

**CITY OF NEWPORT, RHODE ISLAND**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2004**





CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

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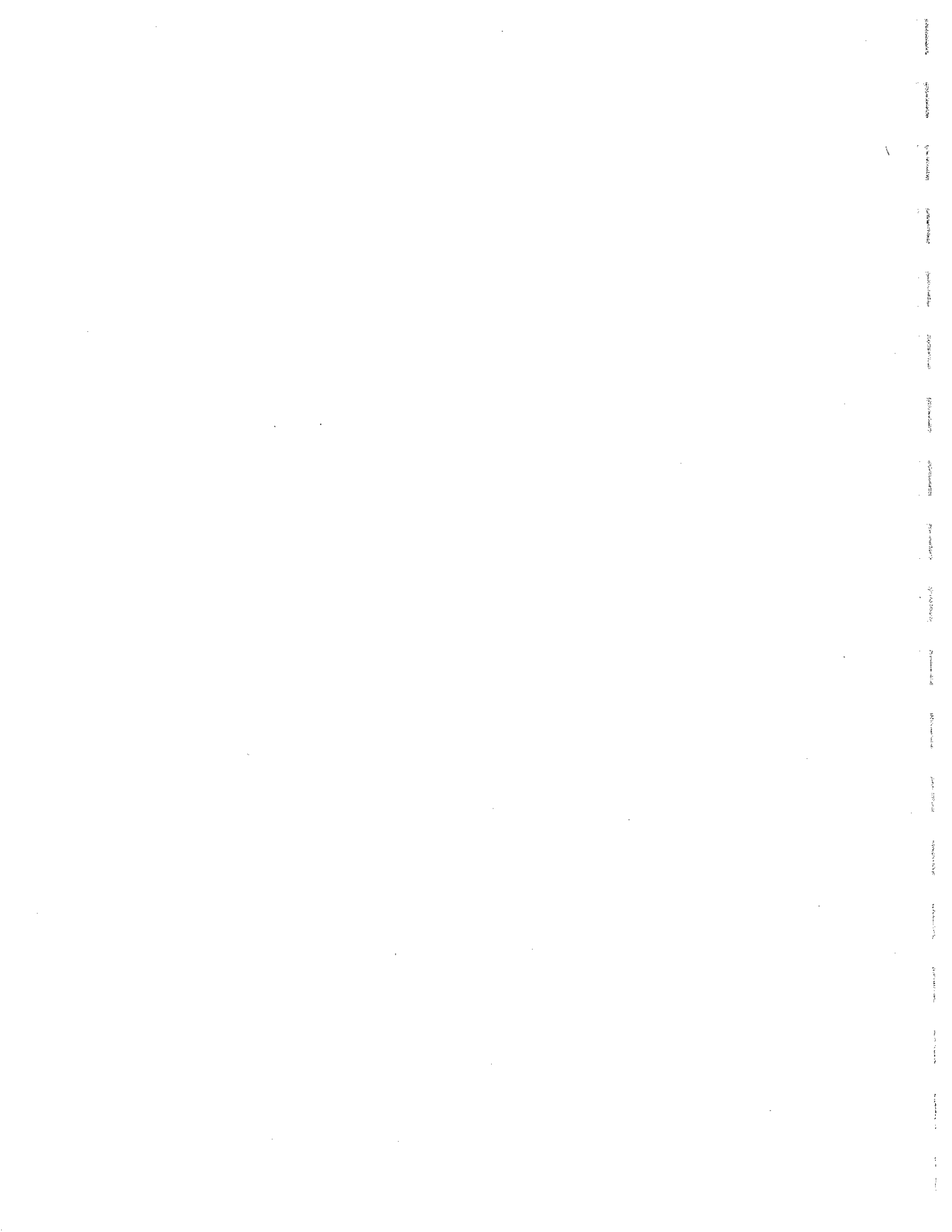
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## **INTRODUCTORY SECTION**







December 3, 2004

To the Honorable Mayor, Councilors, and Citizens of the City of Newport, Rhode Island:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year (June 30) a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Newport, Rhode Island as of and for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Newport, Rhode Island. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Newport, Rhode Island has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Newport, Rhode Island's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Newport, Rhode Island's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Newport, Rhode Island's financial statements have been audited by Lefkowitz, Garfinkel, Champi & DeRienzo P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Newport, Rhode Island for the fiscal year ended June 30, 2004 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Newport, Rhode Island's financial statements as of and for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Newport, Rhode Island was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Newport, Rhode Island's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Newport, Rhode Island's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The City of Newport, Rhode Island (City), founded in 1639, incorporated in 1784 and re-chartered in 1853, is located at the southern end of Aquidneck Island in Narragansett Bay, about 30 miles southeast of Rhode Island's capital of Providence. The City is bounded by the Atlantic Ocean on the east and south and Narragansett Bay on the west. The City is 11 square miles in size, with 7.7 square miles of land and 3.3 square miles of inland water. The City has a year-round population of about 27,000, which grows substantially during the summer months. The City is also visited by over 1,000,000 people annually.

The City operates under a Home Rule Charter providing for a council/city manager form of government. There is a seven-member City Council serving two-year terms, headed by its Chairperson, who is elected by the at large City Councillors and also holds the title of Mayor. Four of the Councilors are elected at large and three from voting wards. All legislative powers of the City are vested in the City Council by the Charter, including the ordering of any tax, making appropriations, and transacting any other business pertaining to the financial affairs of the City. The City Council is also responsible for passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Solicitors, Municipal Judges and Canvassing Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing all other employees.

An elected seven-member School Committee, all at large and serving two-year terms, is vested with autonomous legislative authority over the public school system. The School Committee appoints the Superintendent of Schools as 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.

Municipal services include public safety; potable water and wastewater collection, treatment and distribution; solid waste and recyclables collection and disposal; street and sidewalk maintenance; beach, harbor, recreation, tourism and parking operations; and planning, zoning and economic development functions.

The accompanying financial statements present the government and its 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 is such that exclusion would lead the primary government's financial statements to be misleading or incomplete. The City identifies and includes two component units; the Newport Public Library and the Redevelopment Agency of Newport. Additional information on these agencies can be found in Note I in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All departments, the Newport Public Schools and the Newport Public Library are required to submit requests for appropriations to the City Manager by May 14<sup>th</sup> of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents the proposed budget to the City Council for review no later than 45 days prior to June 30. The Council is required to hold 2 public hearings on the proposed budget and to adopt a final budget no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g. public safety) and department. Department heads may make transfers of appropriations within a department with City Manager approval. Transfers of appropriations between departments, however, require the approval of the City Council. Budget-to-actual comparisons are provided in this report for the general fund and the school unrestricted fund.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

#### *Local economy*

From its early years when commerce involved the whale-oil trade, to today's highly sophisticated research in electronic submarine warfare, the seaport has continued to play a vital role in Newport's economy. The U.S. Navy, beginning with the founding of the Naval War College in 1884, influenced the development of the City and continues to do so as one of the major contributors to the local economy.

Newport's location, natural and cultural resources, and sense of history are responsible for the growth of tourism into a primary source of revenue. The third largest economic factor in Newport, the service sector, benefits from both the defense and tourism industries. As the State's principal tourist center and resort community, Newport is visited annually by millions of tourists who attend special events, sail and view the City's mansions and other attractions. The City's popularity has stimulated significant private investment in retail shopping facilities, hotels, timeshare units, restaurants, clubs and other tourist-oriented enterprises.

The personal income per capita for Newport County is \$36,908 compared to \$30,859 and \$30,906 for Rhode Island and the United States, respectively. The unemployment rate is 3.7% compared to the state unemployment rate of 5.8%. The median selling price of an existing home in 2004 is \$355,000, an amount that has doubled in 5 years. The City is attracting older retired residents and empty-nesters as well as tourists. The value of property is expected to continue to grow at the rate of 5-15%. The economy saw a slight slowdown in the tourist industry in 2002 and 2003, but it has rebounded in 2004 and is expected to remain healthy.

### *Long-term financial planning*

The City Council has focused redevelopment efforts in the City's north end with the assistance of federal and state grants, namely a HOPE VI grant to rebuild outdated housing. The Council will continue efforts in this area and will also focus on redeveloping the old naval hospital and some commercial property in the north end. Additional renovation is planned or in progress for the City's downtown historic Washington Square and Long-Wharf area. These renovation and development initiatives include plans to address parking and traffic issues.

Long-term financial planning also includes significant capital renovation and additions in both the Water and Water Pollution Control (sewer) funds in response to new state and federal water quality standards and deteriorating buildings and systems. Cost estimates range from \$50M to \$75M dollars to address these areas. Funds will likely come from a variety of sources including state subsidized revenue bonds, grants, regionalization of facilities and rates.

The current 5-year capital plan includes possible general obligation bond funds to rebuild and repair roadways and sidewalks, in accordance with a pavement management program developed within the last two years. This cost is estimated at about \$10M.

### *Cash management policies and practices*

Temporarily idle cash is invested in government money market funds that are fully collateralized, in certificates of deposit and in U.S treasury obligations. The maturities of investments range from 1 day to 5 years, with an average maturity of 12 months. The average yield on investments was 5% for the government, and 14% for pension funds. The higher rate for the pension funds is attributable to the long-term character of most of its investment holdings. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

### *Pension and other postemployment benefits*

The City sponsors two single-employer defined benefit pension plans for police and fire employees. Each year, an independent actuary engaged by the pension plans calculates the amount of the annual contribution that the City must make to the pension plans to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contributions to the pension plans as determined by the actuary. The City also fully funds the calculation by the actuary of the annual amortization of the unfunded actuarially accrued liability. The liability is being amortized over a closed 30-year period. The City is in the 28<sup>th</sup> year (declining to 1). The plans are currently funded at 29% for the fire plan and 43% for the police plan.

The City also provides pension benefits for its non-public safety employees through a state-wide plan managed by the State Treasurer. The state-hired actuaries determine the funding level and unfunded actuarially accrued liability for each individual participating employer. The City is 94% funded in the State's municipal employees' retirement plan. The State of Rhode Island provides pension benefits to the City of Newport school teachers.

The City also provides postretirement health coverage for all vested retirees, certain dependents and beneficiaries and life insurance benefits to police retirees. Vesting and participation is determined by bargaining contract and varies by length of employment and type of employment. As of June 30, 2004, 388 retirees were eligible to receive health and life insurance benefits, which are currently financed on a pay-as-you-go basis. The City has received an actuarial calculation of the combined municipal and school liability as of July 1, 2003. That estimate is \$115M. Retiree benefits and various options are currently being studied in order to reduce the liability.

Additional information on the City's pension arrangements and postemployment benefits can be found in Notes 11-13 in the notes to the financial statements.

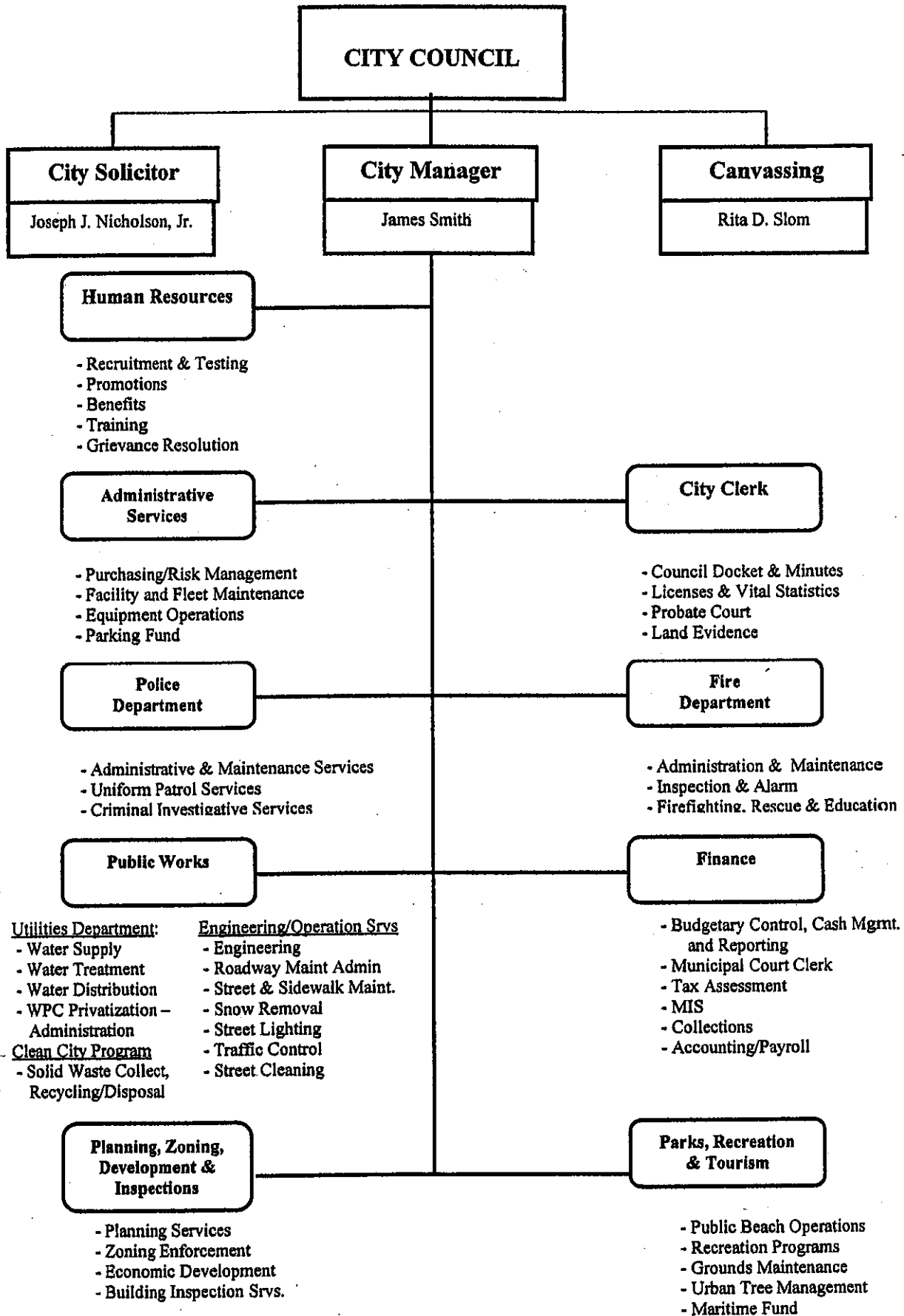
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department. Credit also must be given to the Mayor and City Council for their unfailing support for achieving and maintaining the highest standards of professionalism in the management of the City of Newport's finances.

Respectfully submitted,

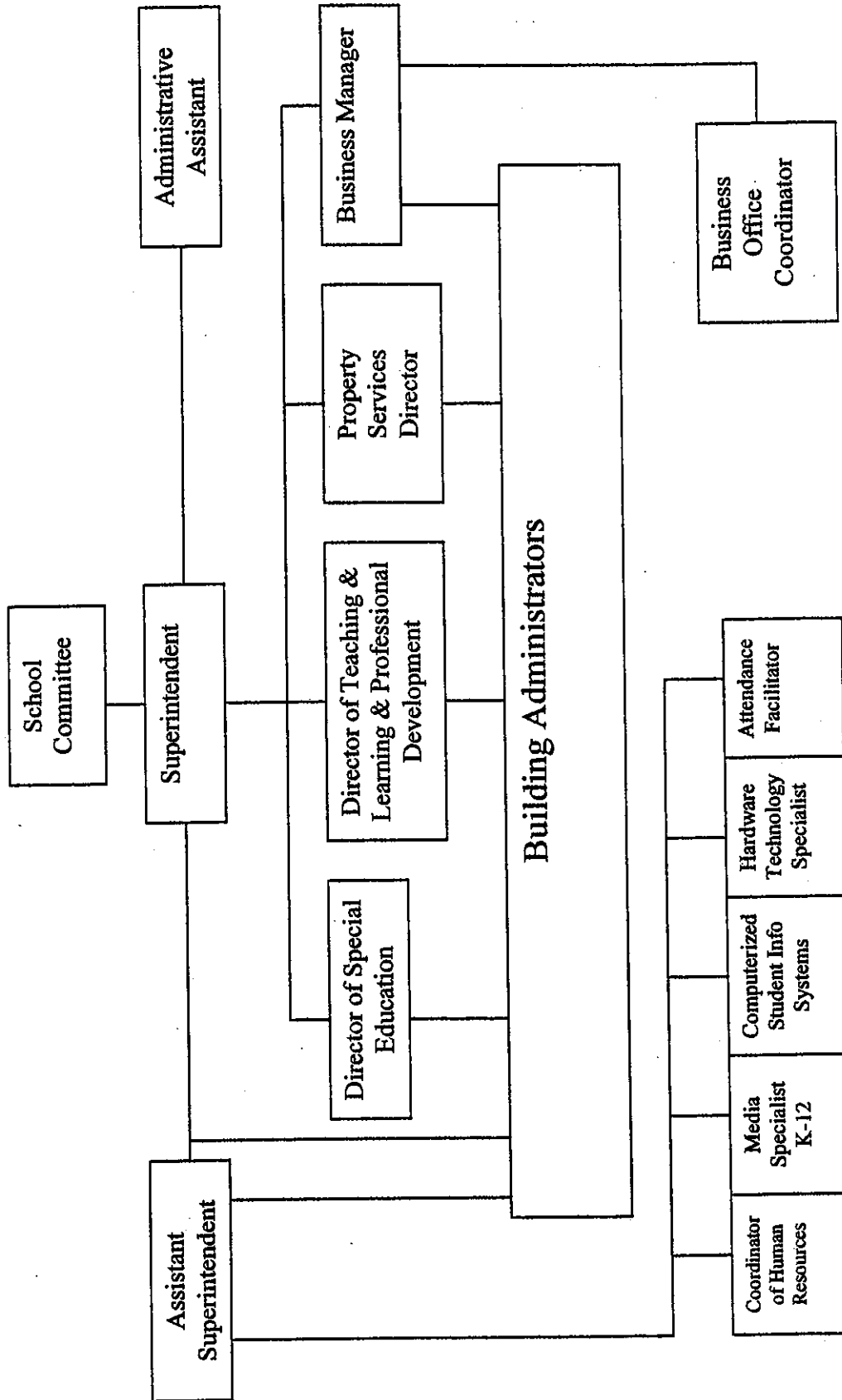
James E. Smith  
City Manager

Laura L. Sitrin, CPA  
Director of Finance

# THE CITY OF NEWPORT, RI



**NEWPORT PUBLIC SCHOOLS**  
2004 ~ 2005





# CITY OF NEWPORT, RHODE ISLAND

## Elected Officials:

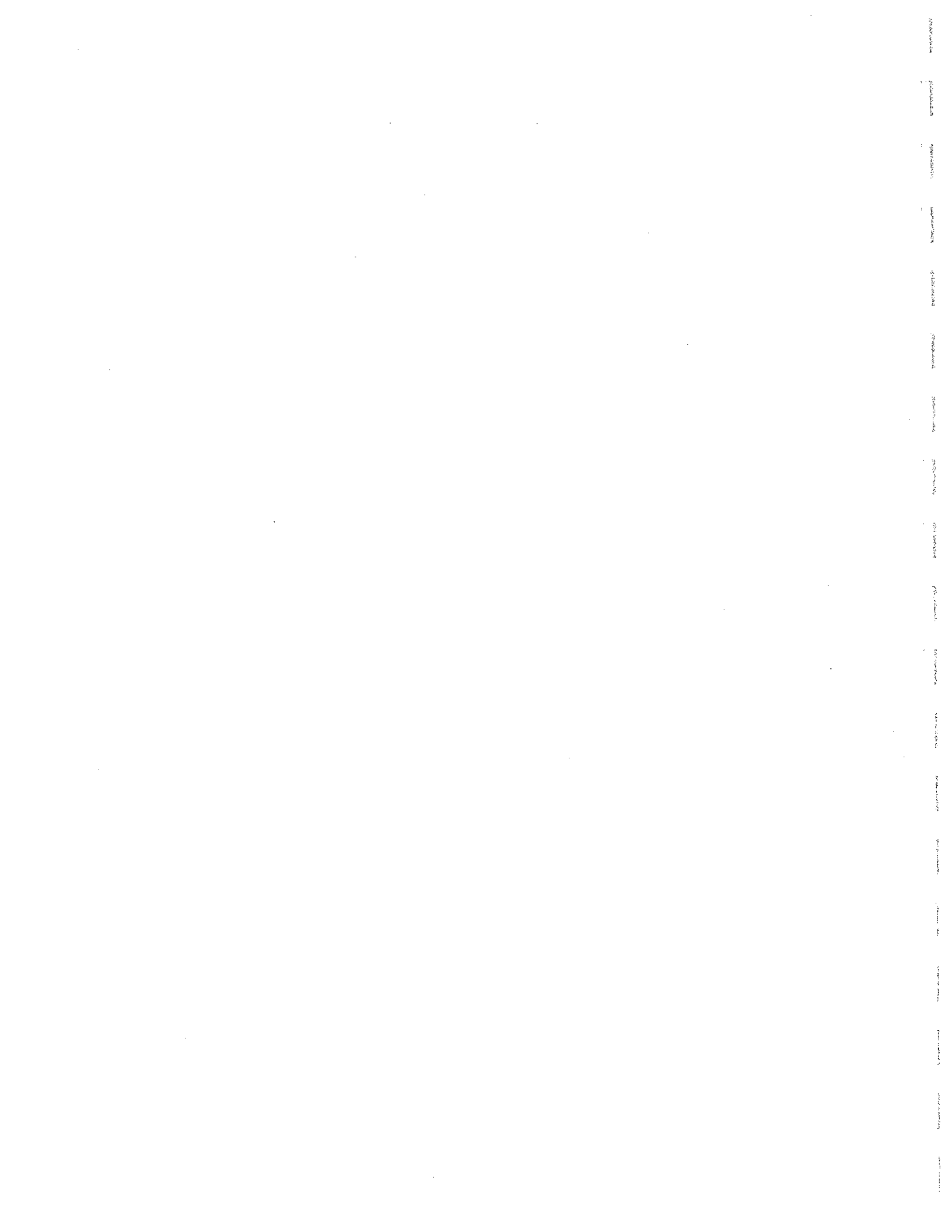
Honorable Richard C. Sardella  
Richard E. O'Neill  
James W. Baccari  
Stephen C. Waluk  
Kathryn E. Leonard  
John J. Trifero  
Jeanne-Marie Napolitano  
David S. Gordon  
Jo Eva Gaines  
M. Jane Barry, Ph.D.  
Hugo J. DeAscentis, Jr.  
David R. Carlin  
Robert J. Leary  
Thomas S. Phelan

Mayor  
1<sup>st</sup> Ward Councilor  
2<sup>nd</sup> Ward Councilor/Vice Chairman  
3<sup>rd</sup> Ward Councilor  
4<sup>th</sup> Ward Councilor  
Councilor At Large  
Councilor At Large  
School Committee Chair  
School Committee  
School Committee  
School Committee  
School Committee  
School Committee/Vice Chair  
School Committee

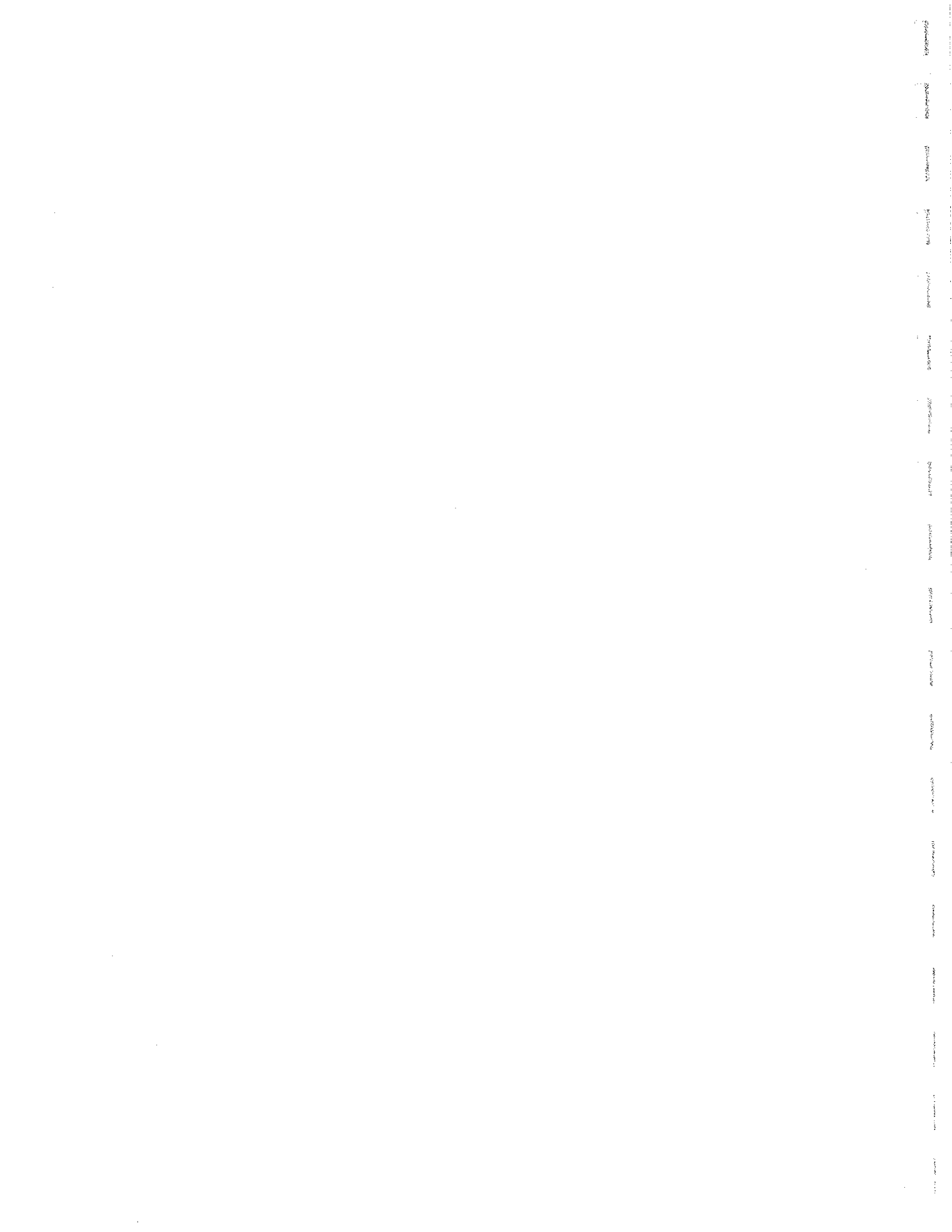
## Principal Appointed Officials:

James C. Smith  
Laura L. Sitrin  
Dr. Mary C. Canole  
Joseph J. Nicholson Jr.  
Julia Forgue  
Edward Draper  
Paige Bronk  
Charles Golden  
Edward McCarthy  
Susan Cooper  
Bruce Alexander

City Manager  
Director of Finance  
Superintendent of Schools  
City Solicitor  
Director of Public Works  
Director of Administrative Services  
Director of Planning  
Police Chief  
Fire Chief  
Director of Parks/Recreation  
School Business Manager



**FINANCIAL SECTION**





**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, the 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 ended June 30, 2004, 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 the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, the 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, 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 12 to 23 and historical pension information on pages 65 and 66 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 with the exception of the statistical section 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. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Leffowitz, Jarzafel, Cianci & DeGuzo P.C.*

December 3, 2004

## 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, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 to 6 of this report.

### Financial Highlights

- The assets of the City of Newport exceeded its liabilities at the close of the most recent fiscal year by \$140,899,873 (*net assets*). Of this amount, \$16,697,330 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's net assets increased by \$38,267. Business-type activities contributed \$1,407,438 to the increase primarily from the net income generated by the Water Fund.
- At June 30, 2004, the City of Newport's governmental funds reported a combined ending fund balance of \$23,767,239, a decrease of \$1,870,560 in comparison to the prior year fund balance. Approximately 83% of this amount, \$19,840,992, 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 \$6,059,277, or 9% of total general fund expenditures and net other financing uses.
- The City of Newport's long-term liabilities net decrease of \$4,351,411 (5.2%) was attributable to the scheduled repayment of debt offset by the drawdown of revenue bonds that were approved for sewer improvements.

### 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Government-wide financial statements (continued)

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.

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, public safety, 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, harbor 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 24-25 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Fund financial statements (continued)

#### *Governmental funds (continued)*

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 is included on pages 70-73 of this report.

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 26-30 of this report.

#### *Proprietary funds*

The City of Newport maintains two 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, beach operations and, effective June 30, 2004, its maritime (harbor) operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Newport's various functions. The City of Newport uses an internal service fund to account for its fleet 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 utilities fund and for the water pollution control operation, both of which are considered to be major funds of the City of Newport. The parking operations fund, maritime 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 31-33 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### **Fund financial statements (continued)**

#### *Fiduciary funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the 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 34-35 of this report.

#### *Notes to the financial statements*

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

The notes to the financial statements can be found on pages 36-64 of this report.

#### *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 65-66 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds 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 67-82 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 \$140,899,873 at the close of the most recent fiscal year.

By far the largest portion of the City of Newport's net assets (83%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Government-wide Financial Analysis (continued)

	City of Newport's Net Assets					
	Governmental activities		Business-type activities		Total	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated
Current and other assets	\$ 38,084,742	\$ 41,914,384	\$ 11,582,577	\$ 12,426,635	\$ 49,667,319	\$ 54,341,019
Capital assets	59,057,008	58,264,742	102,616,557	103,586,321	161,673,565	161,851,063
Total assets	97,141,750	100,179,126	114,199,134	116,012,956	211,340,884	216,192,082
Long-term liabilities	34,563,806	38,090,006	20,036,261	24,782,651	54,600,067	62,872,657
Other liabilities	11,714,683	9,856,688	4,126,261	2,601,131	15,840,944	12,457,819
Total liabilities	46,278,489	47,946,694	24,162,522	27,383,782	70,441,011	75,330,476
Net assets:						
Invested in capital assets, net of related debt	36,213,472	34,205,668	80,885,228	80,213,874	117,098,700	114,419,542
Restricted	3,926,247	2,266,326	3,177,596	5,721,327	7,103,843	7,987,653
Unrestricted	10,723,542	15,760,438	5,973,788	2,693,973	16,697,330	18,454,411
Total net assets	\$ 50,863,261	\$ 52,232,432	\$ 90,036,612	\$ 88,629,174	\$ 140,899,873	\$ 140,861,606

An additional portion of the City of Newport's net assets (5%) represents resources that are restricted to pay for ongoing contracts and commitments. The remaining balance of unrestricted net assets (\$16,697,330) 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.

The government's net assets increased by \$38,267 during the current fiscal year. Business-type activities contributed \$1,407,438 to the increase primarily from the net income generated by the Water Fund. However, a significant portion of the revenue generated by the Water Fund has been restricted pursuant to RI Public Utilities Commission's Docket 3578 (Order) and is not available to fund the operating expenses of the Water Fund. Property tax revenue decreased by \$461,729 due to an increase in the allowance for doubtful accounts of \$2,015,657, which amount was offset by additional revenue due to an increase in property tax rates. A loss of \$30,004 was due to the one-time sale of capital assets. Capital and operating grants and contributions also decreased by \$1,145,002 in comparison to the prior year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Governmental activities

Governmental activities decreased the City of Newport's net assets by \$1,369,171. Key elements of this decrease are as follows:

City of Newport's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 7,876,914	\$ 6,536,377	\$ 15,252,752	\$ 15,015,948	\$ 23,129,666	\$ 21,552,325
Operating grants and contributions	21,000,389	21,279,957	-	-	21,000,389	21,279,957
Capital grants and contributions	818,007	1,683,441	-	-	818,007	1,683,441
<b>General revenues:</b>						
Property taxes	48,820,256	49,281,985	-	-	48,820,256	49,281,985
Grants and contributions not restricted to specific programs	4,097,271	4,155,936	-	-	4,097,271	4,155,936
Investment income	1,177,711	693,902	90,236	79,810	1,267,947	773,712
Miscellaneous revenues	116,126	107,862	-	-	116,126	107,862
Transfers from primary government	(436,968)	-	436,968	-	-	-
<b>Total revenues</b>	<b>83,469,706</b>	<b>83,739,460</b>	<b>15,779,956</b>	<b>15,095,758</b>	<b>99,249,662</b>	<b>98,835,218</b>
<b>Expenses:</b>						
General government	5,459,387	5,261,563	-	-	5,459,387	5,261,563
General education	42,168,056	39,039,945	-	-	42,168,056	39,039,945
Public safety	25,954,534	23,098,422	-	-	25,954,534	23,098,422
Public health	4,403,093	3,649,735	-	-	4,403,093	3,649,735
Planning, zoning and development	1,028,852	855,293	-	-	1,028,852	855,293
Recreation and parks	2,189,095	1,868,074	-	-	2,189,095	1,868,074
Human services	2,543,597	2,475,041	-	-	2,543,597	2,475,041
Loss on disposition of assets	30,004	-	-	-	30,004	-
Interest expense	1,062,259	1,166,764	-	-	1,062,259	1,166,764
Water	-	-	6,830,398	6,726,482	6,830,398	6,726,482
Water pollution control	-	-	6,432,891	5,806,015	6,432,891	5,806,015
Nonmajor business-type	-	-	1,109,229	974,819	1,109,229	974,819
<b>Total expenses</b>	<b>84,838,877</b>	<b>77,414,837</b>	<b>14,372,518</b>	<b>13,507,316</b>	<b>99,211,395</b>	<b>90,922,153</b>
Increase (decrease) in net assets	(1,369,171)	6,324,623	1,407,438	1,588,442	38,267	7,913,065
Net assets July 1	30,895,414	26,198,931	72,247,261	71,025,425	103,142,675	97,224,356
Prior period adjustment/restatement	21,337,018	(1,628,140)	16,381,913	(366,606)	37,718,931	(1,994,746)
<b>Net assets June 30</b>	<b>\$ 50,863,261</b>	<b>\$ 30,895,414</b>	<b>\$ 90,036,612</b>	<b>\$ 72,247,261</b>	<b>\$ 140,899,873</b>	<b>\$ 103,142,675</b>

Property taxes decreased by 1% during the year due to an increase in the allowance for doubtful accounts of \$2,015,657 offset by an increase in revenue attributable to an increase in property tax rates.

Operating grants and capital grants and contributions for governmental activities decreased by \$1,145,002 mostly as a result of substantial completion of an infrastructure project during the current fiscal year and a reduction in school grants of \$599,760.

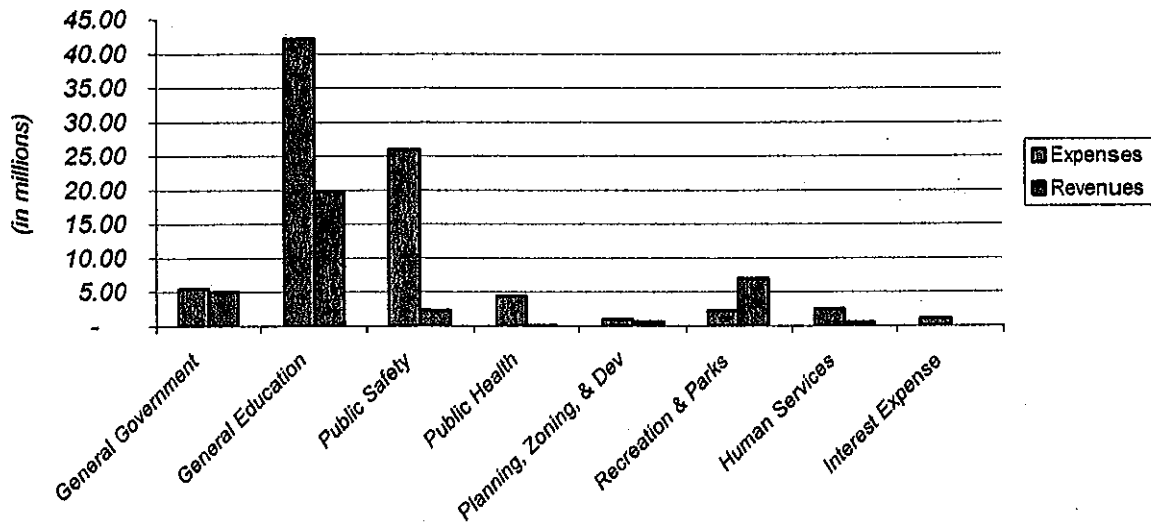
Charges for services increased primarily due to an increase in capital project service charges to other funds for leasing fees for vehicles and equipment and an increase in school service charges.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

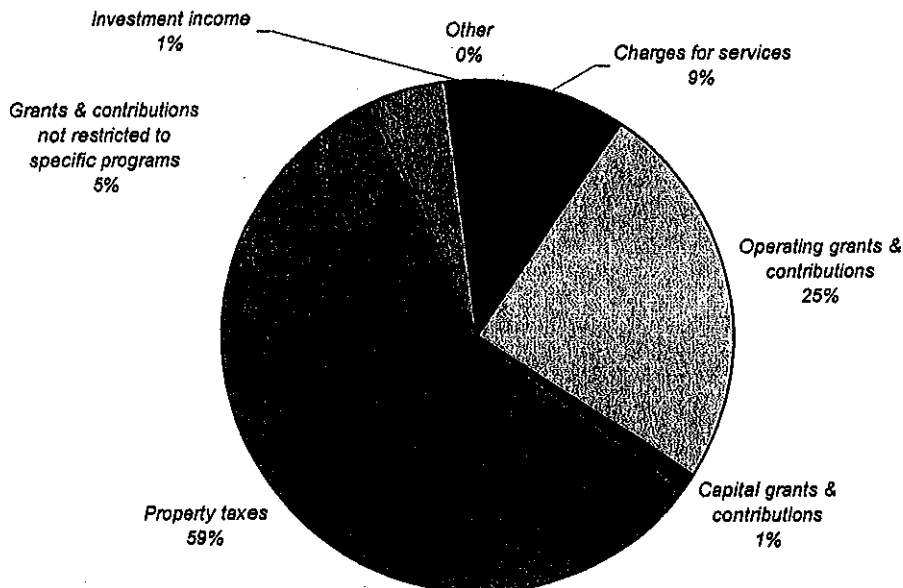
Government-wide Financial Analysis (continued)

Governmental activities (continued)

**Expenses and Program Revenues -  
Governmental Activities**



**Revenues by Source - Governmental Activities**



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

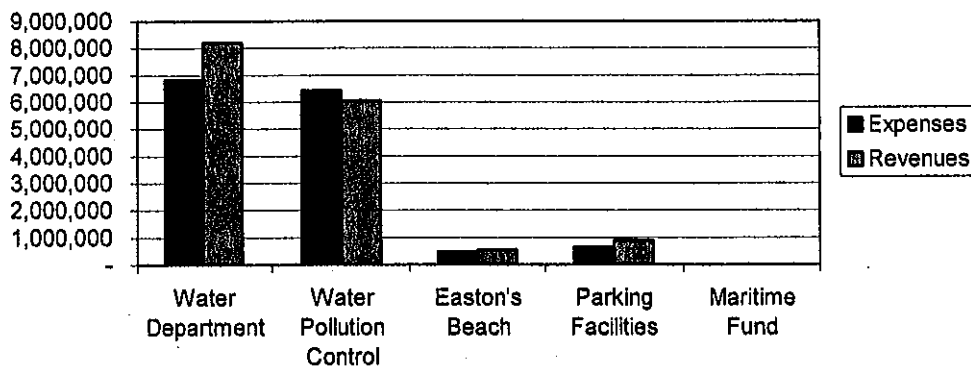
### Government-wide Financial Analysis (continued)

#### Business-type activities

Business-type activities increased the City of Newport's net assets by \$1,407,438, accounting for all of the total growth in the government's net assets. Key elements of this increase are as follows:

The Water Fund accounts for \$1,364,648 of the increase in net assets within the business-type funds (inclusive of the transfer in from the general fund of \$339,699). However, a significant portion of the revenues generated by the Water Fund have been restricted by the Order and is not available to fund operating costs. The Order requires the City escrow ("restrict") annually \$3,270,979 of collected revenues for debt service (\$1,271,815), capital additions (\$1,090,340), chemicals (\$330,470), electricity (\$328,354) and, effective July 2004, \$250,000 for the repayment of the advance from the City's General Fund. For the year ended June 30, 2004, the Water Pollution Control Fund reported a net loss of \$378,003 and the Parking Fund reported net income of \$255,534.

**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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis of the Government's Funds (continued)

#### Governmental funds (continued)

As of the end of the current fiscal year, the City of Newport's governmental funds reported combined ending fund balances of \$23,767,239, a decrease of \$1,870,561 in comparison with the prior year fund balance. Most of this total amount (\$19,840,992) 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 (\$3,926,247) 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.

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 \$6,059,277, while total fund balance was \$8,137,043. 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 and operating transfers out. Unreserved fund balance represents 9% of total General Fund expenditures and operating transfers, while total fund balance represents 12% of that same amount.

The fund balance of the City of Newport's General Fund decreased by \$4,404,602. The reduction in fund balance was due to Council appropriated fund balance of \$4,881,060 to be used for capital improvements including road repairs and paving, school capital improvements and a matching grant for the Cliffwalk repair project. Key factors in this year's operations are as follows:

An increase in the property tax rate (4.5%) increased tax revenues by \$2,441,652, but was offset by abatements resulting from the revaluation of property values leaving a total increase in real property tax revenues of \$2,018,585. This was \$1,091,112 short of the budgeted revenues. This shortfall was offset by the new meals and beverage tax revenue of \$1,013,307. Intergovernmental revenues of the General Fund were essentially flat, as were service charges and other revenues.

#### 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 a deficit of (\$884,325), resulting from a reserve for commitments for capital improvements as required by the PUC. Unrestricted net assets of the Water Pollution Control Fund at the end of the year amounted to \$2,773,537, for the parking operations \$4,216,896, for the Maritime Fund \$97,269 and those for the Easton's Beach operation amounted to a deficit of (\$229,589). The total growth in net assets for the Water Fund was \$1,364,648, for the Water Pollution Control Fund a loss of \$378,003 for the parking operations \$255,534, for the Maritime Fund \$97,269 and for Easton's Beach \$67,990. In addition, total net assets grew in both the Water Fund and the Water Pollution Control Fund as a result of prior period adjustments of \$3,857,436 and \$12,524,477, respectively, which resulted from the addition of capital assets based on an outside study. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Newport's business-type activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were due to encumbrance carryovers from fiscal year 2003 of \$1,208,298, offset by a reduction of \$775,000 in transfers to other funds.

### 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, 2004 is \$161,673,565 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and systems, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in the City of Newport's investment in capital assets for the current fiscal year was .1% (a 1.4% increase for governmental activities and a .9% decrease for business-type activities).

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

- Construction was substantially completed on system and facility improvements in the Water Pollution Control Fund and the assets were placed in service.
- Infrastructure for the Ranger Road project and Newport Heights (\$299,273) was built and placed in service.
- Building improvements of \$501,483 were made to school buildings and computer equipment of \$105,310, funded primarily through grants, was placed in service in the schools.

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003 Restated	2004	2003 Restated	2004	2003 Restated
Land	\$ 2,348,013	\$ 2,348,013	\$ 5,948,909	\$ 5,948,909	\$ 8,296,922	\$ 8,296,922
Construction in progress	272,709	411,353	959,115	11,127,254	1,231,824	11,538,607
Land improvements	5,473,255	5,353,814	-	-	5,473,255	5,353,814
Buildings & systems	23,640,568	23,631,075	95,149,544	85,862,432	118,790,112	109,493,507
Machinery & equipment	2,774,837	2,848,230	377,157	455,523	3,151,994	3,303,753
Vehicles	1,915,199	1,305,049	181,832	192,603	2,097,031	1,497,652
Infrastructure	22,632,427	22,367,208	-	-	22,632,427	22,367,208
<b>Total</b>	<b>\$ 59,057,008</b>	<b>\$ 58,264,742</b>	<b>\$ 102,616,557</b>	<b>\$ 103,586,721</b>	<b>\$ 161,673,565</b>	<b>\$ 161,851,463</b>

Additional information on the City of Newport's capital assets can be found in Note 3 on pages 48-51 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 \$44,574,867. Of this amount, \$32,358,538 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).

#### City of Newport's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 22,843,536	\$ 24,059,074	\$ 9,515,002	\$ 11,759,463	\$ 32,358,538	\$ 35,818,537
Revenue Bonds	-	-	12,216,329	11,613,384	12,216,329	11,613,384
<b>Total</b>	<b>\$ 22,843,536</b>	<b>\$ 24,059,074</b>	<b>\$ 21,731,331</b>	<b>\$ 23,372,847</b>	<b>\$ 44,574,867</b>	<b>\$ 47,431,921</b>

The City of Newport's total bonds decreased by \$2,857,056 (6%) during the current fiscal year. The net increase in revenue bonds of \$602,945 is attributable to an increase of \$1,074,426 as the City continued to draw down the revenue bonds issued to pay for system improvements in the Water Pollution Control Fund, offset by scheduled principal payments. Scheduled repayments reduced the City's general obligation bonds by \$3,459,999. The City of Newport issued, on October 7, 2004, \$12,395,000 of general obligation refunding bonds in order to take advantage of lower interest rates. These bonds refinanced several existing bonds and produced an aggregate debt service savings of \$817,012. The annual maturities of bond principal and interest in the notes to the financial statements reflect the changes as a result of this debt issuance.

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 \$106,218,743, 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 52-54 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Newport is currently 3.7%, which is a decrease of .4% from a rate of 4.1% a year ago. This compares favorably to the state's average unemployment rate of 5.8% and the national average rate of 5.4%.
- 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 2005 fiscal year.

Unreserved fund balance in the General Fund at June 30, 2004 is \$6,059,277, which is lower than the City's fiscal policy of maintaining 10% of total General Fund expenditures and operating transfers out as a reserve. The City of Newport has appropriated \$1,380,000 of this amount for spending in the 2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2005 fiscal year for lagging infrastructure repairs and school capital improvements.

The Water Pollution Control Fund's rates did not change for the 2005 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 the beginning of 2005.

### 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, 2004**

	PRIMARY GOVERNMENT		COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	NEWPORT PUBLIC LIBRARY	REDEVELOPMENT AGENCY OF NEWPORT
<b>ASSETS</b>				
Current assets:				
Cash.....	\$ 10,144,522	\$ 4,864,465	\$ 308,933	\$ 156,274
Investments.....	10,782,058		319,173	
Receivables (net).....	4,123,076	3,156,712	7,902	
Internal balances (advances).....	3,887,076	(3,887,076)		
Inventories.....		374,868		
Other.....	39,370	461,539	12,486	
Total current assets.....	28,976,102	4,970,508	648,494	156,274
Noncurrent assets:				
Restricted assets:				
Temporarily restricted, Cash.....		6,612,069		
Permanently restricted, Investments.....	7,287,274			
Receivables (net).....	1,349,840			
Advances to component units.....	471,526			
Capital assets (net of accumulated depreciation).....	59,057,008	108,228,626	6,860,053	497,548
Total noncurrent assets.....	68,165,648	115,840,695	6,860,053	497,548
<b>TOTAL ASSETS.....</b>	<b>97,141,750</b>	<b>120,811,203</b>	<b>7,508,547</b>	<b>653,822</b>
<b>LIABILITIES</b>				
Current liabilities:				
Cash overdraft.....	4,628,193			
Accounts payable.....	1,893,387	889,349	23,217	2,490
Accrued expenses.....	2,080,976	1,175,032		
Due to primary government.....			221,977	
Deferred revenue.....		366,792		
Other liabilities.....	376,851			
Noncurrent liabilities:	100,919			
Advances from primary government.....				322,702
Due within one year.....	2,634,357		60,707	
Due in more than one year.....	34,563,806	20,036,261	35,266	200,000
<b>TOTAL LIABILITIES.....</b>	<b>46,278,489</b>	<b>22,467,454</b>	<b>341,167</b>	<b>525,192</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....				297,548
Restricted for:				
Capital projects.....	36,213,472	87,497,297	6,711,303	
Other purposes.....	1,721,532	3,177,596		
Unrestricted.....	2,204,715	(638,281)		(168,918)
	10,723,542		205,770	
<b>TOTAL NET ASSETS.....</b>	<b>\$ 50,863,261</b>	<b>\$ 90,096,612</b>	<b>\$ 7,167,380</b>	<b>\$ 128,630</b>

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, 2004

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET EXPENSES 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
<b>PRIMARY GOVERNMENT:</b>									
<b>GOVERNMENTAL ACTIVITIES:</b>									
General government.....	\$ 5,459,387	\$ 3,865,133	\$ 1,099,694	\$ -	\$ (494,560)	\$ -	\$ (494,560)		
General education.....	42,168,056	735,868	18,671,871	342,088	(22,418,229)		(22,418,229)		
Public safety.....	25,954,534	1,828,283	465,735	-	(23,660,516)		(23,660,516)		
Public health.....	4,403,093	44,435	10,064	-	(4,348,594)		(4,348,594)		
Planning, zoning and development.....	1,028,852	327,609	356,546	364,919	20,222		20,222		
Recreation and parks.....	2,189,095	741,853	69,783	111,000	(1,266,459)		(1,266,459)		
Human services.....	2,543,597	333,733	326,696	-	(1,883,168)		(1,883,168)		
Interest expense.....	1,062,259	-	-	-	(1,062,259)		(1,062,259)		
<b>TOTAL GOVERNMENTAL ACTIVITIES.....</b>	<b>84,808,873</b>	<b>7,876,914</b>	<b>21,000,389</b>	<b>818,007</b>	<b>(55,113,563)</b>	<b>-</b>	<b>(55,113,563)</b>		
<b>BUSINESS-TYPE ACTIVITIES:</b>									
Water Department.....	6,830,398	7,795,582	-	-	965,184		965,184		
Water Pollution Control.....	6,432,891	6,049,193	-	-	(383,698)		(383,698)		
Nonmajor.....	1,109,229	1,407,977	-	-	298,748		298,748		
<b>TOTAL BUSINESS-TYPE ACTIVITIES.....</b>	<b>14,372,518</b>	<b>15,252,752</b>	<b>-</b>	<b>-</b>	<b>880,234</b>	<b>-</b>	<b>880,234</b>		
<b>TOTAL PRIMARY GOVERNMENT.....</b>	<b>\$ 99,181,391</b>	<b>\$ 23,129,666</b>	<b>\$ 21,000,389</b>	<b>\$ 818,007</b>	<b>\$ (55,113,563)</b>	<b>\$ -</b>	<b>\$ (55,113,563)</b>		
<b>COMPONENT UNITS:</b>									
Newport Public Library.....	\$ -	\$ -	\$ 274,738	\$ 32,469	\$ -	\$ -	\$ (1,782,475)	\$ -	\$ (18,396)
Redevelopment Agency of Newport.....	24,870	50,731	-	-	-	-	(1,782,475)	-	(18,396)
<b>TOTAL COMPONENT UNITS.....</b>	<b>\$ 24,870</b>	<b>\$ 50,731</b>	<b>\$ 274,738</b>	<b>\$ 32,469</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(1,782,475)</b>	<b>\$ -</b>	<b>(18,396)</b>
<b>GENERAL REVENUES AND TRANSFERS:</b>									
Property taxes.....	48,820,256	4,097,271	1,177,711	116,126	90,236		48,820,256	53,799	99
Grants and contributions not restricted to specific programs.....							4,097,271	1,267,947	15,240
Investment income.....								116,126	(30,004)
Miscellaneous.....								436,968	
Net loss on sale of assets.....									
Transfers from primary government.....									
<b>TOTAL GENERAL REVENUES AND TRANSFERS.....</b>	<b>53,744,392</b>	<b>527,204</b>	<b>1,407,438</b>	<b>54,271,596</b>	<b>90,236</b>	<b>436,968</b>	<b>54,271,596</b>	<b>1,428,581</b>	<b>99</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>(1,369,171)</b>	<b>1,407,438</b>	<b>38,267</b>	<b>(353,894)</b>	<b>38,267</b>	<b>38,267</b>	<b>(1,369,171)</b>	<b>(353,894)</b>	<b>(18,297)</b>
<b>NET ASSETS - JULY 1, 2003.....</b>	<b>30,895,414</b>	<b>72,247,261</b>	<b>103,142,675</b>	<b>7,521,274</b>	<b>103,142,675</b>	<b>103,142,675</b>	<b>30,895,414</b>	<b>7,521,274</b>	<b>146,927</b>
<b>PRIOR PERIOD ADJUSTMENT/RESTATEMENT.....</b>	<b>21,337,018</b>	<b>16,381,913</b>	<b>37,718,931</b>	<b>-</b>	<b>37,718,931</b>	<b>37,718,931</b>	<b>21,337,018</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS - JUNE 30, 2004.....</b>	<b>\$ 50,863,261</b>	<b>\$ 90,056,612</b>	<b>\$ 140,899,873</b>	<b>\$ 7,167,380</b>	<b>\$ 140,899,873</b>	<b>\$ 140,899,873</b>	<b>\$ 50,863,261</b>	<b>\$ 7,167,380</b>	<b>\$ 128,630</b>

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

CITY OF NEWPORT, RHODE ISLAND

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	GENERAL	SCHOOL UNRESTRICTED FUND	COMMUNITY DEVELOPMENT ACT	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>						
Cash.....	\$ -	\$ -	\$ -	\$ 4,647,810	\$ 4,917,150	\$ 10,030,556
Investments.....	10,554,260	-	465,596	-	7,494,532	18,048,792
Receivables, net.....	2,105,256	-	-	-	-	2,105,256
Property taxes.....	1,253,346	-	-	-	-	1,253,346
Motor vehicle excise.....	555,151	-	12,700	433,399	848,276	1,849,526
Intergovernmental.....	-	-	2,906,500	-	585,644	3,492,144
Note/loan.....	314,295	-	-	-	500	314,795
Other.....	68,953	250,000	-	-	149,927	468,880
Due from other funds.....	3,411,084	-	-	-	689,463	4,100,547
Advances to other funds.....	-	-	-	-	471,452	471,452
Advances to component units.....	-	-	-	-	-	-
Prepaid expenses.....	-	-	-	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 18,262,345</b>	<b>\$ 250,000</b>	<b>\$ 3,384,796</b>	<b>\$ 5,081,209</b>	<b>\$ 15,156,944</b>	<b>\$ 42,135,294</b>

**LIABILITIES AND FUND BALANCES (DEFICITS)**

Liabilities:						
Cash overdraft.....	\$ 4,347,811	\$ 280,382	\$ -	\$ -	\$ -	\$ 4,628,193
Accounts payable.....	1,095,803	229,347	751	509,930	40,842	1,880,673
Accrued expenses.....	1,485,251	214,146	-	257	9,671	1,709,325
Note payable.....	-	-	3,283,354	433,399	2,037,036	8,392,478
Deferred revenue.....	2,638,689	-	-	306,255	1,177	469,610
Due to other funds.....	148,750	13,428	-	-	-	270,000
Advances from other funds.....	304,079	612,778	270,000	-	-	916,857
Compensated absences.....	100,919	-	-	-	-	100,919
Other liabilities.....	-	-	-	-	-	-
<b>Total Liabilities.....</b>	<b>10,125,302</b>	<b>1,350,081</b>	<b>3,554,105</b>	<b>1,249,841</b>	<b>2,088,726</b>	<b>18,368,055</b>
Fund balances (deficits):						
Reserved.....	2,077,766	-	14,030	1,721,532	112,919	3,926,247
Unreserved, undesignated.....	6,059,277	(1,100,081)	(183,339)	2,109,836	12,955,299	19,840,992
<b>Total Fund Balances (Deficits).....</b>	<b>8,137,043</b>	<b>(1,100,081)</b>	<b>(169,309)</b>	<b>3,831,368</b>	<b>13,068,218</b>	<b>23,767,239</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICITS).....</b>	<b>\$ 18,262,345</b>	<b>\$ 250,000</b>	<b>\$ 3,384,796</b>	<b>\$ 5,081,209</b>	<b>\$ 15,156,944</b>	

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  
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds  
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.....  
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note II).....

NET ASSETS OF GOVERNMENTAL ACTIVITIES..... \$ 50,863,261

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, 2004**

	GENERAL	SCHOOL UNRESTRICTED FUND	COMMUNITY DEVELOPMENT ACT	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>						
Local taxes.....	\$ 51,117,203	-	-	-	-	\$ 51,117,203
Intergovernmental revenues.....	5,254,559	12,808,219	569,356	3,076	6,378,230	25,013,440
Charges for services.....	6,178,484	735,868	139,862	628,829	120,614	7,803,637
Use of money and property.....	164,483	-	22,052	16,555	974,621	1,177,711
Donations.....	-	42,152	-	-	728,728	770,880
Other revenues.....	90,842	-	-	25,000	150	115,992
<b>TOTAL REVENUES.....</b>	<b>62,805,571</b>	<b>13,586,239</b>	<b>731,270</b>	<b>673,460</b>	<b>8,202,343</b>	<b>85,998,883</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	5,192,168	-	-	-	6,038,417	5,192,168
General education.....	24,968,430	36,642,156	-	-	333,695	42,680,573
Public safety.....	3,645,029	-	-	-	10,064	25,302,125
Public health.....	975,852	-	319,517	-	17,769	3,655,093
Planning, zoning and development.....	1,889,030	-	-	-	347,808	1,313,138
Recreation and parks.....	1,542,284	-	555,877	-	436,572	2,236,838
Human services.....	436,421	-	184,652	-	-	2,534,733
Pension expenses.....	2,234,672	-	-	2,689,063	-	436,421
Debt service.....	-	-	-	-	-	2,419,324
Capital outlay.....	-	-	-	-	-	2,689,063
<b>TOTAL EXPENDITURES.....</b>	<b>40,883,886</b>	<b>36,642,156</b>	<b>1,060,046</b>	<b>2,689,063</b>	<b>7,184,325</b>	<b>88,459,476</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>21,921,685</b>	<b>(23,055,917)</b>	<b>(328,776)</b>	<b>(2,015,603)</b>	<b>1,018,018</b>	<b>(2,460,593)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Bond proceeds.....	-	-	-	-	-	-
Sale of property.....	577,000	-	-	450,000	-	1,027,000
Operating transfers in.....	328,427	21,301,321	-	5,360,315	138,991	27,129,054
Operating transfers out.....	(27,231,714)	(5,881)	-	-	(328,427)	(27,566,022)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>(26,326,287)</b>	<b>21,295,440</b>	<b>-</b>	<b>5,810,315</b>	<b>(189,436)</b>	<b>590,032</b>
<b>NET CHANGE IN FUND BALANCE (DEFICIT).....</b>	<b>(4,404,602)</b>	<b>(1,760,477)</b>	<b>(328,776)</b>	<b>3,794,712</b>	<b>828,582</b>	<b>(1,870,561)</b>
<b>FUND BALANCE (DEFICIT) - JULY 1, 2003.....</b>	<b>12,541,645</b>	<b>410,396</b>	<b>159,467</b>	<b>286,656</b>	<b>12,239,636</b>	<b>25,637,800</b>
<b>PRIOR PERIOD ADJUSTMENT.....</b>	<b>-</b>	<b>250,000</b>	<b>-</b>	<b>(250,000)</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE (DEFICIT) - JUNE 30, 2004.....</b>	<b>\$ 8,137,043</b>	<b>\$ (1,100,081)</b>	<b>\$ (169,309)</b>	<b>\$ 3,831,368</b>	<b>\$ 13,068,218</b>	<b>\$ 23,767,239</b>

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

**CITY OF NEWPORT, RHODE ISLAND**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

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

Net Change in Fund Balances-Total Governmental Funds.....	\$ (1,870,561)
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.....	1,870,376
The net effect of various miscellaneous transactions involving capital assets (i. e., sales, trade-ins and donations) is to decrease net assets.....	(1,056,870)
Reductions in deferred revenue that provide current financial resources to governmental funds are not reported as revenues in the statement of activities.....	(2,092,343)
Some expenditures requiring the use of current financial resources in governmental funds were previously accrued in the statement of activities and are not expenses this year.....	423,162
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>1,357,065</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES .....	<u>\$ (1,369,171)</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, 2004

	ADOPTED BUDGET	AMENDED BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH AMENDED BUDGET
<b>REVENUES:</b>				
Local taxes.....	\$ 51,319,503	\$ 51,319,503	\$ 51,117,203	\$ (202,300)
Intergovernmental revenues.....	5,211,811	5,211,811	5,254,559	42,748
User charges and fees.....	5,625,249	5,625,249	6,178,484	553,235
Use of money and property.....	200,000	200,000	164,483	(35,517)
Other revenues.....	104,000	104,000	90,842	(13,158)
<b>TOTAL REVENUES.....</b>	<b>62,460,563</b>	<b>62,460,563</b>	<b>62,805,571</b>	<b>345,008</b>
<b>EXPENDITURES:</b>				
General government:				
Mayor and city council.....	103,867	103,867	102,467	1,400
City manager.....	543,115	551,236	498,467	52,769
City solicitor.....	338,246	343,746	343,621	125
Canvassing.....	161,411	155,911	135,003	20,908
Finance.....	2,299,456	2,502,842	2,514,946	(12,104)
City clerk.....	536,227	553,556	523,763	29,793
Administrative services.....	868,747	897,861	823,981	73,880
Reserve accounts.....	769,011	459,456	594,651	(135,195)
Public safety:				
Police department.....	12,867,262	13,068,302	12,630,043	438,259
Fire department.....	11,322,031	12,199,690	12,359,322	(159,632)
Public health:				
Public works.....	1,921,546	2,129,751	1,996,526	133,225
Solid waste operations.....	1,938,988	1,939,230	1,826,154	113,076
Planning, zoning, and development.....	954,745	997,396	984,534	12,862
Recreation and parks.....	1,845,907	1,918,013	1,914,797	3,216
Human services:				
Donations.....	214,560	214,560	182,742	31,818
Public library.....	1,359,542	1,359,542	1,359,542	-
Pension expenses.....	580,808	438,808	436,421	2,387
Debt service.....	2,368,252	2,368,252	2,234,672	133,580
<b>TOTAL EXPENDITURES.....</b>	<b>40,993,721</b>	<b>42,202,019</b>	<b>41,461,652</b>	<b>740,367</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>21,466,842</b>	<b>20,258,544</b>	<b>21,343,919</b>	<b>1,085,375</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of property.....	540,000	540,000	577,000	37,000
Transfers from other funds.....	328,427	328,427	328,427	-
Transfers to other funds.....	(27,216,329)	(26,461,329)	(27,231,714)	(770,385)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>(26,347,902)</b>	<b>(25,592,902)</b>	<b>(26,326,287)</b>	<b>(733,385)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES (BUDGETARY BASIS).....</b>	<b>\$ (4,881,060)</b>	<b>\$ (5,334,358)</b>	<b>\$ (4,982,368)</b>	<b>\$ 351,990</b>

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, 2004**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Federal revenues.....	\$ 1,354,661	\$ 1,354,661	\$ 1,742,710	\$ 388,049
State revenues.....	11,008,512	10,981,713	11,065,509	83,796
Contributions.....	-	-	42,152	42,152
Local revenues.....	607,700	607,700	735,868	128,168
<b>TOTAL REVENUES.....</b>	<b>12,970,873</b>	<b>12,944,074</b>	<b>13,586,239</b>	<b>642,165</b>
<b>EXPENDITURES:</b>				
General education.....	35,269,275	35,371,213	36,642,156	(1,270,943)
<b>TOTAL EXPENDITURES.....</b>	<b>35,269,275</b>	<b>35,371,213</b>	<b>36,642,156</b>	<b>(1,270,943)</b>
<b>EXCESS OF EXPENDITURES OVER REVENUES.....</b>	<b>(22,298,402)</b>	<b>(22,427,139)</b>	<b>(23,055,917)</b>	<b>(628,778)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds.....	22,420,353	21,261,329	21,301,321	39,992
Transfers to other funds.....	-	-	(5,881)	(5,881)
<b>NET OTHER FINANCING SOURCES (USES).....</b>	<b>22,420,353</b>	<b>21,261,329</b>	<b>21,295,440</b>	<b>34,111</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES.....</b>	<b>121,951</b>	<b>(1,165,810)</b>	<b>(1,760,477)</b>	<b>(594,667)</b>
FUND BALANCE - JULY 1, 2003	410,396	410,396	410,396	-
PRIOR PERIOD ADJUSTMENT			250,000	250,000
<b>FUND BALANCE - JUNE 30, 2004</b>	<b>\$ 532,347</b>	<b>\$ (755,414)</b>	<b>\$ (1,100,081)</b>	<b>\$ (344,667)</b>

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, 2004**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MAJOR FUNDS			TOTALS	INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND	OTHER ENTERPRISE FUNDS		
<b>ASSETS:</b>					
<b>Current assets:</b>					
Cash and cash equivalents - unrestricted.....	\$ 257,752	\$ -	\$ 4,606,713	\$ 4,864,465	\$ 134,506
Accounts receivable:					
User fees (net of allowances).....	1,600,826	1,423,218	80,119	3,104,163	-
Other.....	-	52,549	-	52,549	107
Due from other funds.....	56,255	-	-	56,255	57,333
Inventories.....	374,868	-	-	374,868	39,370
Prepaid expenses.....	90,812	370,727	-	461,539	-
<b>Total current assets.....</b>	<b>2,380,513</b>	<b>1,846,494</b>	<b>4,686,832</b>	<b>8,913,839</b>	<b>231,316</b>
<b>Noncurrent assets:</b>					
Cash- restricted.....	5,129,454	1,482,615	-	6,612,069	-
Capital assets (net of accumulated depreciation).....	37,408,516	62,223,679	2,984,362	102,616,557	95,943
<b>Total noncurrent assets.....</b>	<b>42,537,970</b>	<b>63,706,294</b>	<b>2,984,362</b>	<b>109,228,626</b>	<b>95,943</b>
<b>TOTAL ASSETS.....</b>	<b>44,918,483</b>	<b>65,552,788</b>	<b>7,671,194</b>	<b>118,142,465</b>	<b>327,259</b>
<b>LIABILITIES:</b>					
<b>Current liabilities:</b>					
Accounts payable.....	510,208	353,033	26,108	889,349	12,714
Accrued expenses.....	1,073,825	15,922	85,305	1,175,052	112,855
Due to other funds.....	107,856	-	4,928	112,784	-
Deferred revenues.....	366,792	-	-	366,792	-
Current portion advances.....	1,911,084	-	73,289	1,984,373	-
Current portion bonds payable.....	883,250	811,818	-	1,695,068	-
<b>Total current liabilities.....</b>	<b>4,853,015</b>	<b>1,180,773</b>	<b>189,630</b>	<b>6,223,418</b>	<b>125,569</b>
<b>Long-term liabilities:</b>					
Advances from other funds.....	1,500,000	-	346,174	1,846,174	-
Bonds payable.....	6,076,750	13,959,511	-	20,036,261	-
<b>Total long-term liabilities.....</b>	<b>7,576,750</b>	<b>13,959,511</b>	<b>346,174</b>	<b>21,882,435</b>	<b>-</b>
<b>TOTAL LIABILITIES.....</b>	<b>12,429,765</b>	<b>15,140,284</b>	<b>535,804</b>	<b>28,105,853</b>	<b>125,569</b>
<b>NET ASSETS:</b>					
Invested in capital assets, net of related debt.....	35,577,970	48,934,965	2,984,362	87,497,297	95,943
Restricted for commitments.....	2,924,527	186,617	66,452	3,177,596	6,785
Unrestricted.....	(6,013,779)	1,290,922	4,084,576	(638,281)	98,962
<b>TOTAL NET ASSETS.....</b>	<b>\$ 32,488,718</b>	<b>\$ 50,412,504</b>	<b>\$ 7,135,390</b>	<b>\$ 90,036,612</b>	<b>\$ 201,690</b>

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, 2004**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MAJOR FUNDS			TOTALS	INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND	OTHER ENTERPRISE FUNDS		
<b>OPERATING REVENUES:</b>					
User fees.....	\$ 7,666,798	\$ 6,049,193	\$ 1,407,977	\$ 15,123,968	\$ 915,435
Other revenues.....	128,784	-	-	128,784	-
<b>TOTAL OPERATING REVENUES.....</b>	<b>7,795,582</b>	<b>6,049,193</b>	<b>1,407,977</b>	<b>15,252,752</b>	<b>915,435</b>
<b>OPERATING EXPENSES:</b>					
Salaries and benefits.....	3,051,990	143,937	469,947	3,665,874	316,898
Materials and supplies.....	473,495	29,352	87,725	590,572	403,908
Repairs and maintenance.....	314,555	-	40,558	355,113	52,716
Depreciation.....	1,209,869	1,974,429	146,899	3,331,197	21,106
Support services.....	126,995	3,162,120	244,958	3,534,073	99,601
Utilities.....	648,622	361,622	25,834	1,036,078	20,027
Administrative and other.....	393,431	536,636	75,464	1,005,531	1,179
Property taxes.....	214,884	-	-	214,884	-
<b>TOTAL OPERATING EXPENSES.....</b>	<b>6,433,841</b>	<b>6,208,096</b>	<b>1,091,385</b>	<b>13,733,322</b>	<b>915,435</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>1,361,741</b>	<b>(158,903)</b>	<b>316,592</b>	<b>1,519,430</b>	<b>-</b>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>					
Transfer in from other funds.....	339,699	-	97,269	436,968	-
Interest income.....	59,765	5,695	24,776	90,236	-
Interest expense.....	(396,557)	(224,795)	(17,844)	(639,196)	-
<b>NET NONOPERATING REVENUES AND (EXPENSES).....</b>	<b>2,907</b>	<b>(219,100)</b>	<b>104,201</b>	<b>(111,992)</b>	<b>-</b>
<b>NET INCOME (LOSS).....</b>	<b>1,364,648</b>	<b>(378,003)</b>	<b>420,793</b>	<b>1,407,438</b>	<b>-</b>
<b>TOTAL NET ASSETS - JULY 1, 2003.....</b>	<b>27,266,634</b>	<b>38,266,030</b>	<b>6,714,597</b>	<b>72,247,261</b>	<b>201,691</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>3,857,436</b>	<b>12,524,477</b>	<b>-</b>	<b>16,381,913</b>	<b>-</b>
<b>TOTAL NET ASSETS - JUNE 30, 2004.....</b>	<b>\$ 32,488,718</b>	<b>\$ 50,412,504</b>	<b>\$ 7,135,390</b>	<b>\$ 90,036,612</b>	<b>\$ 201,691</b>

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, 2004**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
	MAJOR FUNDS		OTHER ENTERPRISE FUNDS	TOTALS	INTERNAL SERVICE FUNDS
	WATER FUND	W.P.C. FUND			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers.....	\$ 7,526,522	\$ 6,107,640	\$ 1,416,177	\$ 15,050,339	\$ 899,001
Cash payments to suppliers for goods and services.....	(1,293,434)	(4,071,526)	(379,487)	(5,744,447)	(580,477)
Cash payments to employees for services.....	(2,926,140)	(143,937)	(465,199)	(3,535,276)	(313,481)
Payment of property taxes.....	(214,884)	-	(75,464)	(290,348)	-
Payment of administrative expense.....	(393,431)	(536,636)	-	(930,067)	(1,179)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>2,698,633</b>	<b>1,355,541</b>	<b>496,027</b>	<b>4,550,201</b>	<b>3,864</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Interfund loans and transfers.....	3,750,783	-	31,767	3,782,550	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets.....	(1,318,270)	(845,953)	(196,808)	(2,361,031)	-
Principal paid on bonds, notes and loans.....	(1,300,140)	(1,751,182)	-	(3,051,322)	-
Interest paid on bonds, notes and loans.....	(396,557)	(312,486)	(17,844)	(726,887)	-
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(3,014,967)</b>	<b>(2,909,621)</b>	<b>(214,652)</b>	<b>(6,139,240)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest and dividends on investments.....	59,765	5,695	24,776	90,236	-
Decrease in investments.....	99,964	90,590	-	190,554	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES.....</b>	<b>159,729</b>	<b>96,285</b>	<b>24,776</b>	<b>280,790</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH.....</b>	<b>3,594,178</b>	<b>(1,457,795)</b>	<b>337,918</b>	<b>2,474,301</b>	<b>3,864</b>
<b>CASH AND CASH EQUIVALENTS - JULY 1, 2003.....</b>	<b>1,793,028</b>	<b>2,940,410</b>	<b>4,268,795</b>	<b>9,002,233</b>	<b>130,642</b>
<b>CASH AND CASH EQUIVALENTS - JUNE 30, 2004.....</b>	<b>\$ 5,387,206</b>	<b>\$ 1,482,615</b>	<b>\$ 4,606,713</b>	<b>\$ 11,476,534</b>	<b>\$ 134,506</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Operating income (loss).....	\$ 1,361,741	\$ (158,903)	\$ 316,592	\$ 1,519,430	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation.....	1,209,869	1,974,429	146,899	3,331,197	21,106
Changes in assets and liabilities:					
(Decrease) Increase in accounts payable/other liabilities.....	537,655	(536,382)	24,335	25,608	(793)
Decrease (Increase) in accounts receivable/other assets.....	(410,632)	76,397	8,201	(326,034)	(16,449)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ 2,698,633</b>	<b>\$ 1,355,541</b>	<b>\$ 496,027</b>	<b>\$ 4,550,201</b>	<b>\$ 3,864</b>

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, 2004**

	<b>PENSION FUNDS</b>	<b>PRIVATE PURPOSE TRUSTS</b>	<b>AGENCY FUNDS</b>
<b><u>ASSETS</u></b>			
Cash.....	\$ -	\$ 9,911	\$ 254,523
Investments.....	55,073,159	934,806	-
<b>TOTAL ASSETS.....</b>	<b>55,073,159</b>	<b>944,717</b>	<b>254,523</b>
<b><u>LIABILITIES</u></b>			
<b>LIABILITIES:</b>			
Cash overdraft.....	2,259,103	-	-
Accounts payable.....	5,380	124	-
Amounts held in escrow.....	-	-	254,523
<b>TOTAL LIABILITIES.....</b>	<b>2,264,483</b>	<b>124</b>	<b>254,523</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AND OTHER PURPOSES</b>	<b>\$ 52,808,676</b>	<b>\$ 944,593</b>	<b>\$ -</b>

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, 2004

	PENSION TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
<b>ADDITIONS:</b>		
Contributions:		
Employees.....	\$ 706,774	\$ -
Employer.....	6,565,642	-
Investment income (loss).....	-	130,713
Donations.....	-	14,285
Other income.....	320	-
<b>Total contributions.....</b>	<b>7,272,736</b>	<b>144,998</b>
Investment income:		
Net appreciation in fair value of investments.....	3,873,944	-
Interest and dividends.....	805,714	-
Realized gain in investments.....	1,746,535	-
<b>Total investment income.....</b>	<b>6,426,193</b>	<b>-</b>
Less investment expenses.....	6,200	387
<b>Net investment income (loss).....</b>	<b>6,419,993</b>	<b>(387)</b>
<b>TOTAL ADDITIONS.....</b>	<b>13,692,729</b>	<b>144,611</b>
<b>DEDUCTIONS:</b>		
Benefits.....	6,472,838	-
Administration.....	124,237	-
Awards.....	-	36,072
Scholarships awarded.....	-	2,507
<b>TOTAL DEDUCTIONS.....</b>	<b>6,597,075</b>	<b>38,579</b>
<b>CHANGES IN NET ASSETS.....</b>	<b>7,095,654</b>	<b>106,032</b>
<b>NET ASSETS - JULY 1, 2003.....</b>	<b>45,713,022</b>	<b>838,561</b>
<b>NET ASSETS - JUNE 30, 2004.....</b>	<b>\$ 52,808,676</b>	<b>\$ 944,593</b>

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

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**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 circumstances, 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.

**A. Reporting Entity**

The City 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 four are elected at large and three from voting wards. The Mayor is chosen by council members from among its four 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 Governmental Accounting Standards Board (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.

**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.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

**A. Reporting Entity (continued)**

**Discretely Presented Component Units (continued)**

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 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.

**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.



*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

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

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.

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.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

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

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.

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, then unrestricted resources as they are needed.

*CITY OF NEWPORT, RHODE ISLAND*

Notes to Financial Statements - Continued

June 30, 2004

**I. Summary of significant accounting policies (continued):**

**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. The authority for investing fiduciary assets is vested with a commission appointed by and accountable to the City Council.

**2. Receivables and payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 uncollectibles. The property tax receivable allowance at June 30, 2004 is equal to 52% 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.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

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

**3. Inventories and prepaid items**

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

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, electricity 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 market value at the date of donation.

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 both the current year's infrastructure additions as well as the prior infrastructure in the governmental funds. Prior year infrastructure additions are separately identified and shown as prior period adjustments. 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

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

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

**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 (Nonunion); 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

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.

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.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**I. Summary of significant accounting policies (continued):**

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

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.

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

**Explanation of certain differences between the governmental fund 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	\$ 22,843,536
Notes payable	185,000
Claims and judgments	927,500
Compensated absences	6,546,967
Net pension benefit obligation	5,778,303
Accrued interest payable	<u>258,796</u>
 Net adjustment for long-term liabilities not due and payable in the current period	 <u>\$ 36,540,102</u>

Another element of the 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	\$ 58,147,693
Current year capital outlay	3,541,590
Disposition of assets	(1,057,004)
Depreciation expense	<u>(1,671,214)</u>
 Net adjustment for capital assets	 <u>\$ 58,961,065</u>

**III. Stewardship, compliance and accountability**

**A. Budgetary information**

A budget is adopted for the General 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.

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

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 and the School Unrestricted Fund. 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 (Budgetary Basis) in the financial statements presents comparisons of the legally adopted budget with actual data on a budgetary basis. The budgetary basis differs from GAAP because the budgetary basis includes encumbrances that are not recognized under GAAP.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**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 2004 appropriations (after approved transfers) and, where applicable, actual 2004 revenues:

<u>Department</u>	<u>Expenditures in excess of budget</u>
Finance	\$ 12,104
Reserve accounts	135,195
Fire department	159,632
Transfer to other funds	770,385
School Unrestricted Fund	1,760,477

The School Unrestricted Fund has a fund deficit at June 30, 2004 of \$1,100,081. The School Restricted Fund includes the school lunch program which has a deficit of \$406,224 at June 30, 2004. Both of these deficits will need to be funded with additional revenues or by transfers.

**IV. Detailed notes on all funds:**

**1. Deposits and investments**

At June 30, 2004, the carrying value of the City's deposits is \$14,998,194 and the carrying value of the component units' deposits is \$465,207 for a reporting entity total of \$15,463,401. The bank balance was \$11,846,763, exclusive of cash equivalents of \$6,252,993. Cash equivalents consist of \$2,808,063 in a repurchase agreement maturing July 1, 2004, \$197,944 in certificates of deposit and \$3,246,986 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 any custodial risk in the non-invested deposits maintained at financial institutions. At June 30, 2004, bank-reported balances did not exceed insurance coverage for the primary government.

Pursuant to RI Public Utilities Commission's Docket 3578, which became effective June 28, 2004, certain water fund revenues must be restricted for debt service, IFR/capital spending, electricity, general fund repayment and chemicals. The electricity account will be funded on a monthly basis beginning July 1, 2004. The IFR/capital account has a bank balance of \$3,197,128 (required balance is \$2,530,998); the chemicals account has a balance of \$40,986 (required balance is \$0); and the debt service account has a balance of \$1,761,346 (required balance is \$92,514). A transfer of \$1,500,000 is required to be made from the debt service account to the general fund repayment account. This transfer was made in July 2004.



*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**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 its trust department or agent, but not in the City's name.

At June 30, 2004, the City's investment balances were categorized as follows:

	Category			Reported Amount Fair Value
	1	2	3	
<b>Primary government:</b>				
Cash	\$ 20,540	\$ -		\$ 20,540
Certificates of deposit	6,797,995			6,797,995
Government backed securities			\$ 227,798	227,798
	<u>\$ 6,818,535</u>	<u>\$ -</u>	<u>\$ 227,798</u>	<u>7,046,333</u>
<b>Investments not subject to categorization:</b>				
Mutual funds				63,274,699
Money market funds				3,756,265
				<u>74,077,297</u>
<b>Primary government total</b>				<b>74,077,297</b>
<b>Component unit, investment not subject to categorization, money market funds</b>				<b>319,173</b>
				<b>\$ 74,396,470</b>

**CITY OF NEWPORT, RHODE ISLAND**  
**Notes to Financial Statements - Continued**  
**June 30, 2004**

**IV. Detailed notes on all funds (continued):**

**2. Receivables:**

At June 30, 2004, receivables, including the applicable allowances for doubtful accounts, are as follows:

**Governmental activities:**

	<b>General</b>	<b>Community Development Act</b>	<b>Capital Projects Funds</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Taxes	\$ 3,358,602				\$ 3,358,602
Intergovernmental	555,151	\$ 12,700	\$ 433,399	\$ 848,276	1,849,526
Interest	2,226,157	667,133			2,893,290
Other	314,295			500	314,795
Notes/Loans		2,906,500		585,644	3,492,144
	6,454,205	3,586,333	433,399	1,434,420	11,908,357
Less allowance for doubtful accounts	(4,006,354)	(2,305,151)		(123,936)	(6,435,441)
	2,447,851	1,281,182	433,399	1,310,484	5,472,916
Less current portion	2,447,851	262,500	433,399	979,326	4,123,076
	\$ - 0 -	\$ 1,018,682	\$ - 0 -	\$ 331,158	\$ 1,349,840

**Business-type activities:**

	<b>Water Fund</b>	<b>W.P.C. Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
User fees	\$ 1,825,826	\$ 1,573,218	\$ 80,119	\$ 3,479,163
Less allowance for doubtful accounts	(225,000)	(150,000)		(375,000)
	1,600,826	1,423,218	80,119	3,104,163
Other		52,549		52,549
	\$ 1,600,826	\$ 1,475,767	\$ 80,119	\$ 3,156,712

**CITY OF NEWPORT, RHODE ISLAND**  
**Notes to Financial Statements - Continued**  
**June 30, 2004**

**IV. Detailed notes on all funds continued:**

**3. Capital assets:**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 2,348,013			\$ 2,348,013
Construction in progress	411,353	\$ 227,083	\$ (365,727)	272,709
<b>Total capital assets not being depreciated</b>	<b>2,759,366</b>	<b>227,083</b>	<b>(365,727)</b>	<b>2,620,722</b>
<b>Capital assets being depreciated:</b>				
Land improvements	5,762,783	244,182		6,006,965
Buildings and structures	29,964,593	631,483	(185,000)	30,411,076
Machinery and equipment	4,506,581	297,472		4,804,053
Vehicles	4,331,714	979,883	(66,641)	5,244,956
Infrastructure	29,788,783	1,527,214	(923,591)	30,392,406
<b>Total capital assets being depreciated</b>	<b>74,354,454</b>	<b>3,680,234</b>	<b>(1,175,232)</b>	<b>76,859,456</b>
<b>Less accumulated depreciation:</b>				
Land improvements	408,969	124,741		533,710
Buildings and structures	6,333,518	518,636	(81,646)	6,770,508
Machinery and equipment	1,658,351	370,865		2,029,216
Vehicles	3,026,665	339,674	(36,582)	3,329,757
Infrastructure	7,421,575	338,404		7,759,979
	18,849,078	1,692,320	(118,228)	20,423,170
<b>Total capital assets being depreciated, net</b>	<b>55,505,376</b>	<b>1,987,914</b>	<b>(1,057,004)</b>	<b>56,436,286</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 58,264,742</b>	<b>\$ 2,214,997</b>	<b>\$ (1,422,731)</b>	<b>\$ 59,057,008</b>
<b>Restatement of beginning balances:</b>				
As previously reported			\$ 36,927,724	
Add donated land			940,602	
Add infrastructure assets			27,817,991	
Less accumulated depreciation of infrastructure assets through June 30, 2003			(7,421,575)	
<b>Beginning balances, restated</b>			<b>\$ 58,264,742</b>	

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**3. Capital assets (continued):**

Depreciation expense was charged to functions/programs of governmental activities as follows:

Governmental activities:

General government	\$	117,210
General education		519,589
Public safety		316,114
Public health		581,629
Planning, zoning and development		27,065
Human services		8,864
Recreation and parks		100,743
Capital assets held by the government's internal service fund are charged to the various functions based on usage of the assets		21,106
	<b>\$</b>	<b>1,692,320</b>

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land and land improvements	\$ 6,057,295			\$ 6,057,295
Construction in progress	11,127,254	\$ 664,798	\$(10,832,937)	959,115
<b>Total capital assets not being depreciated</b>	<b>17,184,549</b>	<b>664,798</b>	<b>(10,832,937)</b>	<b>7,016,410</b>
Capital assets being depreciated:				
Buildings and systems	137,575,541	12,438,417		150,013,958
Machinery and equipment	4,656,715	6,190		4,662,905
Vehicles	1,536,256	84,563	(19,488)	1,601,331
<b>Total capital assets being depreciated</b>	<b>143,768,512</b>	<b>12,529,170</b>	<b>(19,488)</b>	<b>156,278,194</b>
Less accumulated depreciation:				
Land and land improvements	108,386			108,386
Buildings and systems	51,713,109	3,151,305		54,864,414
Machinery and equipment	4,201,192	84,556		4,285,748
Vehicles	1,343,651	95,336	(19,488)	1,419,499
	<b>57,366,338</b>	<b>3,331,197</b>	<b>(19,488)</b>	<b>60,678,047</b>
<b>Total capital assets being depreciated, net</b>	<b>86,402,174</b>	<b>9,197,973</b>	<b>- 0 -</b>	<b>95,600,147</b>
<b>Net capital assets, business-type activities</b>	<b>\$ 103,586,723</b>	<b>\$ 9,862,771</b>	<b>\$(10,832,937)</b>	<b>\$ 102,616,557</b>

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**3. Capital assets (continued):**

**Business-type activities (continued):**

Restatement of beginning balances:

As previously reported	\$ 87,204,808
Add infrastructure assets	24,699,242
Less accumulated depreciation of infrastructure assets through June 30, 2003	<u>(8,317,329)</u>

Beginning balances, restated \$ 103,586,721

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

Business-type activities:

Water	\$ 1,209,869
Water pollution control	1,974,429
Easton's Beach	79,761
Parking	<u>67,138</u>
	<u>\$ 3,331,197</u>

**Discretely presented component units:**

Activity for the Newport Public Library for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings	\$ 7,701,396		\$ - 0 -	\$ 7,701,396
Improvements other than buildings	378,411			378,411
Machinery and equipment	755,788	\$ 38,144		<u>793,932</u>
Total capital assets being depreciated	<u>8,835,595</u>	<u>38,144</u>	<u>- 0 -</u>	<u>8,873,739</u>
Less accumulated depreciation:				
Buildings	1,316,117	238,518	- 0 -	1,554,635
Improvements, other than buildings	49,772	18,921		68,693
Machinery and equipment	296,729	93,629		<u>390,358</u>
Total accumulated depreciation	<u>1,662,618</u>	<u>351,068</u>	<u>- 0 -</u>	<u>2,013,686</u>
Net capital assets, Newport Public Library	<u>\$ 7,172,977</u>	<u>\$ 312,924</u>	<u>\$ - 0 -</u>	<u>\$ 6,860,053</u>

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**3. Capital assets (continued):**

**Discretely presented component units (continued):**

Capital asset activity for the Newport Redevelopment Agency for the year ended June 30, 2004 was as follows:

	Beginning balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings	\$ 620,610		\$ - 0 -	\$ 620,610
Less accumulated depreciation:	112,907	\$ 10,155		123,062
Net capital assets, Redevelopment Agency	\$ 507,703	\$ 10,155	\$ - 0 -	\$ 497,548

**4. Interfund receivables and payables:**

The composition of interfund balances as of June 30, 2004 is as follows:

<b>Due to:</b>		<b>Due from:</b>
Governmental Funds:		
General	\$ 68,953	Water
School Unrestricted	250,000	Capital Projects
UDAG	148,750	General Fund
State Grants	1,177	Bramley
	<u>\$ 468,880</u>	
Proprietary Funds:		
Water	<u>\$ 56,255</u>	Capital Project
Equipment Operations	\$ 4,928	Easton's Beach
	13,428	School Unrestricted
	74	Library
	<u>38,903</u>	Water
	<u>\$ 57,333</u>	
Advances:		
General Fund	\$ 3,411,084	Water
UDAG	270,000	CDBG
	<u>419,463</u>	Easton's Beach
	<u>\$ 4,100,547</u>	

(continued)

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**4. Interfund receivables and payables (continued):**

<b>Due to:</b>		<b>Due from:</b>
To component unit:		
UDAG	\$ 267,459	Redevelopment Agency
	148,750	Library
EDA	55,243	Redevelopment Agency
	\$ 471,452	

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, 2004 is \$419,463.

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

Year ending June 30,	Principal	Interest
2005	\$ 73,289	\$ 15,689
2006	76,265	12,713
2007	79,362	9,616
2008	82,584	6,394
2009	85,938	3,040
2010	22,025	220
	\$ 419,463	\$ 47,672

**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 2004 are summarized on the next page as follows:

**CITY OF NEWPORT, RHODE ISLAND**  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**5. Long-term debt (continued):**

	Date Issued	Maturity Date	Interest Rate (%)	Outstanding July 1, 2003	Additions	Retired	Outstanding June 30, 2004	Interest Expense
<b>Governmental activities:</b>								
Roadway improvements	1991	2011	5.80 to 6.50	\$ 610,169	\$ - 0 -	\$ 76,272	\$ 533,897	\$ 37,445
Triplet School acquisition	1991	2011	5.80 to 6.50	589,831		73,728	516,103	36,197
Police station construction	1992	2003	4.75 to 6.20	90,538		90,538		2,807
Fire station, open spaces	1994	2001	3.60 to 4.70	80,000		80,000		3,760
High school renovations	1994	2012	3.30 to 5.13	2,450,000		245,000	2,205,000	115,296
Thompson Middle School/Library	2001	2021	3.50 to 5.00	18,375,000		650,000	17,725,000	817,754
Thompson School QZAB	2001	2013	N/a	1,863,536		1,863,536		33,819
<b>Total governmental activities</b>				<b>\$ 24,059,074</b>	<b>\$ - 0 -</b>	<b>\$ 1,215,538</b>	<b>\$ 22,843,536</b>	<b>\$ 1,047,078</b>
<b>Business-type activities:</b>								
Sewer plant construction	1992	2003	4.75 to 6.20	\$ 144,323		\$ 144,323		\$ 4,474
Sewer plant construction	1994	2006	3.60 to 4.90	375,000		220,000	\$ 155,000	17,855
CSO plant construction	1994	2010	3.60 to 5.13	2,980,000		580,000	2,400,000	147,123
Sewer improvements - SRF	2002	2023	1.9	11,613,384	\$ 1,074,426	471,481	12,216,329	158,710
<b>Total Water Pollution Control Fund</b>				<b>15,112,707</b>	<b>1,074,426</b>	<b>1,415,804</b>	<b>14,771,329</b>	<b>328,162</b>
Water pipeline construction	1992	2011	4.75 to 6.65	2,025,000		225,000	1,800,000	130,121
Water improvements	1992	2003	4.75 to 6.20	65,140		65,140		2,854
Water plant construction	1994	2010	3.60 to 5.13	2,395,000		625,000	1,770,000	115,107
Water pipeline construction	1994	2012	3.30 to 5.13	3,775,000		385,000	3,390,000	148,475
<b>Total Water Fund</b>				<b>8,260,140</b>		<b>1,300,140</b>	<b>6,960,000</b>	<b>396,557</b>
<b>Total business-type activities</b>				<b>\$ 23,372,847</b>	<b>\$ 1,074,426</b>	<b>\$ 2,715,944</b>	<b>\$ 21,731,329</b>	<b>\$ 724,719</b>

The City of Newport issued refunding bonds on October 7, 2004 in order to take advantage of lower interest rates. The new bonds replace all of the Water Fund bonds, all of the Water Pollution Control Fund bonds except for the sewer improvements - SRF, the roadway improvements, Triplet School acquisition and high school renovations in the General Fund. The aggregate difference in debt service between the refunded debt and the refunding debt is \$817,012. The par amount of the new bonds is \$12,395,000 and the sale includes a premium of \$183,917. The new bonds mature in November 2012 and have coupon rates of 2% to 4%. The effective interest rate on the refunding bonds is 2.616%, resulting in an economic gain of \$756,680.



*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**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, of which \$12,216,329 has been drawn down. The amounts drawn down include \$225,212 of capitalized interest, of which \$0 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 bond). 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. Therefore, should the sinking fund payments plus investment earnings 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 \$227,798, 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, 2003 was \$3,464,271,121, limiting the amount of non-excepted general obligation bonds outstanding to \$103,928,134. Bonds of \$32,358,538 outstanding at June 30, 2004 are general obligations and subject to the statutory limitation.

Bonded indebtedness on June 30, 2004 matures over fiscal years through 2023 as follows:

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 1,111,750	\$ 873,761	\$ 1,695,068	\$ 444,880
2006	1,202,350	870,221	1,970,304	453,332
2007	1,213,325	831,939	1,945,681	410,055
2008	1,188,600	786,428	1,817,289	353,380
2009	1,224,575	743,443	1,793,746	308,146
2010-2014	5,514,400	3,034,767	5,939,201	949,906
2015-2019	7,413,536	1,731,725	3,577,782	482,179
2020-2024	3,975,000	304,375	2,992,258	126,496
	<u>\$22,843,536</u>	<u>\$ 9,176,659</u>	<u>\$21,731,329</u>	<u>\$ 3,528,374</u>

Authorized and unissued debt at June 30, 2004 is as follows:

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Net Amount</u>
Water improvements	April 1, 2000	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

**CITY OF NEWPORT, RHODE ISLAND**  
**Notes to Financial Statements - Continued**  
**June 30, 2004**

**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, 2004, 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 Nation Housing Act of 1986. The State of Rhode Island has committed to provide the City \$160,000 of Community Development Block Grant proceeds from HUD annually to subsidize the difference between amounts collected from the developer and amounts due to the bank. At June 30, 2004, the final payment of \$185,000 is outstanding on this bond and will be paid in 2005.

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, 2004, \$200,000 was payable. The note is required to be paid only upon the sale of the building.

**7. Changes in long-term liabilities:**

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
<b>Governmental activities:</b>					
Bonds payable	\$24,059,074		\$(1,215,538)	\$22,843,536	\$ 1,111,750
Notes payable	355,000		(170,000)	185,000	185,000
Claims and judgments	916,000	\$ 100,000	(88,500)	927,500	420,750
Compensated absences	7,390,336	73,489		7,463,825	916,857
Net pension obligation	5,778,303			5,778,303	
	<u>\$38,498,713</u>	<u>\$ 173,489</u>	<u>\$(1,474,038)</u>	<u>\$37,198,164</u>	<u>\$ 2,634,357</u>
<b>Business-type activities:</b>					
Bonds payable	\$23,372,847	\$ 1,074,424	\$(2,715,542)	\$21,731,729	\$ 1,695,068
Notes payable	1,409,804		(1,409,804)		
	<u>\$24,782,651</u>	<u>\$ 1,074,424</u>	<u>\$(4,125,346)</u>	<u>\$21,731,729</u>	<u>\$ 1,695,068</u>

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**8. Leases:**

The City has no capital leases at June 30, 2004.

**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, 2004, the General Fund incurred expenditures of \$318,640 associated with these agreements. The minimum annual lease obligations of the General Fund related to these agreements are \$318,640 through 2009.

**9. 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 the 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, 2004.

**10. Risk management:**

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

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

The City maintains \$2,000,000 of liability insurance per incident and insures property for replacement cost. Settled claims have not exceeded coverage through the Trust in any of the past three years.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. 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 Firemen's Pension Plan, Policemen'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 Teachers' 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 Firemen's Pension Plan and Policemen'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 2004 was \$36,084,117. Total City payroll was \$49,554,975 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 2004 was \$119,500.

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 2004, the City's required contribution was \$11,950, 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 Employees' Retirement System of Rhode Island, 40 Fountain Street, Providence, Rhode Island, 02903 or by calling (401) 222-2203. Total covered payroll under the plan during 2004 was \$17,279,493, including \$1,241,409 of federally reimbursed payroll.

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 35<sup>th</sup> 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 1<sup>st</sup> 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.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. Pension plans (continued):**

(b) Teachers' Plan (continued)

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 2004, actuarial required contributions were 13.72% of participant salary (also 13.72% for federally reimbursed salary). This resulted in a contribution rate paid by the State on behalf of City teachers of 5.73%. The City's contribution rate was 7.99%. The City's required and actual contributions to the Teachers' Plan for fiscal years 2004, 2003, and 2002 were \$1,623,585, \$1,572,955 and \$1,473,129, respectively.

(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, Rhode Island, 02903-1854 or by calling (401) 222-2203. For fiscal year 2004, payroll for employees covered under the plan totaled \$9,990,681.

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% 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 City.

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, 2004, 320 active employees were members of the Municipal Plan.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. Pension plans (continued):**

(c) Municipal Plan (continued)

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 Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the City, nor does it assume any liability for funding pension benefits for the City's participants.

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.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual pension costs	\$ 1,057,778	\$ 694,013	\$ 647,324
Actual contributions:			
Employee	697,114	657,314	618,937
Employer	360,664	36,699	23,387
Percent of annual pension costs contributed	<u>100%</u>	<u>100%</u>	<u>100%</u>

Actuarial methods and significant assumptions:

The State used 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)

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. Pension plans (continued):**

(c) Municipal Plan (continued)

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

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

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 2004, covered payroll under the plans was \$4,815,430 and \$3,998,513 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. Police are eligible to retire after 20 years of service, and firemen are eligible to retire after 25 years of service. Police benefits are equal to 50% of salary with an additional 2.5% for each year of service after 20 years and up to 25 years of service with the total benefit not to exceed 62.5% of salary. Police retirees who work more than 25 years are entitled to an additional 1.5% with the total benefit not to exceed 70% of salary. The fire pension plan entitles retirees to benefits equal to 65% of salary for those who retire at 25 years. The percentage increases by 1% per year until the 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 years 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, 2004, membership in each plan was as follows:

	<u>Fire Plan</u>	<u>Police Plan</u>
Active employees hired before June 20, 1984	30	13
Active employees hired on or after July 1, 1984	<u>66</u>	<u>74</u>
Total active employees	96	87
Inactive employees with vested rights	-0-	-0-
Pensioners and beneficiaries	<u>96</u>	<u>111</u>
Total plan members	<u>192</u>	<u>198</u>

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. Pension plans (continued):**

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

Funding policy:

Under 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 a declining 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, 2003. The following table summarizes annual pension costs for both the Police Plan and Fire Plan:

	<b>Fire Plan</b>	<b>Police Plan</b>
Annual required contribution (ARC)	\$ 3,285,527	\$ 2,099,345
Amount representing interest on NPO	524,939	(328,008)
Adjustment to ARC	(315,687)	197,257
 Total annual pension costs	 \$ 3,494,779	 \$ 1,968,594



*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**11. Pension plans (continued):**

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

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

	<b>Fire Plan</b>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual pension costs	\$ 3,494,779	\$ 3,337,189	\$ 3,513,874
Actual contributions	<u>4,062,000</u>	<u>3,977,470</u>	<u>3,567,527</u>
Decrease in NPO	(567,221)	(640,281)	(53,653)
Net pension obligation, beginning	<u>6,362,891</u>	<u>7,003,172</u>	<u>7,056,826</u>
Net pension obligation, ending	<u>\$ 5,795,670</u>	<u>\$ 6,362,891</u>	<u>\$ 7,003,173</u>
% of annual pension costs contributed	<u>116.2%</u>	<u>119.2%</u>	<u>101.5%</u>

	<b>Police Plan</b>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual pension costs	\$ 1,968,594	\$ 1,867,775	\$ 1,614,567
Actual contributions	<u>2,698,300</u>	<u>2,273,062</u>	<u>2,703,167</u>
Decrease in NPO	(729,706)	(405,287)	(1,088,600)
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>137.1%</u>	<u>121.7%</u>	<u>167.4%</u>

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, 2004

**IV. Detailed notes on all funds (continued):**

**11. 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, 2004 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.

**12. 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. As of June 30, 2004, in excess of 388 retirees were eligible to receive health and life insurance benefits. 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 except for teachers. Teachers contribute 3% of their salary to remain in any plan of their choosing. The actuarially calculated liability as of July 1, 2003 related to the teachers' benefits after age 65 is \$38 million. Available assets at that date are \$500,000.

*CITY OF NEWPORT, RHODE ISLAND*  
Notes to Financial Statements - Continued  
June 30, 2004

**IV. Detailed notes on all funds (continued):**

**12. Other post-employment benefits (continued):**

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.

During fiscal year 2004, expenditures or expenses of \$3,875,629, net of contributions, were recorded for post-employment benefits of retirees or beneficiaries and their dependents, distributed as follows:

General Fund	\$ 243,418
Special Revenue Funds – School Unrestricted	1,902,101
Enterprise Funds	224,988
Pension Trust Funds	1,505,122
	\$ 3,875,629

The costs of other post-employment benefits are funded on a “pay-as-you-go” method. The City contracted to have an actuarial study performed of the cost of providing other post-employment benefits in preparation for GASB Statement No. 45, “Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions,” which will be implemented in fiscal year 2009. The actuarially accrued unfunded liability as of July 1, 2003 for all City and School employees is \$115 million.

**13. 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 2004 was \$13,000 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.

**14. Prior period adjustment:**

The City's governmental activities, Water Pollution Control Fund and Water Fund recorded prior period adjustments to increase fund balance by \$21,337,018, \$12,524,477 and \$3,857,436, respectively, to record net infrastructure fixed assets. In addition, the City recorded in its General Fund a prior period adjustment of \$940,602 to record the fair value of land previously donated.

**CITY OF NEWPORT, RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**

**YEAR ENDED JUNE 30, 2004**

**Municipal Employees Retirement System**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets as % of AAL</b>	<b>Unfunded (Excess) AAL</b>	<b>Annual Covered Payroll</b>	<b>Unfunded (Excess) AAL as % of Covered Payroll</b>
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%
2003	NA	NA	NA	NA	NA	NA

**Fire Pension Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets as % of AAL</b>	<b>Unfunded AAL</b>	<b>Annual Covered Payroll</b>	<b>Unfunded AAL as % of Covered Payroll</b>
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%
2003	17,726,942	61,509,869	28.8%	43,782,927	4,605,267	950.7%

**Police Pension Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Plan Assets</b>	<b>Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets as % of AAL</b>	<b>Unfunded AAL</b>	<b>Annual Covered Payroll</b>	<b>Unfunded AAL as % of Covered Payroll</b>
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%
2003	29,217,703	67,277,252	43.4%	38,059,549	3,867,398	984.1%

NA - Not available.

**CITY OF NEWPORT, RHODE ISLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2004**

**Fire Pension Plan**

<b>Actuarial Valuation Date</b>	<b>Annual Required Contribution (ARC)</b>	<b>Actual Contribution</b>	<b>% of ARC Contributed</b>
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%
2003	3,285,527	4,062,000	123.6%

**Police Pension Plan**

<b>Actuarial Valuation Date</b>	<b>Annual Required Contribution (ARC)</b>	<b>Actual Contribution</b>	<b>% of ARC Contributed</b>
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%
2003	2,099,345	2,698,300	128.5%

**CITY OF NEWPORT, RHODE ISLAND**

**GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET
<b>PROPERTY TAXES:</b>				
Current taxes - Real Estate	\$ 47,121,300	\$ 47,121,300	\$ 46,030,188	\$ (1,091,112)
Current taxes - MV	1,763,203	1,763,203	1,687,682	(75,521)
Delinquent - Real Estate	1,200,000	1,200,000	1,112,718	(87,282)
Delinquent taxes - MV	135,000	135,000	115,455	(19,545)
Hotel occupancy tax	730,000	730,000	817,318	87,318
Meals and beverage tax			1,013,307	1,013,307
Penalties	350,000	350,000	317,512	(32,488)
Tax lien fees	20,000	20,000	23,023	3,023
<b>TOTAL PROPERTY TAXES</b>	<b>51,319,503</b>	<b>51,319,503</b>	<b>51,117,203</b>	<b>(202,300)</b>
<b>INTERGOVERNMENTAL REVENUES:</b>				
Telephone company tax	455,111	455,111	412,290	(42,821)
Police & fire education incentive	45,000	45,000	42,383	(2,617)
PILOT	450,882	450,882	450,882	-
General aid	1,646,310	1,646,310	1,778,150	131,840
MV tax phase out	1,409,508	1,409,508	1,455,949	46,441
COPS That CARE, RI Justice Comm	1,000	1,000	1,925	925
Tobacco/Underage Drinking Grant			1,277	1,277
Festival Fields Grant			9,752	9,752
RI Grant for Community Police	2,500	2,500		(2,500)
RI Justice Comm Network Grant	30,000	30,000		(30,000)
Governor's Highway Safety Grant	7,500	7,500	2,257	(5,243)
LLEBG Grant - Federal	60,000	60,000		(60,000)
School housing aid	849,000	849,000	834,466	(14,534)
State aid - library construction	255,000	255,000	265,228	10,228
<b>TOTAL INTERGOVERNMENTAL REVENUES</b>	<b>5,211,811</b>	<b>5,211,811</b>	<b>5,254,559</b>	<b>42,748</b>
<b>CHARGES FOR SERVICES:</b>				
Computer processing fees	100,000	100,000	198,042	98,042
Police special detail	700,000	700,000	713,135	13,135
Document prep and handling			77,487	77,487
Management services	312,837	312,837	434,688	121,851
Community development services	35,000	35,000	55,911	20,911
Fire alarm assessments	50,000	50,000	61,083	11,083
Recycling bins	1,500	1,500	2,853	1,353
Recording fees	235,000	235,000	372,132	137,132
Conveyance tax	400,000	400,000	616,545	216,545
Recreation activity fees	30,000	30,000	77,631	47,631
Ballfield rentals	65,000	65,000	22,489	(42,511)
Parking tickets/rescue fees	1,200,000	1,200,000	995,520	(204,480)
Probate fees	45,000	45,000	55,018	10,018
Catering	2,000	2,000		(2,000)
Entertainment	20,000	20,000	18,535	(1,465)
General business	45,000	45,000	55,674	10,674
Hotel registration fees	7,500	7,500	7,250	(250)
Liquor	95,000	95,000	184,194	89,194
Mech amusement	15,000	15,000	18,125	3,125
Sunday selling	28,000	28,000	31,505	3,505
Taxi	1,000	1,000	1,415	415
Victualing	49,000	49,000	50,385	1,385
Animal	6,000	6,000	6,353	353
Marriage	5,000	5,000	6,896	1,896
Vendor rights	100,000	100,000	7,280	(92,720)
Building	100,000	100,000	161,907	61,907
Electrical	35,000	35,000	52,221	17,221
Mechanical	20,000	20,000	24,556	4,556
Plumbing	10,000	10,000	15,629	5,629
Sidewalk rest fees	5,000	5,000		(5,000)

(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, 2004**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET
<b>CHARGES FOR SERVICES (Continued):</b>				
Road opening	\$ 28,000	\$ 28,000	\$ 41,582	\$ 13,582
Board of Appeals	9,000	9,000	14,090	5,090
HDC application fee	2,500	2,500	3,295	795
Municipal court cost assessment	205,000	205,000	147,854	(57,146)
Harbor fines and fees	100,000	100,000	142,255	42,255
Fire - sundry	32,000	32,000	45,838	13,838
Police - sundry	12,000	12,000	12,707	707
Cruise ship	240,000	240,000	214,534	(25,466)
Harbor mooring fees	225,000	225,000	284,944	59,944
Rental of property	108,912	108,912	95,950	(12,962)
Jai Alai pari-mutual	20,000	20,000	5,069	(14,931)
Jai Alai video	850,000	850,000	751,325	(98,675)
Other miscellaneous	75,000	75,000	94,582	19,582
<b>TOTAL CHARGES FOR SERVICES</b>	<b>5,625,249</b>	<b>5,625,249</b>	<b>6,178,484</b>	<b>553,235</b>
<b>USE OF MONEY AND PROPERTY:</b>				
Investment interest	200,000	200,000	164,483	(35,517)
<b>INCOME FROM INVESTMENTS</b>	<b>200,000</b>	<b>200,000</b>	<b>164,483</b>	<b>(35,517)</b>
<b>OTHER REVENUES:</b>				
Public donations	79,000	79,000	57,653	(21,347)
Sale of surplus equipment	25,000	25,000	33,189	8,189
<b>TOTAL OTHER REVENUES</b>	<b>104,000</b>	<b>104,000</b>	<b>90,842</b>	<b>(13,158)</b>
<b>TOTAL REVENUES</b>	<b>62,460,563</b>	<b>62,460,563</b>	<b>62,805,571</b>	<b>345,008</b>
<b>OTHER FINANCING SOURCES:</b>				
Appropriated fund balance	4,881,060	5,334,358	4,881,060	(453,298)
Sale of property	540,000	540,000	577,000	37,000
Operating transfers in	328,427	328,427	328,427	-
<b>Total other financing sources</b>	<b>5,749,487</b>	<b>6,202,785</b>	<b>5,786,487</b>	<b>-</b>
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>\$ 68,210,050</b>	<b>\$ 68,663,348</b>	<b>\$ 68,592,058</b>	<b>\$ 345,008</b>

(Concluded)

**CITY OF NEWPORT, RHODE ISLAND**

GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET
<b>EXPENDITURES:</b>				
General Government:				
Mayor and City Council.....	\$ 103,867	\$ 103,867	\$ 102,467	\$ 1,400
City Manager.....	543,115	551,236	498,467	52,769
City Solicitor.....	338,246	343,746	343,621	125
Canvassing.....	161,411	155,911	135,003	20,908
Finance.....	2,299,456	2,502,842	2,514,946	(12,104)
City Clerk.....	536,227	553,556	523,763	29,793
Administrative Services.....	868,747	897,861	823,981	73,880
Reserve Accounts.....	769,011	459,456	594,651	(135,195)
Public Safety:				
Police Department.....	12,867,262	13,068,302	12,630,043	438,259
Fire Department.....	11,322,031	12,199,690	12,359,322	(159,632)
Public Health:				
Public Works.....	1,921,546	2,129,751	1,996,526	133,225
Solid Waste Operations.....	1,938,988	1,939,230	1,826,154	113,076
Planning, Zoning, and Development.....	954,745	997,396	984,534	12,862
Recreation and Parks.....	1,845,907	1,918,013	1,914,797	3,216
Human services:				
Donations.....	214,560	214,560	182,742	31,818
Public Library.....	1,359,542	1,359,542	1,359,542	-
Pension expenses.....	580,808	438,808	436,421	2,387
Debt service.....	2,368,252	2,368,252	2,234,672	133,580
<b>TOTAL EXPENDITURES.....</b>	<b>40,993,721</b>	<b>42,202,019</b>	<b>41,461,652</b>	<b>740,367</b>
<b>OTHER FINANCING USES:</b>				
Transfers to other funds.....	27,216,329	26,461,329	27,231,714	(770,385)
<b>TOTAL OTHER FINANCING USES.....</b>	<b>27,216,329</b>	<b>26,461,329</b>	<b>27,231,714</b>	<b>(770,385)</b>
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES.....</b>	<b>\$ 68,210,050</b>	<b>\$ 68,663,348</b>	<b>\$ 68,693,366</b>	<b>\$ (30,018)</b>





CITY OF NEWPORT, RHODE ISLAND  
 COMBINING BALANCE SHEET (CONTINUED)  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004

	INTERNAL SERVICE FUND		PERMANENT FUND		TOTAL NONMAJOR GOVERNMENTAL FUNDS
	DEBT SERVICE FUND	-	OTHER TRUST FUNDS	-	
<b>ASSETS</b>					
Cash.....	\$	-	\$	20,540	\$ 4,917,150
Investments.....		227,798	7,266,734		7,494,532
Receivables:					
Intergovernmental.....		-	-		848,276
Loan.....		-	-		585,644
Other.....		-	-		500
Due from other funds.....		-	-		149,927
Advances to other funds.....		-	-		689,463
Advances to component units.....		-	-		471,452
Prepaid expenditures.....		-	-		-
<b>TOTAL ASSETS</b> .....	\$	227,798	\$	7,287,274	\$ 15,156,944

**LIABILITIES AND FUND BALANCES**

<b>LIABILITIES:</b>					
Cash overdraft.....	\$	-	\$	-	40,842
Accounts payable.....		-	-		9,671
Accrued expenses.....		-	-		1,177
Due to other funds.....		-	-		2,037,036
Deferred revenue.....		-	-		-
<b>TOTAL LIABILITIES</b> .....		-	-		2,088,726
<b>FUND BALANCE:</b>					
Reserved.....		-	-		112,919
Unreserved and undesignated.....		227,798	7,287,274		12,955,299
<b>TOTAL FUND BALANCES</b> .....		227,798	7,287,274		13,068,218
<b>TOTAL LIABILITIES AND FUND BALANCES</b> .....	\$	227,798	\$	7,287,274	\$ 15,156,944

(Concluded)

**CITY OF NEWPORT, RHODE ISLAND**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	SCHOOL RESTRICTED FUNDS	UDAG FUND	STATE GRANTS FUND	EDA REVOLVING FUND	SPECIAL REVENUE				TOTAL
					PROPERTY ACQUISITION FUND	COMMUNITY DONATION FUND	BRAMLEY BILL FUND		
<b>REVENUES:</b>									
Intergovernmental.....	\$ 5,467,243	\$ -	\$ 875,420	\$ -	\$ -	\$ -	\$ -	\$ 35,567	\$ 6,378,230
Charges for services.....	-	112,930	-	7,684	-	-	-	-	120,614
Investment income.....	-	20,769	312	4,756	48,300	-	-	-	74,137
Donations.....	696,345	-	-	-	-	32,383	-	-	728,728
Other.....	-	-	-	-	-	150	-	-	150
<b>TOTAL REVENUES.....</b>	<b>6,163,588</b>	<b>133,699</b>	<b>875,732</b>	<b>12,440</b>	<b>48,300</b>	<b>32,533</b>	<b>-</b>	<b>35,567</b>	<b>7,301,859</b>
<b>EXPENDITURES:</b>									
Current:									
General education.....	6,038,417	-	-	-	-	-	-	-	6,038,417
Public safety.....	-	-	324,962	-	-	8,733	-	-	333,695
Public health.....	-	-	10,064	-	-	-	-	-	10,064
Planning, zoning and development.....	-	-	17,769	-	-	-	-	-	17,769
Recreation and parks.....	-	175,000	155,120	-	-	17,688	-	-	347,808
Human Services.....	-	-	291,129	-	-	-	-	43,323	334,978
Capital outlay.....	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>6,038,417</b>	<b>175,000</b>	<b>799,044</b>	<b>526</b>	<b>-</b>	<b>26,421</b>	<b>-</b>	<b>43,323</b>	<b>7,082,731</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>125,171</b>	<b>(41,301)</b>	<b>76,688</b>	<b>11,914</b>	<b>48,300</b>	<b>6,112</b>	<b>-</b>	<b>(7,756)</b>	<b>219,128</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in.....	5,881	-	-	-	(328,427)	-	-	-	5,881
Transfers out.....	-	-	-	-	-	-	-	-	(328,427)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>5,881</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(328,427)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(322,546)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES.....</b>	<b>131,052</b>	<b>(41,301)</b>	<b>76,688</b>	<b>11,914</b>	<b>(280,127)</b>	<b>6,112</b>	<b>-</b>	<b>(7,756)</b>	<b>(103,418)</b>
<b>FUND BALANCE, JULY 1, 2003.....</b>	<b>316,884</b>	<b>3,427,756</b>	<b>161,048</b>	<b>170,907</b>	<b>1,361,118</b>	<b>202,964</b>	<b>-</b>	<b>15,887</b>	<b>5,656,564</b>
<b>FUND BALANCE, JUNE 30, 2004.....</b>	<b>\$ 447,936</b>	<b>\$ 3,386,455</b>	<b>\$ 237,736</b>	<b>\$ 182,821</b>	<b>\$ 1,080,991</b>	<b>\$ 209,076</b>	<b>\$ -</b>	<b>\$ 8,131</b>	<b>\$ 5,553,146</b>

(Continued)

CITY OF NEWPORT, RHODE ISLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2004

	INTERNAL SERVICE FUND	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	DEBT SERVICE FUND	OTHER TRUST FUNDS	
<b>REVENUES:</b>			
Intergovernmental.....	\$ -	\$ -	\$ 6,378,230
Charges for services.....	-	-	120,614
Investment income.....	(30,234)	930,718	974,621
Donations.....	-	-	728,728
Other .....	-	-	150
<b>TOTAL REVENUES.....</b>	<b>(30,234)</b>	<b>930,718</b>	<b>8,202,343</b>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General education.....	-	-	6,038,417
Public safety.....	-	-	333,695
Public health.....	-	-	10,064
Planning, zoning and development.....	-	-	17,769
Recreation and parks.....	-	-	347,808
Human Services.....	-	101,594	436,572
Capital outlay.....	-	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>-</b>	<b>101,594</b>	<b>7,184,325</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(30,234)</b>	<b>829,124</b>	<b>1,018,018</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in.....	133,110	-	138,991
Operating transfers out.....	-	-	(328,427)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>133,110</b>	<b>-</b>	<b>(189,436)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES.....</b>	<b>102,876</b>	<b>829,124</b>	<b>828,582</b>
<b>FUND BALANCES, JULY 1, 2003.....</b>	<b>124,922</b>	<b>6,458,150</b>	<b>12,239,636</b>
<b>FUND BALANCES, JUNE 30, 2004.....</b>	<b>\$ 227,798</b>	<b>\$ 7,287,274</b>	<b>\$ 13,068,218</b>

(Concluded)

**CITY OF NEWPORT, RHODE ISLAND**

**COMBINING STATEMENT OF NET ASSETS  
NONMAJOR PROPRIETARY FUNDS  
JUNE 30, 2004**

	MARITIME FUND	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTALS
<b>ASSETS:</b>				
<b>Current assets:</b>				
Cash and cash equivalents - unrestricted.....	\$ 97,269	\$ 262,103	\$ 4,247,341	\$ 4,606,713
Accounts receivable:				
User fees (net of allowances).....	-	11,119	69,000	80,119
Other.....	-	-	-	-
Due from other funds.....	-	-	-	-
Inventories.....	-	-	-	-
<b>Total current assets.....</b>	<b>97,269</b>	<b>273,222</b>	<b>4,316,341</b>	<b>4,686,832</b>
<b>Noncurrent assets:</b>				
Capital assets.....	-	2,601,181	2,018,950	4,620,131
Less accumulated depreciation.....	-	(727,885)	(907,884)	(1,635,769)
<b>Total noncurrent assets.....</b>		<b>1,873,296</b>	<b>1,111,066</b>	<b>2,984,362</b>
<b>TOTAL ASSETS.....</b>	<b>97,269</b>	<b>2,146,518</b>	<b>5,427,407</b>	<b>7,671,194</b>
<b>LIABILITIES:</b>				
<b>Current liabilities:</b>				
Accounts payable.....	-	4,238	21,870	26,108
Due to other funds.....	-	4,928	-	4,928
Accrued expenses.....	-	70,973	14,332	85,305
Current portion advances.....	-	73,289	-	73,289
<b>Total current liabilities.....</b>	<b>-</b>	<b>153,428</b>	<b>36,202</b>	<b>189,630</b>
<b>Long-term liabilities:</b>				
Advances from other funds.....	-	346,174	-	346,174
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>499,602</b>	<b>36,202</b>	<b>535,804</b>
<b>NET ASSETS:</b>				
Invested in capital assets (net of related debt).	-	1,873,296	1,111,066	2,984,362
Reserved for commitments.....	-	3,209	63,243	66,452
Unrestricted.....	97,269	(229,589)	4,216,896	4,084,576
<b>TOTAL NET ASSETS.....</b>	<b>\$ 97,269</b>	<b>\$ 1,646,916</b>	<b>\$ 5,391,205</b>	<b>\$ 7,135,390</b>

**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, 2004**

	MARITIME FUND	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTALS
<b>OPERATING REVENUES:</b>				
User fees.....	\$ -	\$ 548,849	\$ 859,128	\$ 1,407,977
Other revenues.....	-	-	-	-
<b>TOTAL OPERATING REVENUES.....</b>	<b>-</b>	<b>548,849</b>	<b>859,128</b>	<b>1,407,977</b>
<b>OPERATING EXPENSES:</b>				
Salaries and benefits.....	-	268,496	201,451	469,947
Materials and supplies.....	-	29,852	57,873	87,725
Repairs and maintenance.....	-	25,721	14,837	40,558
Depreciation.....	-	79,761	67,138	146,899
Support services.....	-	10,999	233,959	244,958
Utilities.....	-	20,634	5,200	25,834
Administrative and other.....	-	27,779	47,685	75,464
<b>TOTAL OPERATING EXPENSES.....</b>	<b>-</b>	<b>463,242</b>	<b>628,143</b>	<b>1,091,385</b>
<b>OPERATING INCOME.....</b>	<b>-</b>	<b>85,607</b>	<b>230,985</b>	<b>316,592</b>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>				
Transfers in.....	97,269	-	-	97,269
Interest income.....	-	227	24,549	24,776
Interest expense.....	-	(17,844)	-	(17,844)
<b>NET NONOPERATING REVENUES AND (EXPENSES).....</b>	<b>97,269</b>	<b>(17,617)</b>	<b>24,549</b>	<b>104,201</b>
<b>NET INCOME.....</b>	<b>97,269</b>	<b>67,990</b>	<b>255,534</b>	<b>420,793</b>
<b>TOTAL NET ASSETS - JULY 1, 2003.....</b>	<b>-</b>	<b>1,578,926</b>	<b>5,135,671</b>	<b>6,714,597</b>
<b>TOTAL NET ASSETS - JUNE 30, 2004.....</b>	<b>\$ 97,269</b>	<b>\$ 1,646,916</b>	<b>\$ 5,391,205</b>	<b>\$ 7,135,390</b>

**CITY OF NEWPORT, RHODE ISLAND**

**COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	MARITIME FUND	EASTON'S BEACH FUND	PARKING OPERATIONS FUND	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers.....	\$ -	\$ 562,050	\$ 854,127	\$ 1,416,177
Cash payments to suppliers for goods and services.....	-	(88,207)	(291,280)	(379,487)
Cash payments to employees for services.....	-	(262,984)	(202,215)	(465,199)
Payment of administrative expense.....	-	(27,779)	(47,685)	(75,464)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>-</b>	<b>183,080</b>	<b>312,947</b>	<b>496,027</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Interfund loans and transfers.....	97,269	(65,502)	-	31,767
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets.....	-	(71,981)	(124,827)	(196,808)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest and dividends on investments.....	-	227	24,549	24,776
Interest expense.....	-	(17,844)	-	(17,844)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.....</b>	<b>-</b>	<b>(17,617)</b>	<b>24,549</b>	<b>6,932</b>
<b>NET INCREASE IN CASH.....</b>	<b>97,269</b>	<b>27,980</b>	<b>212,669</b>	<b>337,918</b>
<b>CASH AND CASH EQUIVALENTS - JULY 1, 2003.....</b>	<b>-</b>	<b>234,123</b>	<b>4,034,672</b>	<b>4,268,795</b>
<b>CASH AND CASH EQUIVALENTS- JUNE 30, 2004.....</b>	<b>\$ 97,269</b>	<b>\$ 262,103</b>	<b>\$ 4,247,341</b>	<b>\$ 4,606,713</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income.....	\$ -	\$ 85,607	\$ 230,985	\$ 316,592
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization.....	-	79,761	67,138	146,899
Changes in assets and liabilities:				
(Decrease) Increase in accounts payable/other liabilities.....	-	4,511	19,824	24,335
Decrease (Increase) in accounts receivable/other assets.....	-	13,201	(5,000)	8,201
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES.....</b>	<b>\$ -</b>	<b>\$ 183,080</b>	<b>\$ 312,947</b>	<b>\$ 496,027</b>

**CITY OF NEWPORT RHODE ISLAND**

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	PENSION TRUST FUNDS			PRIVATE PURPOSE TRUST FUNDS				AGENCY FUNDS		TOTAL FIDUCIARY FUNDS TOTAL
	POLICE PENSION FUND	FIRE PENSION FUND	TOTAL PENSION TRUST FUNDS	EXPENDABLE SCHOLARSHIP FUNDS	NONEXPENDABLE SCHOLARSHIP TRUSTS	TRUST FUNDS	TRUST FUNDS	VARIOUS	VARIOUS	
<b>ASSETS</b>										
Cash.....	\$ 33,645,288	\$ 21,427,871	\$ 55,073,159	\$ 9,081	\$ 830	\$ 934,806	\$ 9,911	\$ 254,523	\$ 264,434	\$ 56,007,965
Investments.....										
<b>TOTAL ASSETS</b>	<b>\$ 33,645,288</b>	<b>\$ 21,427,871</b>	<b>\$ 55,073,159</b>	<b>\$ 9,081</b>	<b>\$ 935,636</b>	<b>\$ 944,717</b>	<b>\$ 254,523</b>	<b>\$ 254,523</b>	<b>\$ 56,272,399</b>	
<b>LIABILITIES AND FUND BALANCES</b>										
<b>LIABILITIES:</b>										
Cash overdraft.....	\$ 1,768,952	\$ 490,151	\$ 2,259,103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,259,103	
Accounts payable.....	3,535	1,845	5,380	-	124	-	124	-	5,504	
Amounts held in escrow.....	-	-	-	-	-	-	-	254,523	254,523	
<b>TOTAL LIABILITIES</b>	<b>1,772,487</b>	<b>491,996</b>	<b>2,264,483</b>	<b>-</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>254,523</b>	<b>2,519,130</b>	
<b>FUND BALANCES:</b>										
Net assets held in trust for pension benefits.....	31,872,801	20,935,875	52,808,676	-	-	-	-	-	52,808,676	
Unreserved, undesignated.....	-	-	-	9,081	935,512	944,593	-	-	944,593	
<b>TOTAL FUND BALANCES</b>	<b>31,872,801</b>	<b>20,935,875</b>	<b>52,808,676</b>	<b>9,081</b>	<b>935,512</b>	<b>944,593</b>	<b>-</b>	<b>-</b>	<b>53,753,269</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 33,645,288</b>	<b>\$ 21,427,871</b>	<b>\$ 55,073,159</b>	<b>\$ 9,081</b>	<b>\$ 935,636</b>	<b>\$ 944,717</b>	<b>\$ 254,523</b>	<b>\$ 254,523</b>	<b>\$ 56,272,399</b>	



**CITY OF NEWPORT, RHODE ISLAND**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	PENSION TRUST FUNDS			PRIVATE PURPOSE TRUST FUNDS			TOTAL PRIVATE PURPOSE TRUST FUNDS
	POLICE PENSION FUND	FIRE PENSION FUND	TOTAL PENSION TRUST FUNDS	NON-EXPENDABLE SCHOLARSHIP TRUSTS	EXPENDABLE SCHOLARSHIP FUNDS	PURPOSE TRUST FUNDS	
<b>ADDITIONS:</b>							
Contributions:							
Employees.....	\$ 321,984	\$ 384,790	\$ 706,774	\$ -	\$ -	\$ -	
Employer.....	3,247,875	3,317,767	6,565,642	130,713	-	130,713	
Investment income.....	-	-	-	4,285	10,000	14,285	
Donations.....	-	-	-	-	-	-	
Other income.....	304	16	320	-	-	-	
Total contributions.....	3,570,163	3,702,573	7,272,736	134,998	10,000	144,998	
Investment income:							
Net appreciation in fair value of investments.....	1,926,393	1,947,551	3,873,944	-	-	-	
Interest and dividends.....	491,217	314,497	805,714	-	-	-	
Realized gain in investments.....	1,067,761	678,774	1,746,535	-	-	-	
Total investment income.....	3,485,371	2,940,822	6,426,193	-	-	-	
Less investment expenses.....	3,783	2,417	6,200	387	-	387	
Net investment income.....	3,481,588	2,938,405	6,419,993	(387)	-	(387)	
<b>TOTAL ADDITIONS.....</b>	<b>7,051,751</b>	<b>6,640,978</b>	<b>13,692,729</b>	<b>134,611</b>	<b>10,000</b>	<b>144,611</b>	
<b>DEDUCTIONS:</b>							
Benefits.....	3,142,480	3,330,338	6,472,838	-	-	-	
Administration.....	75,871	48,366	124,237	-	-	-	
Awards.....	-	-	-	28,072	8,000	36,072	
Support services.....	-	-	-	2,507	-	2,507	
<b>TOTAL DEDUCTIONS.....</b>	<b>3,218,351</b>	<b>3,378,724</b>	<b>6,597,075</b>	<b>30,579</b>	<b>8,000</b>	<b>38,579</b>	
<b>CHANGES IN NET ASSETS.....</b>	<b>3,833,400</b>	<b>3,262,254</b>	<b>7,095,654</b>	<b>104,032</b>	<b>2,000</b>	<b>106,032</b>	
<b>NET ASSETS - JULY 1, 2003.....</b>	<b>28,039,401</b>	<b>17,673,621</b>	<b>45,713,022</b>	<b>831,480</b>	<b>7,081</b>	<b>838,561</b>	
<b>NET ASSETS - JUNE 30, 2004.....</b>	<b>\$ 31,872,801</b>	<b>\$ 20,935,875</b>	<b>\$ 52,808,676</b>	<b>\$ 935,512</b>	<b>\$ 9,081</b>	<b>\$ 944,593</b>	

**CITY OF NEWPORT, RHODE ISLAND**

AGENCY FUNDS  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2004

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<b><u>ASSETS</u></b>				
<b>CASH:</b>				
Student activity funds.....	\$ 186,640	\$ 478,926	\$ 440,707	\$ 224,859
Brick Market Foundation Inc.....	853	-	-	853
Newport Municipal Charitable Improvement Fund, Inc.....	28,811	-	-	28,811
<b>TOTAL ASSETS.....</b>	<b>\$ 216,304</b>	<b>\$ 478,926</b>	<b>\$ 440,707</b>	<b>\$ 254,523</b>
<b><u>LIABILITIES</u></b>				
<b>AMOUNTS HELD IN ESCROW:</b>				
Student activity funds.....	\$ 186,640	\$ 478,926	\$ 440,707	\$ 224,859
Brick Market Foundation Inc.....	853	-	-	853
Newport Municipal Charitable Improvement Fund, Inc.....	28,811	-	-	28,811
<b>TOTAL LIABILITIES.....</b>	<b>\$ 216,304</b>	<b>\$ 478,926</b>	<b>\$ 440,707</b>	<b>\$ 254,523</b>

**CITY OF NEWPORT, RHODE ISLAND**

**CAPITAL ASSETS USED IN OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULE OF CAPITAL ASSETS BY SOURCE  
JUNE 30, 2004**

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**CAPITAL ASSETS**

Land.....	\$ 2,348,013
Land improvements.....	6,006,965
Construction in progress.....	272,709
Infrastructure.....	30,392,406
Building and structures.....	30,157,935
Machinery and equipment.....	4,713,099
Rolling stock.....	<u>5,232,491</u>
<b>TOTAL CAPITAL ASSETS.....</b>	<b><u>\$ 79,123,618</u></b>

**CITY OF NEWPORT - RHODE ISLAND**

**CAPITAL ASSETS  
SCHEDULE OF CAPITAL ASSETS BY FUNCTION AND ACTIVITY  
JUNE 30, 2004**

FUNCTION / ACTIVITY	LAND & IMPROVEMENTS	INFRA-STRUCTURE	BUILDINGS & STRUCTURES	MACHINERY & EQUIPMENT	CONSTRUCTION IN PROGRESS	ROLLING STOCK	TOTAL
<b>GENERAL GOVERNMENT:</b>							
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.....	1,316,137	1,543,480	1,813,677	-	-	-	4,673,294
<b>TOTAL GENERAL GOVERNMENT.....</b>	<b>1,316,137</b>	<b>1,543,480</b>	<b>1,813,677</b>	<b>1,378,938</b>	<b>-</b>	<b>-</b>	<b>6,052,232</b>
<b>PUBLIC SAFETY:</b>							
Police department.....	12,013	-	2,579,109	402,936	-	806,178	3,800,236
Fire department.....	1,000	-	864,599	473,125	145,548	2,332,628	3,816,900
<b>TOTAL PUBLIC SAFETY.....</b>	<b>13,013</b>	<b>-</b>	<b>3,443,708</b>	<b>876,061</b>	<b>145,548</b>	<b>3,138,806</b>	<b>7,617,136</b>
<b>PUBLIC HEALTH:</b>							
Public works.....	5,550,213	28,848,926	882,391	383,116	127,161	1,211,884	37,003,691
Solid waste operations.....	-	-	15,915	22,216	-	-	38,131
<b>TOTAL PUBLIC HEALTH.....</b>	<b>5,550,213</b>	<b>28,848,926</b>	<b>898,306</b>	<b>405,332</b>	<b>127,161</b>	<b>1,211,884</b>	<b>37,041,822</b>
<b>RECREATION AND PARKS.....</b>	<b>1,276,144</b>	<b>-</b>	<b>724,458</b>	<b>355,743</b>	<b>-</b>	<b>693,809</b>	<b>3,050,154</b>
<b>GENERAL EDUCATION.....</b>	<b>196,471</b>	<b>-</b>	<b>23,092,786</b>	<b>1,659,818</b>	<b>-</b>	<b>187,992</b>	<b>25,137,067</b>
<b>HUMAN SERVICES.....</b>	<b>3,000</b>	<b>-</b>	<b>185,000</b>	<b>37,207</b>	<b>-</b>	<b>-</b>	<b>225,207</b>
<b>GRAND TOTALS.....</b>	<b>\$ 8,354,978</b>	<b>\$ 30,392,406</b>	<b>\$ 30,157,955</b>	<b>\$ 4,713,099</b>	<b>\$ 272,709</b>	<b>\$ 5,232,491</b>	<b>\$ 79,123,618</b>

**CITY OF NEWPORT, RHODE ISLAND**

**CAPITAL ASSETS  
SCHEDULE OF CHANGES IN CAPITAL ASSETS BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2004**

<b>FUNCTION / ACTIVITY</b>	<b>BALANCE JULY 1, 2003</b>	<b>PRIOR PERIOD ADJUSTMENT</b>	<b>ADDITIONS</b>	<b>DEDUCTIONS</b>	<b>BALANCE JUNE 30, 2004</b>
<b>GENERAL GOVERNMENT:</b>					
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.....	1,297,921	-	-	-	1,297,921
City clerk.....	-	-	-	-	-
Administrative services.....	-	-	-	-	-
Fiduciary accounts.....	-	-	-	-	-
Planning.....	4,247,231	940,602	509,779	1,024,318	4,673,294
<b>TOTAL GENERAL GOVERNMENT:</b>	<b>5,626,169</b>	<b>940,602</b>	<b>509,779</b>	<b>1,024,318</b>	<b>6,052,232</b>
<b>PUBLIC SAFETY:</b>					
Police department.....	3,588,829	-	211,407	-	3,800,236
Fire department.....	3,286,101	-	862,439	331,640	3,816,900
<b>TOTAL PUBLIC SAFETY.....</b>	<b>6,874,930</b>	<b>-</b>	<b>1,073,846</b>	<b>331,640</b>	<b>7,617,136</b>
<b>PUBLIC HEALTH:</b>					
Public works.....	7,789,590	27,817,991	1,396,110	-	37,003,691
Solid waste operations.....	38,131	-	-	-	38,131
<b>TOTAL PUBLIC HEALTH.....</b>	<b>7,827,721</b>	<b>27,817,991</b>	<b>1,396,110</b>	<b>-</b>	<b>37,041,822</b>
<b>RECREATION AND PARKS.....</b>	<b>2,729,365</b>	<b>-</b>	<b>320,789</b>	<b>-</b>	<b>3,050,154</b>
<b>GENERAL EDUCATION.....</b>	<b>24,715,274</b>	<b>-</b>	<b>606,792</b>	<b>185,000</b>	<b>25,137,066</b>
<b>HUMAN SERVICES.....</b>	<b>225,207</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>225,207</b>
<b>GRAND TOTALS.....</b>	<b>\$ 47,998,666</b>	<b>\$ 28,758,593</b>	<b>\$ 3,907,316</b>	<b>\$ 1,540,958</b>	<b>\$ 79,123,618</b>

CITY OF NEWPORT, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2004

Real estate and personal property taxes receivable:

Year	Balance, July 1, 2003	Current year assessment	Adjustments/ abatements	Amount to be collected	Collections	Balance, June 30, 2004
2003	\$ -	\$ 49,843,820	\$ (820,320)	\$ 49,023,500	\$ 47,843,987	\$ 1,179,513
2002	1,465,725	4,959	(121,957)	1,348,727	1,118,565	230,162
2001	306,602	-	(3,323)	303,279	51,954	251,325
2000	287,173	-	(1,813)	285,360	7,483	277,877
1999	277,959	-	2,786	280,745	6,515	274,230
1998	356,218	-	(4,084)	352,134	3,507	348,627
1997	200,624	-	(7,064)	193,560	3,173	190,387
1996	211,871	-	(5,811)	206,060	3,516	202,544
1995	218,141	-	(5,321)	212,820	3,154	209,666
1994	199,453	-	(5,241)	194,212	3,842	190,369
1993	193,055	-	(192,259)	796	373	423
1992	1,775	-	-	1,775	72	1,703
1991	657	-	966	1,623	1,574	49
1990	879	-	1,080	1,959	1,302	657
1989	754	-	1,146	1,900	830	1,070
	<u>\$ 3,720,886</u>	<u>\$ 49,848,779</u>	<u>\$ (1,161,215)</u>	<u>\$ 52,408,450</u>	<u>\$ 49,049,848</u>	<u>3,358,602</u>
				Accrued interest		2,226,157
				Less allowance for doubtful accounts		<u>(4,006,354)</u>
						<u>\$ 1,578,405</u>



**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
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 City) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City'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 reportable 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 caused by error or fraud 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 material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance that are required to be reported under Government Auditing Standards. These instances are detailed in Appendix I to this report.

**Independent Auditors' Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters 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.

*Leffowitz, Garfunkel, Gorfinkel & DeGuzo P.C.*

December 3, 2004



CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I**

**Finding 04-01:**

Rhode Island General Law (RIGL) Section 16-2-9 sets forth the general powers and duties of school committees. Section 16-2-9 (d) states that the school committee of each school district is responsible for maintaining a school budget that does not result in debt. In addition, Section 16-2-9 (e) provides that the school committee will, within 30 days after the close of the first and second quarters of the state's fiscal year, adopt a budget that will enable it to operate without incurring a debt as described in subsection (d). Section 16-2-9 (f) states that if expenditures are in excess of the amount budgeted or if any revenue is less than the amount budgeted, the school committee will, within 5 working days of its discovery of such shortfalls, submit a written statement to the City of the amount of and cause for the shortfall and the school committee's plan for correction actions necessary to meet the requirements of Subsection 16-2-9 (d). In addition, Subsection (f) requires approval of the school committee's plan by the State Auditor General.

For the year ended June 30, 2004, the City of Newport's (City's) School Committee adopted a budget for the school unrestricted fund (School) with a budgeted deficit of \$1,165,810. Actual expenditures and other financing uses exceeded revenues and other financing sources that resulted in a deficit of \$1,760,477 and, at June 30, 2004, the School's unrestricted governmental fund has a deficit fund balance of \$1,100,081. In addition, notification of the shortfall was not provided within the required time frame and the School Committee did not submit a Corrective Action Plan to eliminate the deficit.

**Views of Responsible Officials and Corrective Action Plan:**

**School Committee:**

In May of 2003, the Newport School Committee adopted a \$35,716,275 budget for FY2004. This budget requested a city allocation of \$22,420,353. At a special joint meeting of the Newport City Council and the Newport School Committee on June 2, 2003, the City Council rejected the School Committee's request. The School Committee approved additional budget reductions and returned to the City with its new request. On June 25, 2003, the City Council appropriated \$20,801,329 to the schools leaving a budget gap of \$1,300,962 for the 2003-2004 school year. This gap amounted to approximately 4% of the School Committee's original 36 million dollar budget.

The School Committee disagrees that it adopted a budget with a budgeted deficit of \$1,165,810 since on July 1, 2003, in compliance with statute, the School Committee adopted a revised budget of \$34,191,547 for FY2004. This new budget reflected the City Allocation of \$20,801,329 and revisions of both revenue and expenditure lines based on updated projections of state and federal allocations. This left a potential budget gap of \$1,524,728. In compliance with statute, the School Committee requested waivers from the Commissioner of Education to resolve the school district's financial burden. Unfortunately, the waiver requests were denied and, in compliance with statute, the School Committee went back to the City Council on July 23, 2003 to ask for additional funding since it would be unable to meet law, contract and regulatory obligations for the 2003-2004 school year. At that time the City Council discussed that it would be willing to help with the funding gap if it had an exact figure from the School Committee and if the School Committee engaged in a cost reduction planning process with RIPEC and a joint City Council/School Committee Citizens Advisory Group. It was also indicated that the City Council expected the School Committee to achieve a ten percent premium cost share of health benefits from all administrative staff. These expectations of the City Council were achieved by the School Committee's efforts during FY2004.

CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I (Continued)**

**Finding 04-01 (Continued):**

**Views of Responsible Officials and Corrective Action Plan (Continued):**

**School Committee (Continued):**

On September 9, 2003, after additional budget adjustments of \$555,917, the School Committee voted to request from the City Council an additional, one-time allocation in the amount of \$968,811 for the 2003-2004 school year, which reflected the budget gap at that point in time. On September 24, 2003, the City Council received the School Committee's request and delayed action of the request pending a final figure after the FY2003 audit was completed and final state aid figures were received.

Because of the perceived notion of City Council cooperation, the School Committee decided not to proceed with the next statutory steps in the Caruolo process. The School Committee believed that the City Council had no intention of letting the school department budget gap continue through year-end. The joint School Committee and City Council strategy was to wait and see how the year progressed and to find a firm number that reflected the funding gap. Evidence of this approach by the City Council is documented in the City's December 2003 letter to Jeffrey A. Gofton, Department of Municipal Affairs which states: "I believe the City Council intends to fund the deficit, but will not formalize this until the School has final federal and state aid numbers, the audited fund balance and any additional savings during the current fiscal year. I would guess that any remaining deficit will be funded in January or February of 2004." In addition, the City's letter of February 23, 2004 to Mr. Gofton states: "I believe I indicated in the last quarterly response that the City Council has no intention of letting the school department budget gap continue through year-end, but is waiting for more final figures and the results of the above-mentioned study. I would also point out that the City of Newport Schools is one of many special revenue funds within the City. As such, any special revenue deficits need always be covered by general fund revenues."

The School Committee and City Council received both the RIPEC study and the final report of the City-School-Community Advisory Group (This was a collaborative work group appointed by both the City Council and the School Committee to develop a cost reduction plan. School Committee and City Council representatives sat on this advisory group with citizen members.). The School Committee received the RIPEC study on March 29, 2004 and the City-School-Community Advisory Report on June 22, 2003 and the City Council received the RIPEC report on March 29, 2004 and the City-School-Community Advisory Report on June 23, 2004. The RIPEC report, however, did not take into consideration the fact that the school department received twenty-four additional students requiring special education out-of-district services over the projected number of forty-two students. It was calculated that these unanticipated students would cost the district close to \$500,000 thereby increasing the original budget gap.

Despite ongoing cooperative efforts between the City Council and School Committee and sincere expectations to resolve the deficit, the School Committee did not receive an additional appropriation from the City. However, on the June 30, 2004 Quarterly Report to the State Office of Municipal Affairs, the City projected a positive fund balance of \$1,150,875. Upon receipt of final FY2004 audit figures, it is the intent of the School Committee to work with the City Council in formulating a deficit reduction plan as soon as possible as part of its FY2005 Caruolo process.

CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I (Continued)**

**Finding 04-01 (Continued):**

**Views of Responsible Officials and Corrective Action Plan (Continued):**

**City:**

The City concurs with the finding. The City Council, City Manager, City Finance Director, School Committee, School Superintendent and School Business Manager are working together to develop a corrective action plan to eliminate the School deficit fund balance at June 30, 2004. The City has also encouraged School Officials to develop an encumbrance system and to require offsetting line-item transfers to eliminate future overspending. School Officials have developed an encumbrance system and are considering the line-item transfer suggestion.

Future plans by the City include paying for a full program audit of the School Department to determine the appropriate cost of federal and state mandated educational requirements. The School Department has indicated that it will likely pursue the State's Caruolo Act process that allows schools to go to Superior Court to ask that their component municipality be ordered to provide more money for education. The intent of this process is to address any known or potential deficits in the year ending June 30, 2005.

**Finding 04-02:**

RIGL Sections 45-12-22.1 to 45-12-55.5 were enacted "to ensure that municipalities and school districts monitor financial operations on an ongoing basis, execute rapid response to budget problems, and maintain a balanced budget in compliance with Section 44-35-10. It is the intent of the legislature to require that municipalities and school districts:

1. Prevent year-end deficits;
2. Immediately address potential deficits;
3. Immediately address actual year-end deficits; and
4. Stabilize municipal and school district finances.

If any of the reports that are submitted in accordance with Section 45-12-22.1 project a deficit, Section 45-12-22.2 ( c ) requires the submission of a Corrective Action Plan to the State Office of Municipal Affairs (OMA) setting forth plans to avoid the deficit. In addition, Section 45-12-22.3 provides that the City must develop a plan to eliminate the deficit and provide for the elimination of the accumulated year-end deficit by annual appropriation, over no more than five years in equal or diminishing amounts. This Section also states that the plan must have the necessary approvals, including that of the State Auditor General.

For the year ended June 30, 2004, the City's Balance Sheet - Governmental Funds, reported a fund balance of \$8,137,043 in the City's General Fund and a fund balance deficit of \$1,100,081 in the School Unrestricted Fund. A Corrective Action Plan was not prepared and, therefore, was not submitted to the OMA or the State Auditor General for approval.

CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I (Continued)**

**Finding 04-02 (Continued):**

**Views of Responsible Officials and Corrective Action Plan:**

**School Committee:**

In May of 2003, the Newport School Committee adopted a \$35,716,275 budget for FY2004. This budget requested a city allocation of \$22,420,353. At a special joint meeting of the Newport City Council and the Newport School Committee on June 2, 2003, the City Council rejected the School Committee's request. The School Committee approved additional budget reductions and returned to the City with its new request. On June 25, 2003, the City Council appropriated \$20,801,329 to the schools leaving a budget gap of \$1,300,962 for the 2003-2004 school year. This gap amounted to approximately 4% of the School Committee's original 36 million dollar budget.

The School Committee disagrees that it adopted a budget with a budgeted deficit of \$1,165,810 since on July 1, 2003, in compliance with statute, the School Committee adopted a revised budget of \$34,191,547 for FY2004. This new budget reflected the City Allocation of \$20,801,329 and revisions of both revenue and expenditure lines based on updated projections of state and federal allocations. This left a potential budget gap of \$1,524,728. In compliance with statute, the School Committee requested waivers from the Commissioner of Education to resolve the school district's financial burden. Unfortunately, the waiver requests were denied and, in compliance with statute, the School Committee went back to the City Council on July 23, 2003 to ask for additional funding since it would be unable to meet law, contract and regulatory obligations for the 2003-2004 school year. At that time the City Council discussed that it would be willing to help with the funding gap if it had an exact figure from the School Committee and if the School Committee engaged in a cost reduction planning process with RIPEC and a joint City Council/School Committee Citizens Advisory Group. It was also indicated that the City Council expected the School Committee to achieve a ten percent premium cost share of health benefits from all administrative staff. These expectations of the City Council were achieved by the School Committee's efforts during FY2004.

On September 9, 2003, after additional budget adjustments of \$555,917, the School Committee voted to request from the City Council an additional, one-time allocation in the amount of \$968,811 for the 2003-2004 school year, which reflected the budget gap at that point in time. On September 24, 2003 the City Council received the School Committee's request and delayed action of the request pending a final figure after the FY2003 audit was completed and final state aid figures were received.

CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I (Continued)**

**Finding 04-02 (Continued):**

**Views of Responsible Officials and Corrective Action Plan (Continued):**

**School Committee (Continued):**

Because of the perceived notion of City Council cooperation, the School Committee decided not to proceed with the next statutory steps in the Caruolo process. The School Committee believed that the City Council had no intention of letting the school department budget gap continue through year-end. The joint School Committee and City Council strategy was to wait and see how the year progressed and to find a firm number that reflected the funding gap. Evidence of this approach by the City Council is documented in the City's December 2003 letter to Jeffrey A. Gofton, Department of Municipal Affairs which states: "I believe the City Council intends to fund the deficit, but will not formalize this until the School has final federal and state aid numbers, the audited fund balance and any additional savings during the current fiscal year. I would guess that any remaining deficit will be funded in January or February of 2004." In addition, the City's letter of February 23, 2004 to Mr. Gofton states: "I believe I indicated in the last quarterly response that the City Council has no intention of letting the school department budget gap continue through year-end, but is waiting for more final figures and the results of the above-mentioned study. I would also point out that the City of Newport Schools is one of many special revenue funds within the City. As such, any special revenue deficits need always be covered by general fund revenues."

The School Committee and City Council received both the RIPEC study and the final report of the City-School-Community Advisory Group (This was a collaborative work group appointed by both the City Council and the School Committee to develop a cost reduction plan. School Committee and City Council representatives sat on this advisory group with citizen members.). The School Committee received the RIPEC study on March 29, 2004 and the City-School-Community Advisory Report on June 22, 2003 and the City Council received the RIPEC report on March 29, 2004 and the City-School-Community Advisory Report on June 23, 2004. The RIPEC report, however, did not take into consideration the fact that the school department received twenty-four additional students requiring special education out-of-district services over the projected number of forty-two students. It was calculated that these unanticipated students would cost the district close to \$500,000 thereby increasing the original budget gap.

Despite ongoing cooperative efforts between the City Council and School Committee and sincere expectations to resolve the deficit, the School Committee did not receive an additional appropriation from the City. However, on the June 30, 2004 Quarterly Report to the State Office of Municipal Affairs, the City projected a positive fund balance of \$1,150,875. Upon receipt of final FY2004 audit figures, it is the intent of the School Committee to work with the City Council in formulating a deficit reduction plan as soon as possible as part of its FY2005 Caruolo process.

CITY OF NEWPORT, RHODE ISLAND

YEAR ENDED JUNE 30, 2004

**Appendix I (Continued)**

**Finding 04-02 (Continued):**

**Views of Responsible Officials and Corrective Action Plan (Continued):**

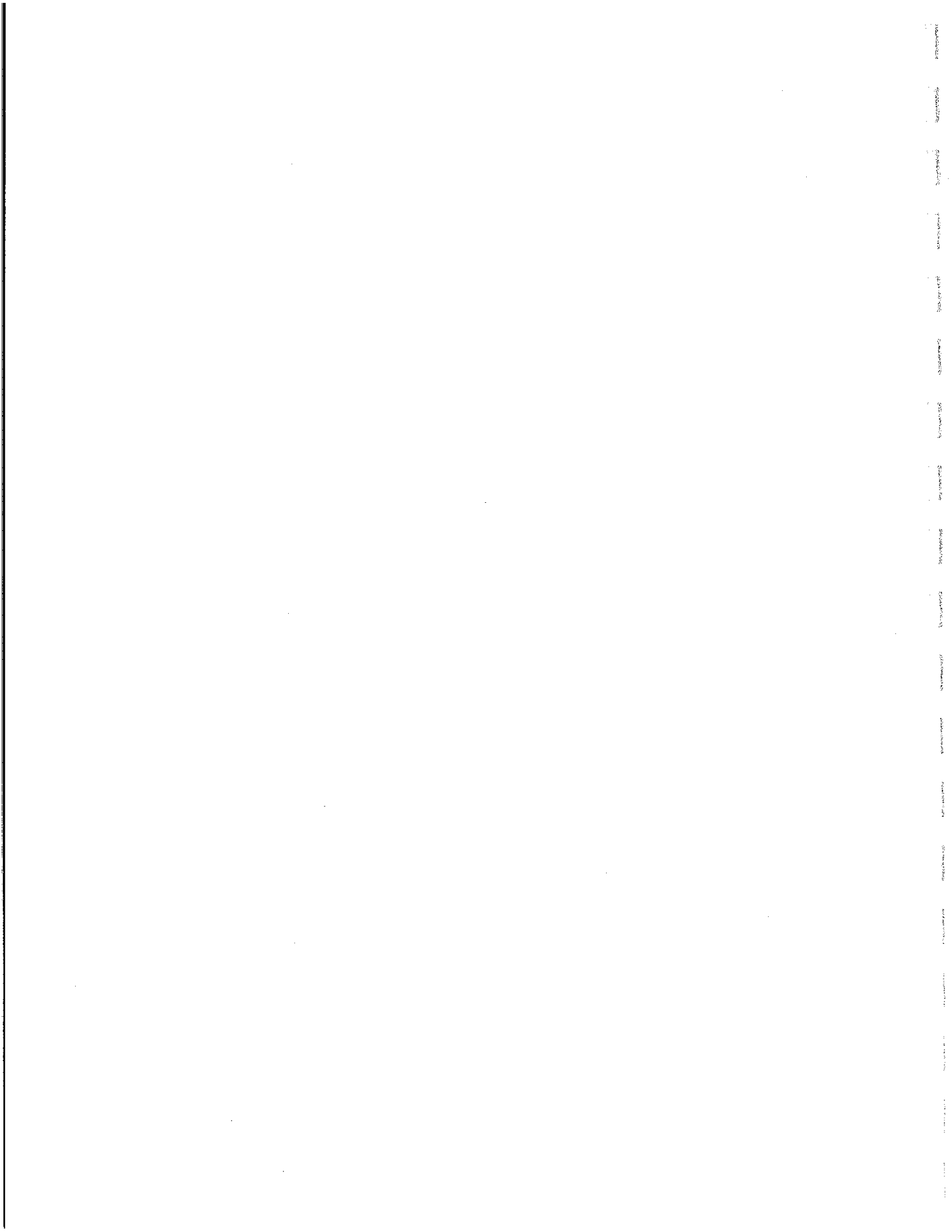
**City:**

The City of Newport believes it complied with RIGL 45-12-22.2 (c) because the City sent a letter to the Rhode Island Department of Municipal Affairs on December 4, 2003 that presented several actions approved by City and School elected officials to address the School's fiscal year 2004 budget deficit. The Department of Municipal Affairs replied on December 10, 2004 that "they accept the explanation regarding the projected school deficit." The City sent a second letter on February 23, 2004 further explaining the school projected budget deficit and actions taken. The City believes sufficient notification was given as to the school budget deficit. Much of the School Department actual deficit that resulted from actual expenditures and financing uses that exceeded revenues and other financing sources is the result of unforeseen special education costs in the last quarter of the year that came from a significant increase in out-placement of students with special needs. These costs are mandated by federal law.

RIGL 45-12-22.3 (a) only mandates that a corrective action plan be submitted to the State Auditor General when it is likely the City's general fund or combined general fund and unrestricted school special revenue fund will incur a deficit. Neither the City of Newport general fund nor the City of Newport combined general fund and school unrestricted fund has a deficit.

The City and School are working together to develop a corrective action plan to address the School Department deficit at June 30, 2004. We believe that a corrective action plan is necessary to address ongoing concerns about School funding, and because it is fiscally responsible to address these issues.

**STATISTICAL SECTION**





**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 1  
NET ASSETS BY COMPONENT  
LAST TWO FISCAL YEARS**

	Fiscal Year	
	2003	2004
	(Restated)	
<b>Governmental activities</b>		
Invested in capital assets, net of related debt	\$ 34,205,668	\$ 36,213,472
Restricted	2,266,326	3,926,247
Unrestricted	15,760,438	10,723,542
<b>Total governmental activities net assets</b>	<b>52,232,432</b>	<b>50,863,261</b>
<b>Business-type activities</b>		
Invested in capital assets, net of related debt	80,213,874	87,497,297
Restricted	5,721,327	3,177,596
Unrestricted	2,693,973	(638,281)
<b>Total business-type activities net assets</b>	<b>88,629,174</b>	<b>90,036,612</b>
<b>Primary government</b>		
Invested in capital assets, net of related debt	114,419,542	123,710,769
Restricted	7,987,653	7,103,843
Unrestricted	18,454,411	10,085,261
<b>Total primary government net assets</b>	<b>\$ 140,861,606</b>	<b>\$ 140,899,873</b>

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 2  
CHANGES IN NET ASSETS, LAST TWO FISCAL YEARS  
GOVERNMENTAL ACTIVITIES  
(accrual basis of accounting)**

	Fiscal Year	
	2003	2004
<b>Expenses</b>		
Governmental activities:		
General government	\$ 5,261,563	\$ 5,459,387
General education	39,039,945	42,168,056
Public safety	23,098,422	25,954,534
Public health	3,649,735	4,403,093
Planning, zoning and development	855,293	1,028,852
Recreation and parks	1,868,074	2,189,095
Human services	2,475,041	2,543,597
Interest expense	1,166,764	1,062,259
Total governmental activities	<u>77,414,837</u>	<u>84,808,873</u>
Business-type activities:		
Water	6,726,482	6,830,398
Water Pollution Control	5,806,015	6,432,891
Nonmajor	974,819	1,109,229
Total business-type activities	<u>13,507,316</u>	<u>14,372,518</u>
Total primary government expense	<u>90,922,153</u>	<u>99,181,391</u>
<b>Program Revenues</b>		
Governmental activities:		
Charges for services:		
General government	2,354,118	3,865,133
General education	79,913	735,868
Public safety	2,339,389	1,828,283
Public health	44,819	44,435
Planning, zoning and development	286,715	327,609
Recreation and parks	686,522	741,853
Human services	744,901	333,733
Operating grants and contributions	21,279,957	21,000,389
Capital grants and contributions	1,683,441	818,007
Total governmental activities program revenues	<u>29,499,775</u>	<u>29,695,310</u>
Business-type activities:		
Charges for services:		
Water	7,778,407	7,795,582
Water Pollution Control	5,796,526	6,049,193
Nonmajor	1,441,015	1,407,977
Total business-type activities	<u>15,015,948</u>	<u>15,252,752</u>
Total primary government program revenues	<u>44,515,723</u>	<u>44,948,062</u>
<b>Net (Expense)/Revenue</b>		
Governmental activities	(47,915,062)	(55,113,563)
Business-type activities	1,508,632	880,234
Total primary government net expense	<u>(46,406,430)</u>	<u>(54,233,329)</u>

(continued)

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 2  
CHANGES IN NET ASSETS, LAST TWO FISCAL YEARS  
GOVERNMENTAL ACTIVITIES  
(accrual basis of accounting)**

	<b>Fiscal Year</b>	
	<b>2003</b>	<b>2004</b>
<b>General Revenues and Other Changes in Net Assets</b>		
Governmental activities:		
Property taxes	\$ 49,281,985	\$ 48,820,256
Unrestricted grants and contributions	4,155,936	4,097,271
Investment income	693,902	1,177,711
Miscellaneous	107,862	116,126
Loss on disposition of assets		(30,004)
Transfer from primary government		(436,968)
Total governmental activities	<u>54,239,685</u>	<u>53,744,392</u>
Business-type activities:		
Investment income	79,810	90,236
Transfer from primary government		436,968
Total business type activities	<u>79,810</u>	<u>527,204</u>
Total primary government	<u>54,319,495</u>	<u>54,271,596</u>
Change in Net Assets		
Governmental activities	6,324,623	(1,369,171)
Business-type activities	1,588,442	1,407,438
Total primary government	<u>\$ 7,913,065</u>	<u>\$ 38,267</u>

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 3**

**FUND BALANCES, GOVERNMENTAL FUNDS, LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General Fund										
Reserved	\$ 263,552	\$ 249,855	\$ 370,906	\$ 694,838	\$ 1,037,704	\$ 1,037,704	\$ 683,898	\$ 1,276,106	\$ 1,229,965	\$ 2,077,766
Unreserved	(290,300)	425,902	122,734	1,649,837	660,287	4,195,021	7,619,776	10,307,069	11,311,680	6,059,277
Total general fund	\$ (26,748)	\$ 675,757	\$ 493,640	\$ 2,344,675	\$ 1,697,991	\$ 5,232,725	\$ 8,303,674	\$ 11,583,175	\$ 12,541,645	\$ 8,137,043
All Other Governmental Funds										
Reserved			\$ 5,418,357	\$ 6,161,631	\$ 5,066,091			\$ 203,674	\$ 1,036,361	\$ 1,848,481
Unreserved, reported in:										
Special revenue funds	\$ 2,468,236	\$ 4,769,925	5,251,618	6,347,660	8,211,592	\$ 7,585,505	\$ 7,192,830	7,028,012	6,076,879	4,156,807
Capital project funds	327,707	314,772	150,523	76,823	144,604	241,453	(5,521,154)	3,948,343	(600,158)	2,109,836
Permanent funds									6,458,150	7,287,274
Debt service funds									124,922	227,798
Total all other governmental funds	\$ 2,795,943	\$ 5,084,697	\$ 10,820,498	\$ 12,586,114	\$ 13,422,287	\$ 7,826,958	\$ 1,671,676	\$ 11,180,029	\$ 13,096,154	\$ 15,630,196

Notes:

Capital project fund balance depends on timing of state and federal reimbursements and type of temporary or permanent debt that may exist. These items cause the fund balance to fluctuate from year to year. Permanent funds were reported as trust and agency funds prior to FY2003.

The reduction of general fund balance in FY2004 was due to the use of appropriated fund balance for capital improvements.

CITY OF NEWPORT, RHODE ISLAND

SCHEDULE 4  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS, LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Revenues:</b>										
Taxes	\$ 37,103,776	\$ 38,825,446	\$ 41,624,502	\$ 42,072,424	\$ 43,134,151	\$ 44,116,549	\$ 46,206,830	\$ 47,160,364	\$ 48,164,505	\$ 51,117,203
Intergovernmental revenues	12,083,409	13,872,885	13,908,717	13,979,702	14,691,355	34,260,479	17,986,128	21,066,569	25,506,817	23,013,440
Charges for services	1,675,096	1,579,078	3,992,920	4,102,928	4,976,913	5,356,088	5,241,294	4,629,532	6,528,107	7,803,657
Use of money and property	344,625	643,621	481,511	1,173,536	824,350	1,035,931	1,457,595	912,779	693,902	1,177,711
Donations		840,515				1,113,000	12,455	77,476	1,425,623	770,880
Other revenues	4,137,129	2,241,755	1,488,972	1,018,028	1,583,705	2,342,973	4,516,662	4,171,226	107,862	115,992
<b>Total revenues</b>	<b>55,344,035</b>	<b>58,003,300</b>	<b>61,496,622</b>	<b>62,296,618</b>	<b>65,210,474</b>	<b>88,225,020</b>	<b>75,420,964</b>	<b>78,017,946</b>	<b>82,426,816</b>	<b>85,998,883</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government	2,134,180	2,186,981	2,797,116	3,166,390	3,511,210	4,981,704	4,140,436	5,141,663	4,919,181	5,192,168
General education	29,154,888	29,020,149	28,337,800	29,087,604	29,479,433	32,947,156	35,337,981	36,442,150	38,551,595	42,680,573
Public safety	11,820,897	12,086,628	13,709,826	13,574,935	15,041,800	14,285,703	14,986,866	15,099,678	16,122,841	23,302,125
Public health	2,695,228	2,633,912	4,011,441	2,886,328	2,955,981	2,943,825	4,007,800	3,776,096	3,243,475	3,655,093
Planning, zoning and development						1,211,114	1,587,070	826,369		1,313,138
Recreation and parks	1,989,233	1,961,519	1,299,477	1,111,800	1,175,338	1,462,253	1,965,201	1,726,323	1,692,203	2,236,838
Human services	2,388,152	2,399,203	1,312,337	1,096,099	1,128,210	2,716,170	8,780,684	14,483,725	2,466,177	2,534,733
Pension expenses	3,668,015	4,266,609	5,915,845				7,682,350	6,741,096	7,279,340	436,421
Debt service:										
Principal	617,495	737,495	728,531	725,513	687,968	696,459	586,011	566,484	1,041,361	1,386,069
Interest	74,434	103,200	489,078	437,872	377,542	323,478	285,206	256,268	1,463,856	1,033,255
Capital outlay	4,086,153	184,708		2,676,837	3,593,895	869		446,539	6,808,830	2,689,063
<b>Total expenditures</b>	<b>58,628,675</b>	<b>55,580,404</b>	<b>58,601,451</b>	<b>54,763,378</b>	<b>57,951,377</b>	<b>60,357,617</b>	<b>78,983,649</b>	<b>86,267,092</b>	<b>84,415,228</b>	<b>88,459,476</b>
Excess of revenues over (under) expenditures	(3,284,640)	2,422,896	2,895,171	7,533,240	7,259,097	27,867,403	(3,562,685)	(8,249,146)	(1,988,412)	(2,460,593)
<b>Other Financing Sources (Uses):</b>										
Proceeds from borrowing						60,448		21,037,000		1,027,000
Sale of property						421,238				27,129,054
Operating transfers in	19,000,503	18,862,611	18,859,084	19,906,305	18,854,242	(25,343,688)	19,958,668	20,609,955	22,034,907	(27,566,022)
Operating transfers out	(20,309,976)	(18,386,894)	(19,432,915)	(25,540,086)	(26,093,892)	(24,862,002)	(19,958,668)	(20,609,955)	(22,034,907)	590,032
Total other financing sources (uses)	(1,309,473)	475,717	(573,831)	(5,633,781)	(7,239,650)	(24,862,002)		21,037,000		
<b>Net change in fund balances</b>	<b>\$ (4,594,113)</b>	<b>\$ 2,898,613</b>	<b>\$ 2,321,340</b>	<b>\$ 1,899,459</b>	<b>\$ 19,447</b>	<b>\$ 3,005,401</b>	<b>\$ (3,562,685)</b>	<b>\$ 12,787,854</b>	<b>\$ (1,988,412)</b>	<b>\$ (1,870,561)</b>
Debt service as a percentage of noncapital expenditures	1.27%	1.52%	2.08%	2.23%	1.96%	1.69%	1.10%	0.96%	3.23%	2.82%

Notes:

\* Contributions were for renovations to the Thompson Middle School in FY2000

\*\* Federal and state grants to the schools were significantly higher

\*\*\* Local donations and grants to the schools vary from year to year

^ Public Safety expenses were significantly higher in FY2004 because pension expenses related to public safety were reclassified to here from pension expenses

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 5  
ASSESSED VALUES AND ACTUAL VALUES OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Assessed Value					Motor Vehicles	Less Exemptions	Total Taxable Assessed Value	Total Direct Tax Rate Residential	Total Direct Tax Rate Commercial	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Residential Property	Commercial Property	Personal Property	Inventory								
1995	\$ 1,675,662,775		\$ 81,382,290		\$ 79,231,437	\$ 23,956,844	\$ 1,812,319,658	20.90		\$	1,717,939,182	105.5%
1996	1,665,815,670		82,911,519		80,791,390	23,908,236	1,805,610,343	21.80			1,852,459,178	97.5%
1997	1,640,530,442		85,438,373		87,009,573	23,674,605	1,789,303,783	23.20			2,084,391,343	85.8%
1998	1,643,616,255		84,925,868		90,740,462	21,767,448	1,797,515,137	23.45			2,331,213,174	77.1%
1999	1,652,057,233		86,794,207		97,308,482	20,288,987	1,815,870,935	23.69			2,535,227,098	71.6%
2000	1,697,661,754		89,327,769		93,151,178	20,630,934	1,859,509,767	23.90			1,933,870,184	96.2%
2001	1,712,348,318		96,595,767		127,579,988	20,580,640	1,915,943,433	24.29			2,174,244,906	88.1%
2002	1,719,510,154		82,688,796		117,766,454	52,413,176	1,867,552,228	25.10			2,597,800,538	71.9%
2003	2,287,770,460	\$ 1,048,703,200	82,740,975	\$ 22,684,956	120,829,611	69,118,210	3,493,610,992	12.85	15.27		3,493,610,992	100.0%
2004	2,471,644,000	837,597,500	80,834,657	24,128,568	126,420,029	76,353,633	3,464,271,121	13.43	15.96		4,016,247,021	86.3%

Source: City of Newport, Rhode Island Assessor

Notes:

The City's tax rate increase cannot exceed 5.5% of the prior year's rate and/or the total levy cannot exceed 5.5% of the prior year's total levy unless the State of Rhode Island approves such increase.  
 The City of Newport has no overlapping debt nor does it collect taxes for any other entity.  
 The City switched to a two-tiered tax in FY2002  
 The City had a full revaluation of real property in 2002 (effective 2003). The full revaluation is required by state law every 9 years. Statistical updates are required every 3 years.

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 6**

**PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND EIGHT YEARS AGO**

	2004				1997*				
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Mass Mutual Life	\$ 50,275,600	1	1.45%	\$ 52,000,000	1	2.91%			
HE Newport, LLC	41,649,000	2	1.20%	27,819,068	2	1.55%			
Eastern Resorts Company	35,440,600	3	1.02%						
Newport Restoration Foundation	35,284,000	4	1.02%	17,450,300	3	0.98%			
Historic Homes own/rent	31,014,000	5	0.90%						
LHO Viking Hotel, LLC	22,343,100	6	0.64%	10,450,180	4	0.58%			
Shaner Hotel Group	22,260,300	7	0.64%						
RK Newport, LLC	13,857,500	8	0.40%	9,720,100	5	0.54%			
Mary Ann Stevens Hamilton	13,450,500	9	0.39%	6,880,630	7	0.38%			
Wellington Hotel Association	13,418,600	10	0.39%	8,696,600	6	0.49%			
Newport Jai Alai, LLC				6,650,000	8	0.37%			
Newport On Shore				6,082,000	9	0.34%			
AL Ballard (Edgehill)				6,600,000	10	0.37%			
Franklin Simon/Bayside Village									
American Shipyard									
<b>Total</b>	<b>\$ 278,993,200</b>		<b>8.05%</b>	<b>\$ 152,348,878</b>		<b>8.51%</b>			

\* Note - First year information is available

Source: City of Newport Assessor

CITY OF NEWPORT, RHODE ISLAND

SCHEDULE 7

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1995	\$ 37,392,458	\$ 36,913,182	98.7%	\$ 390,920	\$ 37,304,102	99.8%
1996	38,813,497	38,215,084	98.5%	541,240	38,756,324	99.9%
1997	41,272,982	39,224,500	95.0%	1,999,404	41,223,904	99.9%
1998	41,916,824	39,811,764	95.0%	1,896,719	41,708,483	99.5%
1999	42,980,413	40,798,810	94.9%	2,025,375	42,824,185	99.6%
2000	44,376,017	42,083,037	94.8%	2,121,001	44,204,038	99.6%
2001	45,435,317	43,500,305	95.7%	1,778,854	45,279,159	99.7%
2002	47,052,966	45,377,615	96.4%	1,543,102	46,920,717	99.7%
2003	47,892,028	45,366,713	94.7%	1,507,510	46,874,223	97.9%
2004	49,843,820	47,843,987	96.0%		47,843,987	96.0%

Source: City of Newport Tax Collector



**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 8**

**RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Governmental Activities		Business-Type Activities						Net Bonded Debt per Capita	Percentage of Personal Income *	Net Bonded Debt as % of Assessed Value
	General Bonds	QZAB (1)	Water		Water Pollution Control		Total Primary Government				
			Bonds	Capital Leases	Bonds	Capital Leases					
1995	\$ 9,110,010	\$ -	\$ 22,141,552	\$ 7,200	\$ 11,826,006	\$ 9,000	\$ 43,093,768	\$ 1,614	0.0609%	\$ 1,812,319,658	2.38%
1996	8,372,515	-	20,185,361	-	10,684,009	-	39,241,885	1,470	0.0700%	1,805,610,343	2.17%
1997	7,643,984	-	17,013,625	-	9,487,390	-	34,144,999	1,277	0.0871%	1,789,303,783	1.91%
1998	6,918,471	-	15,440,946	-	8,430,583	-	30,790,000	1,152	0.1009%	1,797,515,137	1.71%
1999	6,230,503	-	13,928,695	-	7,355,802	-	27,515,000	1,039	0.1199%	1,815,870,935	1.52%
2000	5,534,044	-	12,427,530	-	6,313,427	-	24,275,001	917	0.1448%	1,859,509,767	1.31%
2001	4,948,033	-	11,035,648	-	5,331,321	-	21,315,002	804	0.1668%	1,876,786,530	1.14%
2002	23,081,549	-	9,617,022	-	10,228,198	-	42,926,769	1,628	0.0860%	1,886,642,052	2.28%
2003	22,195,538	1,863,536	8,260,140	-	15,112,707	-	47,431,921	1,803	Not available	3,493,610,992	1.36%
2004	20,980,000	1,863,536	6,960,000	-	14,771,329	-	44,574,865	1,709	Not available	3,464,271,121	1.29%

**Notes:**

Details regarding the City's outstanding debt can be found in the Notes to Financial Statements.

\* See Schedule 12 for personal income and population data used to calculate these ratios.

(1) The City of Newport is paying annual sinking fund payments of \$133,110 to a bank for repayment of the QZAB bond. Please see the Notes to Financial Statements for additional information.

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 9  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Governmental Activities			Total	Percentage of Actual Taxable Value of Property *	Per Capita **
	General Obligation Bonds	QZAB				
1995	\$ 9,110,010	\$ -	\$ -	9,110,010	0.50%	\$ 341.20
1996	8,372,515	-	-	8,372,515	0.46%	313.58
1997	7,643,984	-	-	7,643,984	0.43%	285.93
1998	6,918,471	-	-	6,918,471	0.38%	258.79
1999	6,230,503	-	-	6,230,503	0.34%	235.34
2000	5,534,044	-	-	5,534,044	0.30%	209.03
2001	4,948,033	-	-	4,948,033	0.26%	186.61
2002	23,081,549	-	-	23,081,549	1.24%	875.33
2003	22,195,538	1,863,536	-	24,059,074	0.69%	875.33
2004	20,980,000	1,863,536	-	22,843,536	0.66%	875.33

**Notes:**

Details regarding the city's outstanding debt can be found in the Notes to the Financial Statements.

The City of Newport has no overlapping debt nor does it collect taxes for any other entity.

\* See Schedule 5 for property value data.

\*\* Population data can be found in Schedule 12.

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 10  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS**

	Fiscal Year									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total assessed value	\$ 1,812,319,658	\$ 1,805,610,343	\$ 1,789,303,783	\$ 1,797,515,137	\$ 1,815,870,935	\$ 1,859,509,767	\$ 1,876,786,530	\$ 1,886,642,052	\$ 3,493,610,992	\$ 3,464,271,121
Rhode Island General Law debt limitation as % of assessed value	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Debt limit	\$ 54,369,590	\$ 54,168,310	\$ 53,679,113	\$ 53,923,454	\$ 54,476,128	\$ 55,785,293	\$ 56,303,596	\$ 56,599,262	\$ 104,808,330	\$ 103,928,134
Debt applicable to limit:										
General obligation bonds	9,110,010	8,372,515	7,643,984	6,918,471	6,230,503	5,534,044	4,948,033	23,081,549	24,059,074	22,843,536
Bonded debt subject to limit	9,110,010	8,372,515	7,643,984	6,918,471	6,230,503	5,534,044	4,948,033	23,081,549	24,059,074	22,843,536
Legal debt limit	54,369,590	54,168,310	53,679,113	53,923,454	54,476,128	55,785,293	56,303,596	56,599,262	104,808,330	103,928,134
Total net debt applicable to the limit	9,110,010	8,372,515	7,643,984	6,918,471	6,230,503	5,534,044	4,948,033	23,081,549	24,059,074	22,843,536
Legal debt margin	\$ 45,259,580	\$ 45,795,795	\$ 46,035,129	\$ 47,006,983	\$ 48,245,625	\$ 50,251,249	\$ 51,355,563	\$ 33,517,713	\$ 80,749,256	\$ 81,084,598
Total net debt applicable to the limit as a percentage of debt limit	20.13%	18.28%	16.60%	14.72%	12.91%	11.01%	9.63%	68.86%	29.79%	28.17%

CITY OF NEWPORT, RHODE ISLAND

SCHEDULE II  
 PLEDGED REVENUE COVERAGE  
 LAST TEN FISCAL YEARS

Fiscal Year June 30,	Water Revenue Bonds					Water Pollution Control Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		
				Principal	Interest				Principal	Interest	
1995	\$ 6,318,334	\$ 3,600,432	\$ 2,717,902	\$ 2,036,393	\$ 1,157,073	\$ 4,876,101	\$ 3,234,289	\$ 1,641,812	\$ 886,619	\$ 581,121	1.12
1996	6,788,651	3,709,942	3,078,709	1,963,391	1,093,084	5,462,678	3,135,553	2,327,125	1,150,997	563,665	1.36
1997	6,657,846	3,586,695	3,071,151	1,589,851	978,820	5,362,607	3,563,128	1,799,479	1,196,619	478,830	1.07
1998	6,642,380	3,490,607	3,151,773	1,572,679	893,644	5,666,429	3,579,687	2,086,742	1,056,807	432,069	1.40
1999	6,970,072	3,996,610	2,973,462	1,512,251	801,852	5,557,536	3,606,871	1,950,665	1,074,781	398,387	1.32
2000	8,081,317	4,254,528	3,826,789	1,501,165	545,590	6,034,623	4,495,432	1,539,191	1,042,375	337,848	1.12
2001	8,281,934	4,305,387	3,976,547	1,391,882	622,711	5,837,598	4,871,796	965,802	982,106	370,128	0.71
2002	7,058,277	4,486,057	2,572,220	1,418,626	545,590	5,912,202	3,628,010	2,284,192	924,891	426,846	1.69
2003	7,693,021	5,187,938	2,505,083	1,356,882	477,487	5,796,526	3,821,404	1,975,122	907,107	434,383	1.47
2004	7,666,798	5,223,972	2,442,826	1,300,140	396,557	6,049,193	4,233,667	1,815,526	1,721,182	224,795	0.93

Notes:  
 Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements.  
 Operating expenses do not include interest or depreciation expense.

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 12  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Population	Per Capita		School Enrollment ^	Unemployment Rate <
		Personal Income >	Personal Income >		
1995	26,700 **	26,233	26,233	3,116	5.2%
1996	26,700 **	27,470	27,470	3,104	3.7%
1997	26,734 **	29,733	29,733	2,967	3.7%
1998	26,734 **	31,054	31,054	3,020	3.8%
1999	26,475 **	33,001	33,001	2,983	4.3%
2000	26,475 **	35,151	35,151	3,043	4.1%
2001	26,515 **	35,562	35,562	2,996	4.0%
2002	26,369 **	36,908	36,908	2,933	4.2%
2003	26,306 **	Not Available	Not Available	2,729	4.4%
2004	26,086 *	Not Available	Not Available	2,842	3.7%

\* Source: Rhode Island Department of Planning.

\*\* Source: U.S. Bureau of the Census.

> Source: U.S. Bureau of Economic Analysis, Regional Economic Information System.  
The City's population is 31.0% of the County.

^ Source: City School Department.

< Source: RI Department of Labor & Training.

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 15  
OPERATING INDICATORS BY FUNCTION/PROGRAM**

	<b>Fiscal Year 2004*</b>
<b><u>Function/Program</u></b>	
Police:	
Physical arrests	1,649
Parking violations	38,273
Traffic violations	7,563
Fire:	
Emergency responses	3,838
Fires extinguished	144
Inspections	250
Refuse collection:	
Refuse collected (tons per day)	21.71
Recyclables collected (tons per day)	6.43
Other public works:	
Street resurfacing (miles)	4.4
Parks and recreation:	
Athletic field rentals	47
Library:	
Volumes in collections	124,000
Water:	
New connections	91
Water mains breaks	20
Average daily consumption (thousands of gallons)	6,648
Wastewater:	
Average daily sewage treatment (thousands of gallons)	9,700

**Note:**

\* First year information is available

**Sources: Various city departments**

**CITY OF NEWPORT, RHODE ISLAND**

**SCHEDULE 16  
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

**Fiscal Year  
2004\***

**Function/Program**

**Police:**

Stations	1
Patrol units	88

Fire stations	3
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**Refuse collection:**

Collection trucks	4
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**Other public works:**

Streets (miles)	94
Streetlights	465
Traffic signals	5

**Parks and recreation:**

Acreage	3,577,972
Playgrounds	13
Multi purpose playing fields	7
Tennis courts	19
Community centers	1

**Water:**

Water mains (miles)	162
Fire hydrants	975
Storage capacity (thousands of gallons)	16,000

**Wastewater:**

Sanitary sewers (miles)	88
Storm sewers (miles)	46
Treatment capacity (thousands of gallons)	10,700 (daily)

**Note:**

\* First year information is available

**Source: Various city departments**

