

**TOWN OF LITTLE COMPTON,  
RHODE ISLAND**

**YEAR ENDED JUNE 30, 2010**



TOWN OF LITTLE COMPTON, RHODE ISLAND

YEAR ENDED JUNE 30, 2010

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Basic financial statements:	
Government-wide financial statements:	
Statement of net assets	14
Statement of activities	15-16
Fund financial statements:	
Balance sheet – governmental funds	17
Reconciliation of the governmental funds balance sheet total fund balance to the statement of net assets	18
Statement of revenues, expenditures and changes in fund balance – governmental funds	19
Reconciliation of the governmental funds – statement of revenues, expenditures and changes in fund balance to the statement of activities	20
Statement of net assets – fiduciary funds	21
Statement of changes in net assets – fiduciary funds	22
Notes to basic financial statements	23-57
Required supplementary information to financial statements:	
Budgetary comparison schedules	58-62
Schedule of funding progress	63
Schedule of employer contributions	64

TOWN OF LITTLE COMPTON, RHODE ISLAND

YEAR ENDED JUNE 30, 2010

CONTENTS (CONTINUED)

	Page
Other supplementary information:	
General fund:	
Schedule of uncollected property taxes – cash basis	65
Schedule of property taxes levied and collected – cash basis	66
Tax collector’s annual report	67
Independent Auditors’ Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	68-69
Schedule of findings and responses	70-73



Lefkowitz, Garfinkel, Champi & DeRienzo P.C.  
Certified Public Accountants / Business Consultants

## **Independent Auditors' Report**

The Honorable President and Members of the Town Council  
Town of Little Compton, Rhode Island  
Little Compton, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Little Compton, Rhode Island (the Town) as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Little Compton, Rhode Island as of June 30, 2010, and the respective changes in financial position 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 March 30, 2011 on our consideration of the Town'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 read in conjunction with this report in considering the results of our audit.

## Independent Auditors' Report (Continued)

The Honorable President and Members of the Town Council  
Town of Little Compton, Rhode Island

The Management's Discussion and Analysis on pages 3 through 13, the budgetary comparison schedules on pages 58 through 62 and the historical pension information on pages 63 and 64 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary schedules on pages 65 through 67 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Leffkowitz, Jan. Jankel, Charney & DeGuzman, P.C.*

March 30, 2011

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010

As management of the Town of Little Compton, Rhode Island (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the financial statements.

**Financial Highlights**

- The General Fund assets of the Town exceeded its liabilities as of June 30, 2010 and 2009 by \$1,569,252 and \$1,791,789, as restated, respectively.
- The School Unrestricted Fund's assets of the Town exceeded its liabilities by \$1,144,648 as of June 30, 2010 and \$805,457, as restated, as of June 30, 2009.
- The Town's total bonded debt as of June 30, 2010 was \$905,000, consisting of the Public Safety Complex of \$420,000, the School Addition (from 1990) for \$90,000 and \$385,000 of revenue bonds related to the Wastewater Treatment Facility. During 2010, \$265,000 was paid in principal and \$50,997 was paid in interest for long-term debt.

**Overview of the Financial Statements**

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

**Government-wide statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private sector business. The statements provide both short-term and long-term information about the Town's financial position, which assists in assessing the Town's economic position at the end of the fiscal year.

The government-wide financial statements include two statements:

*Statement of net assets* – Presents all of the government's assets and liabilities, with the difference being reported as *net assets*. The amount of net assets is widely considered a good measure of the Town's financial health as increases and decreases in the Town's net assets serve as a useful indicator of whether the Town's financial position is improving or deteriorating.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Government-wide statements (continued)**

*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 occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions and activities of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges (*business-type activities*). The governmental activities of the Town include the broad functions of general government; public safety; education; public works; health and human services; culture and recreation; and the major services provided within each category. The Town has no business-type activities to report.

The government-wide financial statements can be found on pages 14-16 of this report.

In the statement of activities, the operations of the Town are presented in a format that reports the net of expenses and revenues of its individual functions – the objective being to report the relative burden of each of the Town's functions to the taxpayers. Revenues offsetting related functional expenses are separated into three categories: charges for services, operating grants and contributions, and capital grants and contributions.

**Fund financial statements** Traditional users of governmental financial statements will find the fund financial statement presentation to be most familiar. A *fund* is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities. The Town uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of the Town can be divided into two categories as follows:

**Governmental funds** Most of the basic services provided by the Town are financed through governmental funds. *Governmental funds* are used to account for the same functions reported as governmental activities in the government-wide financial statements. These funds are reported using an accounting method called modified accrual accounting, which measures cash, and all other financial assets that can readily be converted to cash. The focus is also on the balances left at the end of the fiscal year available for spending. These statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Fund financial statements (continued)**

**Governmental funds (continued)** The basic governmental fund financial statements can be found on pages 17-22 of this report.

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

The Town maintains fifty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, School Unrestricted Fund, and Drug Forfeiture Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for the General Fund and School Department to demonstrate compliance with budgets and are presented on pages 58-62 of this report.

The fifty-four individual governmental funds are summarized into four types, consisting of the following:

1. General Fund – this fund reports all financial resources except those required to be reported in another fund.
2. Special revenue funds – these funds report the proceeds of specific revenue sources (other than for trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.
3. Capital projects funds – these funds are used for the acquisition or construction of major capital facilities.
4. Permanent funds – these funds contain resources that are legally restricted to the extent that earnings may only be used for purposes that support the Town's programs.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Fund financial statements (continued)**

***Fiduciary funds*** Such funds are used to account for resources held for the benefit of parties outside the Town government. *Fiduciary funds* are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The full accrual basis of accounting is used for fiduciary funds. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Town maintains two types of fiduciary funds, consisting of the following:

1. Pension Trust Fund – these funds consist of all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.
2. Agency funds (i.e., Student Activity Fund) – these funds report resources held in a purely custodial capacity for individuals private organizations, or other governments.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-57 of this report.

**Other information** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. It presents a schedule detailing the Town's progress in funding its pension benefit obligation, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information may be found on pages 65-67 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town's, assets exceeded liabilities by \$6.8 million as of June 30, 2010 and \$6.9 million as of June 30, 2009.

One of the largest portions of the Town's total net assets (45%) reflects its investment in capital assets (e.g., land, construction in progress, land improvement, infrastructure, building and improvements, office equipment, computer equipment and software, vehicles, machinery and equipment, and textbooks and library books), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its residents; consequently, these assets are *not* available for future spending. Although the Town'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.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Government-wide Financial Analysis (Continued)**

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Town of Little Compton's Net Assets – Primary Government**

	2010	2009 (As restated)*
Assets:		
Current and other assets	\$ 4,885,073	\$ 5,656,202
Capital assets	4,261,483	4,468,367
Total assets	9,146,556	10,124,569
Liabilities:		
Other liabilities	1,153,715	1,779,300
Long-term liabilities	1,152,226	1,387,388
Total liabilities	2,305,941	3,166,688
Net assets:		
Invested in capital assets, net of related debt	3,062,699	2,920,722
Restricted	711,502	1,277,900
Unrestricted	3,066,414	2,759,259
Total net assets	\$ 6,840,615	\$ 6,957,881

\* See Note 10 to the financial statements for a description of the restatements to the 2009 financial statements.

As of June 30, 2010 and 2009, cash and investments totaled \$3,919,521 and \$4,512,563, respectively, for the primary government.

At the end of fiscal year 2010 and 2009, the Town is able to report positive balances in all categories of net assets.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Town of Little Compton's Changes in Net Assets – Primary Government**

	2010	2009 (As restated)
Revenues:		
Program revenues:		
Charges for services	\$ 586,706	\$ 609,252
Operating grants and contributions	809,416	786,961
Capital grants and contributions	107,084	94,103
General revenues:		
Real estate and property taxes	9,460,876	9,469,361
Motor vehicle phase-out	246,033	292,210
Realty transfer tax/fee	75,785	101,673
General state aid	21,781	40,956
State aid school housing	17,708	21,028
Telephone tax	73,842	31,548
Meal tax and hotel tax	53,246	28,790
Earnings on investments	24,741	63,358
Other	19,529	61,687
Total revenues	11,496,747	11,600,927
Expenses:		
General government	901,318	924,430
Financial administration	236,526	245,173
Public safety	2,110,252	2,074,234
Education	7,397,688	7,019,567
Public works	297,399	348,153
Transfer station	160,932	187,782
Public welfare	3,937	5,142
Health and human services	44,488	188,905
Culture and recreation	339,430	313,744
Capital outlay	76,169	
Interest on debt	45,874	67,125
Total expenses	11,614,013	11,374,255
Increase (decrease) in net assets	(117,266)	226,672
Net assets, beginning of year**	6,957,881	6,731,209
Net assets, end of year	\$ 6,840,615	\$ 6,957,881

\*\* See Note 10 to the financial statements for a description of the restatements to the 2009 financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

The Town's net assets decreased by \$117,266 in 2010 and increased by \$226,672 (restated) in 2009.

The majority of general revenues are tax collections from the Town's taxpayers. This amount represents 82% of total revenues for fiscal years 2010 and 2009, respectively.

The most significant expense of the Town is education, which represented 64% of total expenses, followed by public safety at 18%, for both 2010 and 2009.

**Financial Analysis of Government's Funds**

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

**Governmental funds** As of June 30, 2010, the Town's governmental funds reported combined fund balances of \$4,198,194, approximately \$4,142,736 of which constitutes unreserved fund balance, available for spending at the Town's discretion. The remainder of the fund balance is reserved for non-expendable bequests and encumbrances. As of June 30, 2009, the governmental funds reported combined fund balances of \$4,306,359, as restated.

The General Fund had a fund balance of \$1,569,252 and \$1,791,789, as restated, at June 30, 2010 and 2009, respectively.

The School Unrestricted Fund balance is \$1,144,648 and \$805,457, as restated, at June 30, 2010 and 2009, respectively.

The fund balance of the Drug Forfeiture Fund is \$432,146 and \$564,683 as of June 30, 2010 and 2009, respectively.

The capital project funds had a total fund balance of \$340,646 and \$443,626 at June 30, 2010 and June 30, 2009, respectively.

**General Fund Budgetary Highlights**

The Town finalizes its original budget at the Town Meeting in May of each year. Various transfers are authorized throughout the year as needed.

For 2010, the actual charges to appropriations (expenditures) were \$152,182 and \$35,402 below the final budgeted amounts for the General Fund and School Department, respectively. For 2009, the actual charges to appropriations (expenditures) were \$55,651 and \$164,684 below the final budgeted amounts for the General Fund and School Unrestricted Fund, respectively. This positive variance was due to Town departments reducing spending in operational budgets.

TOWN OF LITTLE COMPTON, RHODE ISLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**General Fund Budgetary Highlights (Continued)**

For 2010, intergovernmental revenues were \$256,222 less than the budgeted amounts for the General Fund and \$294,961 in excess of the budget for the School Department. For 2009, local receipts were \$102,408 less than the budgeted amounts for the General Fund and \$72,661 in excess of the budget for the School Unrestricted Fund. The General Fund collected \$39,653 and \$230,101 less in taxes and licenses, permits and fees than budgeted.

The General Fund is the chief operating fund of the Town.

**General Fund Actual Comparisons (GAAP Basis)**

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Revenues:			
General property and tax penalties	\$ 9,398,104	\$ 9,462,457	(0.7)
Intergovernmental	412,610	414,532	(0.5)
Licenses, permits and fees	316,811	401,634	(21.1)
Beach receipts	161,860	137,680	17.6
Investment income	12,352	50,469	(75.5)
Miscellaneous	12,011	26,924	(55.4)
	<u>\$ 10,313,748</u>	<u>\$ 10,493,696</u>	<u>(1.7)</u>
Expenditures:			
General government	\$ 1,572,663	\$ 1,454,532	8.1
Financial administrative	206,976	217,138	(4.7)
Public safety	1,515,117	1,518,072	(0.2)
Capital projects and debt service	380,997	401,056	(5.0)
Transfer station	160,932	187,782	(14.3)
Public works	243,627	302,890	(19.6)
Public welfare	3,600	4,800	(25.0)
Culture and recreation	265,808	249,446	6.6
Grants and charitable contributions	44,939	42,379	6.0
Miscellaneous	574	574	(100.0)
	<u>\$ 4,394,659</u>	<u>\$ 4,378,669</u>	<u>0.4</u>

Compared to the prior year revenues, licenses, permits and fees decreased by \$84,823, beach receipts increased by \$24,180 and investment income decreased by \$38,117. In addition, compared to the prior year expenditures, general government increased by \$118,131, capital projects and debt service decreased by \$20,059 and public works decreased by \$59,263.

TOWN OF LITTLE COMPTON, RHODE ISLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**Capital Asset Administration**

**Capital assets** The Town's investment in capital assets for governmental activities as of June 30, 2010 amounts to \$4,261,583, net of accumulated depreciation. The investment in capital assets includes land, construction in progress, buildings, improvements, office equipment, computer equipment and software, vehicles, machinery and equipment and textbooks and library books. The following is a summary of capital assets, net of accumulated depreciation where applicable, as of June 30, 2010.

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Primary government:			
Land	\$ 548,179	\$ 548,179	
Building and improvements	2,434,718	2,521,538	(3.44%)
Land improvements	23,667	24,719	(4.26%)
Infrastructure	95,328	97,335	(2.06%)
Machinery and equipment	744,064	766,416	(2.92%)
Office equipment	20,651	12,682	62.84%
Computer equipment and software	121,402	169,912	(28.55%)
Vehicles	142,849	184,925	(22.75%)
Textbooks and library books	<u>130,725</u>	<u>142,661</u>	<u>(8.37%)</u>
Total	<u>\$ 4,261,583</u>	<u>\$ 4,468,367</u>	<u>(4.63%)</u>
Component unit	<u>\$ 12,344,513</u>	<u>\$ 11,973,219</u>	<u>(3.10%)</u>

Additional information on the Town's capital assets may be found starting on page 38 of the notes to the financial statements.

**Factors Bearing on the Town's Future**

The Town continues to experience a challenging budgeting environment due to the rising cost of education, health care, and pension benefits which must be funded while facing a limited ability to generate additional revenue. The state, in an effort to balance its own budget, continues to reduce and/or eliminate both state and school aid. In addition, the state has mandated a cap on property tax increases to 4.5%. The combination of rising costs of certain expenditures and the ability to raise additional revenue creates difficulties in addressing new or unexpected expenditures.

TOWN OF LITTLE COMPTON, RHODE ISLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2010

**Factors Bearing on the Town's Future (Continued)**

Key issues for the Town's future are increased attention on defining/planning for long-term needs and reducing reliance on tax-based revenues. In response, the Town Council has appointed a part-time Business Manager with significant financial and management expertise who has these matters as primary among his duties.

The Town Council, the School Committee and the Budget Committee have continued to work together effectively. Efforts continue to investigate new sources of revenue and to analyze the Town's current revenue streams to ensure the Town capitalizes on every opportunity available. The Budget Committee has reformed its budgeting process to require:

- establishing written goals very early in the new budget cycle,
- long-term financial and capital planning,
- analysis of budget to actual by expense categories,
- report generation explaining budget requests,
- mailings to the electors of the Town, and
- supplemental hearings to get voter input and explain the Committee's thinking.

The Town Council, Budget Committee and School Committee have worked successfully to earn grants and low-interest loans to help fund needed capital improvements, which provide a direct benefit to the Town's tax rates.

The Business Manager and Budget Committee are focusing on:

- using budget expenditures by category to permit closer tracking of cost drivers which are enabling economies of scale,
- increased attention on fund balances/trends, including capital funding, which has a direct impact on the Town's long-term capability to meet citizen needs,
- providing increased visibility to the Town on overall financial performance as a key input for future planning and establishing budgets for the next fiscal year;
- increasing the use of the MUNIS system in the budgeting process, and
- researching other available accounting systems that are more efficient and flexible, supporting ad hoc reporting and providing the necessary financial information (including trends) in order that the town can leverage its level of staffing to maximize its efficiency.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

**Factors Bearing on the Town's Future (Continued)**

The School Committee is continuing to develop a long-term plan for the School Facilities. This will provide more opportunity to analyze all alternatives and to obtain non-property tax based funding.

Keeping the level of services responsive to Town needs as the State continues to reduce the amount of aid will require some combination of property tax increases, cost reduction and/or supplemental non-property tax methods of revenue generation. The Town has proactively taken steps to ensure that it is dealing with this problem on a continuous basis.

**Contacting the Town's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions on this report or need additional financial information, your inquiries should be addressed to:

Treasurer and Tax Collector  
Town of Little Compton  
P.O. Box 226  
40 Commons  
Little Compton, RI 02837

## TOWN OF LITTLE COMPTON, RHODE ISLAND

## STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Primary Government</u> Governmental Activities	<u>Component Unit</u> Agricultural Trust
<b>ASSETS</b>		
Cash and investments	\$ 3,919,521	\$ 1,596,813
Receivables, net:		
Personal property taxes	478,113	
Intergovernmental	266,459	
Departmental and other	212,811	
Prepaid expenses	4,366	
Inventory	3,703	
Capital assets not being depreciated	548,179	12,344,513
Capital assets being depreciated, net	<u>3,713,404</u>	
Total assets	<u>9,146,556</u>	<u>13,941,326</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	125,929	3,500
Other liabilities	30,290	
Pension obligation, net	556,048	
OPEB obligation, net	120,000	
Long-term obligations:		
Due within one year	321,448	
Due in more than one year	<u>1,152,226</u>	
Total liabilities	<u>2,305,941</u>	<u>3,500</u>
Contingencies (Note 7)		
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,062,699	12,955,795
Restricted for:		
Non-expendable bequests	10,000	
Expendable bequests	126,427	
Special revenue	575,075	
Unrestricted	<u>3,066,414</u>	<u>982,031</u>
Total net assets	<u>\$ 6,840,615</u>	<u>\$ 13,937,826</u>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

Functions	Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit Agricultural Trust
						Governmental Activities	Total	
Governmental activities:								
General government	\$ 2,024,884	\$ (1,123,566)	\$ 247,912	\$ 4,108		\$ (649,298)	\$ (649,298)	
Financial administration	206,976	29,550				(236,526)	(236,526)	
Public safety	1,795,316	314,936	26,955	51,469	\$ 79,584	(1,952,244)	(1,952,244)	
Education	6,679,617	718,071		724,478		(6,673,210)	(6,673,210)	
Public works	266,164	31,235				(297,399)	(297,399)	
Transfer station	160,932		25,565			(135,367)	(135,367)	
Public welfare	3,600	337				(3,937)	(3,937)	
Health and human services	44,488		124,414		27,500	107,426	107,426	
Culture and recreation	309,993	29,437	161,860	29,361		(148,209)	(148,209)	
Capital outlay	76,169					(76,169)	(76,169)	
Interest on debt	45,874					(45,874)	(45,874)	
Total primary government	11,614,013	-	586,706	809,416	107,084	(10,110,807)	(10,110,807)	
Component unit:								
Agricultural Trust	63,516		1,028,546		11,650			\$ 976,680
Total	\$ 11,677,529	\$ -	\$ 1,615,252	\$ 809,416	\$ 118,734	\$ (10,110,807)	(10,110,807)	976,680

(continued)

TOWN OF LITTLE COMPTON, RHODE ISLAND

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2010

	Net (Expense) Revenue and Changes in Net Assets	
	<u>Primary Government Governmental Activities</u>	<u>Agricultural Trust</u>
General revenues:		
Real estate and personal property, net of reserve for abatements	\$ 9,460,876	
Motor vehicle phase-out	246,033	
Realty transfer tax/fee	75,785	
General state aid	21,781	
State aid school housing	17,708	
Telephone tax	73,842	
Meal tax	53,246	
Earnings on investments	24,741	\$ 4,861
Miscellaneous	19,529	1,035
	<u>9,993,541</u>	<u>5,896</u>
Changes in net assets	(117,266)	982,576
Net assets, beginning of year, as restated	<u>6,957,881</u>	<u>12,955,250</u>
Net assets, end of year	<u>\$ 6,840,615</u>	<u>\$ 13,937,826</u>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2010

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General	School Unrestricted	Drug Forfeiture		
<b>ASSETS</b>					
Cash and investments	\$ 1,267,038	\$ 1,166,625	\$ 397,459	\$ 1,088,399	\$ 3,919,521
Receivables:					
Property taxes	478,113				478,113
Intergovernmental	47,935		63,219	155,305	266,459
Other	17,593	195,218			212,811
Prepaid expenses		4,366			4,366
Inventory	1,660			2,043	3,703
Due from other funds	243,257	142,985	15,495	38,538	440,275
<b>Total assets</b>	<b>\$ 2,055,596</b>	<b>\$ 1,509,194</b>	<b>\$ 476,173</b>	<b>\$ 1,284,285</b>	<b>\$ 5,325,248</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses	\$ 24,442	\$ 49,959	\$ 1,045	\$ 19,995	\$ 95,441
Due to other funds	150,335	133,833		156,107	440,275
Deferred revenue	281,277	180,754	42,982	56,035	561,048
Other liabilities	30,290				30,290
<b>Total liabilities</b>	<b>486,344</b>	<b>364,546</b>	<b>44,027</b>	<b>232,137</b>	<b>1,127,054</b>
<b>Fund balances:</b>					
Reserved for encumbrances	37,597	7,861			45,458
Reserved for non-expendable bequests				10,000	10,000
Unreserved, reported in:					
General Fund	1,531,655				1,531,655
Special revenue funds		1,136,787	432,146	575,075	2,144,008
Capital projects				340,646	340,646
Permanent funds				126,427	126,427
<b>Total fund balances</b>	<b>1,569,252</b>	<b>1,144,648</b>	<b>432,146</b>	<b>1,052,148</b>	<b>4,198,194</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,055,596</b>	<b>\$ 1,509,194</b>	<b>\$ 476,173</b>	<b>\$ 1,284,285</b>	<b>\$ 5,325,248</b>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCE TO THE STATEMENT OF NET ASSETS

JUNE 30, 2010

Total governmental fund balances	\$	4,198,194
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		4,261,583
Some taxes and grants will be collected after year-end but are not available soon enough to pay off the current period expenditures; therefore, they are reported as deferred revenue in the funds.		561,048
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable	\$	(905,000)
Compensated absences		(274,790)
Capital leases		(293,884)
Pension obligation, net		(556,048)
OPEB obligation, net		(120,000)
Accrued interest		(30,488)
		(2,180,210)
Net assets of governmental activities	\$	6,840,615

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General	School Unrestricted	Drug Forfeiture		
Revenues:					
General property taxes and penalties	\$ 9,398,104				\$ 9,398,104
Intergovernmental – operating	412,610	\$ 297,725		\$ 444,584	1,154,919
Donation revenues				3,778	3,778
Departmental and other revenue			\$ 36,602	243,742	280,344
Licenses, permits and fees	316,811				316,811
Beach receipts	161,860				161,860
Investment income	12,352		4,438	7,951	24,741
Miscellaneous	12,011	520			12,531
<b>Total revenue</b>	<b>10,313,748</b>	<b>298,245</b>	<b>41,040</b>	<b>700,055</b>	<b>11,353,088</b>
Expenditures:					
General government	1,572,663			171,998	1,744,661
Financial administration	206,976				206,976
Public safety	1,515,117		173,577	39,862	1,728,556
Education		6,142,680		430,692	6,573,372
Public works	243,627				243,627
Transfer station	160,932				160,932
Public welfare	3,600				3,600
Health and human services	44,939			47,154	92,093
Culture and recreation	265,808			34,233	300,041
Capital outlay	65,000			26,398	91,398
Debt service:					
Principal payments	265,000				265,000
Interest and fiscal charges	50,997				50,997
<b>Total expenditures</b>	<b>4,394,659</b>	<b>6,142,680</b>	<b>173,577</b>	<b>750,337</b>	<b>11,461,253</b>
Excess (deficiency) of revenues over expenditures	5,919,089	(5,844,435)	(132,537)	(50,282)	(108,165)
Other financing sources (uses):					
Transfers between funds	(6,141,626)	6,183,626		(42,000)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(222,537)	339,191	(132,537)	(92,282)	(108,165)
Fund balance, beginning of year, as restated	1,791,789	805,457	564,683	1,144,430	4,306,359
Fund balance, end of year	<u>\$ 1,569,252</u>	<u>\$ 1,144,648</u>	<u>\$ 432,146</u>	<u>\$ 1,052,148</u>	<u>\$ 4,198,194</u>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

Net change in fund balances – total governmental funds	\$ (108,165)
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 depreciation exceeded capital outlays in the current period.	(206,784)
Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differs between the two statements. This amount represents the net change in deferred revenue.	143,659
Change in OPEB obligation, net is recorded in the statement of activities but not in the governmental funds	(120,000)
Change in pension obligation, net is recorded in the statement of activities but not in the governmental funds	(78,907)
The issuance of long-term debt (e.g., bonds and capital leases) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Principal repayment on long-term debt	313,150
Expenditures of a noncurrent nature are not reported in the statement of activities as expenditures. Compensated absences are not reported as such and, accordingly, this amount represents the increase in this liability over the prior year.	(65,342)
Accrued interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds	5,123
Change in net assets of governmental activities	<u>\$ (117,266)</u>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2010

	Pension Trust Fund	Agency Funds, Student Activity Funds	Total
Assets:			
Cash and investments	<u>\$ 5,339,579</u>	<u>\$ 10,586</u>	<u>\$ 5,350,165</u>
Liabilities:			
Deposits held in custody		<u>10,586</u>	<u>10,586</u>
Total liabilities	<u>-</u>	<u>10,586</u>	<u>10,586</u>
Net assets:			
Held in trust for other purposes	<u>5,339,579</u>		<u>5,339,579</u>
Total net assets	<u>5,339,579</u>		<u>5,339,579</u>
Total liabilities and net assets	<u>\$ 5,339,579</u>	<u>\$ 10,586</u>	<u>\$ 5,350,165</u>

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2010

	Pension Trust Fund
Additions:	
Contributions, employer	\$ 424,375
Net investment income:	
Dividends and interest	53,078
Net appreciation in fair value of investments	365,589
Capital gains	257,686
Total investment income	676,353
Less investment expenses	33,920
Net investment income	642,433
Total additions	1,066,808
Deductions:	
Retirement benefits	293,125
Total deductions	293,125
Change in net assets	773,683
Net assets, beginning of year, as restated	4,565,896
Net assets, end of year	\$ 5,339,579

See notes to financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies:

The accompanying basic financial statements of the Town of Little Compton, Rhode Island (the Town) are presented in conformity with accounting principles generally accepted in the United States applicable to governmental entities. In certain circumstances, summaries of the Town's significant accounting policies have been presented throughout the notes to the financial statements in conjunction with the other disclosures to which they relate.

*Financial reporting entity:*

The Town was incorporated in 1682. On November 8, 1994, the Town adopted the Little Compton Home Rule Charter to be effective in January 1995, which was ratified by the Rhode Island General Assembly in May 1995. In some matters the Town is governed by the general laws of the State of Rhode Island. The Town operates under a Town Council form of government.

The Town financial statements include all funds, agencies, boards, commissions, and authorities over which the Town exercises oversight responsibility. Oversight responsibility is determined on the basis of the activity's scope of operations, financial interdependency and fiscal responsibility, selection of governing authority and ability to significantly influence operations.

*Component unit:*

The Little Compton Agricultural Conservancy Trust (the Agricultural Trust) is considered a component unit of the Town and meets the criteria as established under the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." The Agricultural Trust is governed by a seven-member board of trustees, five of which are appointed by the Town Council. The purpose of this trust is to acquire development rights to agricultural property within the Town and to preserve open space, fresh and saltwater marshes, estuaries and adjoining uplands, groundwater recharging areas, land providing access to the ocean, land for bicycle paths and land for future public recreational facilities and use. This component unit is reported in a separate column to emphasize that it is legally separate from the Town, but is included because the Town is financially accountable for and is able to impose its will on the organization. Unless otherwise indicated, the notes to the basic financial statements pertain to the primary government because certain disclosures of the component unit are not significant relative to the primary government.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Basic financial statements – Government-wide statements:*

These financial statements present the Town's primary government and component unit.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements are required to categorize primary activities as either governmental or business-type. The Town's public safety, parks, library and recreation and general administrative services are classified as governmental activities. The Town does not have any activities classified as business-type activities.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Town's functions (public safety, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with functions (public safety, public works, community and economic development, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property, sales taxes, intergovernmental revenues, interest income, etc.)

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

*Basic financial statements – fund financial statements:*

Governmental funds are used to account for operations of the Town that supply basic government services.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Basic financial statements – fund financial statements (continued):*

Financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balances, revenues and expenditures/expenses. The various funds are reported by general classification within the financial statements.

Separate financial statements are provided for governmental funds and fiduciary funds. However, fiduciary funds are not included in government-wide statements since these assets are held for the benefit of private parties and pension participants, and cannot be used to satisfy obligations of the primary government. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor governmental funds are reported in the aggregate in a separate column in the fund financial statements.

The following funds are used by the Town:

*Governmental funds:*

The focus of the governmental funds' measurement (in the fund statements) is based upon determination of the financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

*General Fund:*

The General Fund, a major fund, is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special revenue funds:*

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The School Unrestricted Fund and Drug Forfeiture Fund are major funds.

*Capital projects funds:*

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital projects or items. All the Town's capital projects funds are non-major funds.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Basic financial statements – fund financial statements:*

*Permanent funds:*

Permanent funds account for assets held by the Town that are legally restricted to the extent that only earnings may be used for purposes that support the reporting government's programs. The Town's permanent funds are all nonmajor funds.

*Fiduciary funds:*

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets.

The emphasis in fund financial statements is on the major funds in the governmental categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category of the governmental and enterprise combined) for the determination of major funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Town's primary fiduciary funds are the Pension Trust Fund and Student Activity Funds.

*Measurement focus and basis of accounting:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Basic financial statements – fund financial statements (continued):*

*Measurement focus and basis of accounting (continued):*

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available for liquidating liabilities of the current period. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days). Revenues not considered to be available are recorded as deferred revenues. Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

Those revenues susceptible to accrual are property taxes, special assessments, federal impact aid, state aid, meals taxes collected by the State of Rhode Island (the State) on behalf of the Town, interest and charges for services. Fines, licenses and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash; therefore, they are recognized when received.

Recognition of grant revenues is based on the susceptibility of accrual as determined by the legal and contractual requirements established by each grantor. For grants not restrictive as to specific purposes and revocable only for failure to comply with general prescribed requirements, revenues are recognized when actually received. Where expenditure is the prime factor in determining eligibility, grant revenue is recognized as allowable expenditures are made provided they are collected during the year or within 60 days subsequent to year-end. Prior to expenditure, proceeds are recorded as deferred revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide 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 Town has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Basic financial statements – fund financial statements (continued):*

*Measurement focus and basis of accounting (continued):*

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

Effective for periods beginning after June 15, 2010, the Town will be required to adopt the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). GASB 54 requires changes to the classifications and reporting of fund balance classifications. The Town will also be required to assess the activities reported in each fund according to the clarified definitions of the governmental fund types. The Town does not expect the adoption of GASB 54 to have a material effect on its financial statements.

*Use of estimates:*

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

*Cash and cash equivalents:*

Cash and cash equivalents consist of cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition. Under Rhode Island general laws, depository institutions holding deposits of the State, its agencies or governmental subdivision of the State, shall at a minimum, insure or pledge eligible collateral equal to 100% of the deposits which are time deposits with maturities greater than 60 days. Any institution not meeting certain minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100% of the deposits, regardless of maturities.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Investments:*

Investments are reported at fair value, based on quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income. The State does not have pertinent laws regarding investments that apply to cities and towns. The Town does not have an investment policy for custodial credit risk or other risks other than those relating to its pension trust fund. The Town's Pension Trust Fund Investment Advisory Committee is responsible for the supervision of the investment of the Town's investments with the objective of preserving capital and investing with care to minimize the risk of large losses.

*Property taxes:*

Real and personal property taxes are based on assessed values as of December 31<sup>st</sup> and a tax rate based on an approved levy at the annual town meeting in May. Once levied, these taxes are recorded as receivables, net of estimated uncollectibles. In the government fund financial statements, property tax revenues have been recorded using the modified accrual basis of accounting. Under the modified accrual basis, real estate, personal property and other excise taxes levied are recorded as receivables in the fiscal year of the levy and as revenue when collected within the current year or expected to be collected within 60 days after the end of the current year. Taxes not collected within this time period are classified as deferred revenue. Deferred revenues are those where asset recognition has been met for which revenue criteria have not been met. The government-wide financial statements recognize property tax revenue when taxes are levied net of estimated abatements and exemptions.

Rhode Island general laws restrict the Town's ability to increase its total tax levy by more than 4.75% over that of the preceding fiscal year for 2010. The rate decreases annually by .25% to 4.00% in 2013.

*Farm, forest and open space:*

Certain taxpayers can file for reclassification of land assessments in accordance with farm, forest and open space guidelines. Subsequent land use changes within a ten-year period for farm or fifteen-year period for forest or open space result in the assessment of a land use change tax.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Intergovernmental:*

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

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

*Capital assets:*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Net interest costs related to construction projects are capitalized during the construction period. Such costs were not considered material during fiscal 2010.

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

Capital assets acquired by governmental funds are accounted for as capital outlay expenditures.

Depreciation on all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

	Years
Building and improvements	40
Machinery and equipment	5-10
Office equipment	5-10
Computer equipment and software	5-10
Vehicles	5
Library and textbooks	3-10

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Encumbrances:*

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

*Compensated absences:*

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

In the governmental fund financial statements, vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

*Long-term obligations:*

In the government-wide financial statements, long-term debt and long-term compensated absences are reported as liabilities in the statement of net assets.

In the governmental fund financial statements, long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Bond premiums are reported as other financing uses while discounts are reported as other financing sources.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Claims and judgments:*

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

*Fund equity:*

*Government-wide financial statements:*

*Net assets:*

The Town's net assets have been segregated into the following three components in accordance with GASB Statement No. 34:

Invested in capital assets, net of related debt – represents the net book value of all capital assets less the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted – those that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted – a residual category for the balance of net assets.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

*Financial statement amounts (continued):*

*Government-wide financial statements (continued):*

*Fund financial statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

*Interfund transactions:*

Transactions between funds have been eliminated in the government-wide financial statements but fully presented within the governmental fund financial statements with no eliminations made between or within funds. Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Interfund receivables and payables are classified as "due from other funds" or "due to other funds."

*Indirect expense allocation:*

It is the policy of the Town to allocate indirect expenses (i.e., insurance and pension expenses) to the functions as listed in the government-wide financial statements on the basis of salaries by function.

2. Compliance and accountability:

*Budget requirements, accounting and reporting:*

The General Fund and the School Department are subject to an annual operating budget. The annual operating budgets' appropriation amounts are supported by revenue estimates and can be amended by either a special financial Town meeting or at the next annual financial Town meeting.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2010

2. Compliance and accountability (continued):

*Budget requirements, accounting and reporting (continued):*

Actual revenue and expenditures in the budgetary basis statements of revenues and expenditures for the General Fund and the School Special Revenue Fund is presented on the budgetary basis which includes the net effect of not budgeting for certain other items. Thus, the actual revenues and expenditures differ from those in the governmental fund financial statements which are presented in accordance with accounting principles generally accepted in the United States.

*Interfund transactions:*

Interfund transfers during 2010 were as follows:

	<u>Transferred funds to:</u>	<u>Transferred funds from:</u>	<u>Amount</u>
Transfers:			
	RCOS	General Fund	\$ (8,000)
	Record Vault	General Fund	(10,000)
	General Fund	Cell Tower Fund	60,000
	School-Unrestricted	General Fund	(6,183,626)

*Interfund receivables and payables:*

Interfund receivable and payable balances at June 30, 2010 are as follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Governmental funds:		
General fund	\$ 243,257	\$ 150,335
Special revenue	38,538	136,552
Drug forfeiture	15,495	
Capital projects		19,505
School unrestricted	142,985	133,833
Permanent funds		50
	<u>          </u>	<u>          </u>
Total	<u>\$ 440,275</u>	<u>\$ 440,275</u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2010

2. Compliance and accountability (continued):

*Interfund receivables and payables (continued):*

For the government-wide financial statements, all interfund transactions were eliminated except for those with fiduciary funds (payable to/from external parties.)

The Town utilizes the interfund loan accounts as a short-term vehicle to expedite the payment of vouchers from a consolidated vendor checking account.

The transfers between funds are to fund revenues related to annual meeting votes, and to fund and utilize funding for operations in the School Unrestricted Fund.

*Fund balances reserved and designated:*

The Town records several types of reserves, which indicate that a portion of the fund balance is segregated for a specific use. In addition, a portion of the unreserved fund balance may be designated for a specific purpose.

The following is a list of reserves and designations currently used by the Town:

	<u>General fund</u>	<u>Governmental funds</u>		
		<u>School Unrestricted</u>	<u>Permanent trusts</u>	<u>Total</u>
Reserved:				
Encumbrances	\$ 37,597	\$ 7,861		\$ 45,458
Nonexpendable bequests			\$ 10,000	10,000
Designated for next year's appropriations	<u>69,072</u>			<u>69,072</u>
Total reserved and designated	<u>\$ 106,669</u>	<u>\$ 7,861</u>	<u>\$ 10,000</u>	<u>\$ 124,530</u>

3. Deposits and investments:

Cash and investments as of June 30, 2010 are classified as follows:

Governmental activities	\$ 3,919,521
Component unit	1,596,813
Pension Trust Fund	5,339,579
Student activity funds	<u>10,586</u>
Total cash and investments	<u>\$ 10,866,499</u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

*Cash and cash equivalents:*

Deposits are in various financial institutions and are carried at cost, or fair value in the case of pooled deposits for trust funds.

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2010, the Town's carrying amount of deposits was \$5,493,882 and the bank balance was \$5,867,075. Of the bank balance, \$2,244,399 was uninsured and uncollateralized and \$2,602,865 was uninsured and collateralized with securities held by the pledging financial institution, but not in the Town's name.

At June 30, 2010, deposits are categorized as follows:

	Insured/ collateralized in Town's name	Rating	Maturities	Total bank balance	Carrying amount
Deposits:					
Demand deposits	\$ 1,019,811			\$ 3,980,332	\$ 3,593,293
Repurchase agreements			7/2010	470,000	474,189
Money market				1,416,743	1,426,400
	<u>\$ 1,019,811</u>			<u>\$ 5,867,075</u>	<u>\$ 5,493,882</u>

*Investments:*

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

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

*Investments (continued):*

<u>Investment type</u>	<u>Carrying amount</u>	<u>Maturities</u>	<u>Rating</u>
Primary government:			
Stock	\$ 8,996	Not applicable	Unknown
Certificate of deposit	12,492	11/27/2010	Not rated
Certificate of deposit	<u>17,737</u>	12/27/2010	Not rated
Total primary government	<u><u>\$ 33,038</u></u>		

<u>Investment type</u>	<u>Carrying amount</u>
Pension Trust Fund:	
Mutual funds	\$ 1,291,595
Collective funds	4,062,083
Cash and cash equivalents	<u>(14,099)</u>
Total Pension Trust Fund	<u><u>\$ 5,339,579</u></u>

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market value rates.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2010, the Town's only rated investment was the Wilmington Trust Strategic Bond Portfolio with a rating of A+/A1 and a carrying amount of \$967,885.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. Deposits and investments (continued):

*Investments (continued):*

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The investments listed below represent 5% or more of total investments.

Wilmington Trust PIMCO Total Return A	\$ 1,091,807
Wilmington Trust International Growth	431,100
Wilmington Trust International Value	423,294
Wilmington Trust Large Company Domestic Growth	617,993
Wilmington Trust Large Company Value	614,974
Wilmington Trust S&P 500 Index	454,586
Wilmington Trust Strategic Bond	967,885

4. Capital assets:

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 548,179	\$ - 0 -	\$ - 0 -	\$ 548,179
Total capital assets not being depreciated	548,179			548,179
Capital assets being depreciated:				
Land improvements	26,297			26,297
Buildings and improvements	4,048,088	6,240	\$ - 0 -	4,054,328
Infrastructure	100,345			100,345
Machinery and equipment	1,165,116	76,506		1,241,622
Office equipment	76,682	14,836		91,518
Computer equipment and software	339,579	23,358		362,937
Vehicles	788,746	24,229		812,975
Textbooks and library books	324,007	31,409		355,416
Total capital assets being depreciated	6,868,860	176,578	- 0 -	7,045,438

(continued)

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. Capital assets (continued):

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets being depreciated (continued):				
Less accumulated depreciation:				
Land improvements	\$ 1,578	\$ 1,052	\$ - 0 -	\$ 2,630
Buildings and improvements	1,526,550	93,060		1,619,610
Infrastructure	3,010	2,007		5,017
Machinery and equipment	398,700	98,858		497,558
Office equipment	64,000	6,867		70,867
Computer equipment and software	169,667	71,868		241,535
Vehicles	603,821	66,305		670,126
Textbooks and library books	181,346	43,345		224,691
Total accumulated depreciation	2,948,672	383,362	- 0 -	3,332,034
Total capital assets being depreciated	3,920,188	(206,784)	- 0 -	3,713,404
Governmental activities, capital assets, net	\$ 4,468,367	\$ (206,784)	\$ - 0 -	\$ 4,261,583
Depreciation was charged to functions as follows:				
Governmental activities:				
General government	\$ 18,981			
Public safety	163,868			
Culture and recreation	20,290			
Public works	22,537			
Education	157,686			
	\$ 383,362			
	Beginning balance	Increases	Decreases	Ending balance
Component unit:				
Capital assets not being depreciated, land	\$ 11,973,219	\$ 371,294	\$ - 0 -	\$ 12,344,513

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

5. Pension plans:

The Town contributes to pension plans covering substantially all of its employees as follows:

Teachers' Plan

*Plan description:*

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. 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. Financial statements for the Teachers' Plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. Total covered payroll under the Teachers' Plan for the year ended June 30, 2010 was \$2,354,359.

The Teachers' Plan provides a two-tier benefit structure referred to as Schedules A and B.

Schedule A Benefits:

Schedule A benefits are available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule A provides unreduced benefits of 1.70% of earnings for each of the first ten years of service; 1.90% for each of the next ten years of service; 3.00% for each of the next fourteen years; and 2.00% for the 35th year. Joint and survivor options are available as well as an option that provides for the payment of a larger benefit before the attainment of age sixty-two. The maximum benefit is 80% of final average earnings after 35 years of service. Such benefits are available to members who are at least age 60 with ten years of credited service, or after 28 years of service at any age. Benefits for all employees are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

On the third January after retirement, a cost-of-living increase of 3.00% (compounded annually) is provided. The Teachers' Plan also provides nonservice-connected disability benefits after five years of service; service-connected disability benefits with no minimum service requirement; vested benefits after ten years of service; survivor's benefits for service-connected death; and certain lump-sum death benefits.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

Teachers' Plan (continued)

*Plan description (continued):*

Schedule B Benefits:

Schedule B benefits are provided to members who had less than ten years of contributory service on or before July 1, 2005. Schedule B provides unreduced benefits of 1.60% of earnings for each of the first ten years of service; 1.80% for each of the next ten years; 2.00% for years 21 through 25 inclusive; 2.25% for years 26 through 30 inclusive; 2.50% for years 31 through 37 inclusive; and 2.25% for the 38th year. Only single life, and joint and survivor options are available. The maximum benefit is 75% of the average highest three years of compensation after 38 years of service. Such benefits are available to members who are at least age 65 with 10 years of service, or at least age 59 with 29 years of service. Actuarially reduced retirement is available at age 55 with 20 years of service; the benefit is reduced actuarially for each month that the age of the member is less than 65 years.

On the month following the third anniversary date of retirement, and on the month following the anniversary date of each succeeding year, a benefit increase is provided for Schedule B members, consisting of the lesser of a cost-of-living increase of 3.00% (compounded annually) or the percentage increase in the Consumer Price Index, determined as of September 30 of the prior calendar year.

Rhode Island general laws relating to state employees and teachers' benefits were amended during the fiscal year ended June 30, 2009. Members eligible to retire as of September 30, 2009 are not affected by the changes. The legislation established a minimum retirement age of 62 for all members, except those Schedule B members who retire with less than 29 years of service; their retirement eligibility remains age 65 with a minimum of 10 years of service credit. For affected state employees and teachers, the law provides a proportional downward adjustment of the minimum retirement age based on the years of service credit of a member at September 30, 2009, a final average salary based on the five consecutive highest years of salary and a cost-of-living adjustment.

This legislation also amended the disability retirement provision for state employees and teachers. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled. If the disability is determined to be partial and member is able to work in other jobs, the benefit will be limited to 50%.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

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 June 30, 1999 over 30 years; and (c) interest on the unfunded frozen actuarial liability. Normal cost is determined using the entry age normal cost method with frozen initial liability. The Town participates in the optional Teachers Survivor Benefits Fund whereby the employer and the employee each contribute 1% of the first \$9,600 of each participating employee's salary for survival benefits.

As prescribed by Rhode Island general laws, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2010, actuarial required contributions were 11.25% of participants' salary (19.01% for federally reimbursed salary), which resulted in a contribution rate paid by the State on behalf of Town teachers of 10.69% (\$251,303). The Town's required and actual contributions to the Teachers' Plan for fiscal years 2010, 2009 and 2008 were \$261,795, \$204,112 and \$269,065, respectively.

Town Employees, Other Than Certified Teachers

*Plan description:*

The Retirement Plan for Employees of the Town (the Plan) is a single-employer, contributory defined benefit pension plan which provides retirement, disability and death benefits to substantially all full-time employees of the Town except School Department personnel certified by the Rhode Island Department of Education (Certified Employees) who are eligible to participate in the Employees' Retirement System of the State of Rhode Island. The Plan was established in accordance with the Town Charter and State Statutes. The Plan is administered by a pension committee consisting of four members appointed annually by the Town Council, plus three members of the various unions. The pension committee can make minor changes while major changes require Financial Town Meeting approval. State law gives the Town Council authority to negotiate union contracts. The effective date of the Plan is January 1, 1972. The assets of the Plan are held in a Trust which is reported as a fiduciary fund in the Town's financial statements.

For the Plan year ended June 30, 2010, covered payroll under the Plan totaled \$1,730,883.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

Town Employees, Other Than Certified Teachers (continued)

*Plan description (continued):*

As of July 1, 2009, membership in the Plan was as follows:

Active participants	47
Vested terminations and inactive lives	11
Retirees	28
 Total Plan members	 86

*Benefit provisions:*

Plan participation commences on the first day of the month coincident with or following the date of hire, if the employee chose to participate in the Plan. Members of the Town Council and certified employees of the School Department are not eligible to participate in the Plan. The normal form of the benefit is a life annuity.

The normal retirement date for police and fire employees is upon completion of twenty-five years of credited service. Any police officer hired after July 1, 1994 must have also attained age 55. The normal retirement date for all other employees is their 62nd birthday.

The normal retirement benefits are a product of 1.65% of the employee's average compensation and the years of service. Compensation is defined as the basis rate of pay in effect on July 1 of each Plan year exclusive of overtime pay and bonuses. Average compensation is compensation averaged over the three consecutive years out of the last ten years producing the highest average prior to termination of employment. For members of the fire and police departments, the annualized rate of pay in effect in the last year of employment is used.

- Effective July 1, 1992, members of the police and fire departments may retire after 25 years of service at fifty percent of their highest annual salary, regardless of age.
- Effective July 1, 1997, members of the police and fire departments will receive an additional 2% of salary for each year of service in excess of 25 years, subject to a maximum of five additional years.
- The minimum annual benefit is \$100 multiplied by the number of years of service.
- Effective July 1, 2000, participants in pay status receive an annual cost-of-living increase of 2%.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

Town Employees, Other Than Certified Teachers (continued)

*Benefit provisions (continued):*

Employees who have reached age 50 and have 20 years of service may retire and receive an early retirement benefit. The amount of the early retirement benefit equals 1.25% of the average compensation times the years of service. Alternatively, the participants may elect to defer payment of the accrued benefit until their normal retirement date.

The Plan includes disability benefits for members who have been credited with ten or more years of service and become totally and permanently disabled; such members shall be entitled to payment of the accrued benefit.

If a participant who is a member of the fire or police departments separates from service by reason of occupational disability, the participant is entitled to a monthly benefit equal to 68% of the participant's compensation at the time of occupational disability. A participant receiving an occupational disability is not eligible for the cost-of-living increases.

All employees with ten years of credited service have a nonforfeitable right to the accrued benefit as of the date of termination of employment payable at their normal retirement date. Notwithstanding this vesting schedule, a participant becomes 100% vested upon reaching the normal retirement date.

*Funding policy and contributions:*

Contribution requirements are established and may be amended by Town Council ordinance or union contract.

Employees are required to contribute to the Plan as follows:

- Commencing July 1, 1995 and ending June 30, 1997, each participant who is a member of the fire department (other than the Fire Chief) contributed to the Plan an amount equal to four and one-half percent (4.5%) of his compensation.
- Effective July 1, 1997, employee contributions for the fire department members were no longer required.
- Commencing July 1, 1994 and ending June 30, 2001, any police officer hired after July 1, 1994 must contribute 2.5% of his base annual compensation.
- Effective July 1, 2001, employee contributions for the police department members were no longer required.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

Town Employees, Other Than Certified Teachers (continued)

*Funding policy and contributions (continued):*

The Town is required to contribute an amount determined in accordance with an actuarial valuation.

*Actuarial methods and significant assumptions:*

Pension assets are valued at fair value as established by quotations from applicable national securities exchanges. Valuations of accrued liabilities, pension assets, and annual required contributions for the Plan are performed annually as of July 1.

The valuation reflects an early retirement window, which credited an extra four years of benefit accrual service to members of the Fire Department who had attained age 50 with at least 25 years of service and retired between August 1, 2003 and August 31, 2003.

The most recent actuarial valuation, performed as of July 1, 2009, utilizes the entry age normal cost method to determine both the actuarial accrued liabilities and annual required contributions to the Plan. The normal cost is the sum of the normal costs for all active participants who have not reached the assumed retirement age. For each such participant, the individual normal cost is the participant's normal cost accrued rate multiplied by the participant's current compensation. The normal cost accrued rate equals (a) the actuarial present value of future benefits as of the participant's entry age divided by (b) the actuarial present value of future compensation as of the participant's entry age. For other participants, the normal cost equals zero.

The accrued liability is the sum of the individual accrued liabilities for all participants. The individual accrued liability is equal to the actuarial present value of future benefits less the normal cost accrued rate multiplied by the actuarial present value of future compensation.

The actuarial assumptions include:

- a. 7.5% investment rate of return
- b. use of the 1983 Group Annuity Mortality Table (Male/Female)
- c. projected salary increases of 5.0%
- d. a withdrawal rate of none

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. Pension plans (continued):

Town Employees, Other Than Certified Teachers (continued)

*Actuarial methods and significant assumptions (continued):*

e. assumed retirement ages as follows:

- members of the fire and police departments are assumed to retire at the earlier of age 62, or the completion of 30 years of service. Members of the police department hired after July 1, 1994 are assumed to retire at the earlier of age 62, or the completion of 30 years of service, but in no event prior to age 55.
- participants who are not members of the fire and police departments are assumed to retire at age 62
- participants who are beyond their assumed retirement ages are assumed to retire immediately

f. expenses are assumed to be paid by the Town

*Annual pension costs and net benefit obligation:*

A summary of annual pension costs, contribution and net pension obligation without amortization of the unfunded actuarial liability over the preceding three years is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially Required Contribution (ARC)	\$ 507,896	\$ 424,375	\$ 338,040
Interest on Net Pension Obligation (NPO)	35,786	29,421	31,060
Adjustment to ARC	<u>(40,400)</u>	<u>(30,898)</u>	<u>(32,619)</u>
Annual pension costs	503,282	422,898	336,481
Contribution made	<u>(424,375)</u>	<u>(338,040)</u>	<u>(358,331)</u>
Increase (decrease) in NPO	78,907	84,858	(21,850)
NPO, beginning of year	<u>477,141</u>	<u>392,283</u>	<u>414,133</u>
NPO, end of year	<u>\$ 556,048</u>	<u>\$ 477,141</u>	<u>\$ 392,283</u>
% of annual pension costs contributed	<u>84.32%</u>	<u>79.93%</u>	<u>106.49%</u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

5. Pension plan (continued):

Town Employees, Other Than Certified Teachers (continued)

*Concentrations:*

As of June 30, 2010 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 the Plan.

*Funded status and funding progress:*

As of July 1, 2009, the Plan was 64.3% funded. The actuarial accrued liability for benefits was \$7,757,561 and the actuarial value of assets was \$4,990,643, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,766,918. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,730,883 and the ratio of the UAAL to the covered payroll was 159.86%.

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to accrued actuarial liabilities for benefits.

6. Other postemployment benefits:

During the year ended June 30, 2010, the Town adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pensions," which is being applied on a prospective basis. In addition to pension benefits, the Town and School Department provide, under the provisions of various union contracts and other employment agreements, postemployment health insurance benefits, or compensation in lieu of postemployment health insurance benefits, to eligible retirees for a specified maximum number of years. Eligibility is determined based on years of service, employee age, and other available health care coverage. The Town and School Department fund these benefits on a pay-as-you-go basis. During the year ended June 30, 2010, expenditures for postemployment benefits totaling approximately \$ 87,000 were received by eight participants.

The Town engaged an actuary to prepare an actuarial valuation of its postemployment benefits program as of July 1, 2007. The purpose of the valuation was to analyze the current funded position of the Town's postemployment benefits program, determine the level of contributions necessary to assure sound funding, and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

6. Other postemployment benefits (continued):

The estimated Unfunded Actuarial Liability (UAL) was \$1,954,239 at July 1, 2007, the date of the most recent actuarial valuation. Based on the 2007 valuation, the estimated Normal Cost for fiscal year 2007 was \$396,787; the estimated amortization of UAL for fiscal year 2010 was \$118,218; the estimated Annual Required Contribution (ARC) for fiscal year 2010 was \$224,867; the estimated benefit payment for fiscal year 2010 was \$119,000 and the estimated increase in annual cost to fund the Plan was \$105,867.

7. Contingencies:

Various lawsuits are pending against the Town. A number of lawsuits are being defended by the Town's insurers and the claims are within the limits of coverage; therefore, they pose no risk of loss. The outcome of the remaining lawsuits cannot be evaluated at this time and, accordingly, the Town has not established a reserve for loss contingencies.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial. Total federal financial assistance received by the Town totaled approximately \$388,000 for the year ended June 30, 2010.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

8. Long-term obligations:

Changes in the long-term obligations of governmental activities during the year ended June 30, 2010 were as follows:

	<u>Balance, July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2010</u>	<u>Due within one year</u>
Bonds payable:					
General obligation bonds	\$ 730,000	\$ - 0 -	\$ 210,000	\$ 520,000	\$ 205,000
Revenue bonds	440,000		55,000	385,000	55,000
 Total bonds payable	 1,170,000		 265,000	 905,000	 260,000
 Capital leases	 342,034		 48,150	 293,884	 43,408
 Accrued compensated absences	 209,448	 65,342		 274,790	 18,040
 Total long-term obligations	 <u>\$ 1,721,482</u>	 <u>\$ 65,342</u>	 <u>\$ 313,150</u>	 <u>\$ 1,473,674</u>	 <u>\$ 321,448</u>

Compensated absences have typically been liquidated in the General and School Department governmental funds.

General obligation bonds:

At a Special Financial Town Meeting on October 27, 1998, the Town approved the issuance of \$3,010,000 of general obligations bonds. The bonds, dated January 1, 1999, are due January 1, 2000 to January 1, 2014. The bonds provide for a varying interest rate with a yield of 4.13%. Interest is due semiannually on January 1st and July 1st.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

8. Long-term obligations (continued):

General obligation bonds (continued):

At a Special Financial Town Meeting in fiscal year 2007 the Town approved the issuance of \$550,000 of revenue bonds. The bonds, dated May 16, 2007, are due October 1, 2008 to June 30, 2017. The bonds provide for a varying interest rate with a yield of 4.00%. Interest is due semiannually on October 1st and April 1st.

	<u>Date issued</u>	<u>Maturity date</u>	<u>Amount issued</u>	<u>Interest rate</u>	<u>Balance, July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 2010</u>	<u>Interest paid</u>
General obligation bonds	01/01/99	01/01/14	\$ 3,010,000	4.13%	\$ 730,000	\$ - 0 -	\$ 210,000	\$ 520,000	\$ 31,922
Revenue bonds	05/16/07	06/30/17	550,000	4.00%	440,000		55,000	385,000	19,075
					<u>\$ 1,170,000</u>	<u>\$ - 0 -</u>	<u>\$ 265,000</u>	<u>\$ 905,000</u>	<u>\$ 50,997</u>

Maturities of general obligation bonds paid by the general fund are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 260,000	\$ 39,629	\$ 299,629
2012	160,000	28,614	188,614
2013	160,000	21,820	181,820
2014	160,000	15,000	175,000
2015	55,000	8,075	63,075
2016	55,000	5,650	60,650
2017	55,000	2,700	57,700
	<u>\$ 905,000</u>	<u>\$ 121,488</u>	<u>\$ 1,026,488</u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Long-term obligations (continued):

Capital leases:

At June 30, 2010, the Town had the following capital leases outstanding:

Capital leases payable	Date issued	Amount issued	Interest rate	Maturities		Balance, July 1, 2009	Additions	Retirements	Balance, June 30, 2010	Due within one year	Interest paid
				Amounts	Dates						
Fire engine stainless steel pumper and 2008 pierce pumper fire truck	12/01/08	\$ 339,855	4.55%	\$ 42,863	07/01/10	\$ 339,855	\$ - 0 -	\$ 47,605	\$ 292,250	\$ 42,863	\$ 10,151
				45,047	07/01/11						
				47,342	07/01/12						
				49,755	07/01/13						
				52,290	07/01/14						
				54,953	07/01/15						
Ricoh Copier	07/01/08	2,723	0.00%	545	06/30/11	2,179		545	1,634	545	
				545	06/30/12						
				545	06/30/13						
						<u>\$ 342,034</u>	<u>\$ - 0 -</u>	<u>\$ 48,150</u>	<u>\$ 293,884</u>	<u>\$ 43,408</u>	<u>\$ 10,151</u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

8. Long-term obligations (continued):

Capital leases (continued):

The Town is obligated under certain leases accounted for as capital leases. The obligation for the leases is accounted for in the government-wide financial statements. The following is a schedule of capital leases outstanding and future minimum lease payments under capital leases:

Year ending June 30,	Amount
2011	\$ 58,300
2012	58,300
2013	58,300
2014	57,755
2015	57,755
2016	57,755
Minimum lease payments for all capital leases	348,165
Less amount representing interest	54,281
Total principal portion due	\$ 293,884

The gross amount of assets capitalized under capital leases is \$519,538.

9. Fund deficit:

The following individual funds, all special revenue funds, had a deficit fund balance at June 30, 2010:

Road detail*	\$ 2,592
Comprehensive plan*	1,000
Assistance to firefighters*	3,140
Basketball Court*	13,027
Revolving school lunch*	6,107
Safe and drug free schools (Title IV)**	1,339
UCOA grant**	1,030
IDEA B stimulus**	28,420
Total	\$ 56,655

\* To be funded through an administrative plan

\*\* To be funded by future donations. Any remaining deficit will be funded through an administrative plan.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

10. Restatements:

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

Major governmental funds:

General Fund:

Net assets, June 30, 2009, as originally stated	\$ 1,735,346
To transfer net assets from Wastewater Treatment Plant Fund	<u>56,443</u>
Net assets, June 30, 2009, as restated	<u><u>\$ 1,791,789</u></u>

School Unrestricted Fund:

Net assets, June 30, 2009, as originally stated	\$ 815,368
2010 expense recorded in 2009 in error	57,434
2009 Contribution to Teachers' Pension Plan	<u>(67,345)</u>
Net assets, June 30, 2009, as restated	<u><u>\$ 805,457</u></u>

Wastewater Treatment Plant Fund:

Net assets, June 30, 2009, as originally stated	\$ 56,443
To transfer net assets to General Fund	<u>(56,443)</u>
Net assets, June 30, 2009, as restated	<u><u>\$ - 0 -</u></u>

Nonmajor governmental funds:

Net assets, June 30, 2009, as originally stated	\$ 1,709,113
Reclassification of Drug Forfeiture Fund to a Major Fund	<u>(564,683)</u>
Net assets, June 30, 2009, as restated	<u><u>\$ 1,144,430</u></u>

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

10. Restatements (continued):

Government-wide financial statements – governmental activities:

Net assets, end of year per June 30, 2009 financial statements	\$ 7,269,362
2010 expense recorded in 2009 in error	57,434
2009 contribution to Teachers’ Pension Plan	(67,345)
Receivable from NCRSEP	175,571
Net pension obligation	<u>(477,141)</u>
Net assets, June 30, 2009, as restated	<u>\$ 6,957,881</u>

Fiduciary Funds – Pension Trust Fund:

Net assets, June 30, 2009, as originally stated	\$ 4,088,755
Net pension obligation that was included in error	<u>477,141</u>
Net assets, June 30, 2009, as restated	<u>\$ 4,565,896</u>

Newport County Regional Special Education Program:

As discussed in Note 11, the Little Compton School Department (LCSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP receives Medicaid reimbursements in excess of the budgeted receipts due to LCSD. As of June 30, 2010 and 2009, such receipts amounted to \$180,754 and \$175,571, respectively. The LCSD had not previously recorded any receivable and related deferred revenue associated with such Medicaid reimbursements. Accordingly, the LCSD has restated its financial statements as of June 30, 2009 to record an adjustment to increase LCSD unrestricted assets and liabilities by \$175,571 at June 30, 2009. This adjustment has no impact on the statement of revenues, expenditures and changes in fund balance – governmental funds for the years ended June 30, 2010 and 2009. The impact on the statement of activities for the year ended June 30, 2009 was an increase in revenue of \$175,571.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

10. Restatements (continued):

Employees' Retirement System of the State of Rhode Island:

As a result of pension reform legislative changes made to the Employees' Retirement System of the State of Rhode Island (ERSRI) for teachers and certified staff, the LCSD received an assessment of the employer's contribution due of \$67,345 for the plan year ended June 30, 2009. The amount due, paid in August 2009, was incorrectly recorded as an expense for the year ended June 30, 2010. Accordingly, such amount was restated and charged as an expense for the year ended June 30, 2009. The effect of this restatement was to increase unrestricted school department accounts payable and expenditures by \$67,345.

Wastewater Treatment Plant:

In conjunction with revenue bonds (Note 8), the Town receives state housing aid for a portion of the principal and interest payments made each year. The Town had previously established the receivable and corresponding deferred revenue for the expected amount of state housing aid to be received over the duration of the revenue bond. The Town only receives the state housing aid if and when principal and interest payments are made and therefore the receivable should not have been recorded. The restatement removed the receivable and deferred revenue and transferred the net assets to the general fund to record the state aid in the same fund as the debt repayments. This restatement had no impact on the statement of revenues, expenditures and changes in fund balance-governmental funds or the statement of activities.

2010 expense recorded in 2009 in error:

During 2009, the School Unrestricted Fund paid an expense relating to 2010 which was incorrectly recorded as an expense in 2009 rather than a prepaid expense. The effect of this restatement was to decrease expenditures and increase prepaid expenses by \$57,434.

Net pension obligation:

A restatement was made to properly record the net pension obligation as a liability of the primary government and not the Pension Trust Fund. The effect of the restatement was to reduce the liability and increase net assets by \$477,141 on the Pension Trust Fund and increase the liability and increase expenditures by 477,141 on the government-wide financial statements.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

11. Joint ventures:

Newport County Regional Special Education Program (NCRSEP):

The Little Compton School Department (LCSD), in conjunction with three other member school departments, participates in a joint venture entitled the Newport County Regional Special Education Program (NCRSEP). NCRSEP was formed to provide services to qualified special needs students in the four towns. Each town is assessed its share of the NCRSEP annual operating budget based on each town's share of total students in the region averaged with each town's share of students in the special education program. NCRSEP also administers the federally funded IDEA Part B program for each of the towns. Each town pays salaries and employee benefits directly to the teachers and aides on their respective payroll that work directly for the program; such amounts are deducted from the gross annual assessment. LCSD's net assessment for 2010 was \$434,005. The towns have no equity interest in the net assets of NCRSEP, which totaled approximately \$260,000 at June 30, 2010.

At June 30, 2010, a total of \$180,754 in Medicaid reimbursements due to the LCSD has been recorded as a liability of the NCRSEP. This amount represents Medicaid reimbursements received by the NCRSEP in excess of the budgeted receipts for Little Compton, over a number of years, and is recorded as deferred revenue of the LCSD.

Separately audited financial statements of NCRSEP are available at Newport County Regional Special Education Program, Oliphant Lane, Middletown, RI 02842.

The Health Pool:

The Town participates in a joint venture through the Rhode Island Interlocal Risk Management Trust (the Trust) entitled the Health Pool (the Pool), formerly known as The Governmental Health Group of Rhode Island, Inc. The Pool is part of a not-for-profit organization formed to provide programs of liability, workers' compensation, and health insurance coverage to Rhode Island cities, towns and other governmental units. The Pool is governed by a Board of Directors (Board).

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

TOWN OF LITTLE COMPTON, RHODE ISLAND  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2010

11. Joint venture (continued):

The Health Pool (continued):

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

A member's share of surplus or deficit is equal to the ratio of the member's subscribers (employees and retirees) participating in the Pool's plan for each month of the one-year period immediately prior to the member's effective date of termination, divided by the sum of all subscribers in the Pool for the same period.

The Pool agreement provides the Pool's Board a discretionary, fully allocable assessment feature with respect to specified circumstances.

After it has been a member of the Pool for an initial three-year period, a member may withdraw from the Pool by providing the Pool's Board with 90 days notice; liquidated damages would also be assessed at that time. The Pool may terminate a member's coverage for failure to pay amounts due.

For the year ended June 30, 2010, unaudited results indicate that the Pool generated \$97,124,022 in revenues and excess of expenses over revenues of \$446,522. The Pool had \$21,280,626 in total assets and \$5,363,255 in total equity as of June 30, 2010.

The Pool retains certain levels of insurance risk and acquires reinsurance for specific losses in excess of \$550,000. As of June 30, 2010, the Pool's membership consisted of 37 cities, towns or other governmental units.

Separate financial statements are available at the RI Interlocal Risk Management Trust, 501 Wampanoag Trail, Suite 301, East Providence, RI 02915.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
YEAR ENDED JUNE 30, 2010

	Budget As Adopted	Appropriation Transfers and Additions	Total Available	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
General property taxes and penalties	\$ 9,437,757		\$ 9,437,757	\$ 9,398,104	\$ (39,653)
Intergovernmental revenue	385,301		385,301	412,610	27,309
Licenses, permits and fees	546,912		546,912	316,811	(230,101)
Interest on investments	35,000		35,000	12,352	(22,648)
Beach receipts	165,000		165,000	161,860	(3,140)
Miscellaneous income				12,011	12,011
<b>Total revenues</b>	<b>10,569,970</b>		<b>10,569,970</b>	<b>10,313,748</b>	<b>(256,222)</b>
<b>Expenditures:</b>					
General government	1,729,866	\$ (11,198)	1,718,668	1,572,663	146,005
Financial administration	210,675		210,675	206,976	3,699
Public safety	1,509,118	11,198	1,520,316	1,515,117	5,199
Capital projects and debt service	394,808		394,808	380,997	13,811
Transfer station	170,681		170,681	160,932	9,749
Public works	258,809		258,809	281,224	(22,415)
Public welfare	4,800		4,800	3,600	1,200
Library	126,251		126,251	126,943	(692)
Parks and recreation	136,550		136,550	138,865	(2,315)
Grants and charitable contributions	38,230		38,230	44,939	(6,709)
Miscellaneous	4,650		4,650	-	4,650
<b>Total expenditures</b>	<b>4,584,438</b>	<b>-</b>	<b>4,584,438</b>	<b>4,432,256</b>	<b>152,182</b>
<b>Excess of revenues over expenditures</b>	<b>5,985,532</b>	<b>-</b>	<b>5,985,532</b>	<b>5,881,492</b>	<b>(104,040)</b>
<b>Other financing sources (uses):</b>					
Reappropriated fund balance	198,094		198,094	198,094	-
Transfers between funds	(6,183,626)	-	(6,183,626)	(6,141,626)	42,000
<b>Total other financing sources (uses)</b>	<b>(5,985,532)</b>	<b>-</b>	<b>(5,985,532)</b>	<b>(5,943,532)</b>	<b>42,000</b>
<b>Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(62,040)</b>	<b>\$ (62,040)</b>
<b>Adjustment of budgetary basis to U.S. GAAP basis</b>				<b>(160,497)</b>	
<b>Excess of expenditures and other financing uses over revenues and other financing sources, U.S. GAAP basis</b>				<b>(222,537)</b>	
<b>Fund balance, beginning of year, as restated</b>				<b>1,791,789</b>	
<b>Fund balance, end of year</b>				<b>\$ 1,569,252</b>	

See notes to required supplementary information.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE – SCHOOL DEPARTMENT  
YEAR ENDED JUNE 30, 2010

	Budget As Adopted	Appropriation Transfers and Additions	Total Available	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Funds received State RI – unrestricted	\$ 253,371	\$ -	\$ 253,371	\$ 289,975	\$ 36,604
<b>Federal aid:</b>					
Entitlements	96,922		96,922	70,109	(26,813)
Restricted	15,510		15,510	7,750	(7,760)
Grants	28,467		28,467	320,877	292,410
Miscellaneous receipts				520	520
<b>Total revenues</b>	<b>394,270</b>	<b>-</b>	<b>394,270</b>	<b>689,231</b>	<b>294,961</b>
<b>Expenditures:</b>					
Instructional teachers	2,638,173	-	2,638,173	2,793,032	(154,859)
Substitute teachers	71,853		71,853	47,512	24,341
Instructional paraprofessionals	49,969		49,969	48,592	1,377
Technology and software	72,500		72,500	120,770	(48,270)
Instructional material and supplies	122,375		122,375	252,017	(129,642)
Guidance and counseling	98,903		98,903	68,273	30,630
Library and media	49,877		49,877	38,838	11,039
Extracurricular	27,668		27,668	27,952	(284)
Student health and services	103,893		103,893	114,791	(10,898)
Curriculum development	-		-	7,850	(7,850)
In-service, staff development and support	43,741		43,741	171,237	(127,496)
Therapists, pathologists and attendants	109,262		109,262	113,954	(4,692)
Transportation	434,690		434,690	396,076	38,614
Building operations, utilities and maintenance	542,216		542,216	498,464	43,752
Business operations	147,308		147,308	140,620	6,688
Public and private school tuitions	1,741,673		1,741,673	1,371,927	369,746
Principal	121,741		121,741	118,644	3,097
School office	61,740		61,740	72,841	(11,101)
Superintendent and school board	83,447		83,447	99,553	(16,106)
Legal services	25,000		25,000	19,954	5,046
Unemployment and workers' compensation insurance	31,867		31,867	19,597	12,270
<b>Total expenditures</b>	<b>6,577,896</b>	<b>-</b>	<b>6,577,896</b>	<b>6,542,494</b>	<b>35,402</b>
<b>Excess of expenditures over revenues</b>	<b>(6,183,626)</b>	<b>-</b>	<b>(6,183,626)</b>	<b>(5,853,263)</b>	<b>330,363</b>
<b>Other financing sources/(uses):</b>					
Transfer Town appropriations	6,183,626	-	6,183,626	6,183,626	-
<b>Total other financing sources/(uses)</b>	<b>6,183,626</b>	<b>-</b>	<b>6,183,626</b>	<b>6,183,626</b>	<b>-</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>330,363</b>	<b>\$ 330,363</b>
<b>Adjustment of budgetary basis to U.S. GAAP basis</b>				<b>(30,878)</b>	
<b>Excess of revenues and other financing sources over expenditures and other financing sources U.S. GAAP basis:</b>					
Unrestricted			\$ 339,191		
Restricted			(39,706)	299,485	
<b>Net assets, beginning of year, as restated:</b>					
Unrestricted			805,457		
Restricted			4,040	809,497	
<b>Net assets, end of year:</b>					
Unrestricted			1,144,648		
Restricted			(35,666)	\$ 1,108,982	

The above page includes both unrestricted and restricted figures for the School Department.

See notes to required supplementary information

TOWN OF LITTLE COMPTON, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON SCHEDULES

YEAR ENDED JUNE 30, 2010

Budget preparation and budgetary basis of accounting:

In accordance with the Town's Charter, the Town has formally established budgetary accounting control for its General Fund and the School Department. The General Fund and School Department are subject to an annual operating budget legally adopted at the annual Financial Town Meeting. The annual operating budget's appropriation amounts are supported by revenue estimates and take into account the elimination of accumulated deficits and the reappropriation of accumulated surpluses to the extent necessary. The General Fund and School Department annual operating budgets are in conformity with the legally enacted budgetary basis. The legally enacted budgetary basis differs from accounting principals generally accepted in the United States (U.S. GAAP) in several regards. Budgets are adopted on the modified accrual basis with certain exceptions. Budgetary revenues may include reappropriations from fund equity previously recognized under U.S. GAAP. Budgetary expenditures and expenses are recognized when legally binding orders (encumbrances) are placed.

Adjustments from the budgetary basis to the U.S. GAAP basis of accounting are as follows:

	<u>General Fund</u>	<u>School Department</u>
Reappropriated fund equity	\$ (198,094)	
Change in reserve for encumbrances	<u>37,597</u>	<u>\$ (30,878)</u>
Total adjustments	<u>\$ (160,497)</u>	<u>\$ (30,878)</u>

Budget compliance:

Costs of operations for all departments, offices and agencies established within the Town Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund and the School Department Municipal and budgetary control is legally enforced at the department level. Appropriation transfers between departments require approval by the Town Council.

TOWN OF LITTLE COMPTON, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
BUDGETARY COMPARISON SCHEDULES (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Budgetary – GAAP Reporting reconciliation (continued):

The following General Fund Departments have an excess of expenditures over appropriations:

Public works	\$	22,415
Library		692
Parks and recreation		2,315
Grants and charitable contributions		6,709

The following School Departments have an excess of expenditures over appropriations:

Instructional teachers	\$	154,859
Technology and software		48,270
Instructional materials and supplies		129,642
Extracurricular		284
Student health and services		10,898
Curriculum development		7,850
In-service, staff development and support		127,496
Therapists, pathologist, and attendants		4,692
School office		11,101
Superintendent and school board		16,106

See accompanying independent auditors' report.

TOWN OF LITTLE COMPTON, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

YEAR ENDED JUNE 30, 2010

The information presented in the required supplementary schedule was determined as part of the annual actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation (1) follows:

Valuation date	July 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	30 years
Remaining amortization period	Unknown
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	5.0% per annum

(1) There have been no changes in the above actuarial assumptions or methods from the July 1, 2009 actuarial valuation.

See accompanying independent auditors' report.

TOWN OF LITTLE COMPTON, RHODE ISLAND

CONTRIBUTORY PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS  
(UNAUDITED)

YEAR ENDED JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL ( UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/09	\$ 4,990,643	\$ 7,757,561	\$ 2,766,918	64.33%	\$ 1,730,883	159.86%
07/01/08	5,849,516	7,452,092	1,602,576	78.49%	1,945,970	82.35%
07/01/07	6,121,508	5,927,448	(194,060)	103.27%	1,826,625	-10.62%
07/01/06	5,185,900	6,471,342	1,285,442	80.14%	1,660,654	77.41%
07/01/05	4,732,930	5,883,241	1,150,311	80.45%	1,390,105	82.75%
07/01/04	4,349,939	5,526,100	1,176,161	78.72%	1,259,860	93.36%

See accompanying independent auditors' report

TOWN OF LITTLE COMPTON, RHODE ISLAND  
 CONTRIBUTORY PENSION PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 (UNAUDITED)  
 YEAR ENDED JUNE 30, 2010

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Annual Percent Contribution
2005	\$ 281,263	\$ 329,000	116.97%
2006	303,154	281,263	92.78%
2007	358,331	303,154	84.60%
2008	338,040	358,331	106.00%
2009	424,375	338,040	79.66%
2010	507,896	424,375	83.56%

See accompanying independent auditors' report

TOWN OF LITTLE COMPTON, RHODE ISLAND

SUPPLEMENTARY INFORMATION

SCHEDULE OF UNCOLLECTED PROPERTY TAXES - CASH BASIS

YEAR ENDED JUNE 30, 2010

Tax Roll Year	Balance July 1, 2009	Assessment	Abatements	Collections	Refunds	Adjustments	Balance June 30, 2010
2009		\$ 9,441,514	\$ 16,210	\$ 9,070,601	\$ 1,687	\$ (17,115)	\$ 339,275
2008	\$ 249,495	5,774	3,933	187,800		15,393	78,929
2007	39,217	5,124	3,786	12,856		16,515	44,214
2006	19,256			3,844			15,412
2005	11,114			642			10,472
2004	10,389			1,100			9,289
2003	(1,801)						(1,801)
2002	1,541		341				1,200
2001	964			37			927
2000	252		(78)	99			231
1999	157		(105)				262
1998	486		(12)				498
1997	393		(109)	40			462
1996	228		(124)	94			258
1995	193						193
1994	392						392
1993	529						529
1992	468						468
1991	328					(38)	290
	<u>\$ 333,601</u>	<u>\$ 9,452,412</u>	<u>\$ 23,842</u>	<u>\$ 9,277,113</u>	<u>\$ 1,687</u>	<u>\$ 14,755</u>	501,500
						Less allowance for doubtful accounts	(23,387)
							<u>\$ 478,113</u>

See accompanying independent auditors' report

TOWN OF LITTLE COMPTON, RHODE ISLAND  
SCHEDULE OF PROPERTY TAXES LEVIED AND COLLECTED – CASH BASIS  
YEAR ENDED JUNE 30, 2010

Year Ended June 30	Assessments	Total Collections	Percent Collected	Balance Due June 30, 2010	Delinquent Taxes Owed Percent of Current Assessments
2010	\$ 9,441,514	\$ 9,277,113	98.26%	\$ 501,500	5.31%
2009	9,458,376	9,418,790	99.58%	333,601	3.53%
2008	9,001,274	8,908,704	98.97%	320,609	3.56%
2007	8,568,543	8,502,067	99.22%	257,312	3.00%
2006	8,170,104	8,114,040	99.31%	227,275	2.78%
2005	7,550,740	7,495,171	99.26%	267,667	3.54%
2004	6,862,648	6,849,177	99.80%	235,235	3.43%
2003	6,290,531	6,303,584	100.21%	213,742	3.40%
2002	6,190,736	5,919,804	95.62%	242,006	3.91%
2001	5,686,882	5,658,481	99.50%	265,092	4.66%
2000	5,550,662	5,600,687	100.90%	251,851	4.54%

See accompanying independent auditors' report.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)  
YEAR ENDED JUNE 30, 2010

Schedule of net assessed property value by category:

<u>Description of property</u>	<u>Valuations</u>	<u>Levy</u>
Real property	\$ 1,987,918,097	\$ 9,164,303
Motor vehicles	35,049,234	487,184
Tangible personal	<u>9,487,394</u>	<u>87,474</u>
Total	2,032,454,725	9,738,961
Exemptions	<u>28,674,837</u>	<u>297,447</u>
Current year assessment	<u>\$ 2,003,779,888</u>	<u>\$ 9,441,514</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 9,277,113
Revenue collected within 60 days subsequent to year ended June 30, 2010	<u>207,483</u>
	9,484,596
Prior year revenue received in current year	<u>(115,130)</u>
Current year real estate and personal property tax revenue	<u>\$ 9,369,466</u>



Lefkowitz, Garfinkel, Champi & DeRienzo P.C.  
Certified Public Accountants / Business Consultants

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

The Honorable President and Members  
of the Town Council  
Town of Little Compton, Rhode Island  
Little Compton, Rhode Island

We have audited the financial statements of the governmental activities, the component unit, each major fund, and the aggregate remaining fund information of the Town of Little Compton, Rhode Island, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 30, 2011. 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 Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as Items 2010-1 and 2010-2 in the accompanying schedule of findings and responses to be material weaknesses.

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

The Honorable President and Members of the Town Council  
Town of Little Compton, Rhode Island

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the following instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

*Finding:*

The School Department did not convert its chart of accounts to the Uniform Chart of Accounts mandated by the Rhode Island Department of Education until a date subsequent to the required July 1, 2009 effective date. As a result, there were numerous and significant posting errors as a result of the School Department attempting to reclassify transactions originally reported in the former chart of accounts into the newly mandated chart of accounts.

The Town has not provided responses to the findings identified in our audit.

This report is intended solely for the information and use of management, the Town Council, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Leffkowitz, Jan. Jankel, Charpi & DeGonzal. C.*

March 30, 2011

TOWN OF LITTLE COMPTON, RHODE ISLAND

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2010

**2010-1 Financial Reporting and Close Process (Town-wide):**

*Observations:*

Accounting principles generally accepted in the United States mandate that management of the Town (i) is responsible for the Town's financial statements and external financial reporting; (ii) is responsible for the selection and implementation of appropriate accounting policies and internal controls; and (iii) possess the ability to prepare financial statements, including disclosures and required supplementary information thereto, in accordance with generally accepted accounting principles applicable to governmental entities. Auditing standards generally accepted in the United States require the independent auditor to assess the Town's ability to prepare financial statements, including disclosures and required supplementary information thereto, in accordance with generally accepted accounting principles applicable to governmental entities and to communicate that evaluation to "those charged with governance" within the government, generally the Town Council.

The Town Treasurer is responsible for maintaining the Town's financial records, depositing and disbursing Town funds and preparing and maintaining appropriate financial reports for both internal and external financial reporting, including selecting, implementing and monitoring internal controls over the various activities for which the Treasurer is responsible.

During our audit, we noted the following major items affecting the Town's ability to properly record, summarize and report financial information:

- There is a lack of segregation of duties related to the collection and disbursement of funds, the recording of underlying transactions, and the reconciliation of related activities. The Treasurer has the ability to collect tax payments, post tax payments received to the tax receivable subsidiary ledger and the general ledger, initiate and authorize cash disbursements, sign checks, and reconcile bank statements. Also, the Clerk has the ability to perform all activities described in the preceding sentence except for the ability to sign checks.
- Checks received in the Treasurer's Office, as well as other Town locations, are not restrictively endorsed upon receipt as "for deposit only." Rather, checks received are maintained in the business office or other location and are susceptible to misappropriation until the actual deposit is made.
- Tax receivable balances reported in the general ledger based on the posting of assessments and collections were not reconciled to the Opal accounts receivable subsidiary ledger throughout the year. Consequently, significant adjustments were required to properly report tax receivable balances.
- Tax collections for the month of June 2010 were not recorded, resulting in an overstatement of accounts receivable and deferred revenue in the amount of approximately \$1,553,000.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2010

***2010-1 Financial Reporting and Close Process (Town-wide) (Continued):***

*Observations (continued):*

- Deferred revenue related to tax receivables not collected within 60 days after the end of the fiscal year was not properly adjusted, resulting in an adjustment to deferred revenue of approximately \$81,000.
- Amounts receivable for items other than property taxes due to the Town, and the resulting effect on revenues, as of the end of each month during the year were not identified and recorded in the general ledger.
- Discrepancies identified when performing monthly bank reconciliations were not investigated and resolved throughout the year. Among numerous other entries affecting cash, a cash balance was required to be increased by \$200,000 to reflect a transaction inappropriately recorded as a financing use, cash transactions totaling approximately \$550,000 were required to be reclassified between two cash accounts as a result of improper postings throughout the year, and a cash account was required to be reduced by approximately \$223,000 to reflect inter-fund transactions between the Town and School Department improperly recorded.
- Amounts reported in the general ledger for the various cash and investment accounts maintained by the Town were not compared to the reconciled bank or investment statements throughout the year to determine whether all activity was properly recorded and to identify, on a timely basis, any transactions recorded that were not consistent with management's authorization.
- Amounts payable for goods and services received prior to the end of each month were not identified and recorded as of the end of each month. As a result, amounts reported for accounts payable and accrued expenses were the same amounts reported as of the end of the prior fiscal year.
- The Town has not established a formal capitalization policy to be applied to the acquisition of property and equipment, and depreciation policies are not being consistently applied within asset categories.
- Inter-fund receivable/payable balances between the Town and School Department, and among various other Town funds, were not reconciled throughout the year.
- The School Department did not convert its chart of accounts to the Uniform Chart of Accounts mandated by the Rhode Island Department of Education until a date subsequent to the required July 1, 2009 effective date. As a result, there were numerous and significant posting errors as a result of the School Department attempting to reclassify transactions originally reported in the former chart of accounts into the newly mandated chart of accounts.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2010

***2010-1 Financial Reporting and Close Process (Town-wide) (Continued):***

*Observations (continued):*

Prior to 2010, the Town relied on the auditors to prepare the financial statements, including the disclosures and supplementary information thereto, required by accounting principles generally accepted in the United States. For the year ended June 30, 2010, the Town engaged an outside party to prepare the financial statements, including the disclosures and supplementary information thereto; however, significant changes to amounts reported and disclosed in the financial statements were required.

Independent auditors are required to assess whether the Town has properly designed internal controls over financial reporting, and implemented properly designed controls, to among other things safeguard assets and prepare financial statements in accordance with accounting principles generally accepted in the United States. As a result of our assessment of the design of the Town's internal control over financial reporting, and the number of audit adjustments that were required to adjust the Town's financial statements to conform to generally accepted accounting principles applicable to governmental entities, we believe that the Town's system of financial reporting and internal controls over financial reporting is not adequately designed and that the Town does not possess the requisite internal human resource capabilities.

The Town's prior auditors communicated in their report on compliance and internal control certain material weaknesses in internal control, comments related to the absence of the segregation of duties, cash postings, and the inability to prepare financial statements.

*Recommendation:*

We recommend that the Town review its entire system of internal control over financial reporting, evaluate the design of existing controls, and implement corrective actions. Recognizing that the Town currently has limited internal human resources, we believe that the segregation of duties issues may be resolved by transferring certain responsibilities to other personnel with the requisite knowledge to fulfill the responsibilities, and/or implementing compensating controls to review activities for which segregation of duties is not possible. Also, we recommend that the Town consider hiring qualified human resources personnel to perform the activities for which the Town does not have existing internal human resource capabilities.

TOWN OF LITTLE COMPTON, RHODE ISLAND  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2010

***2010-2 Communications (Town-wide):***

*Observation:*

The 1992 Integrated Framework on Internal Control issued by the Commission on Sponsoring Organizations (COSO), and adopted by the Government Accounting Office in 2004 as applicable to governments at all levels, lists the fundamental and essential objectives of any government as:

- Economy and efficiency of operations, including safeguarding of assets and achievement of desired outcomes;
- Reliability of financial and management reports; and
- Compliance with laws and regulations.

The Information and Communications component is a critical and integral element of the Control Environment and Control Activity component of COSO. This component emphasizes both the **quality** of information generated within the government and the **effectiveness** of communications, whether written or oral in achieving the goals listed above, particularly as they relate to the government's ability to prepare accurate financial information on a timely basis. This requires an integrated accounting system and sufficient oral communications among those charged with the responsibility to maintain accounting records to ensure that the financial information being generated by the accounting system is accurate.

During our audit, we observed the absence of timely and scheduled periodic communication between the Town Treasurer and the School Business Operations Coordinator. Although certain information may be provided by and between the Town and the School Department during the year, there is an absence of integration between the recording and reporting of financial information between the Town and the School Department. For example, School Department transactional activity is not always recorded consistently by the Town and School Department and inter-fund balances between the accounts maintained by the School Department and those maintained by the Town Treasurer were not reconciled throughout the year.

*Recommendation:*

We recommend that the Town develop a formal system of communication that includes accounting processes and procedures that are integrated between the Town and the School Department, and that includes formal and scheduled oral communications to facilitate the timely preparation of monthly and annual financial statements and adherence to the provisions of the Town Charter.