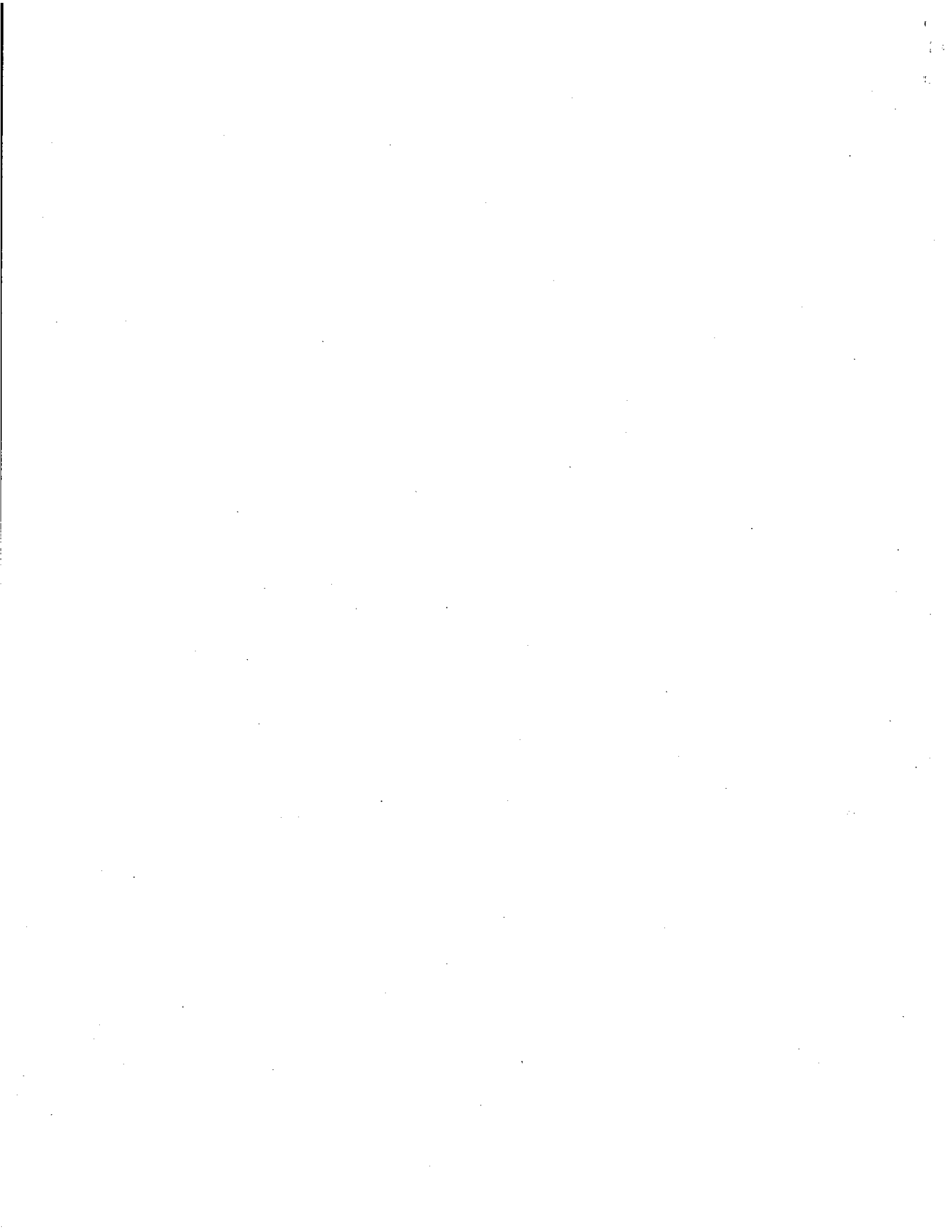


CITY OF NEWPORT, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003





CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2003

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CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2003

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CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2003

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards 82-83



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport, Rhode Island (the City) as of and for the year then ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newport, Rhode Island as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and school unrestricted funds for the year then ended, in conformity with accounting principles generally accepted in the United States.

As described in Note 1, effective July 1, 2002, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3 to 13 and historical pension information on pages 59 to 60 are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report (Continued)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

December 11, 2003

Jeffrey J. Gagnier, CPA
Jeffrey J. Gagnier, CPA & Associates P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Newport, we offer readers of the City of Newport's financial statements this narrative overview and analysis of the financial activities of the City of Newport for the fiscal year ended June 30, 2003.

Financial Highlights

- The assets of the City of Newport exceeded its liabilities at the close of the most recent fiscal year by \$103,142,675 (*net assets*). Of this amount, \$18,454,411 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,913,065. Approximately 70% of this increase (\$5,491,509) is attributable to increases in grants and contributions restricted to specific purposes. The rest of the increase comes from an increase in net assets in the business-type activities and an increase in property tax rates and collections of delinquent taxes.
- As of the close of the current fiscal year, the City of Newport's governmental funds reported combined ending fund balances of \$25,637,799, a decrease of \$1,988,412 in comparison with the prior year. Of this amount, \$2,266,326 is reserved and \$12,059,793 is unreserved but restricted for specific purposes in accordance with donor or grant instruction and \$11,311,680 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,311,680, or 19.7% of total general fund expenditures and net other financing uses.
- The City of Newport's long-term liabilities increased by \$1,074,316 (1.7%) during the current fiscal year and was related to the drawdown of revenue bonds that were approved for sewer improvements, net of all bond and note repayments.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide financial statements (continued):

Both of the government-wide financial statements distinguish functions of the City of Newport that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Newport include general government, general education, public safety, public health, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Newport include water utilities, sewer utilities (water pollution control utilities), parking facilities and Easton's Beach operations.

The government-wide financial statements include not only the City of Newport itself (known as the primary government), but also a legally separate redevelopment agency and a legally separate public library for which the City of Newport is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements

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

Governmental funds

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

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

The City of Newport maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the school unrestricted fund, the Community Development Act fund, and the capital projects fund, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are included on pages 64-67 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund financial statements (continued):

Governmental funds (continued)

The City of Newport adopts an annual budget for its general fund and its school unrestricted fund. Budgetary comparison statements have been provided for the general fund and the school unrestricted fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary funds

The City of Newport maintains 5 different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Newport uses enterprise funds to account for its water operations, water pollution control operations, parking operations and for its beach operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a City's various functions. The City of Newport uses an internal service fund to account for its fleet of vehicles and equipment maintenance operations. This fund charges both governmental and enterprise activities for costs and has therefore been included as a proprietary fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water fund and water pollution control fund, both of which are considered to be major funds of the City of Newport. The parking operations fund and beach fund are combined into a single, aggregated presentation in the proprietary fund financial statements. The internal service fund is presented separately in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Newport's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 26-58 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Newport's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 59-60 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, capital projects and proprietary funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 61-80 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Newport, assets exceeded liabilities by \$103,142,675 at the close of the most recent fiscal year.

By far the largest portion of the City of Newport's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Newport uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Newport's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Newport's Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 41,914,384	\$ 46,476,722	\$ 12,426,635	\$ 11,651,571	\$ 54,341,019	\$ 58,128,293
Capital assets, net	36,927,724	31,293,873	87,204,408	84,161,739	124,132,132	115,455,612
Total assets	78,842,108	77,770,595	99,631,043	95,813,310	178,473,151	173,583,905
Long-term liabilities outstanding	38,090,006	39,732,638	24,782,651	20,208,575	62,872,657	59,941,213
Other liabilities	9,856,688	11,839,026	2,601,131	4,579,310	12,457,819	16,418,336
Total liabilities	47,946,694	51,571,664	27,383,782	24,787,885	75,330,476	76,359,549
Net assets:						
Invested in capital assets, net of related debt	12,868,650	6,638,691	63,831,961	64,316,519	76,700,611	70,955,210
Restricted	2,266,326	2,841,997	5,721,327	2,455,883	7,987,653	5,297,880
Unrestricted	15,760,438	16,718,243	2,693,973	4,253,023	18,454,411	20,971,266
Total net assets	\$ 30,895,414	\$ 26,198,931	\$ 72,247,261	\$ 71,025,425	\$ 103,142,675	\$ 97,224,356

An additional portion of the City of Newport's net assets (8%) represents resources that are restricted to pay for ongoing contracts and commitments. The remaining balance of unrestricted net assets (\$18,454,411) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Newport is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis (continued):

There was an increase of \$3,265,444 in restricted net assets reported in connection with the City's business-type activities. Almost all of this increase (\$2,883,325) resulted from restricted cash reserves in the water utilities fund. The amounts are restricted by Rhode Island Public Utilities Commission order and can only be used for chemical purchases, water bonds debt service or water facilities capital improvements.

The government's net assets increased by \$5,918,319, excluding the effects of prior period adjustments, during the current fiscal year. A significant portion of this increase is attributable to increases in grants and contributions subject to external restrictions. The remainder is attributable to an increase in net assets from enterprise funds and rate increases and investment earnings.

Governmental activities

Governmental activities increased the City of Newport's net assets by \$4,696,483, excluding the effects of prior period adjustments, thereby accounting for 79% of the total growth in the net assets of the City of Newport. Key elements of this increase are as follows:

City of Newport's Changes in Net Assets

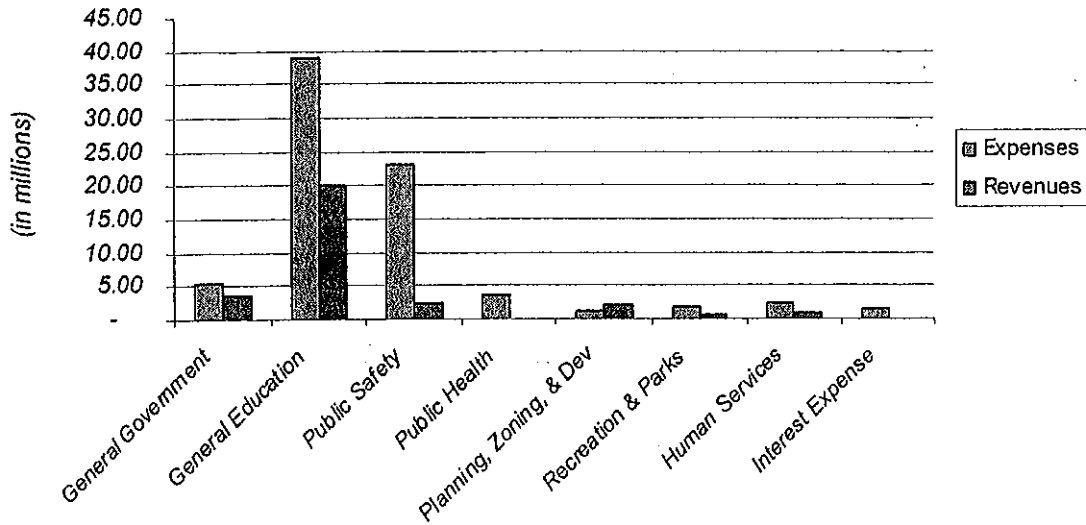
	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 6,536,377	\$ 7,033,275	\$ 15,015,948	\$ 14,454,395	\$ 21,552,325	\$ 21,487,670
Operating grants and contributions	21,279,957	17,773,575	-	-	21,279,957	17,773,575
Capital grants and contributions	1,683,441	179,547	-	-	1,683,441	179,547
General revenues:						
Property taxes	49,281,985	50,269,407	-	-	49,281,985	50,269,407
Grants and contributions not restricted to specific programs	4,155,936	4,322,582	-	-	4,155,936	4,322,582
Investment income	693,902	562,772	79,810	62,960	773,712	625,732
Miscellaneous revenues	107,862	129,691	-	-	107,862	129,691
Total revenues	83,739,460	80,270,849	15,095,758	14,517,355	98,835,218	94,788,204
Expenses:						
General government	5,261,563	4,793,349	-	-	5,261,563	4,793,349
General education	39,039,945	36,218,584	-	-	39,039,945	36,218,584
Public safety	23,098,422	21,754,976	-	-	23,098,422	21,754,976
Public health	3,649,735	4,039,379	-	-	3,649,735	4,039,379
Planning, zoning and development	855,293	857,264	-	-	855,293	857,264
Recreation and parks	1,868,074	1,715,140	-	-	1,868,074	1,715,140
Human services	2,475,041	2,263,612	-	-	2,475,041	2,263,612
Interest expense	1,166,764	1,194,463	-	-	1,166,764	1,194,463
Water	-	-	6,726,482	6,090,608	6,726,482	6,090,608
Water pollution control	-	-	5,806,015	5,608,449	5,806,015	5,608,449
Nonmajor business-type	-	-	974,819	987,211	974,819	987,211
Total expenses	77,414,837	72,836,767	13,507,316	12,686,268	90,922,153	85,523,035
Increase in net assets	6,324,623	7,434,082	1,588,442	1,831,087	7,913,065	9,265,169
Net assets July 1	26,198,931	18,764,849	71,025,425	69,194,338	97,224,356	87,959,187
Prior period adjustment	(1,628,140)	-	(366,606)	-	(1,994,746)	-
Net assets June 30	\$ 30,895,414	\$ 26,198,931	\$ 72,247,261	\$ 71,025,425	\$ 103,142,675	\$ 97,224,356

Property taxes decreased by \$987,422 (2%) during the year as a result of the settlement of various tax appeals offset in part by an increase in the property tax rate.

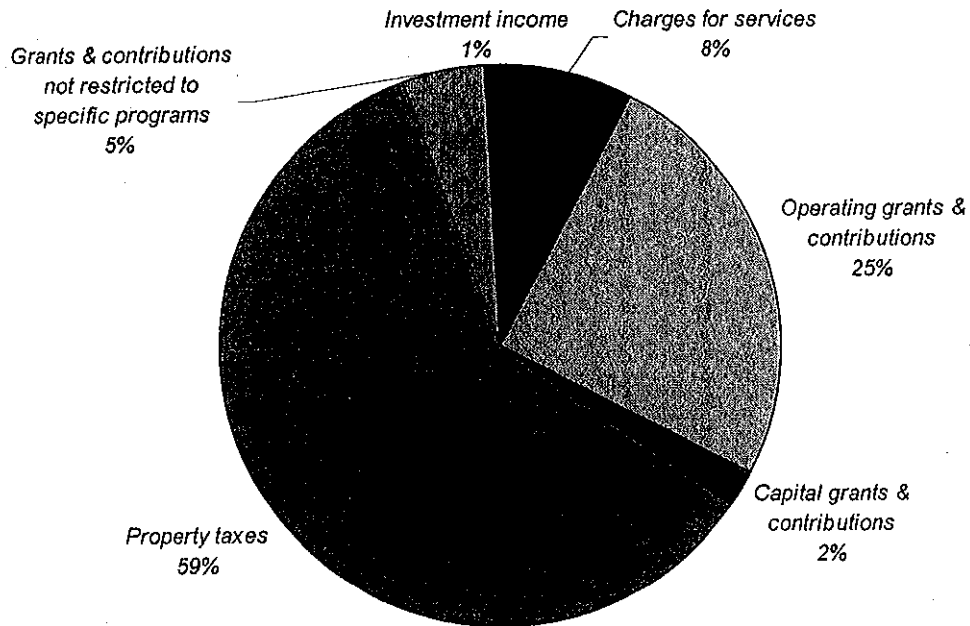
Operating grants and capital grants and contributions for governmental activities increased by \$5,010,276 mostly as a result of increases in grants for education (\$2,819,098), and for an infrastructure project (\$917,950) during the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Expenses and Program Revenues -
Governmental Activities**



Revenues by Source - Governmental Activities



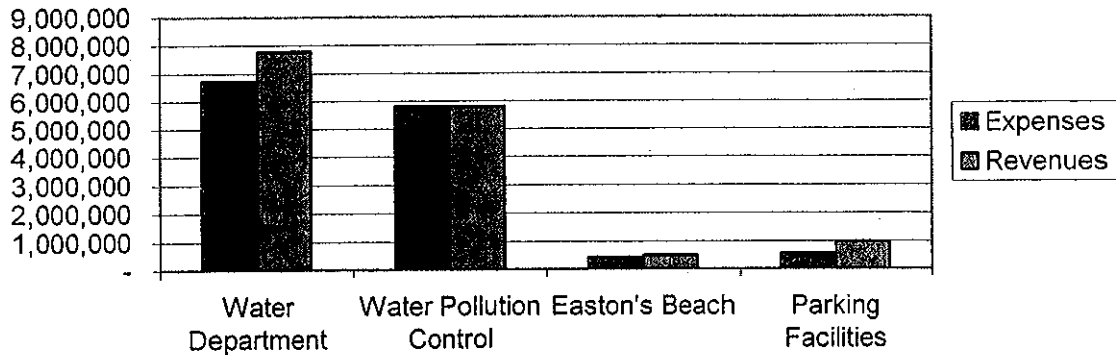
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Business-type activities

Business-type activities increased the City of Newport's net assets by \$1,588,442, accounting for 20% of the total growth in the government's net assets. Key elements of this increase are as follows:

Charges for services for business-type activities increased by 4%. The Water Fund accounts for a significant portion of this increase, which resulted from better collection of accounts receivable and a resulting decrease in the allowance for uncollectible accounts. Substantially all revenues come from charges for services.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Newport uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City of Newport's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Newport's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Newport's governmental funds reported combined ending fund balances of \$25,637,799, a decrease of \$1,988,412 in comparison with the prior year restated fund balance. Most of this total amount (\$23,371,473) constitutes unreserved fund balance, which is available for spending at the government's discretion or in accordance with grant and donor restrictions. The remainder of fund balance (\$2,266,326) is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis of the Government's Funds (continued)

The general fund is the operating fund of the City of Newport. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,311,680, while total fund balance reached \$12,541,645. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19.7% of total general fund expenditures and other financing uses, while total fund balance represents 21.8% of that same amount.

The fund balance of the City of Newport's general fund increased by a net of \$958,470 during the current fiscal year (a fiscal year increase of \$2,392,470 less the prior period adjustment of \$1,434,000). Key factors in this growth are as follows:

An increase in the property tax rate (3.2%) increased tax revenues by \$1,426,580, but was offset by abatements resulting from the revaluation of property values leaving a total increase in real property tax revenues of \$556,969. A reduction in collection of delinquent motor vehicle taxes (\$368,115) led to an increase in total tax revenues of \$220,000. Intergovernmental revenues of the general fund increased by \$709,983, as a result of the addition of school housing aid to assist with the debt payments on the Thompson Middle School renovation bonds. The general fund received transfers from the property acquisition fund and the capital projects fund. The transfers were approved to pay debt service and the costs of building renovations, and were used to forestall the need for a property tax increase.

Proprietary funds

The City of Newport's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Fund at the end of the year amounted to (\$2,215,902), a deficit resulting from a reserve for commitments for capital improvements. Unrestricted net assets for water pollution control at the end of the year amounted to \$1,421,836; for parking operations, \$3,822,295; and for the Easton's Beach operation a deficit of (\$334,256). The total growth in net assets for the Water Fund was \$1,078,945, for the Water Pollution Control Fund \$9,809, for the parking operations \$415,631 and for Easton's Beach \$84,057. The Water Pollution Control Fund total net assets was reduced by a prior period adjustment of \$366,606, which resulted from improper billing charges on a major account. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Newport's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor and can be briefly summarized as follows:

- \$5,000 increase in cruise ship revenue, which was offset by a corresponding increase in expenditures
- \$1,028,832 in expenditures due to encumbrance carryovers from fiscal year 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration

Capital assets

The City of Newport's investment in capital assets for its governmental and business-type activities as of June 30, 2003, is \$124,132,532 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and systems, machinery and equipment, vehicles, infrastructure placed in service in fiscal year ended June 30, 2003, and construction in progress. The total increase in the City of Newport's investment in capital assets for the current fiscal year was 7.5% (an 18% increase for governmental activities and 3.6% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction continued on system and facility improvements in the Water Pollution Control Fund. Construction in progress as of the close of the fiscal year had reached \$11,127,254.
- The Thompson Middle School building renovation was substantially completed (\$2,426,245). An asset value of \$11,865,328 was moved from construction in progress to buildings and systems.
- Infrastructure for the Ranger Road project (\$1,893,385) and Newport Heights (\$100,727) was built and placed in service.
- Computer equipment was purchased and placed in the Thompson Middle School (\$734,526).

City of Newport's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,407,411	\$ 1,407,411	\$ 5,931,531	\$ 5,931,531	\$ 7,338,942	\$ 7,338,942
Construction in progress	411,353	11,865,328	11,127,254	5,603,356	11,538,607	17,468,684
Land improvements	5,353,814	5,178,904	-	-	5,353,814	5,178,904
Buildings & systems	23,631,075	9,150,009	69,238,858	71,525,711	92,869,933	80,675,720
Machinery & equipment	2,848,230	2,370,374	720,771	818,510	3,569,001	3,188,884
Vehicles	1,305,049	1,321,847	186,394	282,631	1,491,443	1,604,478
Infrastructure	1,970,792	-	-	-	1,970,792	-
Total	\$ 36,927,724	\$ 31,293,873	\$ 87,204,808	\$ 84,161,739	\$ 124,132,532	\$ 115,455,612

Additional information on the City of Newport's capital assets can be found in Note 3 on pages 40-43 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration (continued)

Long-term debt.

At the end of the current fiscal year, the City of Newport had total bonded debt outstanding of \$47,431,921. Of this amount, \$35,685,427 comprises debt backed by the full faith and credit of the government. The remainder of the City of Newport's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 24,059,074	\$ 24,945,085	\$ 11,759,463	\$ 14,023,452	\$ 35,818,537	\$ 38,968,537
Revenue Bonds	-	-	11,613,384	5,821,768	11,613,384	5,821,768
Total	\$ 24,059,074	\$ 24,945,085	\$ 23,372,847	\$ 19,845,220	\$ 47,431,921	\$ 44,790,305

The City of Newport's total bonds increased by \$5,791,616 (13%) during the current fiscal year and was attributable to the revenue bonds issued to pay for system improvements in the Water Pollution Control Fund.

The City of Newport maintains an "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may have outstanding to 3% of its assessed property values. The current debt limitation for the City is \$99,391,970, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Newport's long-term debt can be found in Note 5 on pages 44-47 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Newport is currently 4.1%, which is an increase of .1% from a rate of 4.0% a year ago. This compares favorably to the state's average unemployment rate of 5.1% and the national average rate of 6.0%.
- The occupancy rate of the government's central business district has remained at 99% for the past three years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Newport's budget for the 2004 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$11,311,680. The City of Newport has appropriated \$4,881,060 of this amount for spending in the 2004 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2004 fiscal year for lagging infrastructure repairs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budgets and Rates

The Water Pollution Control Fund's rates were increased for the 2004 budget year. The Water Fund rates are controlled and set by the Rhode Island Public Utilities Commission. The City of Newport will file for a rate increase in 2004. The Water Pollution Control Fund rates were increased by 5% for all customers. This rate increase was necessary to finance capital improvements and infrastructure repairs.

Requests for Information

This financial report is designed to provide a general overview of the City of Newport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Laura Sitrin, City of Newport, 43 Broadway, Newport, Rhode Island 02840.

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF NET ASSETS
JUNE 30, 2003

	PRIMARY GOVERNMENT		COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	NEWPORT PUBLIC LIBRARY	REDEVELOPMENT AGENCY OF NEWPORT
ASSETS				
Current assets:				
Cash.....	\$ 13,429,067	\$ 2,616,712	\$ 303,548	\$ 161,926
Investments.....	10,004,196	190,554	369,295	-
Receivables (net).....	9,018,616	2,977,064	2,500	-
Internal balances (advances).....	419,463	(419,463)	-	-
Inventories.....	39,355	372,853	-	-
Other.....	-	373,423	11,317	-
Total current assets.....	32,910,697	6,111,143	686,660	161,926
Noncurrent assets:				
Restricted assets:				
Temporarily restricted, Cash.....	-	6,385,522	-	-
Permanently restricted, Investments.....	6,473,567	-	6,385,522	-
Receivables (net).....	2,136,988	-	6,473,567	-
Advances to component units.....	322,702	-	2,136,988	-
Internal balances (advances).....	70,430	(70,430)	-	-
Capital assets (net of accumulated depreciation)	36,927,724	87,204,808	7,172,977	507,703
Total noncurrent assets.....	45,931,411	93,519,900	7,172,977	507,703
TOTAL ASSETS	78,842,108	99,631,043	7,859,637	669,629
LIABILITIES				
Current liabilities:				
Cash overdraft.....	2,877,600	-	-	-
Accounts payable.....	2,218,961	1,079,430	39,664	-
Accrued expenses.....	1,519,444	1,132,145	-	-
Due to primary government.....	-	-	215,622	-
Note payable.....	2,700,000	-	-	-
Deferred revenue.....	-	389,556	-	-
Compensated absences.....	408,707	-	408,707	-
Other liabilities.....	131,976	-	-	-
Noncurrent liabilities:				
Advances from primary government.....	-	-	-	322,702
Due within one year.....	1,894,245	4,125,748	51,018	-
Due in more than one year.....	36,195,761	20,656,903	32,059	200,000
TOTAL LIABILITIES	47,946,694	27,383,782	338,363	522,702
NET ASSETS				
Invested in capital assets, net of related debt.....	12,868,650	63,831,961	7,015,477	307,703
Restricted for:				
Capital projects.....	886,814	-	-	886,814
Other purposes.....	1,379,512	5,721,327	242,521	-
Unrestricted.....	15,760,438	2,693,973	263,276	(160,776)
TOTAL NET ASSETS	\$ 30,895,414	\$ 72,247,261	\$ 7,521,274	\$ 146,927

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

CITY OF NEWPORT, RHODE ISLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			COMPONENT UNITS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	NEWPORT PUBLIC LIBRARY	REDEVELOPMENT AGENCY OF NEWPORT
PRIMARY GOVERNMENT:									
GOVERNMENTAL ACTIVITIES:									
General government.....	\$ 5,261,563	\$ 2,354,118	\$ 826,094	\$ -	\$ (2,081,351)	\$ -	\$ (2,081,351)		
General education.....	39,039,945	79,913	19,163,719	450,000	(19,346,313)		(19,346,313)		
Public safety.....	23,098,422	2,339,389	83,042	-	(20,675,991)		(20,675,991)		
Public health.....	3,649,735	44,819	-	14,141	(3,590,775)		(3,590,775)		
Planning, zoning and development.....	855,293	286,715	539,313	924,300	895,235		895,235		
Recreation and parks.....	1,868,074	686,522	93,613	-	(1,087,939)		(1,087,939)		
Human services.....	2,475,041	744,901	573,976	295,000	(861,164)		(861,164)		
Interest expense.....	1,166,764	-	-	-	(1,166,764)		(1,166,764)		
TOTAL GOVERNMENTAL ACTIVITIES.....	77,414,837	6,536,377	21,279,957	1,683,441	(47,915,062)	-	(47,915,062)		
BUSINESS-TYPE ACTIVITIES:									
Water.....	6,726,482	7,778,407	-	-	1,051,925		1,051,925		
Water Pollution Control.....	5,806,015	5,796,526	-	-	(9,489)		(9,489)		
Easton's Beach.....	418,663	502,043	-	-	83,380		83,380		
Parking Operations.....	556,156	938,972	-	-	382,816		382,816		
TOTAL BUSINESS-TYPE ACTIVITIES.....	13,507,316	15,015,948	-	-	1,508,632	-	1,508,632		
TOTAL PRIMARY GOVERNMENT.....	\$ 90,922,153	\$ 21,552,325	\$ 21,279,957	\$ 1,683,441	(47,915,062)	1,508,632	(46,406,430)		
COMPONENT UNITS:									
Newport Public Library.....	\$ 1,966,542	\$ 36,362	\$ 317,410	\$ 64,595				\$ (1,548,175)	\$ 25,530
Redevelopment Agency of Newport.....	24,870	50,400	-	-				(1,548,175)	25,530
TOTAL COMPONENT UNITS.....	\$ 1,991,412	\$ 86,762	\$ 317,410	\$ 64,595					
GENERAL REVENUES AND TRANSFERS:									
Property taxes.....					49,281,985		49,281,985		
Grants and contributions not restricted to specific programs.....					4,155,936		4,155,936		
Investment income.....					693,902	79,810	773,712	23,638	331
Miscellaneous.....					107,862		107,862	14,059	
Transfers from primary government.....								1,312,870	
TOTAL GENERAL REVENUES AND TRANSFERS.....					54,239,685	79,810	54,319,495	1,350,567	331
CHANGE IN NET ASSETS.....					6,324,623	1,588,442	7,913,065	(197,608)	25,861
NET ASSETS - JULY 1, 2002.....					26,198,931	71,025,425	97,224,356	3,878,399	423,818
PRIOR PERIOD ADJUSTMENT.....					(1,628,140)	(366,606)	(1,994,746)	3,840,484	(302,752)
NET ASSETS - JUNE 30, 2003.....					\$ 30,895,414	\$ 72,247,261	\$ 103,142,675	\$ 7,321,275	\$ 146,927

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

CITY OF NEWPORT RHODE ISLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	GENERAL	SCHOOL UNRESTRICTED FUND	COMMUNITY DEVELOPMENT ACT	CAPITAL PROJECTS FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash	\$ 7,314,062	\$ -	\$ 171,604	\$ 1,815,707	\$ 5,997,032	\$ 13,298,425
Investments	5,941,794	-	-	-	10,533,969	16,477,763
Receivables, net:						
Property taxes	2,407,195	-	-	-	-	2,407,195
Motor vehicle excise	1,313,691	-	-	-	-	1,313,691
Intergovernmental	-	1,286,156	118,808	410,318	686,056	2,501,338
Note/loan	-	-	3,009,981	1,800,000	443,653	5,253,634
Other	317,243	458,010	-	-	-	775,253
Due from other funds	748,656	-	-	-	313,000	1,063,656
Advances to other funds	-	-	-	-	489,893	489,893
Advances to component units	-	-	-	-	322,702	322,702
Prepaid expenses	-	-	-	-	-	-
TOTAL ASSETS	\$ 18,042,641	\$ 1,744,166	\$ 3,309,393	\$ 4,026,025	\$ 16,790,325	\$ 43,903,550
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Cash overdraft	\$ -	\$ 85,504	\$ -	\$ -	\$ 2,792,096	\$ 2,877,600
Accounts payable	1,123,848	189,852	102,579	737,317	48,443	2,202,037
Accrued expenses	821,191	353,593	-	-	4,399	1,179,683
Note payable	-	-	-	2,700,000	-	2,700,000
Deferred revenue	2,857,774	-	3,038,348	302,052	1,678,739	7,876,913
Due to other funds	157,500	704,821	-	-	26,514	888,835
Compensated absences	408,707	-	-	-	-	408,707
Other liabilities	131,976	-	-	-	-	131,976
Total Liabilities	5,500,956	1,333,770	3,140,927	3,739,369	4,550,689	18,265,751
Fund balances (deficits)						
Reserved	1,229,965	-	-	886,814	149,547	2,266,326
Unreserved, undesignated	11,311,680	410,396	159,466	(600,158)	12,090,089	23,371,473
Total Fund Balances (deficits)	12,541,645	410,396	159,466	286,656	12,239,636	25,637,959
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 18,042,641	\$ 1,744,166	\$ 3,309,393	\$ 4,026,025	\$ 16,790,325	

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	36,810,674
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds	6,565,579
Internal service funds are used by management to charge the cost of fleet maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets	201,691
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note II)	(38,320,329)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 30,893,414

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

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	GENERAL	SCHOOL UNRESTRICTED FUND	COMMUNITY DEVELOPMENT ACT	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Local taxes.....	\$ 48,164,505	-	-	-	-	\$ 48,164,505
Intergovernmental revenues.....	5,307,693	12,708,742	539,513	615,898	6,334,971	25,506,817
Charges for services.....	6,074,976	79,913	242,495	-	130,723	6,528,107
Use of money and property.....	1,673,362	-	26,055	35,944	464,541	693,902
Donations.....	-	450,000	20,000	275,000	680,623	1,425,623
Other revenues.....	107,354	-	-	-	508	107,862
TOTAL REVENUES.....	59,821,890	13,238,655	828,063	926,842	7,611,366	82,426,816
EXPENDITURES:						
Current:						
General government.....	4,919,181	-	-	-	-	4,919,181
General education.....	-	32,043,829	-	-	6,507,766	38,551,595
Public safety.....	15,942,808	-	-	-	180,033	16,122,841
Public health.....	3,229,334	-	-	-	14,141	3,243,475
Planning, zoning and development.....	820,019	-	-	-	6,350	826,369
Recreation and parks.....	1,617,294	-	-	-	74,909	1,692,203
Human services.....	1,489,561	-	494,554	-	482,062	2,466,177
Pension expenses.....	7,279,340	-	-	-	-	7,279,340
Debt service.....	2,314,529	-	190,688	-	-	2,505,217
Capital outlay.....	1,066,628	1,308,649	178,134	4,255,419	-	6,808,830
TOTAL EXPENDITURES.....	38,678,694	33,352,478	863,376	4,255,419	7,265,261	84,415,228
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	21,143,196	(20,113,823)	(33,313)	(3,328,577)	346,105	(1,988,412)
OTHER FINANCING SOURCES (USES):						
Operating transfers in.....	1,373,173	20,510,555	-	-	151,179	22,034,907
Operating transfers out.....	(20,123,899)	-	-	(333,110)	(1,577,898)	(22,034,907)
NET OTHER FINANCING SOURCES (USES).....	(18,750,726)	20,510,555	-	(333,110)	(1,426,719)	-
NET CHANGE IN FUND BALANCE (DEFICIT).....	2,392,470	396,732	(33,313)	(3,661,687)	(1,080,614)	(1,988,412)
FUND BALANCE - JULY 1, 2002.....	11,583,175	207,804	194,779	3,948,343	13,320,250	29,254,351
PRIOR PERIOD ADJUSTMENT.....	(1,434,000)	(194,140)	-	-	-	(1,628,140)
FUND BALANCE - JUNE 30, 2003.....	\$ 12,541,645	\$ 410,396	\$ 159,466	\$ 286,656	\$ 12,239,636	\$ 25,637,799

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

CITY OF NEWPORT, RHODE ISLAND

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
ARE DUE TO:

Net Change in Fund Balances-Total Governmental Funds.....	\$ (1,988,412)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.....	5,655,193
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.....	717,768
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amount is the net effect of these differences in the treatment of long-term debt and related items.....	<u>1,940,074</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 6,324,623</u>

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

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Local taxes.....	\$ 48,058,431	\$ 48,058,431	\$ 48,164,505	\$ 106,074
Intergovernmental revenues.....	4,088,180	4,088,180	5,307,693	1,219,513
User charges and fees.....	4,705,802	4,710,802	6,509,976	1,799,174
Use of money and property.....	101,032	101,032	167,362	66,330
Other revenues.....	130,874	130,874	107,354	(23,520)
TOTAL REVENUES.....	57,084,319	57,089,319	60,256,890	3,167,571
EXPENDITURES:				
General government:				
Mayor and city council.....	99,381	103,581	93,035	10,546
City manager.....	474,662	490,255	464,453	25,802
City solicitor.....	336,160	336,465	324,340	12,125
Canvassing.....	175,605	188,955	164,110	24,845
Finance.....	2,657,907	2,331,878	2,205,528	126,350
City clerk.....	511,686	520,044	440,745	79,299
Administrative services.....	1,096,962	1,111,119	944,702	166,417
Reserve accounts.....	1,144,446	742,532	768,253	(25,721)
Public safety:				
Police department.....	8,668,783	8,555,013	8,504,348	50,665
Fire department.....	7,821,704	8,005,869	7,762,706	243,163
Public health:				
Public works.....	1,731,433	2,131,750	1,535,154	596,596
Solid waste operations.....	1,921,951	1,923,352	1,787,239	136,113
Planning, zoning, and development.....	960,409	1,102,362	776,357	326,005
Recreation and parks.....	2,017,806	2,202,806	1,771,824	430,982
Human services:				
Donations.....	179,310	179,310	176,691	2,619
Public library.....	1,312,870	1,312,870	1,312,870	-
Pension expenses.....	7,349,708	7,349,708	7,285,670	64,038
Debt service.....	564,493	1,291,239	2,447,639	(1,156,400)
TOTAL EXPENDITURES.....	39,025,276	39,879,108	38,765,664	1,113,444
EXCESS OF REVENUES OVER EXPENDITURES	18,059,043	17,210,211	21,491,226	4,281,015
OTHER FINANCING SOURCES (USES):				
Transfers from other funds.....	1,751,746	1,751,746	938,173	(813,573)
Transfers to other funds.....	(19,810,789)	(19,990,789)	(19,990,789)	-
NET OTHER FINANCING SOURCES (USES).....	(18,059,043)	(18,239,043)	(19,052,616)	(813,573)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES (BUDGETARY BASIS).....	\$ -	\$ (1,028,832)	2,438,610	\$ 3,467,442

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

CITY OF NEWPORT, RHODE ISLAND

SCHOOL UNRESTRICTED FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES:				
Federal revenues.....	\$ 1,776,951	\$ 1,776,951	\$ 1,753,094	\$ (23,857)
State revenues.....	11,012,519	11,012,519	10,955,648	(56,871)
Contributions.....	-	-	450,000	450,000
Local revenues.....	257,000	257,000	79,913	(177,087)
TOTAL REVENUES.....	13,046,470	13,046,470	13,238,655	192,185
EXPENDITURES:				
General education.....	33,862,330	33,862,330	33,352,478	509,852
TOTAL EXPENDITURES.....	33,862,330	33,862,330	33,352,478	509,852
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(20,815,860)	(20,815,860)	(20,113,823)	702,037
OTHER FINANCING SOURCES (USES):				
Transfers from other funds.....	20,461,204	20,461,204	20,510,555	49,351
Transfers to other funds.....	-	-	-	-
NET OTHER FINANCING SOURCES (USES).....	20,461,204	20,461,204	20,510,555	49,351
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES.....	\$ (354,656)	\$ (354,656)	\$ 396,732	\$ 751,388

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

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2003

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MAJOR FUNDS			TOTALS	INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND	OTHER ENTERPRISE FUNDS		
ASSETS					
Current assets:					
Cash and cash equivalents - unrestricted.....	\$ (2,697,170)	\$ 1,045,087	\$ 4,268,795	\$ 2,616,712	\$ 130,642
Investments.....	99,964	90,590	-	190,554	-
Accounts receivable:					
User fees (net of allowances).....	1,354,530	1,523,238	88,320	2,966,088	-
Other.....	-	10,976	-	10,976	205
Due from other funds.....	-	-	-	-	40,801
Inventories.....	357,599	15,254	-	372,853	39,355
Prepaid expenses.....	-	373,423	-	373,423	-
Total current assets.....	(885,077)	3,058,568	4,357,115	6,530,606	211,003
Noncurrent assets:					
Cash and cash equivalents - restricted.....	4,490,198	1,895,324	-	6,385,522	-
Capital assets.....	54,714,347	77,116,147	4,423,323	136,253,817	356,561
Less accumulated depreciation.....	(21,271,668)	(26,288,470)	(1,488,871)	(49,049,009)	(239,511)
Total noncurrent assets.....	37,932,877	52,723,001	2,934,452	93,590,330	117,050
TOTAL ASSETS.....	37,047,800	55,781,569	7,291,567	100,120,936	328,053
LIABILITIES:					
Current liabilities:					
Accounts payable.....	183,495	889,415	6,520	1,079,430	16,924
Accrued expenses.....	947,975	103,613	80,557	1,132,145	109,438
Amounts held in escrow.....	-	-	-	-	-
Deferred revenues.....	389,556	-	-	389,556	-
Current portion advances.....	-	-	70,430	70,430	-
Notes payable.....	-	1,409,804	-	1,409,804	-
Current portion bonds payable.....	1,300,140	1,415,804	-	2,715,944	-
Total current liabilities.....	2,821,166	3,818,636	157,507	6,797,309	126,362
Long-term liabilities:					
Advances from other funds.....	-	-	419,463	419,463	-
Notes payable.....	-	-	-	-	-
Bonds payable.....	6,960,000	13,696,903	-	20,656,903	-
Total long-term liabilities.....	6,960,000	13,696,903	419,463	21,076,366	-
TOTAL LIABILITIES.....	9,781,166	17,515,539	576,970	27,873,675	126,362
NET ASSETS:					
Invested in capital assets (net of related debt).....	29,672,737	37,610,294	2,934,452	70,217,483	117,050
Restricted for commitments.....	4,299,997	1,129,224	292,106	5,721,327	11,460
Unrestricted.....	(6,706,100)	(473,488)	3,488,039	(3,691,549)	73,181
TOTAL NET ASSETS.....	\$ 27,266,634	\$ 38,266,030	\$ 6,714,597	\$ 72,247,261	\$ 201,691

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

CITY OF NEWPORT, RHODE ISLAND

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			TOTALS	GOVERNMENTAL ACTIVITIES
	MAJOR FUNDS		OTHER ENTERPRISE FUNDS		INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND			
OPERATING REVENUES:					
User fees.....	\$ 7,693,021	\$ 5,796,526	\$ 1,441,015	\$ 14,930,562	\$ 845,198
Other revenues.....	85,386	-	-	85,386	-
TOTAL OPERATING REVENUES.....	7,778,407	5,796,526	1,441,015	15,015,948	845,198
OPERATING EXPENSES:					
Salaries and benefits.....	2,906,308	146,837	261,606	3,314,751	308,200
Materials and supplies.....	505,080	-	25,412	530,492	336,812
Repairs and maintenance.....	269,736	-	31,495	301,231	59,810
Depreciation.....	1,061,057	1,550,228	142,002	2,753,287	21,342
Support services.....	397,597	3,156,705	399,809	3,954,111	100,425
Utilities.....	568,597	353,939	23,860	946,396	15,819
Administrative and other.....	414,814	163,923	70,016	648,753	2,790
Property taxes.....	125,806	-	-	125,806	-
TOTAL OPERATING EXPENSES.....	6,248,995	5,371,632	954,200	12,574,827	845,198
OPERATING INCOME.....	1,529,412	424,894	486,815	2,441,121	-
NONOPERATING REVENUES AND (EXPENSES):					
Interest income.....	27,020	19,298	33,492	79,810	-
Interest expense.....	(477,487)	(434,383)	(20,619)	(932,489)	-
NET NONOPERATING REVENUES AND (EXPENSES).....	(450,467)	(415,085)	12,873	(852,679)	-
NET INCOME.....	1,078,945	9,809	499,688	1,588,442	-
TOTAL NET ASSETS - JULY 1, 2002.....	26,187,689	38,622,827	6,214,909	71,025,425	201,691
PRIOR PERIOD ADJUSTMENT	-	(366,606)	-	(366,606)	-
TOTAL NET ASSETS - JUNE 30, 2003.....	\$ 27,266,634	\$ 38,266,030	\$ 6,714,597	\$ 72,247,261	\$ 201,691

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

CITY OF NEWPORT, RHODE ISLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MAJOR FUNDS			TOTALS	INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND	OTHER ENTERPRISE FUNDS		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers.....	\$ 7,481,793	\$ 5,307,902	\$ 1,426,694	\$ 14,216,389	\$ 895,666
Cash payments to suppliers for goods and services.....	(1,501,113)	(3,084,710)	(477,496)	(5,063,319)	(505,564)
Cash payments to employees for services.....	(2,892,725)	(146,837)	(243,217)	(3,282,779)	(329,054)
Payment of property taxes.....	(125,806)	-	(70,016)	(195,822)	-
Payment of administrative expense.....	(414,814)	(163,923)	-	(578,737)	(2,790)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	2,547,335	1,912,432	635,965	5,095,732	58,258
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund loans and transfers.....	-	-	(67,682)	(67,682)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets.....	(253,190)	(5,507,248)	(35,918)	(5,796,356)	-
Principal (paid) received on bonds, notes and loans.....	(1,356,882)	4,073,830	-	2,716,948	-
Interest paid on bonds, notes and loans.....	(477,487)	(358,078)	-	(835,565)	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,087,559)	(1,791,496)	(35,918)	(3,914,973)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest and dividends on investments.....	27,020	19,298	33,492	79,810	-
Increase in investments.....	(3,395)	(3,076)	-	(6,471)	-
Interest expense.....	-	-	(20,619)	(20,619)	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	23,625	16,222	12,873	52,720	-
NET INCREASE IN CASH.....	483,401	137,158	545,238	1,165,797	58,258
CASH AND CASH EQUIVALENTS - JULY 1, 2002.....	1,309,627	2,803,254	3,723,557	7,836,438	72,384
CASH AND CASH EQUIVALENTS- JUNE 30, 2003.....	\$ 1,793,028	\$ 2,940,412	\$ 4,268,795	\$ 9,002,235	\$ 130,642
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income.....	\$ 1,529,412	\$ 424,894	\$ 486,815	\$ 2,441,121	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization.....	1,061,057	1,550,228	142,002	2,753,287	21,342
Changes in assets and liabilities:					
(Decrease) Increase in accounts payable/other liabilities.....	5,464	333,286	21,469	360,219	(13,921)
Decrease (Increase) in accounts receivable/other assets.....	(48,598)	(395,976)	(14,321)	(458,895)	50,837
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 2,547,335	\$ 1,912,432	\$ 635,965	\$ 5,095,732	\$ 58,258

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

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	PENSION FUNDS	PRIVATE PURPOSE TRUSTS	AGENCY FUNDS
ASSETS			
Cash.....	\$ 394,133	\$ 8,491	\$ 216,304
Investments.....	46,957,380	830,687	-
TOTAL ASSETS.....	<u>47,351,513</u>	<u>839,178</u>	<u>\$ 216,304</u>
LIABILITIES			
Cash overdraft.....	1,610,130	-	\$ -
Accounts payable.....	28,361	617	-
Amounts held in escrow.....	-	-	216,304
TOTAL LIABILITIES.....	<u>1,638,491</u>	<u>617</u>	<u>\$ 216,304</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$ 45,713,022</u>	<u>\$ 838,561</u>	

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

CITY OF NEWPORT, RHODE ISLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employees.....	\$ 684,167	\$ -
Employer.....	6,760,300	-
Donations.....	-	16,500
Other income.....	1,602	-
Total contributions.....	<u>7,446,069</u>	<u>16,500</u>
Investment income:		
Net appreciation in fair value of investments.....	1,092,420	5,596
Interest and dividends.....	996,032	25,387
Realized gain (loss) in investments.....	<u>(118,802)</u>	<u>4,931</u>
Total investment income.....	1,969,650	35,914
Less investment expenses.....	<u>7,134</u>	-
Net investment income.....	<u>1,962,516</u>	<u>35,914</u>
TOTAL ADDITIONS.....	<u>9,408,585</u>	<u>52,414</u>
DEDUCTIONS:		
Benefits.....	7,100,116	-
Administration.....	101,640	-
Awards.....	-	47,907
Scholarships awarded.....	-	<u>6,285</u>
TOTAL DEDUCTIONS.....	<u>7,201,756</u>	<u>54,192</u>
CHANGES IN NET ASSETS.....	2,206,829	(1,778)
NET ASSETS - JULY 1, 2002.....	<u>43,506,193</u>	<u>840,339</u>
NET ASSETS - JUNE 30, 2003.....	<u>\$ 45,713,022</u>	<u>\$ 838,561</u>

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

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements
June 30, 2003

I. Summary of significant accounting policies:

The financial statements of the City of Newport, Rhode Island (the City) have been prepared in conformity with accounting principles generally accepted in the United States applicable to governmental entities. In certain instances, summaries of the City's significant accounting policies have been presented throughout the notes to the financial statements in conjunction with other disclosures to which they relate. For fiscal year ended June 30, 2003, the City implemented the new financial reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, which has resulted in an entirely new financial statement format.

A. Reporting Entity

The City of Newport, Rhode Island was founded in 1639, incorporated under the laws of the State of Rhode Island in 1784 and re-chartered 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 council members 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.

The accompanying financial statements present the government and its component units. In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the City applied the criteria prescribed by GASB Statement No. 14, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

I. Summary of significant accounting policies (continued):

A. Reporting Entity (continued)

Discretely Presented Component Units

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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported in separate columns in the fund financial statements.

I. Summary of significant accounting policies (continued):

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The school unrestricted fund, a special revenue fund, is the school's primary operating fund. This is a special revenue fund because the revenue sources are legally restricted to educational expenditures. It accounts for all financial resources of the school, other than those specifically restricted by the provider for certain uses.

The Community Development Block Grant Fund (CDBG fund) is a special revenue fund, whereby the City receives federal funding to promote specific types of community and economic development. Funds can only be spent in accordance with a legally binding grant agreement.

The capital projects fund accounts for the acquisition of fixed assets or construction of major capital projects other than those financed by proprietary funds.

The government reports the following major proprietary funds:

The 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. The water fund also provides water to the United States Naval Base and customers of a neighboring water and fire district through wholesale contracts. Costs of servicing the users are recovered through both fixed and commodity charges under tariffs regulated by the Rhode Island Public Utilities Commission.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

I. Summary of significant accounting policies (continued):

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The 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 contractual agreements with the United States Naval Base and a neighboring town.

Additionally, the government reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes.

The debt service fund accounts for resources accumulated and payments made for principal and interest on a qualified zone (QZAB) bond, the proceeds of which were used to help finance the construction and renovation of Thompson Middle School.

The internal service fund, a proprietary type fund, is used to account for fleet management services provided to other departments of the government on a cost reimbursement basis.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges.

The private-purpose trust fund is used to account for resources legally held in trust for use by outside individuals, trusts or organizations to provide awards and scholarships in accordance with a donor's specific instructions or criteria.

Permanent funds are used to account for resources legally held in trust for specific functions, normally provided by governments. In most cases, only the earnings on the principal can be spent.

The pension trust fund accounts for the activities of the Police Retirement Fund and the Fire Retirement Fund, which accumulate resources for pension benefits to qualified police or fire employees.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

I. Summary of significant accounting policies (continued):

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, the water pollution control fund, the parking fund, the beach fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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 debt instruments issued by agencies of the U.S. Government. Maturities of these instruments are required to be matched to any underlying liabilities.

Investments

Investments of the primary government, as well as its component units, are reported at fair value. The City accounts for the carrying value of investments by utilizing the specific identification method. Fair value is determined by the last reported bid price on the last business day of the year. The City participates in a cooperative investment pool that operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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 commission appointed by and accountable to the City Council.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

I. Summary of significant accounting policies (continued):

D. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All property tax receivables, user fees receivables and notes receivable are shown net of an allowance for doubtful accounts. The property tax receivable allowance at June 30, 2003 is equal to 1.77% of outstanding property taxes. Other allowances vary depending on the nature of the receivable and the history of collections.

Taxes are levied 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.

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.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in, first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the water pollution control fund's revenue bonds are classified as restricted assets on the statement of net assets because they are maintained in separate escrow accounts maintained by trustees in accordance with the bond covenants. These include a debt service reserve and capitalized interest.

The water fund has classified cash on the balance sheet as restricted since, by order of the Rhode Island Public Utilities Commission, it may only be used for debt service, capital or chemical expenditures.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as machinery and equipment with an initial, individual cost of more than \$10,000, land or building improvements of more than \$20,000 and infrastructure of more than \$25,000, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

I. Summary of significant accounting policies (continued):

D. Assets, Liabilities, and Net Assets or Equity (continued)

5. Capital assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The City has reported only the current year's infrastructure additions in the governmental funds, and anticipates reporting the value of prior infrastructure in the financial statements for the year ended June 30, 2004. The value of business-type fund infrastructure is fully reported and depreciated as applicable. Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 125
Building improvements	20 - 40
Water & Sewer improvements	20 - 50
Water & Sewer infrastructure	50 - 100
Infrastructure	75
Equipment and other capital assets	6 - 30

6. Compensated absences

City and school employees are allowed under various labor agreements and by City ordinance to accumulate earned but unused vacation and sick leave. The City reports a liability based on the various provisions as follows:

- Supervisory (Non union); Supervisory (NEA); AFSCME-City; Fire employees:
 maximum sick leave accrual is 960 hours
 maximum sick leave payout is 65% up to \$7,500 - \$25,000 if 10 years service
 maximum vacation accrual and payout is 200-300 hours
- Police:
 maximum vacation accrual and payout is 400 hours
 sick leave payout of 65% of accumulated leave up to 2,000 hours and 45% over 2,000 hours
- Teachers:
 sick leave payout of 25% of number of days in excess of 50 and up to a maximum of 165
- AFSCME – School:
 maximum vacation accrual of 40 days; all accumulated payable upon separation
 maximum sick leave accrual of 225 days; payout 30% of days greater than 60 and less than 123

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

I. Summary of significant accounting policies (continued):

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. Compensated absences

All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of the leave is determined based on historical and current usage. The current and non-current portion is recorded in the government-wide financial statements. The entire amount is reported as current in the proprietary fund financial statements.

7. Long-term obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums paid on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The City is self-insured with respect to workers' compensation. In the fund financial statements, expenditures for judgments and claims are recorded on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements, the estimated liability for all judgments and claims is recorded as a liability.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserved fund balances in the governmental funds balance sheet are reserved for encumbrances.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

II. Reconciliation of government-wide and fund financial statements:

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ 24,059,074
Notes payable	355,000
Claims and judgments	916,000
Compensated absences	6,981,629
Net pension benefit obligation	5,778,303
Accrued interest payable	<u>230,323</u>
 Net adjustment for long-term liabilities not due and payable in the current period	 <u>\$ 38,320,329</u>

The governmental funds balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this difference are as follows:

Prior fixed assets, net of accumulated depreciation	\$ 31,155,481
Current year capital outlay	6,808,830
Depreciation expense	<u>(1,153,637)</u>
 Net adjustment to reduce <i>fund balance – total governmental funds</i> To arrive at <i>net assets – governmental activities</i>	 <u>\$ 36,810,674</u>

III. Stewardship, compliance and accountability:

A. Budgetary information

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

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

III. Stewardship, compliance and accountability (continued):

A. Budgetary information (continued)

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 expenditures and expenses for goods and non-employment services are recognized when legally binding orders referred to as encumbrances are placed. 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 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.

B. Budgetary-GAAP reporting reconciliation

The General Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual; School Unrestricted Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual; Major Proprietary Funds Budget and Actual and Nonmajor Proprietary Funds Budget and Actual included in the supplementary information present 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 differences is presented on the following page:

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

III. Stewardship, compliance and accountability (continued):

B. Budgetary-GAAP reporting reconciliation (continued):

	Governmental Funds		Proprietary Funds	
	General Fund	School Unrestricted Fund	Internal Service Fund	Enterprise
Excess of revenues and other sources over expenditures and other uses (budgetary basis)	\$ 2,438,610	\$ 396,732		
Net income (loss) - (budgetary basis)			\$ 21,694	\$ (2,062,284)
Adjustment of budgetary basis to GAAP basis:				
Net increase (reduction) for encumbrances previously recognized under GAAP	(46,140)		(352)	3,265,444
Additions for:				
Principal payments on long-term debt				3,142,350
Capital improvements capitalized under GAAP				5,787,835
Reductions for:				
Bond proceeds				(5,791,616)
Depreciation expense recognized under GAAP			(21,342)	(2,753,287)
Excess of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ 2,392,470</u>	<u>\$ 396,732</u>		
Net income (loss) (GAAP basis)			<u>\$ 0</u>	<u>\$ 1,588,442</u>

Operating transfers of \$435,000 from the building protection fund to the general fund and \$133,110 from the general fund to the debt service fund have been classified as user charges and fee revenue and debt service expenditures, respectively, in the General Fund Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (budgetary basis) in order to conform to the budget ordinance.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

III. Stewardship, compliance and accountability (continued):

C. 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 2003 appropriations (after approved transfers) and, where applicable, actual 2003 revenues:

Department	Fund or Fund Type	Expenditure in Excess of Budget
Reserve accounts	General	\$ 25,721
Debt service	General	1,156,400
Salaries and benefits	Water Fund	178,860
Support services	Water Fund	174,084
Utilities	Water Fund	5,422
Interest expense	Water Pollution Control	179,154
Salaries and benefits	Parking Fund	11,859
Administrative expenses	Parking Fund	973
Administrative expenses	Internal Service	985

IV. Detailed notes on all funds

1. Deposits and investments

At June 30, 2003, the carrying value of the City's deposits is \$18,562,401 and the carrying value of the component units' deposits is \$465,474 for a total reporting entity total of \$19,027,875. The bank balance was \$11,796,712, exclusive of cash equivalents of \$9,215,087. Cash equivalents consisted of \$3,916,496 in a repurchase agreement maturing July 1, 2003; \$1,825,249 in short-term certificates of deposit which are collateralized by U.S. Treasury obligations held in trust by the bank and \$3,473,342 in money market and pooled investment accounts. 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.

Federal deposit insurance and collateralized performance accounts are used to eliminate custodial risk in the non-invested deposits maintained at financial institutions. At June 30, 2003, bank-reported balances did not exceed insurance coverage for the primary government.

Pursuant to RI Public Utilities Commission's Docket 2985, as of June 30, 2003, \$1,993,482, \$2,762,825 and (\$4,076) of annual revenues must be restricted for debt service, IFR/capital spending and chemicals, respectively. Therefore, restricted funds available at July 1, 2003 should be \$4,752,231. At June 30, 2003, \$4,490,198 was restricted, leaving a required funding amount of \$262,033.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

1. Deposits and investments -- continued:

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

At June 30, 2003, the City's investment balances were categorized as follows:

	Category			Reported Amount Fair Value
	1	2	3	
Primary government:				
Cash			\$ 175,296	\$ 175,296
Certificates of deposit	\$ 2,726,294			2,726,294
Government backed securities			221,963	221,963
Corporate bonds			3,382,682	3,382,682
International equities			5,118,153	5,118,153
Primary government total	2,726,294		8,898,094	11,624,388
Investments not subject to categorization:				
Mutual funds				48,973,726
Money market funds				3,858,269
Component unit total	369,295			64,456,383
	\$ 3,095,589		\$ 8,898,094	\$ 64,825,678

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

2. Receivables

At June 30, 2003, receivables, including the applicable allowances for doubtful accounts, are as follows:

Governmental activities:

	General	School Unrestricted Fund	Community Development Act	Capital Projects Funds	Other Governmental Funds	Total
Taxes	\$ 3,720,886					\$3,720,886
Intergovernmental		\$ 1,286,156	\$ 118,808	\$ 410,318	\$ 686,056	2,501,338
Interest	2,288,101		870,103			3,158,204
Accounts	317,243					317,243
Notes/Loans			3,009,981	1,800,000	443,653	5,253,634
Component unit	58,122				157,500	215,622
Other		458,010			205	458,215
	6,384,352	1,744,166	3,998,892	2,210,218	1,287,414	15,625,142
Less allowance for doubtful accounts	(1,990,697)		(2,364,451)		(114,390)	(4,469,538)
	4,335,655	1,744,166	1,634,441	2,210,318	1,173,024	11,155,604
Less current portion	3,725,227	1,744,166	376,335	2,210,318	962,570	9,018,616
	<u>\$ 668,428</u>	<u>\$ - 0 -</u>	<u>\$ 1,258,106</u>	<u>\$ - 0 -</u>	<u>\$ 210,454</u>	<u>\$2,136,988</u>

Business-type activities:

	Water Fund	W.P.C. Fund	Other Enterprise Funds	Total
User fees	\$ 1,929,530	\$ 1,723,238	\$ 88,320	\$ 3,741,088
Less allowance for doubtful accounts	(575,000)	(200,000)		(775,000)
	1,354,530	1,523,238	88,320	2,966,088
Other		10,976		10,976
	<u>\$ 1,354,530</u>	<u>\$ 1,534,214</u>	<u>\$ 88,320</u>	<u>\$ 2,977,064</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

3. Capital assets:

Capital asset activity for the year ended June 30, 2003 was as follows:

	Balance June 30, 2002 (restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,407,411			\$ 1,407,411
Construction in progress	11,865,328	\$ 411,353	\$(11,865,328)	411,353
Total capital assets not being depreciated	13,272,739	411,353	(11,865,328)	1,818,764
Capital assets being depreciated:				
Land improvements	5,468,880	293,903		5,762,783
Buildings and systems	15,098,897	14,865,696		29,964,593
Machinery and equipment	3,703,161	803,420		4,506,581
Vehicles	4,002,720	328,994		4,331,714
Infrastructure		1,970,792		1,970,792
Total capital assets being depreciated	28,273,658	18,262,805		46,536,463
Less accumulated depreciation:				
Land improvements	289,976	118,993		408,969
Buildings and systems	5,948,888	384,630		6,333,518
Machinery and equipment	1,332,787	325,564		1,658,351
Vehicles	2,680,873	345,792		3,026,665
	10,252,524	1,174,979		11,427,503
Total capital assets being depreciated, net	18,021,134	17,087,826		35,108,960
Governmental activities capital assets, net	\$ 31,293,873	\$ 17,499,179	\$(11,865,328)	\$ 36,927,724
Restatement of beginning balances:				
As previously reported in the general fixed assets account group			\$ 45,209,192	
Less:				
Changes in asset capitalization policies			(4,019,356)	
Accumulated depreciation through June 30, 2002			(10,034,355)	
Plus opening balance of internal services fund, net			138,392	
Beginning balances, restated			\$ 31,293,873	

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

3. Capital assets (continued):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$	133,630
General education		356,875
Public safety		308,051
Public health		225,718
Planning, zoning and development		21,909
Human services		8,864
Recreation and parks		98,590
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets		21,342
		\$ 1,174,979

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 5,931,531			\$ 5,931,531
Construction in progress	5,603,356	\$ 5,523,898		11,127,254
	11,534,887	5,523,898		17,058,785
Capital assets being depreciated:				
Buildings and systems	109,423,516	272,458		109,695,974
Machinery and equipment	7,962,804			7,962,804
Vehicles	1,536,254			1,536,254
	118,922,574	272,458		119,195,032
Less accumulated depreciation:				
Buildings and systems	37,897,805	2,559,311		40,457,116
Machinery and equipment	7,144,294	97,739		7,242,033
Vehicles	1,253,623	96,237		1,349,860
	46,295,722	2,753,287		49,049,009
Total capital assets being depreciated, net	72,626,852	(2,480,829)		70,146,023
Net capital assets, business-type activities	\$84,161,739	\$ 3,043,067		\$87,204,808

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

3. Capital assets (continued):

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:	
Water	\$ 1,061,057
Water pollution control	1,550,228
Easton's Beach	77,063
Parking	64,939
	<u>\$ 2,753,287</u>

Construction commitments

The City has active construction projects as of June 30, 2003. The projects include infrastructure for a new development and construction and renovation of wastewater treatment facilities. At June 30, 2003, the City's commitments with contractors related to the Ranger Road infrastructure project were \$369,961.

Discretely presented component units

Capital asset activity for the Newport Public Library for the year ended June 30, 2003 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings	\$ 7,701,396			\$ 7,701,396
Improvements other than buildings	378,411			378,411
Machinery and equipment	666,552	\$ 89,236		755,788
Total capital assets being depreciated	<u>8,746,359</u>	<u>89,236</u>		<u>8,835,595</u>
Less accumulated depreciation:				
Buildings	1,077,599	238,518		1,316,117
Improvements, other than buildings	30,852	18,920		49,772
Machinery and equipment	213,661	83,068		296,729
	<u>1,322,112</u>	<u>340,506</u>		<u>1,662,618</u>
Net capital assets, Newport Public Library	<u>\$ 7,424,247</u>	<u>\$ (251,270)</u>		<u>\$ 7,172,977</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

3. Capital assets (continued):

Capital asset activity for the Newport Redevelopment Agency for the year ended June 30, 2003 was as follows:

	Beginning balance (Restated)	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings	\$ 620,610			\$ 620,610
Less accumulated depreciation:	(102,752)	\$ (10,155)		(112,907)
Net capital assets, Redevelopment Agency	\$ 517,858	\$ (10,155)		\$ 507,703

4. Interfund receivables and payables:

The composition of interfund balances as of June 30, 2003 is as follows:

Due to:		Due from:	
General Fund	\$ 57,568	Library	
	664,574	School Unrestricted	
	26,514	Property acquisition	
UDAG	157,500	General fund	
	157,500	Library	
	489,893	Easton's Beach	
Equipment operations	554	Library	
	40,247	School Unrestricted	
	<u>\$ 1,594,350</u>		

The Urban Development Grant Fund (UDAG) loaned the City of Newport \$1,000,000 for Easton's Beach renovations in July 1994, which amount is recorded as a liability in the Easton's Beach fund, a non-major proprietary fund. The note is a 15-year note bearing interest at 4.0%. The balance due at June 30, 2003 is \$489,893.

The following schedule details amounts to be paid per year on the note:

Year ending June 30,	Principal	Interest
2004	\$ 70,430	\$ 18,548
2005	73,289	15,689
2006	76,265	12,713
2007	79,362	9,616
2008	82,584	6,394
2009 - 2010	107,963	3,040
	<u>\$ 489,893</u>	<u>\$ 66,000</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements - Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

5. Long-term debt:

The City issues general obligation, Qualified Zone Academy Bonds (QZAB) and revenue bonds to provide funds for the acquisition and construction of major capital facilities. Bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are generally issued as 20-year serial bonds. Revenue bonds are obligations that pledge the revenues derived from the use of services in that particular fund. These are issued for business-type activities and are generally collateralized by the asset under construction or renovation. The bonds are usually issued as 20-year bonds. The QZAB bond is a 12-year bond which is supported by annual sinking fund payments to a third-party escrow agent. Changes in bonded debt outstanding during fiscal year 2003 are summarized on the next page as follows:

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

5. Long-term debt (continued):

	Date Issued	Maturity Date	Interest Rate (%)	Outstanding July 1, 2002	Additions	Retired	Outstanding June 30, 2003	Interest Expense
Governmental activities:								
Roadway improvements	1991	2011	5.80 to 6.50	\$ 686,441	\$ -	\$ 76,272	\$ 610,169	\$ 39,017
Triplett School acquisition	1991	2011	5.80 to 6.50	663,559	-	73,728	589,831	37,717
Police station construction	1992	2003	4.75 to 6.20	176,549	-	86,011	90,538	2,197
Fire station, open spaces	1994	2001	3.60 to 4.70	160,000	-	80,000	80,000	6,050
High school renovations	1994	2012	3.30 to 5.13	2,695,000	-	245,000	2,450,000	123,333
Thompson Middle School/Library	2001	2021	3.50 - 5.00	18,700,000	-	325,000	18,375,000	880,883
Thompson School QZAB	2001	2015	n/a	1,863,536	-	-	1,863,536	33,818
Total governmental activities				\$ 24,945,085	\$ -	\$ 886,011	\$ 24,059,074	\$ 1,123,015
Business-type activities:								
Sewer plant construction	1992	2003	4.75 to 6.20	\$ 281,430	\$ -	\$ 137,107	\$ 144,323	\$ 15,201
Sewer plant construction	1994	2006	3.60 to 4.90	600,000	-	225,000	375,000	28,205
CSO plant construction	1994	2010	3.60 to 5.13	3,525,000	-	545,000	2,980,000	172,100
Sewer improvements - SRF	2002	2023	1.9	5,821,768	5,791,616	-	11,613,384	74,457
Total Water Pollution Control Fund				10,228,198	5,791,616	907,107	15,112,707	289,963
Water pipeline construction								
Water pipeline construction	1992	2011	6.20 to 6.65	2,250,000	-	225,000	2,025,000	133,340
Water improvements	1992	2003	6.20 to 6.65	127,022	-	61,882	65,140	4,511
Water plant construction	1994	2010	3.60 to 5.13	3,080,000	-	685,000	2,395,000	145,403
Water pipeline construction	1994	2012	3.30 to 5.13	4,160,000	-	385,000	3,775,000	194,232
Total Water Fund				9,617,022	-	1,356,882	8,260,140	477,486
Total business-type activities				\$ 19,845,220	\$ 5,791,616	\$ 2,263,989	\$ 23,372,847	\$ 767,449

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

5. Long-term debt (continued):

The City has \$13,000,000 of State Revolving Fund (SRF) revenue anticipation bonds issued in April 2002 available to fund sewer improvements. At June 30, 2003, \$11,613,384 has been drawn down. The amounts drawn down include \$225,212 of capitalized interest, of which \$150,718 remains, and \$894,371 of debt service reserve, both of which are held in trust by Citizen's Bank. The stated interest rate is 4.79% however, due to interest subsidies, the City's effective rate is 1.907%.

The City has a \$2,337,000 General Obligation Qualified Zone Academy Bond Series 2001 dated December 14, 2001 due December 14, 2015 which was used to help finance the construction of Thompson Middle School. The bond may not be prepaid prior to the maturity date. The City is required to make annual sinking fund installments of \$133,110 with the trustee, which will be invested with the bank (purchaser of the bonds). The total amount to be deposited into the sinking fund is \$1,863,536. The City is responsible for ensuring that the entire \$2,337,000 is repaid. Accordingly, should the sinking fund payments plus investment earnings associated with those payments be insufficient to cover the \$2,337,000, the City will be responsible for the balance due. Current fair market value of the sinking fund is \$124,003, which amount is reported in the debt service fund, a nonmajor governmental fund.

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, 2002 was \$3,313,065,670, limiting the amount of non-excepted general obligation bonds outstanding to \$99,391,970. Bonds of \$35,685,427 outstanding at June 30, 2003 are general obligations and subject to the statutory limitation.

Bonded indebtedness at June 30, 2003 matures over fiscal years through 2023 as follows:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 1,215,538	\$ 1,047,636	\$ 2,715,944	\$ 817,608
2005	1,095,000	986,828	1,921,818	705,378
2006	1,095,000	936,152	1,922,654	623,763
2007	1,120,000	888,086	1,929,006	541,119
2008	1,145,000	836,936	1,785,889	458,300
2009-2013	6,025,000	3,348,693	6,952,554	1,256,099
2014-2018	7,213,536	2,023,638	3,465,063	548,259
2019-2023	5,150,000	531,031	2,679,919	195,654
	<u>\$24,059,074</u>	<u>\$10,599,000</u>	<u>\$23,372,847</u>	<u>\$ 5,146,180</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

5. Long-term debt (continued):

Authorized and unissued debt at June 30, 2003 is as follows:

Purpose	Date Authorized	Amount Authorized	Net Amount
Water improvements	April 1, 2000	\$ 3,000,000	\$ 3,000,000

6. 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, 2003 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, 2003, \$355,000 was outstanding on this note as follows:

Year ending June 30,	Principal	Interest
2004	\$ 170,000	\$ 22,274
2005	185,000	7,622
	<u>\$ 355,000</u>	<u>\$ 29,896</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 or maturity and is secured with a mortgage on the building. As of June 30, 2003, \$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, 2003

IV. Detailed notes on all funds (continued):

6. Notes payable (continued):

The City's Water Pollution Control Fund has outstanding notes payable to Earthtech, the operator of the Water Pollution Control System, totaling \$1,383,376. These notes bear interest at rates ranging from 7.7% to 8.3% and were due January 2021. In July 2003, the City Council authorized and the City paid the full amount of these notes. In addition to these notes, \$26,428 in other notes payable are outstanding at June 30, 2003.

The City's Capital Projects Fund received a non-interest bearing, \$2,700,000 loan of CDBG funds from the Rhode Island Department of Administration (RIDA), Office of Municipal Affairs (OMA). The funds were advanced by OMA to allow the City to provide short-term, non-interest bearing financing of \$1,800,000 to New Visions, a not-for-profit agency, for the construction of a new building at the Ranger Road Project site (site) and to provide the City with temporary funding of \$900,000 for infrastructure improvements at the same site. Subsequent to year-end, the City obtained a \$1,000,000 grant from the U.S. Department of Economic Development Administration to fund the infrastructure improvements, New Visions repaid the \$1,800,000 and the City repaid RIDA \$2,700,000.

7. Changes in long-term liabilities:

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Governmental activities:					
Bonds payable	\$24,945,085		\$ (886,011)	\$24,059,074	\$ 1,215,538
Notes payable	510,000		(155,000)	355,000	170,000
Claims and judgments	1,510,876	\$ 916,000	(1,510,876)	916,000	100,000
Compensated absences	6,403,786	1,215,037	(637,194)	6,981,629	408,707
Net pension obligation	6,362,891		(584,588)	5,778,303	
	<u>\$39,732,638</u>	<u>\$ 2,131,037</u>	<u>\$(3,773,669)</u>	<u>\$38,090,006</u>	<u>\$ 1,894,245</u>
Business-type activities:					
Bonds payable	\$19,845,220	\$ 5,791,616	\$(2,263,989)	\$23,372,847	\$ 2,715,944
Notes payable	2,220,483		(810,679)	1,409,804	1,409,804
	<u>\$22,065,703</u>	<u>\$ 5,791,616</u>	<u>\$(3,074,668)</u>	<u>\$24,782,651</u>	<u>\$ 4,125,748</u>

CITY OF NEWPORT, RHODE ISLAND

Notes to Financial Statements – Continued

June 30, 2003

IV. Detailed notes on all funds (continued):

8. Leases:

The City has no capital leases at June 30, 2003.

Operating Leases

The City leases certain office equipment under multi-year agreements that are subject to annual appropriation. Additionally, the Water Fund assesses the General Fund an annual lease charge of \$318,640 for providing a public fire protection system owned by the Water Fund pursuant to tariffs mandated by the Rhode Island Public Utilities Commission. For the year ended June 30, 2003, the general fund incurred \$318,640 associated with these agreements. The minimum annual lease obligations of the General Fund related to these agreements are \$318,640 through 2008.

9. Restricted assets:

Restricted assets are as follows:

Pension Fund	\$ 47,351,513
Water fund cash restricted by PUC mandate (see Note IV-1)	4,490,198
Private Purpose Trusts	839,178

10. Contingencies:

The City is involved in several lawsuits and claims. 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 City's financial position as of June 30, 2003.

11. 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.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

12. Risk management (continued):

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.

13. Pension plans:

All eligible employees of the City are covered by one of five pension plans, the Employees' Retirement System of the State of Rhode Island (Teachers' Plan), the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan), the Fireman's Pension Plan, Policeman's Pension Plan and the Money-Purchase Plan. The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. The Municipal Plan covers all employees not covered under the Teacher's Plan, excepting only certain classified positions including the City Manager. However, fire employees and police officers have elected to participate in a single-employer pension plan administered by the City. The Fireman's Pension Plan and Policeman's Pension Plan cover all employees covered under a collective bargaining agreement either with the International Association of Firefighters, Local 1080 or the Fraternal Order of Police, Lodge Number 8. Total covered payroll under all plans during 2003 was \$34,654,526. Total City payroll was \$47,279,761 for the same period.

(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. Total covered payroll under this plan during 2003 was \$73,539.

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 2003, the City's required contribution was \$7,354, all of which was paid. No additional contributions were made by the City Manager.

(b) Teachers' Plan:

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903 or by calling (401) 222-2203. Total covered payroll under the plan during 2003 was \$16,698,291, including \$1,318,337 of federally reimbursed payroll.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. Pension plans (continued):

(b) Teachers' Plan (continued):

Plan description (continued):

Participants' rights to pension benefits become fully vested after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age. Benefits are equal to 1.7% of final average salary for each of the first 10 years of service, 1.9% for each of the next ten years, 3% for each of the next 14 years thereafter, and 2% for the 35th year, resulting in a maximum benefit of 80% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings. Retirees' benefits are subject to a 3% compounded annual cost of living increase, commencing on the January 1st following the third anniversary of an employee's retirement.

The plan also provides pre-retirement benefits at a minimum of 17% of salary for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

Funding policy:

Rhode Island general laws set the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of July 1, 1985 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The City participates in the optional Teachers Survivor Benefits Fund whereby both the employer and the employee contributes 1% of the first \$9,600 of each participating employee's salary for survival benefits.

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2003, actuarial required contributions were 11.97% of participant salary (also 11.97% for federally reimbursed salary). This resulted in a contribution rate paid by the State on behalf of Town teachers of 5.04%. The City's contribution rate was 6.93%. The City's required and actual contributions to the Teacher's Plan for fiscal years 2003, 2002, and 2001 were \$1,572,955, \$1,473,129 and \$1,500,278, respectively.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. Pension plans (continued):

(c) Municipal Plan:

Plan description:

The Municipal Plan is an agent multiple employer public employee retirement system administered by the State. Financial statements for the plan are issued separately and may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903 or by calling (401) 222-2203. For fiscal year 2003, payroll for employees covered under the plan totaled \$9,410,031.

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 or after 30 years of service regardless of age. Benefits are equal to 2.5% of final average salary for each year of service, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3% compounded to allow for cost of living increases under an optional benefit provision adopted by the Town.

The plan also provides pre-retirement benefits at a minimum of 20% of salary for non-occupational disabilities after 5 years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2003, 310 active employees were members of the Municipal Plan.

Funding policy:

Rhode Island general laws set contributions of participating employees at 6% of salary. An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of July 1, 1988 over a closed period of 25 years (or over 25 from date joined if after July 1, 1988). Normal cost is determined using the entry age normal cost method. Unlike in the Teacher's Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. Pension plans (continued):

(c) Municipal Plan (continued):

Annual pension costs and net pension obligations:

The following table summarizes annual pension costs and actual contributions for the plan for the past three years. There was no net pension obligation during the three-year period.

	2003	2002	2001
Annual pension costs	\$ 694,013	\$ 647,324	\$ 740,021
Actual contributions:			
Employee	657,314	618,937	659,673
Employer	36,699	28,387	80,348
Percent of annual pension costs contributed	100%	100%	100%

Actuarial methods and significant assumptions:

The State uses the entry age normal method to determine both the actuarial accrued liabilities and annual required contributions to each member of the plan. Pension assets are valued at their fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for the Municipal Plan are performed annually as of June 30.

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

Asset appreciation: 8.25% annually
Salary increases: 3.00% annually
Cost of living adjustments: 3.00%, not compounded

Retirement probability:
100% at age 70 or upon eligibility (100% at age 60 or upon eligibility - police)

Mortality:
Healthy members - 1994 Group Annuity Mortality Table
Disabled members – PBGC Table Va for disabled members eligible for Social Security disability benefits

Disability:
Probabilities ranging from .05% at age 25 to .71% at age 60

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. 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. For fiscal year 2003, covered payroll under the plans was \$4,605,267 and \$3,867,398 under the fire and police plans, respectively. Each plan is reported as a pension trust fund in the City's fiduciary fund net assets.

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, 2003, membership in each plan was as follows:

	Fire Plan	Police Plan
Active employees hired before June 30, 1984	32	15
Active employees hired on or after July 1, 1984	64	72
Total active employees	96	87
Inactive employees with vested rights	0	0
Pensioners and beneficiaries	98	114
Total plan members	194	201

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. Pension plans - continued:

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

Funding policy:

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.

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, 2002. 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)	\$3,106,881	\$ 1,985,197
Amount representing interest on NPO	577,762	(294,571)
Adjustment to ARC	<u>(347,454)</u>	<u>177,149</u>
Total annual pension costs	<u>\$3,337,189</u>	<u>\$ 1,867,775</u>

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements -- Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

Pension plans - continued:

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

	Fire Plan		
	2002	2001	2000*
Annual pension costs	\$3,337,189	\$3,513,874	\$3,221,234
Actual contributions	<u>3,977,470</u>	<u>3,567,527</u>	<u>3,860,777</u>
Increase (decrease) in NPO	(640,281)	(53,653)	(639,543)
Net pension obligation, beginning	<u>7,003,172</u>	<u>7,056,826</u>	<u>7,696,369</u>
Net pension obligation, ending	<u>\$6,362,891</u>	<u>\$7,003,173</u>	<u>\$7,056,826</u>
% of annual pension costs contributed	<u>119.2%</u>	<u>101.5%</u>	<u>119.9%</u>
		Police Plan	
	2002	2001	2000*
Annual pension costs	\$1,867,775	\$1,614,567	\$2,037,955
Actual contributions	<u>2,273,062</u>	<u>2,703,167</u>	<u>2,510,675</u>
Increase (decrease) in NPO	(405,287)	(1,088,600)	(472,720)
Net pension obligation, beginning	<u>none</u>	<u>none</u>	<u>none</u>
Net pension obligation, ending	<u>none</u>	<u>none</u>	<u>none</u>
% of annual pension costs contributed	<u>121.7%</u>	<u>167.4%</u>	<u>123.2%</u>

*as restated by actuary

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

CITY OF NEWPORT, RHODE ISLAND
Notes to Financial Statements – Continued
June 30, 2003

IV. Detailed notes on all funds (continued):

13. Pension Plans - continued:

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

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

Asset appreciation:	8.25% annually
Salary increases:	5.75% annually for police; 3.75% annually for fire
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, 2003 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.

14. 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, 2003, in excess of 386 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, 2003

IV. Detailed notes on all funds (continued):

14. Other post-employment benefits (continued):

During fiscal year 2003, expenditures or expenses of \$3,481,232, net of contributions, were recorded for post-employment benefits of retirees or beneficiaries and their dependents, distributed as follows:

General Fund	\$ 267,523
Special Revenue Funds – School Unrestricted	1,487,784
Enterprise Funds	221,707
Pension Trust Funds	<u>1,504,218</u>
	<u>\$ 3,481,232</u>

15. 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 2003 was \$12,000 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.

16. Prior period adjustment:

The City's general fund balance at June 30, 2002 of \$11,583,175 has been decreased by \$1,434,000 to reverse certain accruals that were made in error. Those revenues have been properly included in the operations of the year ended June 30, 2003.

The School unrestricted fund has a prior period adjustment to reduce fund balance by \$194,140 to accrue prior period payroll.

The Water Pollution Control fund has a prior period adjustment to reduce fund balance by \$366,606 to write off amounts that were billed in error in prior years.

The Library's (Component Unit) net assets at June 30, 2002 have been increased by \$3,840,484 to include fixed assets not previously recorded net of accumulated depreciation and adjustments related to the adoption of GASB 34.

The Redevelopment Agency of Newport's (Component Unit) net assets at June 30, 2002 have been decreased by \$302,752 related to the adoption of GASB 34.

CITY OF NEWPORT, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2003

Municipal Employees Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets as % of AAL	Unfunded (Excess) AAL	Annual Covered Payroll	Unfunded (Excess) AAL as % of Covered Payroll
1997	\$ 34,631,033	\$ 31,217,627	110.9%	\$ (3,413,406)	\$ 8,090,442	-42.2%
1998	36,808,866	34,993,151	105.2%	(1,815,715)	8,591,054	-21.1%
1999	39,390,120	37,096,146	106.2%	(2,293,974)	8,862,637	-25.9%
2000	42,186,744	40,314,770	104.6%	(1,871,974)	9,736,206	-19.2%
2001	41,726,725	42,111,299	99.1%	384,574	9,645,954	4.0%
2002	41,024,221	43,891,378	93.5%	2,867,157	9,969,253	28.8%

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 as % of Covered Payroll
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%
2002	15,992,660	57,208,592	28.0%	41,215,932	4,647,200	886.9%

Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets	Accrued Liability (AAL)	Actuarial Value of Assets as % of AAL	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as % of Covered Payroll
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%
2002	28,060,710	65,986,217	42.5%	37,925,507	3,845,929	986.1%

CITY OF NEWPORT, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2003

Fire Pension Plan

Actuarial Valuation Date	Annual Required Contribution (ARC)	Actual Contribution	% of ARC Contributed
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	3,567,527	108.7%
2002	3,106,881	3,993,315	128.5%

Police Pension Plan

Actuarial Valuation Date	Annual Required Contribution (ARC)	Actual Contribution	% of ARC Contributed
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	2,708,167	159.7%
2002	1,985,197	2,853,771	143.8%

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
PROPERTY TAXES:				
Current taxes - Real Estate.....	\$ 44,679,648	\$ 44,679,648	\$ 44,011,603	\$ (668,045)
Current taxes - MV.....	1,494,783	1,494,783	1,740,750	245,967
Delinquent - Real Estate.....	550,000	550,000	1,067,697	517,697
Delinquent taxes - MV.....	135,000	135,000	137,004	2,004
Hotel occupancy tax.....	790,000	790,000	811,206	21,206
Penalties.....	400,000	400,000	364,199	(35,801)
Tax lien fees.....	9,000	9,000	32,046	23,046
TOTAL PROPERTY TAXES.....	48,058,431	48,058,431	48,164,505	106,074
INTERGOVERNMENTAL REVENUES:				
Telephone company tax.....	421,819	421,819	455,111	33,292
Police & fire education incentive.....	-	-	43,079	43,079
PILOT.....	638,104	638,104	638,104	-
General aid.....	1,645,120	1,645,120	1,646,310	1,190
MV tax phase out.....	1,363,137	1,363,137	1,416,411	53,274
State emergency management grant.....	-	-	11,142	11,142
CMAQ.....	20,000	20,000	-	(20,000)
VAWA grant.....	-	-	1,189	1,189
School housing aid.....	-	-	826,094	826,094
State aid - library construction.....	-	-	270,253	270,253
TOTAL INTERGOVERNMENTAL REVENUES.....	4,088,180	4,088,180	5,307,693	1,219,513
CHARGES FOR SERVICES:				
Computer processing fees.....	101,662	101,662	88,713	(12,949)
Police special detail.....	-	-	883,956	883,956
Planning services.....	616	616	2,348	1,732
Document prep and handling.....	55,000	55,000	68,878	13,878
Management services.....	161,377	161,377	267,336	105,959
Community development services.....	50,000	50,000	34,450	(15,550)
Parking fund.....	314,008	314,008	314,008	-
Building protection fund.....	435,000	435,000	435,000	-
Fire alarm assessments.....	50,000	50,000	60,950	10,950
Food service.....	1,500	1,500	224	(1,276)
Recycling bins.....	1,300	1,300	2,308	1,008
Recording fees.....	180,000	180,000	260,223	80,223
Conveyance tax.....	400,000	400,000	575,715	175,715
Recreation activity fees.....	-	-	18,884	18,884
Ballfield rentals.....	61,500	61,500	75,029	13,529
Parking tickets/rescue fees.....	1,200,000	1,200,000	1,018,541	(181,459)
Probate fees.....	45,000	45,000	47,105	2,105
Catering.....	3,000	3,000	850	(2,150)
Entertainment.....	20,000	20,000	22,375	2,375
General business.....	60,000	60,000	54,132	(5,868)
Hotel registration fees.....	5,500	5,500	7,850	2,350
Liquor.....	100,000	100,000	101,675	1,675
Mech amusement.....	21,000	21,000	27,675	6,675
Sunday selling.....	30,000	30,000	29,195	(805)
Taxi.....	2,600	2,600	1,470	(1,130)
Victualing.....	4,800	4,800	53,750	48,950
Animal.....	3,000	3,000	5,938	2,938

(Continued)

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
 SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
 BUDGET AND ACTUAL (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
CHARGES FOR SERVICES (Continued):				
Bicycle.....	\$ 100	\$ 100	\$ 77	\$ (23)
Marriage.....	4,500	4,500	5,528	1,028
Vendor rights.....	67,000	67,000	60,490	(6,510)
Building.....	75,000	75,000	130,338	55,338
Electrical.....	35,000	35,000	55,055	20,055
Mechanical.....	20,000	20,000	32,196	12,196
Plumbing.....	10,000	10,000	17,876	7,876
Sidewalk rest fees.....	3,000	3,000	5,448	2,448
Public works operation.....	7,300	7,300	-	(7,300)
Road opening.....	28,000	28,000	37,063	9,063
Bldg code Board of Appeals.....	1,100	1,100	695	(405)
Board of Appeals.....	11,000	11,000	11,277	277
HDC application fee.....	3,200	3,200	2,480	(720)
Municipal court cost assessment.....	500	500	179,748	179,248
Harbor fines and fees.....	65,000	65,000	147,581	82,581
Pay phone commissions.....	2,000	2,000	449	(1,551)
Fire - sundry.....	22,000	22,000	49,109	27,109
Police - sundry.....	12,000	12,000	12,748	748
Cruise ship.....	150,000	155,000	187,416	32,416
Harbor mooring fees.....	250,000	250,000	257,612	7,612
Rental of property.....	52,144	52,144	100,242	48,098
Jai Alai pari-mutual.....	38,500	38,500	23,346	(15,154)
Jai Alai video.....	451,595	451,595	659,497	207,902
Other miscellaneous.....	90,000	90,000	75,127	(14,873)
TOTAL CHARGES FOR SERVICES.....	4,705,802	4,710,802	6,509,976	1,799,174
USE OF MONEY AND PROPERTY:				
Investment interest.....	101,032	101,032	167,362	66,330
INCOME FROM INVESTMENTS.....	101,032	101,032	167,362	66,330
OTHER REVENUES:				
Public donations.....	49,530	49,530	50,000	470
Archival trust.....	52,688	52,688	52,688	-
Sale of surplus equipment.....	28,656	28,656	4,666	(23,990)
TOTAL OTHER REVENUES.....	130,874	130,874	107,354	(23,520)
TOTAL REVENUES.....	57,084,319	57,089,319	60,256,890	3,167,571
OTHER FINANCING SOURCES:				
Bond Proceeds.....	1,430,000	1,430,000	-	(1,430,000)
Operating transfers in.....	321,746	321,746	938,173	616,427
Total other financing sources.....	1,751,746	1,751,746	938,173	(813,573)
TOTAL REVENUES AND OTHER FINANCING SOURCES.....	\$ 58,836,065	\$ 58,841,065	\$ 61,195,063	\$ 2,353,998

(Concluded)

CITY OF NEWPORT, RHODE ISLAND

GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
EXPENDITURES:				
General Government:				
Mayor and City Council.....	\$ 99,381	\$ 103,581	\$ 93,035	\$ 10,546
City Manager.....	474,662	490,255	464,453	25,802
City Solicitor.....	336,160	336,465	324,340	12,125
Canvassing.....	175,605	188,955	164,110	24,845
Finance.....	2,657,907	2,331,878	2,205,528	126,350
City Clerk.....	511,686	520,044	440,745	79,299
Administrative Services.....	1,096,962	1,111,119	944,702	166,417
Reserve Accounts.....	1,144,446	742,532	768,253	(25,721)
Public Safety:				
Police Department.....	8,668,783	8,555,013	8,504,348	50,665
Fire Department.....	7,821,704	8,005,869	7,762,706	243,163
Public Health:				
Public Works.....	1,731,433	2,131,750	1,535,154	596,596
Solid Waste Operations.....	1,921,951	1,923,352	1,787,239	136,113
Planning, Zoning, and Development.....	960,409	1,102,362	776,357	326,005
Recreation and Parks.....	2,017,806	2,202,806	1,771,824	430,982
Human services:				
Donations.....	179,310	179,310	176,691	2,619
Public Library.....	1,312,870	1,312,870	1,312,870	-
Pension expenses.....	7,349,708	7,349,708	7,285,670	64,038
Debt service.....	564,493	1,291,239	2,447,639	(1,156,400)
TOTAL EXPENDITURES.....	39,025,276	39,879,108	38,765,664	1,113,444
OTHER FINANCING USES:				
Transfers to other funds.....	19,810,789	19,990,789	19,990,789	-
TOTAL OTHER FINANCING USES.....	19,810,789	19,990,789	19,990,789	-
TOTAL EXPENDITURES AND OTHER FINANCING USES.....	\$ 58,836,065	\$ 59,869,897	\$ 58,756,453	\$ 1,113,444

CITY OF NEWPORT, RHODE ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003

	SCHOOL RESTRICTED FUNDS	SPECIAL REVENUE						SUBTOTAL
		UDAG FUND	STATE GRANTS FUND	EDA REVOLVING FUND	PROPERTY ACQUISITION FUND	COMMUNITY DONATION FUND	BRAMLEY BILL FUND	
ASSETS								
Cash.....	\$ -	\$ 3,427,756	\$ 177,458	\$ 170,907	\$ 3,937,480	\$ 202,964	\$ 17,967	3,997,052
Investments.....	-	-	-	-	-	-	-	3,937,480
Receivables:								
Intergovernmental.....	579,626	-	106,430	-	-	-	-	686,056
Loan.....	-	274,706	-	168,947	-	-	-	443,653
Other.....	-	-	-	-	-	-	-	-
Due from other funds.....	-	315,000	-	-	-	-	-	315,000
Advances to other funds.....	-	489,893	-	-	-	-	-	489,893
Advances to component units.....	-	267,459	-	55,243	-	-	-	322,702
Prepaid expenditures.....	-	-	-	-	-	-	-	-
TOTAL ASSETS.....	\$ 579,626	\$ 4,774,814	\$ 283,888	\$ 395,097	\$ 3,937,480	\$ 202,964	\$ 17,967	\$ 10,191,836
LIABILITIES AND FUND BALANCE								
LIABILITIES:								
Cash overdraft.....	\$ 230,287	\$ -	\$ -	\$ -	\$ 2,549,848	\$ -	\$ -	\$ 2,780,135
Accounts payable.....	32,455	-	10,450	-	-	-	2,080	44,985
Accrued expenses.....	-	4,899	-	-	-	-	-	4,899
Due to other funds.....	-	-	-	-	26,514	-	-	26,514
Deferred revenue.....	-	1,342,159	112,390	224,190	-	-	-	1,678,739
TOTAL LIABILITIES.....	262,742	1,347,058	122,840	224,190	2,576,362	-	2,080	4,535,272
FUND BALANCE:								
Reserved.....	-	-	149,547	-	-	-	-	149,547
Unreserved.....	316,884	3,427,756	11,501	170,907	1,361,118	202,964	15,887	5,507,017
TOTAL FUND BALANCE.....	316,884	3,427,756	161,048	170,907	1,361,118	202,964	15,887	5,656,564
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 579,626	\$ 4,774,814	\$ 283,888	\$ 395,097	\$ 3,937,480	\$ 202,964	\$ 17,967	\$ 10,191,836

(Continued)

CITY OF NEWPORT, RHODE ISLAND

COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003

	PERMANENT FUNDS			TOTAL NONMAJOR GOVERNMENTAL FUNDS
	DEBT SERVICE FUND	OTHER TRUST FUNDS		
<u>ASSETS</u>				
Cash.....	\$ -	\$ -	\$ -	3,997,052
Investments.....	124,922	6,473,567		10,535,969
Receivables:				
Intergovernmental.....	-	-	-	686,056
Loan.....	-	-	-	443,653
Other.....	-	-	-	-
Due from other funds.....	-	-	-	315,000
Advances to other funds.....	-	-	-	489,893
Advances to component units.....	-	-	-	322,702
Prepaid expenditures.....	-	-	-	-
TOTAL ASSETS.....	\$ 124,922	\$ 6,473,567	\$ -	16,790,325
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Cash overdraft.....	-	11,961	\$ -	2,792,096
Accounts payable.....	-	3,456		48,441
Accrued expenses.....	-	-		4,899
Due to other funds.....	-	-		26,514
Deferred revenue.....	-	-		1,678,739
TOTAL LIABILITIES.....	-	15,417	\$ 4,550,689	
<u>FUND BALANCE:</u>				
Reserved.....	-	-		149,547
Unreserved and undesignated.....	124,922	6,458,150		12,090,089
TOTAL FUND BALANCES.....	124,922	6,458,150		12,239,636
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 124,922	\$ 6,473,567	\$ -	16,790,325

(Concluded)

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	SCHOOL RESTRICTED FUNDS	UDAG FUND	STATE GRANTS FUND	EDA REVOLVING FUND	SPECIAL REVENUE			BRAMLEY BILL FUND	SUBTOTAL
					PROPERTY ACQUISITION FUND	COMMUNITY DONATION FUND			
REVENUES:									
Intergovernmental.....	\$ 5,828,697	\$ -	\$ 444,119	\$ -	\$ -		\$ 62,155	\$ 6,334,971	
Charges for services.....	-	110,184	-	20,539	-		-	130,723	
Investment income.....	-	28,309	641	5,648	130,234		-	164,832	
Donations.....	626,280	-	-	-	-	\$ 54,343	-	680,623	
Other.....	-	-	-	-	-	508	-	508	
TOTAL REVENUES.....	6,454,977	138,493	444,760	26,187	130,234	54,851	62,155	7,311,657	
EXPENDITURES:									
Current:									
General education.....	6,507,766	-	172,400	-	-	-	-	6,507,766	
Public safety.....	-	-	14,141	-	-	7,653	-	180,033	
Public health.....	-	-	6,350	-	-	-	-	14,141	
Planning, zoning and development.....	-	-	39,270	-	-	-	-	6,350	
Recreation and parks.....	-	-	255,226	31,059	-	35,639	-	74,909	
Human Services.....	-	-	-	-	-	40,324	-	372,877	
Capital outlay.....	-	-	-	-	-	-	-	46,268	
TOTAL EXPENDITURES.....	6,507,766	-	487,387	31,059	-	83,596	46,268	7,156,076	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(52,789)	138,493	(42,627)	(4,872)	130,234	(28,745)	15,887	155,581	
OTHER FINANCING SOURCES (USES):									
Transfers in.....	-	-	-	-	-	-	18,069	18,069	
Transfers out.....	(49,300)	-	(140,009)	-	(1,388,589)	-	-	(1,577,898)	
TOTAL OTHER FINANCING SOURCES (USES).....	(49,300)	-	(140,009)	-	(1,388,589)	-	18,069	(1,559,829)	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(102,089)	138,493	(182,636)	(4,872)	(1,258,355)	(28,745)	33,956	(1,404,248)	
FUND BALANCE (DEFICIT), JULY 1, 2002.....	418,973	3,289,263	343,684	175,779	2,619,473	231,709	(18,069)	7,060,812	
FUND BALANCE, JUNE 30, 2003.....	\$ 316,884	\$ 3,427,756	\$ 161,048	\$ 170,907	\$ 1,361,118	\$ 202,964	\$ 15,887	\$ 5,656,564	

(Continued)

CITY OF NEWPORT, RHODE ISLAND

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (DEFICIT) (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003**

	DEBT SERVICE FUND	PERMANENT FUND <u>OTHER TRUST FUNDS</u>	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
Intergovernmental.....	\$ -	\$ -	\$ 6,334,971
Charges for services.....	-	-	130,723
Investment income.....	(8,188)	307,897	464,541
Donations.....	-	-	680,623
Other	-	-	508
TOTAL REVENUES.....	(8,188)	307,897	7,611,366
EXPENDITURES:			
Current:			
General education.....	-	-	6,507,766
Public safety.....	-	-	180,033
Public health.....	-	-	14,141
Planning, zoning and development.....	-	-	6,350
Recreation and parks.....	-	-	74,909
Human Services.....	-	109,185	482,062
Capital outlay.....	-	-	-
TOTAL EXPENDITURES.....	-	109,185	7,265,261
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(8,188)	198,712	346,105
OTHER FINANCING SOURCES (USES):			
Operating transfers in.....	133,110	-	151,179
Operating transfers out.....	-	-	(1,577,898)
TOTAL OTHER FINANCING SOURCES (USES).....	133,110	-	(1,426,719)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	124,922	198,712	(1,080,614)
FUND BALANCES, JULY 1, 2002.....	-	6,259,438	13,320,250
FUND BALANCES, JUNE 30, 2003.....	\$ 124,922	\$ 6,458,150	\$ 12,239,636

(Concluded)

CITY OF NEWPORT, RHODE ISLAND

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2003**

	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTALS
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents - unrestricted.....	\$ 234,123	\$ 4,034,672	\$ 4,268,795
Accounts receivable:			
User fees (net of allowances).....	24,320	64,000	88,320
Other.....	-	-	-
Due from other funds.....	-	-	-
Inventories.....	-	-	-
Total current assets.....	<u>258,443</u>	<u>4,098,672</u>	<u>4,357,115</u>
Noncurrent assets:			
Capital assets.....	2,529,200	1,894,123	4,423,323
Less accumulated depreciation.....	<u>(648,124)</u>	<u>(840,747)</u>	<u>(1,488,871)</u>
Total noncurrent assets.....	<u>1,881,076</u>	<u>1,053,376</u>	<u>2,934,452</u>
TOTAL ASSETS.....	<u>2,139,519</u>	<u>5,152,048</u>	<u>7,291,567</u>
LIABILITIES:			
Current liabilities:			
Accounts payable.....	\$ 5,239	\$ 1,281	\$ 6,520
Accrued expenses.....	65,461	15,096	80,557
Current portion advances.....	<u>70,430</u>	-	<u>70,430</u>
Total current liabilities.....	141,130	16,377	157,507
Long-term liabilities:			
Advances from other funds.....	<u>419,463</u>	-	<u>419,463</u>
TOTAL LIABILITIES.....	<u>560,593</u>	<u>16,377</u>	<u>576,970</u>
NET ASSETS:			
Invested in capital assets (net of related debt).	1,881,076	1,053,376	2,934,452
Restricted for commitments.....	32,106	260,000	292,106
Unrestricted.....	<u>(334,256)</u>	<u>3,822,295</u>	<u>3,488,039</u>
TOTAL NET ASSETS.....	<u>\$ 1,578,926</u>	<u>\$ 5,135,671</u>	<u>\$ 6,714,597</u>

CITY OF NEWPORT, RHODE ISLAND

**COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTALS
OPERATING REVENUES:			
User fees.....	\$ 502,043	\$ 938,972	\$ 1,441,015
Other revenues.....	-	-	-
TOTAL OPERATING REVENUES.....	502,043	938,972	1,441,015
OPERATING EXPENSES:			
Salaries and benefits.....	227,436	34,170	261,606
Materials and supplies.....	21,147	4,265	25,412
Repairs and maintenance.....	20,258	11,237	31,495
Depreciation.....	77,063	64,939	142,002
Support services.....	6,486	393,323	399,809
Utilities.....	20,037	3,823	23,860
Administrative and other.....	25,617	44,399	70,016
TOTAL OPERATING EXPENSES.....	398,044	556,156	954,200
OPERATING INCOME.....	103,999	382,816	486,815
NONOPERATING REVENUES AND (EXPENSES):			
Interest income.....	677	32,815	33,492
Interest expense.....	(20,619)	-	(20,619)
NET NONOPERATING REVENUES AND (EXPENSES).....	(19,942)	32,815	12,873
NET INCOME.....	84,057	415,631	499,688
TOTAL NET ASSETS - JULY 1, 2002.....	1,494,869	4,720,040	6,214,909
TOTAL NET ASSETS - JUNE 30, 2003.....	\$ 1,578,926	\$ 5,135,671	\$ 6,714,597

CITY OF NEWPORT, RHODE ISLAND
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers.....	\$ 504,222	\$ 922,472	\$ 1,426,694
Cash payments to suppliers for goods and services.....	(65,518)	(411,978)	(477,496)
Cash payments to employees for services.....	(224,143)	(19,074)	(243,217)
Payment of administrative expense.....	(25,617)	(44,399)	(70,016)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	188,944	447,021	635,965
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund loans and transfers.....	(67,682)	-	(67,682)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(35,918)	-	(35,918)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends on investments.....	677	32,815	33,492
Interest expense.....	(20,619)	-	(20,619)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	(19,942)	32,815	12,873
NET INCREASE IN CASH.....	65,402	479,836	545,238
CASH AND CASH EQUIVALENTS - JULY 1, 2002.....	168,721	3,554,836	3,723,557
CASH AND CASH EQUIVALENTS- JUNE 30, 2003.....	\$ 234,123	\$ 4,034,672	\$ 4,268,795
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss).....	\$ 103,999	\$ 382,816	\$ 486,815
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization.....	77,063	64,939	142,002
Changes in assets and liabilities:			
(Decrease) Increase in accounts payable/other liabilities.....	5,703	15,766	21,469
Decrease (Increase) in accounts receivable/other assets.....	2,179	(16,500)	(14,321)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 188,944	\$ 447,021	\$ 635,965

CITY OF NEWPORT, RHODE ISLAND

COMBINED MAJOR AND NONMAJOR PROPRIETARY FUNDS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:				
User fees.....	\$ 14,717,239	\$ 14,717,239	\$ 14,930,562	\$ 213,323
Other revenue.....	195,763	195,763	85,386	(110,377)
Total revenues.....	14,913,002	14,913,002	15,015,948	102,946
Expenses:				
Salaries and benefits.....	3,164,628	3,174,710	3,314,751	(140,041)
Materials and supplies.....	775,603	808,445	508,948	299,497
Repair and maintenance.....	384,159	405,174	301,997	103,177
Depreciation.....	-	-	-	-
Support services.....	3,920,768	3,922,368	3,964,498	(42,130)
Utilities.....	973,655	974,655	946,396	28,259
Administrative and other.....	678,680	741,282	643,264	98,018
Property taxes.....	215,000	215,000	125,806	89,194
Total expenses.....	10,112,493	10,241,634	9,805,660	435,974
Excess (deficiency) of revenues over expenditures.....	4,800,509	4,671,368	5,210,288	538,920
Other financing sources (uses):				
Transfers from other funds.....	-	-	-	-
Transfers to other funds.....	-	-	-	-
Interest income.....	54,500	54,500	79,810	25,310
Interest expense.....	(1,085,287)	(1,085,287)	(932,489)	152,798
Total other financing sources (uses).....	(1,030,787)	(1,030,787)	(852,679)	178,108
Other:				
Bond Proceeds.....	3,000,000	3,000,000	5,791,616	2,791,616
Debt principal.....	(2,321,708)	(2,321,708)	(3,142,350)	(820,642)
Capital additions.....	(4,309,309)	(6,714,842)	(9,069,159)	(2,354,317)
Contingency.....	(103,705)	(18,571)	-	18,571
Lease payments.....	(35,000)	(35,040)	-	35,040
Total other.....	(3,769,722)	(6,090,161)	(6,419,893)	(329,732)
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ (2,449,580)	\$ (2,062,284)	\$ 387,296

CITY OF NEWPORT, RHODE ISLAND

MAJOR PROPRIETARY FUNDS
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2003

	Water Fund			Water Pollution Control Fund			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Revenues:							
User fees.....	\$ 7,785,153	\$ 7,785,153	\$ 7,693,021	\$ 5,556,517	\$ 5,556,517	\$ 5,796,526	\$ 240,009
Other revenue.....	178,598	178,598	83,386	-	-	-	-
Total revenues.....	7,963,751	7,963,751	7,778,407	5,556,517	5,556,517	5,796,526	240,009
Expenses:							
Salaries and benefits.....	2,727,448	2,727,448	2,906,308	155,472	158,472	146,837	11,635
Materials and supplies.....	714,316	761,645	478,820	-	-	-	-
Repair and maintenance.....	345,788	359,454	269,182	-	-	-	-
Depreciation.....	-	-	-	-	-	-	-
Support services.....	223,000	223,275	397,359	3,176,760	3,180,525	3,166,935	13,590
Utilities.....	563,175	563,175	568,597	374,880	374,880	353,939	20,941
Administrative and other.....	484,533	505,477	413,261	124,070	160,988	160,158	830
Property taxes.....	215,000	215,000	125,806	-	-	-	-
Total expenses.....	5,273,260	5,355,474	5,159,333	3,831,182	3,874,865	3,827,869	46,996
Excess (deficiency) of revenues over expenditures.....	2,690,491	2,608,277	2,619,074	1,725,335	1,681,652	1,968,657	287,005
Other financing sources (uses):							
Transfers from other funds.....	-	-	-	-	-	-	-
Transfers to other funds.....	-	-	-	-	-	-	-
Interest income.....	7,500	7,500	27,020	12,000	12,000	19,298	7,298
Interest expense.....	(798,800)	(798,800)	(477,487)	(255,229)	(255,229)	(434,383)	(179,154)
Total other financing sources (uses).....	(791,300)	(791,300)	(450,467)	(243,229)	(243,229)	(415,085)	(171,856)
Other:							
Bond proceeds.....	3,000,000	3,000,000	-	-	-	5,791,616	5,791,616
Debt principal.....	(1,356,882)	(1,356,882)	(1,356,882)	(907,106)	(907,106)	(1,717,786)	(810,680)
Capital additions.....	(3,492,309)	(5,838,157)	(2,162,988)	(500,000)	(500,000)	(6,626,242)	(6,126,242)
Contingency.....	(50,000)	(14,438)	-	(40,000)	(42)	-	42
Lease payments.....	-	-	-	(35,000)	(35,040)	-	35,040
Total other.....	(1,899,191)	(4,229,477)	(3,519,870)	(1,482,106)	(1,442,188)	(2,552,412)	(1,110,224)
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ (2,412,500)	\$ (1,351,263)	\$ -	\$ (3,765)	\$ (998,840)	\$ (995,075)

CITY OF NEWPORT, RHODE ISLAND

NONMAJOR PROPRIETARY FUNDS
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	Easton's Beach Fund			Parking Operations Fund			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Revenues:							
User fees.....	\$ 524,989	\$ 524,989	\$ 502,043	\$ 850,580	\$ 850,580	\$ 938,972	\$ 88,392
Other revenue.....	17,000	17,000	-	165	165	-	(165)
Total revenues.....	541,989	541,989	502,043	850,745	850,745	938,972	88,227
Expenses:							
Salaries and benefits.....	259,397	266,479	227,436	22,311	22,311	34,170	(11,859)
Materials and supplies.....	42,287	27,800	25,863	19,000	19,000	4,265	14,735
Repair and maintenance.....	18,371	24,521	20,379	20,000	21,199	12,436	8,763
Depreciation.....	-	-	-	-	-	-	-
Support services.....	7,000	9,560	6,881	514,008	509,008	393,323	115,685
Utilities.....	23,600	24,600	20,037	12,000	12,000	3,823	8,177
Administrative and other.....	31,651	31,391	25,446	38,426	43,426	44,399	(973)
Property taxes.....	-	-	-	-	-	-	-
Total expenses.....	382,306	384,351	326,042	625,745	626,944	492,416	134,528
Excess (deficiency) of revenues over expenditures.....	159,683	157,638	176,001	225,000	223,801	446,556	222,755
Other financing sources (uses):							
Transfers from other funds.....	-	-	-	-	-	-	-
Transfers to other funds.....	-	-	-	-	-	-	-
Interest income.....	-	-	677	35,000	35,000	32,815	(2,185)
Interest expense.....	(31,258)	(31,258)	(20,619)	-	-	-	-
Total other financing sources (uses).....	(31,258)	(31,258)	(19,942)	35,000	35,000	32,815	(2,185)
Other:							
Bond proceeds.....	-	-	-	-	-	-	-
Debt principal.....	(57,720)	(57,720)	(67,682)	-	-	-	-
Capital additions.....	(57,000)	(96,685)	(19,929)	(260,000)	(260,000)	(260,000)	-
Contingency.....	(13,705)	(4,091)	-	-	-	-	-
Lease payments.....	-	-	-	-	-	-	-
Total other.....	(128,425)	(158,496)	(87,611)	(260,000)	(260,000)	(260,000)	-
Excess of revenues and other sources over expenditures and other uses, budgetary basis	\$ -	\$ (32,116)	\$ 68,448	\$ -	\$ (1,199)	\$ 219,371	\$ 220,570

CITY OF NEWPORT, RHODE ISLAND

INTERNAL SERVICE FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Revenues:				
User fees.....	\$ 937,805	\$ 937,805	\$ 845,198	\$ (92,607)
Other revenue.....	-	-	-	-
Total revenues.....	<u>937,805</u>	<u>937,805</u>	<u>845,198</u>	<u>(92,607)</u>
Expenses:				
Salaries and benefits.....	324,423	331,923	308,200	23,723
Materials and supplies.....	409,398	399,922	339,984	59,938
Repair and maintenance.....	78,114	79,319	56,286	23,033
Depreciation.....	-	-	-	-
Support services.....	104,520	103,291	100,425	2,866
Utilities.....	14,500	16,500	15,819	681
Administrative and other.....	1,805	1,805	2,790	(985)
Property taxes.....	-	-	-	-
Total expenses.....	<u>932,760</u>	<u>932,760</u>	<u>823,504</u>	<u>109,256</u>
Excess of revenues over expenditures.....	<u>5,045</u>	<u>5,045</u>	<u>21,694</u>	<u>16,649</u>
Other financing sources (uses):				
Transfers from other funds.....	-	-	-	-
Transfers to other funds.....	-	-	-	-
Interest income.....	-	-	-	-
Interest expense.....	-	-	-	-
Total other financing sources (uses).....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:				
Contingency.....	-	-	-	-
Lease payments.....	(5,045)	(5,045)	-	5,045
Total other.....	<u>(5,045)</u>	<u>(5,045)</u>	<u>-</u>	<u>5,045</u>
Excess of revenues and other sources over expenditures and other uses, budgetary basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,694</u>	<u>\$ 21,694</u>

CITY OF NEWPORT, RHODE ISLAND
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	PENSION TRUST FUNDS			PRIVATE PURPOSE TRUST FUNDS					TOTAL FIDUCIARY FUNDS
	POLICE PENSION FUND	FIRE PENSION FUND	TOTAL	JOHN CLARKE FUND	SCHOLARSHIP FUNDS	TOTAL	AGENCY FUNDS		
ASSETS									
Cash.....	\$ -	\$ 394,133	\$ 394,133	\$ 7,081	\$ -	\$ 8,491	\$ 216,304	\$ 618,928	
Investments.....	29,668,132	17,289,248	46,957,380	-	830,687	830,687	-	47,788,067	
TOTAL ASSETS	29,668,132	17,683,381	47,351,513	7,081	832,097	839,178	216,304	48,406,995	
LIABILITIES									
Cash overdraft.....	1,610,130	-	1,610,130	-	-	-	-	1,610,130	
Accounts payable.....	18,601	9,760	28,361	-	617	617	-	28,978	
Amounts held in escrow.....	-	-	-	-	-	-	216,304	216,304	
TOTAL LIABILITIES	1,628,731	9,760	1,638,491	-	617	617	216,304	1,855,412	
NET ASSETS									
Net assets held in trust for pension benefits.....	28,039,401	17,673,621	45,713,022	-	-	-	-	45,713,022	
Net assets held in trust for other purposes.....	-	-	-	7,081	831,480	838,561	-	838,561	
TOTAL NET ASSETS	\$ 28,039,401	\$ 17,673,621	\$ 45,713,022	\$ 7,081	\$ 831,480	\$ 838,561	\$ -	\$ 46,551,583	

CITY OF NEWPORT, RHODE ISLAND

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	PENSION TRUST FUNDS			PRIVATE PURPOSE TRUST FUNDS		
	POLICE FUND	FIRE PENSION FUND	TOTAL	SCHOLARSHIP FUNDS	JOHN CLARKE FUND	TOTAL
ADDITIONS:						
Contributions:						
Employees.....	\$ 309,348	\$ 374,819	\$ 684,167	\$ -	\$ -	\$ -
Employer.....	2,698,300	4,062,000	6,760,300	-	-	-
Donations.....	-	-	-	2,915	13,585	16,500
Other income.....	654	948	1,602	-	-	-
Total contributions.....	3,008,302	4,437,767	7,446,069	2,915	13,585	16,500
Investment income:						
Net appreciation (depreciation) in fair value of investments.....	760,081	332,339	1,092,420	5,596	-	5,596
Interest and dividends.....	620,052	375,980	996,032	25,387	-	25,387
Realized gain (loss) in investments.....	(74,086)	(44,716)	(118,802)	4,931	-	4,931
Total investment income.....	1,306,047	663,603	1,969,650	35,914	-	35,914
Less investment expenses.....	4,436	2,698	7,134	-	-	-
Net investment income.....	1,301,611	660,905	1,962,516	35,914	-	35,914
TOTAL ADDITIONS.....	4,309,913	5,098,672	9,408,585	38,829	13,585	52,414
DEDUCTIONS:						
Benefits.....	3,406,083	3,694,033	7,100,116	-	-	-
Administration.....	66,013	35,627	101,640	-	-	-
Awards.....	-	-	-	33,407	14,500	47,907
Support services.....	-	-	-	6,285	-	6,285
TOTAL DEDUCTIONS.....	3,472,096	3,729,660	7,201,756	39,692	14,500	54,192
CHANGES IN NET ASSETS.....	837,817	1,369,012	2,206,829	(863)	(915)	(1,778)
NET ASSETS - JULY 1, 2002.....	27,201,584	16,304,609	43,506,193	832,343	7,996	840,339
NET ASSETS - JUNE 30, 2003.....	\$ 28,039,401	\$ 17,673,621	\$ 45,713,022	\$ 831,480	\$ 7,081	\$ 838,561

CITY OF NEWPORT, RHODE ISLAND

AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2003

	BALANCE JULY 1, 2002	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003
<u>ASSETS</u>				
CASH:				
Student activity funds.....	\$ 197,465	\$ 402,756	\$ 413,581	\$ 186,640
Recreation fund.....	3,862	-	3,862	-
Brick Market Foundation Inc.....	853	-	-	853
Newport Municipal Charitable Improvement Fund, Inc..	28,811	-	-	28,811
TOTAL ASSETS.....	<u>\$ 230,991</u>	<u>\$ 402,756</u>	<u>\$ 417,443</u>	<u>\$ 216,304</u>
<u>LIABILITIES</u>				
AMOUNTS HELD IN ESCROW:				
Student activity funds.....	\$ 197,465	\$ 402,756	\$ 413,581	\$ 186,640
Recreation fund.....	3,862	-	3,862	-
Brick Market Foundation Inc.....	853	-	-	853
Newport Municipal Charitable Improvement Fund, Inc..	28,811	-	-	28,811
TOTAL LIABILITIES.....	<u>\$ 230,991</u>	<u>\$ 402,756</u>	<u>\$ 417,443</u>	<u>\$ 216,304</u>

CITY OF NEWPORT, RHODE ISLAND

CAPITAL ASSETS USED IN OPERATIONS OF GOVERNMENTAL FUNDS

JUNE 30, 2003

Governmental funds capital assets:

Land.....	\$ 1,407,411
Land improvements.....	5,762,783
Construction in Progress.....	411,353
Infrastructure.....	1,970,792
Building and structures.....	29,711,451
Machinery and equipment.....	4,415,627
Vehicles.....	<u>4,319,249</u>
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS.....	<u>\$ 47,998,666</u>

CITY OF NEWPORT, RHODE ISLAND

CAPITAL ASSETS USED IN OPERATIONS OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2003

FUNCTION / ACTIVITY	LAND & IMPROVEMENTS	INFRA - STRUCTURE	BUILDINGS & STRUCTURES	MACHINERY & EQUIPMENT	CONSTRUCTION IN PROGRESS	VEHICLES	TOTAL
GENERAL GOVERNMENT:							
Mayor and city council.....	\$ -	\$ -	\$ -	\$ 6,279	\$ -	\$ -	\$ 6,279
City manager.....	-	-	-	41,608	-	-	41,608
City solicitor.....	-	-	-	9,025	-	-	9,025
Canvassing.....	-	-	-	24,105	-	-	24,105
Finance.....	-	-	-	1,297,921	-	-	1,297,921
City clerk.....	-	-	-	-	-	-	-
Administrative services.....	-	-	-	-	-	-	-
Reserve accounts.....	-	-	-	-	-	-	-
Planning.....	375,535	187,244	1,800,177	-	100,727	-	2,463,683
TOTAL GENERAL GOVERNMENT.....	375,535	187,244	1,800,177	1,378,938	100,727	-	3,842,621
PUBLIC SAFETY:							
Police department.....	12,013	-	2,579,109	342,686	-	655,021	3,588,829
Fire department.....	1,000	-	854,499	473,125	265,000	1,692,477	3,286,101
TOTAL PUBLIC SAFETY.....	13,013	-	3,433,608	815,811	265,000	2,347,498	6,874,930
PUBLIC HEALTH:							
Public works.....	5,550,213	1,783,548	775,990	327,811	45,626	1,089,950	9,573,138
Solid waste operations.....	-	-	15,915	22,216	-	-	38,131
TOTAL PUBLIC HEALTH.....	5,550,213	1,783,548	791,905	350,027	45,626	1,089,950	9,611,269
RECREATION AND PARKS.....	1,031,962	-	724,458	279,136	-	693,809	2,729,365
GENERAL EDUCATION.....	196,471	-	22,776,303	1,554,508	-	187,992	24,715,274
HUMAN SERVICES.....	3,000	-	185,000	37,207	-	-	225,207
GRAND TOTALS.....	\$ 7,170,194	\$ 1,970,792	\$ 29,711,451	\$ 4,415,627	\$ 411,353	\$ 4,319,249	\$ 47,998,666

CITY OF NEWPORT, RHODE ISLAND

**CAPITAL ASSETS USED IN OPERATIONS OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2003**

FUNCTION / ACTIVITY	BALANCE JULY 1, 2002	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003
GENERAL GOVERNMENT:				
Mayor and council.....	\$ 6,279	\$ -	\$ -	\$ 6,279
City manager.....	41,608	-	-	41,608
City solicitor.....	9,025	-	-	9,025
Canvassing.....	24,105	-	-	24,105
Finance	1,285,421	12,500	-	1,297,921
City Clerk.....	-	-	-	-
Administrative services.....	-	-	-	-
Fiduciary accounts.....	-	-	-	-
Planning.....	2,175,712	287,971	-	2,463,683
TOTAL GENERAL GOVERNMENT	3,542,150	300,471	-	3,842,621
PUBLIC SAFETY:				
Police department.....	3,451,208	137,621	-	3,588,829
Fire department.....	2,872,748	413,353	-	3,286,101
TOTAL PUBLIC SAFETY.....	6,323,956	550,974	-	6,874,930
PUBLIC HEALTH:				
Public works.....	7,381,071	2,192,067	-	9,573,138
Solid waste operations.....	38,131	-	-	38,131
TOTAL PUBLIC HEALTH.....	7,419,202	2,192,067	-	9,611,269
RECREATION AND PARKS.....	2,698,941	30,424	-	2,729,365
GENERAL EDUCATION.....	20,980,380	3,734,894	-	24,715,274
HUMAN SERVICES.....	225,207	-	-	225,207
GRAND TOTALS.....	\$ 41,189,836	\$ 6,808,830	\$ -	\$ 47,998,666

CITY OF NEWPORT, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2003

Real estate and personal property taxes receivable:

Year	Balance, July 1, 2002	Current year assessment	Adjustments/ abatements	Amount to be collected	Collections	Balance, June 30, 2003
2002	\$ -	\$ 47,960,201	\$ (972,067)	\$ 46,988,134	\$ 45,522,409	\$ 1,465,725
2001	1,393,268		(7,234)	1,386,034	1,079,432	306,602
2000	359,118		(8,400)	350,718	63,545	287,173
1999	308,680		(17,256)	291,424	13,465	277,959
1998	381,542		(16,342)	365,200	8,982	356,218
1997	231,615		(16,015)	215,600	14,976	200,624
1996	232,351		(13,590)	218,761	6,890	211,871
1995	222,557		(43)	222,514	4,373	218,141
1994	204,129		(47)	204,082	4,629	199,453
1993	197,707		(161)	197,546	4,491	193,055
1992	2,254		613	2,867	1,092	1,775
1991	1,942		363	2,305	1,648	657
1990	476		1,121	1,597	718	879
1989	278		836	1,114	360	754
	<u>\$ 3,535,917</u>	<u>\$ 47,960,201</u>	<u>\$ (1,048,222)</u>	<u>\$ 50,447,896</u>	<u>\$ 46,727,010</u>	<u>3,720,886</u>
					Accrued Interest	2,288,233
					Less allowance for doubtful accounts	<u>(1,990,697)</u>
						<u>\$ 4,018,422</u>



**Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting Based on
an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

We have audited the financial statements of the City of Newport, Rhode Island (the Town) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Town'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 Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards (Continued)**

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

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

December 11, 2003

Jeffrey J. Gagnier, CPA, CFE, CISA, CFF, CICA, CMA, CFSA, CFP, CFP®
Jeffrey J. Gagnier, CPA, CFE, CISA, CFF, CICA, CMA, CFSA, CFP, CFP® P.C.