Service Fund

Statement of Revenues, Expenses and Changes in Unreserved Retained Earnings

For the Year Ended June 30, 2001

Operating revenues:

User fees	\$ 836,128
-----------	------------

Operating expenses:

Salaries and benefits	306,306
Materials and supplies	254,205
Waste disposal	903
Repair and maintenance	160,752
Depreciation	21,966
Support services	2,723
Utilities	15,498
Administrative and other	96,265

Total operating expenses	<u>858,618</u>
--------------------------	----------------

Net income (loss)	(22,490)
-------------------	----------

Retained earnings unreserved - July 1, 2000	<u>146,687</u>
---	----------------

Retained earnings unreserved - June 30, 2001	<u>\$ 124,197</u>
--	-------------------

CITY OF NEWPORT, RHODE ISLAND

Internal Service Fund

Statement Of Cash Flows

For The Year Ended June 30, 2001

	<u>Total</u>
Cash flows from operating activities	
Cash received from customers	\$ 835,134
Cash payments to suppliers for goods and services	(421,327)
Cash payments to employees for services	(299,438)
Payment of administrative expense	(98,265)
Cash received (payment) for miscellaneous items	-
	<hr/>
Net cash provided by (used for) operating activities	18,104
	<hr/>
Cash flows from non-capital financing activities	
Interfund loans and transfers	(451,122)
	<hr/>
Net cash provided by (used for) non-capital financing activities	(451,122)
	<hr/>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(1,565)
	<hr/>
Net cash provided (used for) capital and related financing activities	(1,565)
	<hr/>
Cash flows from investing activities	
Interest and dividends on investments	-
	<hr/>
Net cash provided by (used for) investing activities	-
	<hr/>
Net increase (decrease) in cash and cash equivalents	(434,583)
Cash and cash equivalents at beginning of year	513,438
	<hr/>
Cash and cash equivalents at end of year	\$ 78,855
	<hr/>
Operating income (Loss)	\$ (22,490)
	<hr/>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	21,966
Changes in assets and liabilities:	
(Decrease) Increase in accounts payable/other liabilities	22,252
Decrease (Increase) in accounts receivable/other assets	(3,624)
	<hr/>
Total adjustments	40,594
	<hr/>
Net cash provided by operating activities	\$ 18,104
	<hr/>

CITY OF NEWPORT, RHODE ISLAND

Internal Service Fund

Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP Basis)

For the Year Ended June 30, 2001

	<u>Equipment Operation Fund</u>			
	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Revenues:				
User fees	\$ 867,536	\$ 867,536	\$ 836,128	\$ (31,408)
Expenses:				
Salaries and benefits	284,404	284,404	306,306	(21,902)
Materials and supplies	243,914	244,490	254,205	(9,715)
Waste removal	1,500	1,500	903	597
Repair and maintenance	177,870	176,048	160,752	15,296
Depreciation	-	-	-	-
Support services	9,605	9,528	2,723	6,805
Utilities	21,630	21,630	15,498	6,132
Administrative and other	107,771	110,428	96,265	14,163
Property taxes	-	-	-	-
Total operating expenses	<u>846,694</u>	<u>848,028</u>	<u>836,652</u>	<u>11,376</u>
Add capital expenses:				
Other				
Contingency	20,842	19,508	-	19,508
Capital improvements	-	-	1,565	(1,565)
Total other	<u>20,842</u>	<u>19,508</u>	<u>1,565</u>	<u>17,943</u>
Net income (loss), budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,089)</u>	<u>\$ (2,089)</u>

FIDUCIARY FUNDS

Trust and agency funds account for the fair value of net assets held by the City in a trust or agency capacity for the ultimate provision of benefits to third parties. Trust funds also account for changes in net assets attributable to revenues, expenditures and expenses. Agency funds do not report results of operations.

Trust funds are classified as expendable, non-expendable or pension trusts dependent upon benefactor intent. Non-expendable and pension trusts are safeguarded by the City's Trust and Investment Commission, five residents appointed by the Council to ensure the preservation of each trust's corpus and the propriety of all asset disbursements.

Expendable Trust Funds are those in which the corpus and capital gains may be disbursed to beneficiaries along with investment earnings. Presently, four trust funds are classified as expendable; each is administered by the City's financial administration.

Scholarship Trust Funds are non-expendable trusts created with bequests intended to generate income to provide Newport public school system students with scholarships for secondary education. Assets of each of 47 scholarship trusts are held by an independent custodian with the City's financial management administering beneficiary disbursements subject to the approval of the Trust and Investment Commission.

Other Non-Expendable Trust Funds include 31 trusts created with bequests dating back to 1848. Income from these trusts is intended to finance a variety of public resources or provide subsidies to City services. As with scholarships, assets of each trust are held by an independent custodian and beneficiary disbursements are administered by the City, subject to the approval of the Trust and Investment Commission.

Fire Pension Plan Fund is a pension trust fund whose assets are held by independent custodians and invested in accordance with directives of the Trust and Investment Commission. This fund accounts for the receipt, custody and disbursement of contributions from both the City General Fund and fire members to meet the current and future pension obligations of retired firefighters.

Police Pension Plan Fund is a pension trust fund also under independent custodianship and the investment directives of the Trust and Investment Commission. This fund accounts for the receipt, custody and disbursement of contributions from the City General Fund and police members to meet the current and future pension obligation of retired policemen.

Recreation Fund is an agency fund which accounts for the custody of contributions received from participants of the various City recreation programs for fees charged by program providers arranged by the City.

Student Activity Funds is an agency fund which accounts for contributions received from students participating in extra-curricular activities through school.

CITY OF NEWPORT, RHODE ISLAND

Trust and Agency Funds

Combining Balance Sheet

June 30, 2001

	Expendable Trust Funds	Nonexpendable Trust Funds		Pension and Similar Trust Funds				Agency Funds	Total
		Scholarship Trusts	Other Nonexpendable Trusts	Police Pension Fund	Fire Pension Fund	Extended Benefits			
Cash	\$ 165,398	\$ (68,289)	\$ (100,637)	\$ 80,532	\$ 626,910	\$ -	\$ 240,000	\$ 943,914	
Investments	-	916,179	6,741,688	28,726,355	15,420,137	-	-	51,804,359	
Accounts receivable, other	-	-	-	-	-	-	-	-	
Due from other funds	-	-	-	-	-	-	-	-	
Total assets	\$ 165,398	\$ 847,890	\$ 6,641,051	\$ 28,806,887	\$ 16,047,047	\$ -	\$ 240,000	\$ 52,748,273	

ASSETS

LIABILITIES AND FUND EQUITIES (DEFICITS)

Liabilities:								
Accounts Payable	\$ -	\$ 1,037	\$ 24,925	\$ 20,159	\$ 12,297	\$ -	\$ -	\$ 58,418
Due to other funds	-	-	-	-	-	-	-	-
Amounts held in escrow	-	-	-	-	-	-	240,000	240,000
Total liabilities	-	1,037	24,925	20,159	12,297	-	240,000	298,418
Fund balances (deficits):								
Net assets held in trust for pension benefits	-	-	-	28,786,728	16,034,750	-	-	44,821,478
Unreserved, undesignated	165,398	846,853	6,616,126	-	-	-	-	7,628,377
Total fund balances (deficits)	165,398	846,853	6,616,126	28,786,728	16,034,750	-	-	52,449,855
Total liabilities and fund balances	\$ 165,398	\$ 847,890	\$ 6,641,051	\$ 28,806,887	\$ 16,047,047	\$ -	\$ 240,000	\$ 52,748,273

CITY OF NEWPORT, RHODE ISLAND

Expendable Trust Funds

Balance Sheet

June 30, 2001

	<u>Expendable Trust Funds</u>
ASSETS	
Cash	\$ 165,398
Investments	-
Accounts receivable, other	-
Due from other funds	-
	<hr/>
Total assets	<u><u>\$ 165,398</u></u>
LIABILITIES AND FUND EQUITIES	
Liabilities:	
Accounts Payable	\$ -
Due to other funds	-
Amounts held in escrow	-
	<hr/>
Total liabilities	<hr/>
Fund balance:	
Unreserved, undesignated	<u>165,398</u>
Total liabilities and fund balance	<u><u>\$ 165,398</u></u>

CITY OF NEWPORT, RHODE ISLAND

Expendable Trust Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2001

	Expendable Trust Funds
Revenues:	
Donations	\$ 107,990
Other	<u>-</u>
Total revenues	<u>107,990</u>
Operating expenditures:	
Awards	<u>109,636</u>
Total expenditures	<u>109,636</u>
Net income (loss)	(1,646)
Fund balance , July 1, 2000	<u>167,044</u>
Fund balance, June 30, 2001	<u>\$ 165,398</u>

CITY OF NEWPORT, RHODE ISLAND

Nonexpendable Trust Funds

Combining Balance Sheets

June 30, 2001

	<u>Scholarship Trusts</u>	<u>Other Trusts</u>	<u>Total</u>
ASSETS			
Cash	\$ (68,289)	\$ (100,637)	\$ (168,926)
Investments	916,179	6,741,688	7,657,867
Accounts receivable, other	-	-	-
Due from other funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 847,890</u>	<u>\$ 6,641,051</u>	<u>\$ 7,488,941</u>
LIABILITIES AND FUND EQUITIES			
Liabilities:			
Accounts Payable	\$ 1,037	\$ 24,925	\$ 69,326
Due to other funds	-	-	-
Amounts held in escrow	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,037</u>	<u>24,925</u>	<u>69,326</u>
Fund balances (deficits):			
Unreserved, undesignated	<u>846,853</u>	<u>6,616,126</u>	<u>7,462,979</u>
	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficits)	<u>846,853</u>	<u>6,616,126</u>	<u>7,462,979</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 847,890</u>	<u>\$ 6,641,051</u>	<u>\$ 7,488,941</u>

CITY OF NEWPORT, RHODE ISLAND

Nonexpendable Trust Funds

Combining Statement of Revenues, Expenses, and Changes in Fund Balances

For the Year Ended June 30, 2001

	<u>Scholarship Trusts</u>	<u>Other Trusts</u>	<u>Total</u>
Revenues:			
Investment income	\$ 1,973	\$ (134,104)	\$ (132,131)
Donations	<u>6,345</u>	<u>-</u>	<u>6,345</u>
Total revenues	<u>8,318</u>	<u>(134,104)</u>	<u>(125,786)</u>
Operating expenses:			
Support services	<u>30,376</u>	<u>123,531</u>	<u>153,907</u>
Total expenses	<u>30,376</u>	<u>123,531</u>	<u>153,907</u>
Net income	(22,058)	(257,635)	(279,693)
Fund balances, July 1, 2000	872,576	6,900,718	7,773,294
Prior period adjustment	<u>(3,665)</u>	<u>(26,957)</u>	<u>(30,622)</u>
Fund balances, June 30, 2001	<u>\$ 846,853</u>	<u>\$ 6,616,126</u>	<u>\$ 7,462,979</u>

CITY OF NEWPORT, RHODE ISLAND

Non-Expendable Trust Funds

Combining Statement Of Cash Flows

For The Year Ended June 30, 2001

	<u>Scholarship Trusts</u>	<u>Other Trusts</u>	<u>Total</u>
Cash flows from operating activities			
Payment of administrative expense	\$ (35,495)	\$ (104,125)	\$ (139,620)
Donations received	6,345	-	6,345
	<u>(29,150)</u>	<u>(104,125)</u>	<u>(133,275)</u>
Net cash provided by (used for) operating activities			
Cash flows from non-capital financing activities			
Interfund loans and transfers	(4,977)	(3,805)	(8,782)
	<u>(4,977)</u>	<u>(3,805)</u>	<u>(8,782)</u>
Net cash provided by (used for) non-capital financing activities			
Cash flows from investing activities			
(Purchases) sales of investments	(7,372)	151,686	144,314
Unrealized loss on investments	(52,821)	(539,183)	(591,984)
Interest and dividends on investments	61,139	405,059	466,198
	<u>946</u>	<u>17,582</u>	<u>18,528</u>
Net cash provided by (used for) investing activities			
Net increase (decrease) in cash and cash equivalents	(33,181)	(90,348)	(123,529)
Cash and cash equivalents at beginning of year	(31,443)	16,668	(14,775)
Effect of prior period adjustments	(3,665)	(26,957)	(30,622)
Cash and cash equivalents at end of year	<u>\$ (68,289)</u>	<u>\$ (100,637)</u>	<u>\$ (168,926)</u>
Operating income (Loss)	\$ (24,031)	\$ (123,531)	\$ (147,562)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	-	-	-
Changes in assets and liabilities:			
(Decrease) Increase in Accounts payable/other liabilities	(5,119)	19,406	14,287
Total adjustments	<u>(5,119)</u>	<u>19,406</u>	<u>14,287</u>
Net cash provided by operating activities	<u>\$ (29,150)</u>	<u>\$ (104,125)</u>	<u>\$ (133,275)</u>

CITY OF NEWPORT, RHODE ISLAND

Pension Trust Funds

Combining Statement of Plan Assets

June 30, 2001

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Entended Benefits</u>	<u>Total</u>
ASSETS				
Cash	\$ 80,532	\$ 626,910	\$ -	\$ 707,442
Receivables:				
Employer	-	-	-	-
Other	-	-	-	-
Interest and dividends	-	-	-	-
Total receivables	-	-	-	-
Investments, at fair value:				
Cash equivalents	-	-	-	-
Equities:				
Domestic	26,136,282	13,869,393	-	40,005,675
Mutual funds	-	-	-	-
Equities - ADRs	-	-	-	-
Equities - International	<u>2,590,073</u>	<u>1,550,744</u>	-	<u>4,140,817</u>
Total investments	<u>28,726,355</u>	<u>15,420,137</u>	-	<u>44,146,492</u>
Total assets	<u>\$ 28,806,887</u>	<u>\$ 16,047,047</u>	<u>\$ -</u>	<u>\$ 44,853,934</u>
LIABILITIES				
Refund payables and other	\$ 20,159	\$ 12,297	\$ -	\$ 32,456
Net assets held in trust for pension benefits	<u>28,786,728</u>	<u>16,034,750</u>	-	<u>44,821,478</u>
Total liabilities	<u>\$ 28,806,887</u>	<u>\$ 16,047,047</u>	<u>\$ -</u>	<u>\$ 44,853,934</u>

CITY OF NEWPORT, RHODE ISLAND

Pension Trust Funds

Combining Statement of Changes in Plan Net Assets

June 30, 2001

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Extended Benefits</u>	<u>Total</u>
Additions to plan net assets:				
Contributions:				
Employees	\$ 300,390	\$ 345,477	\$ -	\$ 645,867
Employer	2,640,890	3,641,057	-	6,281,947
Other income	-	4,810	-	4,810
Total contributions	<u>2,941,280</u>	<u>3,991,344</u>	<u>-</u>	<u>6,932,624</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments	(3,046,033)	(1,559,330)	-	(4,605,363)
Interest and dividends	843,163	516,148	-	1,359,311
Realized gain (loss) in investments	872,354	463,339	-	1,335,693
Less: investment expense	<u>33,769</u>	<u>18,775</u>	<u>-</u>	<u>52,544</u>
Net investment income	<u>(1,364,285)</u>	<u>(598,618)</u>	<u>-</u>	<u>(1,962,903)</u>
Total additions	<u>1,576,995</u>	<u>3,392,726</u>	<u>-</u>	<u>4,969,721</u>
Deductions from plan net assets:				
Pension benefits	2,773,399	3,075,980	-	5,849,379
Administrative and other	<u>87,401</u>	<u>46,578</u>	<u>-</u>	<u>133,979</u>
Total deductions	<u>2,860,800</u>	<u>3,122,558</u>	<u>-</u>	<u>5,983,358</u>
Net increase	(1,283,805)	270,168	-	(1,013,637)
Net assets held in trust for pension benefits:				
Beginning of year	30,150,507	15,423,230	26,790	45,600,527
Prior period adjustment	<u>(79,974)</u>	<u>341,352</u>	<u>(26,790)</u>	<u>234,588</u>
End of year	<u>\$ 28,786,728</u>	<u>\$ 16,034,750</u>	<u>\$ -</u>	<u>\$ 44,821,478</u>

CITY OF NEWPORT, RHODE ISLAND

Agency Funds

Combining Statement of Changes in Assets and Liabilities

June 30, 2001

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2001</u>
Student Activity Funds				
Assets				
Cash	\$ 209,315	\$ 442,679	\$ 460,115	\$ 191,879
Liabilities				
Amounts held in escrow	\$ 209,315	\$ 442,679	\$ 460,115	\$ 191,879
 Recreation Fund				
Assets				
Cash	\$ -	\$ 24,653	\$ 12,420	\$ 12,233
Liabilities				
Amounts held in escrow	\$ -	\$ 24,653	\$ 12,420	\$ 12,233
 Brick Market Foundation Inc.				
Assets				
Cash	\$ -	\$ 853	\$ -	\$ 853
Liabilities				
Amounts held in escrow	\$ -	\$ 853	\$ -	\$ 853
 Newport Municipal Charitable Improvement Fund, Inc.				
Assets				
Cash	\$ -	\$ 35,035	\$ -	\$ 35,035
Liabilities				
Amounts held in escrow	\$ -	\$ 35,035	\$ -	\$ 35,035
 Total Agency Funds				
Assets				
Cash	\$ 209,315	\$ 503,220	\$ 472,535	\$ 240,000
Liabilities				
Amounts held in escrow	\$ 209,315	\$ 503,220	\$ 472,535	\$ 240,000

ACCOUNT GROUPS

The accounting focus of governmental and expendable trust funds is on the flow of current financial resources which limits their scope to only financial assets -those which can be immediately or imminently spent -and current liabilities - those requiring the use of financial assets. The City augments this focus with the use of account groups, or single-entry subsidiary listing of capital assets and long-term liabilities. Account groups are not considered to be funds, nor do they report results of operation.

General Fixed Assets Account Group is a subsidiary listing of all capital assets, excepting infrastructural assets, acquired through the expenditure of governmental and expendable trusts. Use of this account group assists in extending stewardship controls to include all assets subject to misuse or misappropriation. As these controls do not generally apply to infrastructural assets which are immovable and of benefit only to the City, they are not included as general fixed assets.

General Long-Term Obligations Account Group is a subsidiary listing of all obligations which have been currently incurred but are expected to be liquidated using financial resources accumulated in future fiscal years, such as through future budgetary appropriations. Use of this account group assists in extending financial controls to include all liabilities for which the City's credit is at risk.

CITY OF NEWPORT, RHODE ISLAND

General Long-Term Debt Account Group

Schedule of Long-Term Debt

June 30, 2001

	<u>Primary Government</u>
ASSETS:	
Amount to be provided for the payment of long-term debt	\$ 20,083,952
Total assets	<u>\$ 20,083,952</u>
LIABILITIES:	
Accrued expenses:	
Bond and debt interest	\$ 60,351
Claims and judgments	732,500
Compensated absences	6,684,895
Bonds payable	4,948,033
Notes payable	655,000
Net pension obligation	<u>7,003,173</u>
Total liabilities	<u>\$ 20,083,952</u>

CITY OF NEWPORT, RHODE ISLAND

General Long-Term Debt Account Group

Schedule of Changes in Long-Term Debt

For The Year Ended June 30, 2001

	General Long-term Obligations June 30, 2000	Year Ended June 30, 2001		General Long-term Obligations June 30, 2001
		Additions	Deletions	
Primary government:				
Accrued expenses:				
Bond and debt interest	\$ -	\$ 345,557	\$ 285,206	\$ 60,351
Claims and judgments	298,500	683,000	249,000	732,500
Compensated absences	6,858,901	88,163	262,169	6,684,895
Total accrued expenses	<u>7,157,401</u>	<u>1,116,720</u>	<u>796,375</u>	<u>7,477,746</u>
Bonds payable	5,534,044	-	586,011	4,948,033
Notes payable	790,000	-	135,000	655,000
Net pension obligation	<u>7,404,602</u>	<u>-</u>	<u>401,429</u>	<u>7,003,173</u>
Total primary government	<u>13,728,646</u>	<u>-</u>	<u>1,122,440</u>	<u>12,606,206</u>
 Total general long-term debt	<u>\$ 20,886,047</u>	<u>\$ 1,116,720</u>	<u>\$ 1,918,815</u>	<u>\$ 20,083,952</u>

CITY OF NEWPORT, RHODE ISLAND

General Fixed Assets Account Group

Schedule of General Fixed Assets

June 30, 2001

General Fixed Assets

Land and improvements	\$ 6,498,008
Buildings and structures	13,967,059
Machinery and equipment	7,139,198
Rolling stock	<u>4,041,155</u>
Total General Fixed Assets	<u><u>\$ 31,645,420</u></u>

Investments in General Fixed Assets

Governmental fund revenues	<u>31,645,420</u>
Total General Fixed Assets	<u><u>31,645,420</u></u>

CITY OF NEWPORT, RHODE ISLAND

General Fixed Assets Account Group

Schedule of General Fixed Assets by Function and Activity

June 30, 2001

Function and Activity:	<u>Land & Improvements</u>	<u>Buildings & Structures</u>	<u>Machinery & Equipment</u>	<u>Rolling Stock</u>	<u>General Fixed Assets June 30, 2001</u>
Primary Government:					
General government:					
Mayor and Council	\$ -	\$ -	\$ 6,279	\$ -	\$ 6,279
City Manager	-	-	23,484	-	23,484
City Solicitor	-	-	9,025	-	9,025
Canvassing	-	-	24,105	-	24,105
Finance and Support Services	-	4,335	1,302,934	-	1,307,269
Fiduciary Accounts	-	-	-	-	-
Planning	428,508	46,302	92,836	-	567,646
Public Safety:					
Police Department	23,866	2,562,688	930,882	756,612	4,274,048
Fire Department	11,101	820,910	611,585	1,407,663	2,851,259
Public Health:					
Public Works	4,777,682	2,129,924	376,420	986,237	8,270,263
Solid Waste Operations	-	1,188	36,942	-	38,130
Recreation and Parks	1,034,947	730,125	462,682	682,969	2,910,723
General Education	218,904	7,486,587	3,224,817	207,674	11,137,982
Human Services	3,000	185,000	37,207	-	225,207
Total General Fixed Assets	\$ 6,498,008	\$ 13,967,059	\$ 7,139,198	\$ 4,041,155	\$ 31,645,420

CITY OF NEWPORT, RHODE ISLAND

General Fixed Assets Account Group

Schedule of Changes in General Fixed Assets by Function and Activity

For The Year Ended June 30, 2001

Function and Activity:	General Fixed Assets June 30, 2000	Year Ended June 30, 2001		General Fixed Assets June 30, 2001
		Additions	Deletions	
Primary Government:				
General government:				
Mayor and Council	\$ 6,279	\$ -	\$ -	\$ 6,279
City Manager	23,484	-	-	23,484
City Solicitor	9,025	-	-	9,025
Canvassing	24,105	-	-	24,105
Finance and Support Services	1,307,269	-	-	1,307,269
Fiduciary Accounts	-	-	-	-
Planning	425,695	141,951	-	567,646
Public Safety:				
Police Department	4,262,079	124,878	112,909	4,274,048
Fire Department	2,811,813	66,143	26,697	2,851,259
Public Health:				
Public Works	4,513,441	3,765,298	8,476	8,270,263
Solid Waste Operations	38,131	-	-	38,131
Recreation and Parks	2,553,518	357,204	-	2,910,722
General Education	11,137,982	-	-	11,137,982
Human Services	188,000	37,207	-	225,207
Total Primary Government	\$ 27,300,821	\$ 4,492,681	\$ 148,082	\$ 31,645,420

SUPPLEMENTARY INFORMATION

The information provided herein contains schedules
which the City deems necessary to provide
additional disclosures.

CITY OF NEWPORT, RHODE ISLAND

June 30 2001

Schedule of Employer Contributions - Fire and Police Pension Plans

Fire Pension Plan			
Actuarial Valuation Date	Annual Required Contribution (ARC)	Actual Contribution	% of ARC Contributed
1995	\$ 2,576,363	\$ 1,736,686	67.4%
1996	2,709,621	1,990,018	73.4%
1997	2,919,663	2,760,163	94.5%
1998	3,065,696	3,032,805	98.9%
1999	2,961,385	3,189,319	107.7%
2000	3,003,673	3,860,777	128.5%
2001	3,281,802	3,641,057	110.9%

Police Pension Plan			
Actuarial Valuation Date	Annual Required Contribution (ARC)	Actual Contribution	% of ARC Contributed
1995	\$ 2,103,989	\$ 2,226,085	105.8%
1996	2,279,943	2,322,898	101.9%
1997	2,426,242	1,793,369	73.9%
1998	2,547,554	2,759,907	108.3%
1999	2,274,548	3,137,686	137.9%
2000	2,094,752	2,510,675	119.9%
2001	1,696,189	2,640,890	155.7%

CITY OF NEWPORT, RHODE ISLAND

June 30, 2001

Schedule of Funding Progress – Fire and Police Pension Plans

Fire Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets as % of AAL	Unfunded AAL	Annual Covered Payroll	Unfunded AAL of % of Covered Payroll
1995	5,739,340	42,946,269	13.4%	37,206,929	3,588,503	1036.8%
1996	7,268,544	46,789,300	15.5%	39,520,756	3,639,828	1085.8%
1997	9,216,361	49,700,238	18.5%	40,483,877	3,343,359	1210.9%
1998	11,474,049	52,122,615	22.0%	40,648,566	3,405,780	1193.5%
1999	13,386,223	55,175,126	24.3%	41,788,903	3,512,322	1189.8%
2000	15,189,407	55,708,574	27.3%	40,519,167	4,250,751	953.2%
2001	15,364,083	60,698,701	25.3%	45,334,618	4,321,161	1049.1%

Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets as % of AAL	Unfunded AAL	Annual Covered Payroll	Unfunded AAL of % of Covered Payroll
1995	\$ 13,203,006	\$ 38,071,890	34.7%	\$ 24,868,884	\$ 3,183,417	781.2%
1996	14,533,242	42,347,208	34.3%	27,813,966	3,329,273	835.4%
1997	20,845,510	44,995,821	46.3%	24,150,311	3,301,401	731.5%
1998	24,062,237	47,394,935	50.8%	23,332,698	3,394,587	687.4%
1999	27,697,403	47,598,787	58.2%	19,901,384	3,552,014	560.3%
2000	29,758,830	47,579,511	62.5%	17,820,681	3,838,574	464.3%
2001	28,782,410	51,471,122	55.9%	22,688,712	3,737,343	607.1%

CITY OF NEWPORT, RHODE ISLAND
June 30, 2001

SINGLE AUDIT SECTION

CITY OF NEWPORT, RHODE ISLAND

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

FOR THE YEAR ENDED JUNE 30, 2001

Honorable Mayor and Members of the City Council
City of Newport
Newport, Rhode Island

INDEPENDENT AUDITOR'S REPORT

Compliance

We have audited the compliance of the City of Newport, Rhode Island with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2001. The City of Newport's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 99-2, 99-3, and 99-4 in the accompanying Schedule of Findings and Questioned Costs, the City of Newport, Rhode Island did not comply with requirements regarding reporting and subrecipient monitoring that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion for the City of Newport, Rhode Island to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Newport, Rhode Island complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the City of Newport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 99-2, 99-3, 99-4, 00-1, 00-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 00-1 and 00-4 to be material weaknesses.

This report is intended for the information of the City Council, management, federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

July 30, 2002

Hague, Salandy & Co PC

CITY OF NEWPORT, RHODE ISLAND

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED JUNE 30, 2001

Honorable Mayor and Members of the City Council
City of Newport
Newport, Rhode Island

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the City of Newport, Rhode Island as of and for the year ended June 30, 2001, and have issued our report thereon dated July 30, 2002. In our report, our opinion was qualified for the inadequacies of accounting records for cash. In addition, we reported on a modification as to consistency due to a change in accounting principle over contributed capital. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Newport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-1, 00-2, 00-3, 00-4, and 00-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 00-1, 00-2, 00-3, 00-4, and 00-5 to be material weaknesses.

We also noted other matters involving internal control over financial reporting that we have reported to the City's management in a separately communicated letter dated August 22, 2002.

This report is intended for the information of the City Council, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hague, Sakadog & Co PC

July 30, 2002

CITY OF NEWPORT, RHODE ISLAND
Schedule of Federal Awards
For the Fiscal Year ended June 30, 2001

	Federal CFDA Number	Pass-Through Grantor's Number	Type of Program	Expenditures
U.S Department of Education				
After School Learning Centers	84.287B		Non-Major	98,799
Safe & Drug Free PL 105-277	84.184		Major	519,017
				617,816
<i>Pass-Through State Department of Education:</i>				
Title I	84.010	1420-51623	Major	664,707
Title IV - Drug Free Schools	84.186	1420-52923	Non-Major	40,444
Title VI	84.298	1420-51000-901	Non-Major	38,012
Title II	84.281	1420-50600-901	Non-Major	26,768
Perkins	84.048	9-1440-53200-21-03	Non-Major	255,008
Vocational Training	84.048	9-1440-53500-21-04	Non-Major	66,276
IDEA - Professional Services (PL 94-142)	84.027	1430-50523	Major	353,437
Title VI - Class Size Reduction	84.340		Non-Major	208,778
Adult Even Start	84.314	9-1440-51000-21-02	Non-Major	51,000
Even Start	84.314	1420-51900-901	Non-Major	175,369
Project Care - Working Wonders	84.276		Non-Major	116,707
Adult Learning Center	84.002	9-1440-51000-21-01	Non-Major	93,047
Out of School Youth	84.002A		Non-Major	27,929
Project Enhance	84.173A		Non-Major	31,437
Project TIDE	84.318X		Non-Major	40,000
21st Century	84.287		Non-Major	98,799
School Support Systems	84.027A	1430-50823	Non-Major	12,000
				2,299,718
Total Department of Education				2,917,534
U.S. Department of Housing and Urban Development				
<i>Pass-Through Rhode Island Department of Administration, Office of Municipal Affairs:</i>				
Community Development Block Grant - Small Cities	14.228			
Year 20		97-21-16		1,699
Year 21		98-21-17		133,552
Year 22		99-21-18		310,523
Year 23		00-21-19		455,138
Year 24		01-21-20		141,951
Total U.S. Department of Housing and Urban Development				1,042,863
U.S. Department of Agriculture				
<i>Pass-Through State Department of Education</i>				
National School Lunch	10.555	N/A	Major	540,194
Total U.S. Department of Agriculture				540,194

CITY OF NEWPORT, RHODE ISLAND
Schedule of Federal Awards - Continued
For the Fiscal Year ended June 30, 2001

	Federal CFDA Number	Pass-Through Grantor's Number	Type of Program	Expenditures
U.S. Department of Justice				
<i>Direct Programs:</i>				
Local Law Enforcement Block Grant - 98	16.592		Non-Major	38,060
Local Law Enforcement Block Grant - 99	16.592		Non-Major	86,955
				125,015
<i>Pass-Through Rhode Island Governor's Justice Commission:</i>				
Underage Drinking and Tobacco Use	16.727		Non-Major	6,962
Substance Abuse Prevention Task Force	93.959		Non-Major	350
				7,312
<i>Passed Through Rhode Island Governor's Justice Commission</i>				
2000 Title V	16.548A		Non-Major	320
Total U.S. Department of Justice				132,647
U.S. Department of Transportation				
<i>Passed Through RI Department of Transportation:</i>				
157 Seatbelt Grant	20.604		Non-Major	8,516
Total Department of Transportation				8,516
<i>Total Federal Financial Assistance</i>				\$ 5,009,488

City Of Newport, Rhode Island

Schedule Of Findings And Questioned Costs For The Year Ended June 30, 2001

SECTION I – SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statement of the City of Newport, Rhode Island.
2. We noted matters involving internal controls over financial reporting and its operations that we consider to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the City of Newport, Rhode Island, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. We noted matters involving internal controls over major programs and its operations that we considered to be material weaknesses.
5. We have audited the compliance of the City of Newport, Rhode Island with the types of compliance requirements set forth in U.S. Office of Management and Budget COMB) Circular A-133 Compliance Supplement that were applicable to each of the major programs and have issued our unqualified report thereon dated July 30, 2002.
6. Audit findings relative to the major federal award programs for the City of Newport are reported in this schedule.his schedule.
7. Major Programs were as follows:

Federal CFDA Number

National School Lunch Program	10.555
Title I	84.010
Community Development Block Grant	14.338
SPED 94-142	84.027

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The City of Newport, Rhode Island does not qualify as a low-risk auditee.

City Of Newport, Rhode Island

Schedule Of Findings And Questioned Costs (Continued) For The Year Ended June 30, 2001

SECTION II – FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Program</u>	<u>Findings</u>
00-1	N/A	<p>Criteria: Effective internal controls over the City's general ledger include the performance of timely NONE and accurate reporting of financial data.</p> <p>Condition: The City currently (1) does not post activity on a timely basis in the major areas of revenue recognition, i.e., property taxes, users fees, etc., (2) does not reconcile with the various departments on a monthly basis (School Department for example), (3) does not reconcile cash on a monthly basis, (4) does not post revenues as earned and amounts expended in the trust funds on a monthly or quarterly basis, (5) does not maintain sufficient supporting documentation for inter fund billings and does not record such billing on a monthly basis. (Administrative Fees for exan.,le).</p> <p>Effect: The assets and liabilities in both the governmental funds as well as the proprietary funds are materially over or under stated during all months of the fiscal year. More specifically, audit adjustments were required in the general fund totally \$14,730,090, in the water fund totally \$5,366,008, in the water control fund totally \$5,182,317, and in the capital projects funds totally \$4,904,295, to name a few.</p> <p>Cause of Condition: Lack of supervision and review of the general ledger.</p> <p>Recommendation: We recommend that the City review the functions within the accounting and finance department and ensure that those employees responsibility for the maintenance of the general ledger are properly trained and supervised.</p>
00-2	N/A	<p>Criteria: GASB: Concept Statement-1 identifies accountability as the paramount objective of financial NONE reporting by local governments. Accountability is based on the transfer of responsibility for resources or actions from the citizenry to another party, such as the management of a governmental entity. Financial reporting should corrnnunicate adequate information to user groups to enable them to assess the performance of those parties empowered to act in the place of citizenry.</p> <p>Condition: The City does not include a general long term debt account group in its general ledger, but gathers information from various sources. In addition, the City does not maintain its Student Activity Funds under general ledger control.</p> <p>Effect: During fiscal year ended June 30, 2000, various accounts which should have been recorded in the long term account group have been reported with the same outstanding balance as in fiscal year ended June 30, 1999. With regard to the Student Activity Funds, no activity was recorded during the fiscal year ended June 30, 2000.</p> <p>Cause of Condition: Improperly trained and supervised staff.</p> <p>Recommendation: We recommend that a general long term debt account group be established on the general ledger and posted to and reconciled on a monthly basis.</p>

City Of Newport, Rhode Island

Schedule Of Findings And Questioned Costs (Continued) For The Year Ended June 30, 2001

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

<u>Reference Number</u>	<u>Program</u>	<u>Findings</u>
00-3	N/A	<p>Criteria: A governmental entity's accounting system should be designed to achieve the following: * Present fairly and with full disclosure the funds and activities of the government in conformity with governmental generally accepted accounting principles. * Determine and demonstrate compliance with finance-related legal and contractual provisions.</p> <p>Condition: The City currently maintains a fund entitled Special Reserve Fund which is not reflected as a fund in its fun-based financial statements. Instead the fund is allocated at year end to the general fund, water fund, and water pollution control fund. The surplus generated by this fund is then recorded as a reserve, circumventing the recognition of fund equity. This fund is apparently used to record the income generated from the sale of assets.</p> <p>Effect: Total Fund Equity of the City is understated in the fund based financial statements.</p> <p>Recommendation: We recommend that this fund be reviewed and properly recorded in the City's general ledger.</p>
00-4	N/A	<p>Criteria: Governmental accounting systems must be organized and operated on a fund basis. A fund is NONE defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations [NCGA 1] .</p> <p>Condition: The school department maintains a status report for its revenue and expenditures for its funds. All balance sheets are maintained in the City's general ledger however, no receivables and or payables are recorded either monthly or at year end.</p> <p>Effect: At no time during the fiscal year can a reader of the City's general ledger get an accurate financial picture of the school department's unrestricted and restricted funds.</p> <p>Recommendation: We recommend that the School Department review the capabilities of integration with the City's general ledger and address the issued of a complete accounting for all funds.</p>
00-5	N/A	<p>Criteria: A budgetary accounting system should be utilized in certain governmental and proprietary funds to enhance controls in the governmental unit's formal accounting system.</p> <p>Condition: The City currently prepares a budget for its enterprise funds, however, it does not appear that certain items are realistically budgeted. Therefore, it was necessary to include in the budget to GAAP reconciliation certain budgetary items, (depreciation for example).</p> <p>Effect: Certain budgetary line items do not reflect an accurate budget based on the history of the account.</p> <p>Recommendation: We recommend that the City build its budget based on historical data as well as anticipated changes.</p>

City Of Newport, Rhode Island

Schedule Of Findings And Questioned Costs (Continued) For The Year Ended June 30, 2001

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

<u>Reference Number</u>	<u>Program</u>	<u>Findings</u>
00-1	All	See Comment Above
00-4	All	See Comment Above
99-1	N/A	<p>Identification of Federal Programs -OMB Circular A-133, "Audits of States, Local Governments and Non- Profit Organizations" require that the auditee to identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. Federal programs and award identification includes, as applicable, the CFDA title and number, the awards number and year, the name of the federal granting agency, and the name of the pass-through entity.</p> <p>Presently, each City department receiving federal awards (both direct and pass-through) is responsibility for grant identification, monitoring and reporting. The Newport School Department has procedures to ensure that one person in its business office receives copies of all grant applications, award letters and grant requirements. This person monitors the timely filing of financial and operational reports to grantors and maintains the School Department's portion of the schedule of federal awards. There is no equivalent position in the City's finance office to act as a central clearinghouse for all nonschool department grants. The finance office was unable to prepare the City of Newport's schedule of expenditures of federal awards.</p> <p>We also noted several federal grants to the various City departments were improperly classified as state grants in the City's accounting records.</p> <p>We reconmend that the City designate a "grant administrator" in the finance office and establish procedures to ensure that the City can properly identify all federal grants in accordance with OMB Circular A-133.</p>
99-2	N/A	<p>OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations", requires the recipient of federal awards to report program outlays and program income on a cash or accrual basis, as prescribed by the Federal Awarding Agency. The reporting requirements for subrecipients are as specified by the pass-through entity.</p> <p>Presently, the required reports as specified in the "State of Rhode Island Small Cities CDBG Management Handbook" are not being filed timely or completely. Per the Program Director at the Newport City Hall, one of the required reports has not bee issued in over two years due to the fact that the finance department is unable to compile the necessary financial information in a timely manner.</p> <p>We recommend that the City compile the necessary financial information on a monthly basis and submit it to the Program Director of the CDBG Program. ~e further recommend that the Program Director institute procedures to ensure that the required financial reports are filed completely and timely.</p>

City Of Newport, Rhode Island

Schedule Of Findings And Questioned Costs (Continued) For The Year Ended June 30, 2001

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

<u>Reference Number</u>	<u>Program</u>	<u>Findings</u>
99-3	N/A	<p>The City loaned the proceeds of its Section 108 guaranteed loan payable to a developer (CFDA No. 14.248). When the developer repays the City, such proceeds will be Community Development program income. The loan agreement requires the developer to submit annual audited financial statements to the City in order for the City to determine if any repayment from cash flow is due.</p> <p>The Rhode Island Department of Administration -Office of Municipal Affairs (the State) issued a monitoring report on August 3, 1998 relative to the City's Community Development programs. One finding was that the City's Finance Department was not reviewing the developer's audited financial statements to determine if loan repayments were due. The State therein required the City to submit a written report on its review of the developer's audited financial statements within 15 days. The written report regarding the December 31, 1997 financial statements was submitted by the City's Treasurer on November 6, 1998.</p> <p>The Treasurer has not reviewed the Developer's December 31, 1998 financial statements to determine if program income is due from the developer nor has he submitted a report to the State.</p> <p>We recommend that the City establish policies and procedures to ensure that program income is properly recorded as earned. We further recommend that the City establish policies and procedures to ensure that the City responds to monitoring report findings in a timely fashion.</p>
99-4	N/A	<p>The City acts as a pass-through entity with regards to Community Development Block Grant (CDBG) funds, CFDA No. 14.228. According to the OMB Circular A-133 Compliance Supplement, a pass-through entity is responsible for:</p> <ul style="list-style-type: none">* Providing to the subrecipient the Federal award information (CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.* Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.* Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.* Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. <p>Presently, there are no policies and procedures in place to ensure compliance with the requirements relating to subrecipient monitoring. We recommend that the City re-write the standard contract between the City and the subrecipients to include the required Federal award information. We further recommend that the City establish policies and procedures to monitor the subrecipients to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.</p>

City of Newport, Rhode Island

**Notes To The Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2001**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Newport and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

NOTE 2 – AID-IN-KIND

During the year ended June 30, 2001, the City received aid-in-kind, in the form of miscellaneous food items, from the United States Department of Agriculture (USDA), passed through the State of Rhode Island Department of Education. The value on these items, received by the City's school lunch program, is unknown at June 30, 2001.

NOTE 3 – REVOLVING LOAN PROGRAMS

The City of Newport has the following loan receivable balances at June 30, 2001:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant – Small Cities Program	14.228	\$3,063,565
EDA Revolving Loan Fund	11.307	162,275

NOTE 4 – LOAN GUARANTEE

In December 1994, the City borrowed \$1,350,000 from a bank and loaned the proceeds to a developer to finance the purchase and renovation of a former City building. The underlying note receivable has a stated interest rate of 2.27% per annum and provides for annual repayments out of the developer's net cash flow, as defined, until 2012 when all outstanding principal and interest is due. The note receivable is secured by the renovated building and is recorded as a long-term receivable with a corresponding reservation of fund equity in the Community Development Act Fund, a special revenue fund. At June 30, 2001, the entire \$1,350,000 was receivable.

The City's note payable is guaranteed by the U.S. Department of Housing and Urban Development (HUD) under Section 108 of the National Housing Act of 1986. The State of Rhode Island has committed to provide the City \$160,000 of Community Development Block Grant proceeds from HUD annually to subsidize the difference between amounts collected from the developer and amounts due to the bank. At June 30, 2001, \$655,000 was outstanding on these notes.