

TOWN OF NEW SHOREHAM, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010



TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2010

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TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2010

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

Independent Auditors' Report

The Honorable First Warden and
Members of the Town Council
Town of New Shoreham, Rhode Island
New Shoreham, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of New Shoreham, 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 management of the Town. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of New Shoreham, Rhode Island as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

Independent Auditors' Report (Continued)

The Honorable First Warden and
Members of the Town Council
Town of New Shoreham, Rhode Island

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2010 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 considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 11, and budgetary comparison schedules and historical pension information on pages 52 through 56 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 tax collector's annual report listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. 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 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Leffkowitz, Jan. Juntel, Charpi & DeGonzal. C.

November 1, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of New Shoreham, Rhode Island (the 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 year ended June 30, 2010.

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2010 by \$29,432,319 (*net assets*). Net assets include \$23,148,737 invested in capital assets, net of related debt; \$2,879,535 of restricted net assets; and \$3,404,047 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$53,945,895 and total liabilities were \$24,513,576 at June 30, 2010. The Town's total net assets decreased by \$288,274 in the current fiscal year (FY 2010).

As of June 30, 2010, the Town's governmental funds reported combined ending fund balances of \$6,164,056, an increase of \$1,539,869 from the prior year. This increase is primarily due to the financing of capital projects in the Old Harbor Dock Construction Fund.

As of June 30, 2010, the unreserved fund balance for the General Fund was \$461,526, or 4% of total budgeted 2010 General Fund expenditures and other financing uses (\$10,819,733). This amount is available for spending at the Town's discretion. However, \$116,626 of this unreserved fund balance was appropriated for construction projects. This reduces the available unreserved fund balance for the General Fund to \$344,900, or 3% of total budgeted 2010 General Fund expenditures and other financing uses.

The Town's total debt increased by \$2,241,409 (11%) during the current fiscal year. The key factors in this increase were the issuance of \$3,440,000 of governmental fund debt, primarily for construction of the Old Harbor Dock and for land acquisition.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements, which are comprised of the following three components:

- government-wide financial statements
- fund financial statements, and
- notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

Government-wide financial statements (continued). The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government; finance administration; fire, rescue and emergency services; police; highways and maintenance; state roads; harbors; building official; recreation; library; GIS/Technology; boards and commissions; community support and education. The business-type activities of the Town include a Sewer Fund and a Water Fund.

The government-wide financial statements include not only the Town itself (known as the *primary government*), but also a legally separate land trust for which the Town is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-13 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. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund financial statements (continued):

Governmental funds (continued). Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental 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 nine individual governmental funds and one component unit fund. 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 Funds, and Old Harbor Dock Construction Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. The individual Component Unit fund has been separately presented.

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

Proprietary funds. *Proprietary funds* are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Both of the Town's enterprise funds, Sewer Fund and Water Fund, are major funds. The Town has no internal service funds.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The North Light Fund and the School Student Activities Fund are fiduciary funds.

The basic fiduciary fund financial statement can be found on page 22 of this report.

Notes to the basic 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 basic financial statements can be found on pages 23-51 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Supplementary information presents schedules detailing certain pension information, as well as budgetary comparison schedules for the General Fund and the School Department to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 52-56 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, assets exceeded liabilities by \$29,432,319 at June 30, 2010.

Net assets invested in capital assets, net of related debt, makes up \$23,148,737, or 79%, of total net assets. This represents the Town's investment in capital assets (e.g., land, buildings, machinery and equipment, vehicles and vessels), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in 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.

A portion of the Town's net assets totaling \$2,879,535, or 10%, represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$164,724 is permanently restricted and is nonexpendable. Unrestricted net assets, totaling \$3,404,047, may be used to meet the government's ongoing obligations to citizens and creditors.

Town of New Shoreham's Net Assets – Primary Government

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 8,077,248	\$ 5,856,070	\$ 141,664	\$ 401,129	\$ 8,218,912	\$ 6,257,199
Capital assets	36,643,961	35,968,955	9,083,022	9,507,049	45,726,983	45,476,004
Total assets	44,721,209	41,825,025	9,224,686	9,908,178	53,945,895	51,733,203
Long-term obligations	21,073,815	18,786,280	2,120,261	2,166,387	23,194,076	20,952,667
Other liabilities	1,263,219	987,247	56,281	72,696	1,319,500	1,059,943
Total liabilities	22,337,034	19,773,527	2,176,542	2,239,083	24,513,576	22,012,610
Net assets:						
Invested in capital assets, net of related debt	16,126,457	17,608,383	7,022,280	7,395,358	23,148,737	25,003,741
Restricted	2,874,535	471,764	5,000		2,879,535	471,764
Unrestricted	3,383,183	3,971,351	20,864	273,737	3,404,047	4,245,088
Total net assets	\$22,384,175	\$22,051,498	\$ 7,048,144	\$ 7,669,095	\$29,432,319	\$29,720,593

Component unit. The assets of the Town's Component Unit, The Block Island Land Trust (Land Trust), exceeded liabilities by \$19,108,870. Net assets invested in capital assets, net of related debt, makes up \$18,290,592, or 96%, of total net assets. The remaining balance of net assets of the Land Trust, totaling \$818,278, is restricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

The Town's net assets decreased by \$288,274. Approximately 61% of the Town's total revenue came from taxes and payments in lieu of taxes, while 14% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 25% of total revenues. The Town's expenses cover a range of services, the largest of which were for schools, public works and harbors, administration costs, and employee benefits. In 2010, governmental activity expenses exceeded program revenues by \$8,262,166. Net expenses from business-type activities exceeded program revenues in 2010 by \$630,900.

The Town of New Shoreham's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,872,091	\$ 1,852,506	\$ 1,280,119	\$ 1,312,200	\$ 3,152,210	\$ 3,164,706
Operating grants and contributions	537,152	489,986			537,152	489,986
Capital grants and contributions	495,776	635,809	18,699	77,290	514,475	713,099
General revenues:						
Property taxes	7,687,341	7,095,283			7,687,341	7,095,283
Grants and contributions, nonspecific	774,034	807,220			774,034	807,220
Other	18,505	52,941	9,949	17,101	28,454	70,042
Total revenues	<u>11,384,899</u>	<u>10,933,745</u>	<u>1,308,767</u>	<u>1,406,591</u>	<u>12,693,666</u>	<u>12,340,336</u>
Expenses:						
General government and finance	1,318,091	1,380,951			1,318,091	1,380,951
Public safety	915,751	927,732			915,751	927,732
Public works, highways, harbors	1,593,370	1,369,728			1,593,370	1,369,728
Recreation	331,601	335,852			331,601	335,852
Public services, library	1,209,926	1,525,923			1,209,926	1,525,923
Education	4,994,145	5,022,962			4,994,145	5,022,962
Interest on long-term debt	804,301	697,396			804,301	697,396
Sewer			1,321,256	1,309,232	1,321,256	1,309,232
Water			608,462	609,975	608,462	609,975
Total expenses	<u>11,167,185</u>	<u>11,260,544</u>	<u>1,929,718</u>	<u>1,919,207</u>	<u>13,096,903</u>	<u>13,179,751</u>
Change in net assets	217,714	(326,799)	(620,951)	(512,616)	(403,237)	(839,415)
Transfers	114,963	119,694			114,963	119,694
Increase (decrease) in net assets	332,677	(207,105)	(620,951)	(512,616)	(288,274)	(719,721)
Net assets, beginning of year	<u>22,051,498</u>	<u>22,258,603</u>	<u>7,669,095</u>	<u>8,181,711</u>	<u>29,720,593</u>	<u>30,440,314</u>
Net assets, end of year	<u>\$ 22,384,175</u>	<u>\$ 22,051,498</u>	<u>\$ 7,048,144</u>	<u>\$ 7,669,095</u>	<u>\$ 29,432,319</u>	<u>\$ 29,720,593</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the Town's net assets by \$332,677, or 1.5%, over the prior year. Key elements of this increase are as follows:

- Bond proceeds, reserves, and capital grants were used to finance capital improvements and acquisitions.
- Property taxes were levied for debt service payments.

A comparison of the total and net cost of services by function for the Town's governmental activities is shown below.

Expenses Net of Program Revenues

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
General government and finance	\$ 1,318,091	\$ 1,380,951	\$ 999,796	\$ 1,170,410
Public safety	915,751	927,732	849,511	832,428
Public works, highways, harbors	1,593,370	1,369,728	398,262	181,888
Recreation	331,601	335,852	27,312	115,984
Public/social services, library	1,209,926	1,525,923	525,014	646,187
Education	4,994,145	5,022,962	4,657,970	4,637,950
Interest on long-term debt	804,301	697,396	804,301	697,396
Total expenses	<u>\$ 11,167,185</u>	<u>\$ 11,260,544</u>	<u>\$ 8,262,166</u>	<u>\$ 8,282,243</u>

Component Unit

The net assets of the Town's component unit increased by \$807,703. A key element in the increase is revenue derived from the 3% transfer fee. The component unit had several capital acquisitions of land and conservation easements during FY 2010, totaling \$399,196.

General Fund Budgetary Highlights

The original budget adopted at the Financial Town Meeting on May 4, 2009 was \$10,819,733 and no changes were made to the final budget for FY 2010.

Actual revenues reported in FY 2010 were less than budgeted amounts by \$218,459. The principal reasons for this include:

- The budgeted transfer of \$145,000 principal payment from the component unit was recorded as a reduction of a note receivable rather than as revenue.
- Interest income was significantly lower than budgeted due to low interest rates and lower cash balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

General Fund Budgetary Highlights (Continued)

Actual expenditures exceeded budgeted amounts by \$386,999. The principal reasons for this include:

- Capital outlays of \$453,498 in excess of budgeted amounts, which were funded by grant expenditures for renovations of the North Light tower and RI-LEAP highway improvements. Most of this grant revenue is deferred revenue to be received and recognized as revenue in future periods.
- Expenditures of \$41,584 related to the implementation of a municipal fire alarm system were unbudgeted.

The total excess of expenditures and other financing uses over revenue and other financing sources on a budgetary basis was \$1,017,146. This includes repayment of a \$350,000 BAN, issuance and repayment of a \$2,720,000 BAN and issuance of a \$3,440,000 general obligation bond, partially offset by transfers to the School Fund of \$4,230,251 and the acquisition of Plat 6 Lot 147.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$45,726,983 (net of accumulated depreciation). This investment includes land and land improvements, buildings and improvements, machinery and equipment, vehicles and vessels, furniture and fixtures, underground piping, wells/reserve osmosis/water supply and construction in progress. The total increase in the Town's investment in capital assets for the current fiscal year was \$250,979, of which an increase of \$675,006 is related to governmental activities and a decrease of \$424,027 is related to business-type activities.

Additions to capital assets in 2010 for governmental activities included the acquisition of a waterfront parcel in the Old Harbor area, renovations and improvements at the North Light, library books and continued renovation of the Old Harbor Dock.

Additions to capital assets in the Sewer and Water Funds were offset by depreciation expense.

Additional information regarding capital assets can be found in Note 6 on pages 35 and 36 of this report.

Long-term debt. As of June 30, 2010, the Town has total bonded debt outstanding of \$22,525,542, which is backed by the full faith and credit of the Town.

The Town has two capital leases outstanding at June 30, 2010 with a balance totaling \$159,642.

Long-term debt includes \$2,060,742 of outstanding loans to the Block Island Water Company and New Shoreham Sewer Commissions (Business Activities), which includes \$1,566,742 payable to the United States Department of Agriculture (USDA).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration (Continued)

Long-term debt (continued). The Town's Component Unit has total bonded debt outstanding of \$568,854, which are general obligation bonds of the Town. The Component Unit also has a note outstanding totaling \$2,630,000 due to the Town.

Town of New Shoreham's Outstanding Debt General Obligation Bonds and Loans Payable

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$20,464,800	\$18,332,537	\$ 2,060,742	\$ 2,111,691	\$22,525,542	\$20,444,228
Capital leases	159,642	102,559			159,642	102,559
Accrued compensated absences	380,373	351,184	59,519	54,696	439,892	405,880
Other post-employment benefits	69,000				69,000	
Total	<u>\$21,073,815</u>	<u>\$18,786,280</u>	<u>\$ 2,120,261</u>	<u>\$ 2,166,387</u>	<u>\$23,194,076</u>	<u>\$20,952,667</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to three percent (3%) of its total equalized valuation. The debt limitation for the Town is \$63,812,161 as of the December 31, 2008 assessment, which significantly exceeds the Town's outstanding general debt.

In January 2009, S&P upgraded the Town's bond rating from A+ to AA. Primary factors driving the ratings increase include sound financial position, low per capita debt levels and strong market value per capita. This follows a ratings upgrade in May 2005 from A to A+ and an A+ ratings affirmation in April 2006. Additional information regarding the Town's long-term debt can be found in Note 7 on pages 37-43 of this report.

Commitments

The Town has entered into a contract with Reagan Construction Corp. in the amount of \$2,097,000 for the construction of the Old Harbor Dock.

Economic Factors and Next Year's Budget and Rates

The Town of New Shoreham, popularly known as Block Island, enjoys a favorable economic environment and local indicators point to continued stability. Block Island is a 10 square mile island off the coast of Rhode Island at the mouth of Long Island Sound. The year-round population of approximately 1,010 ranks New Shoreham last among the 39 cities and towns in Rhode Island, but the summer population swells to between 15,000 and 20,000. Employment is primarily in service industries, focused on the tourism sector. The predominantly residential tax base (92% residential) shows small but steady growth that brought the net assessed value to \$2,091,627,244 at December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Economic Factors and Next Year's Budget and Rates (Continued)

With the approval of the taxpayers at the May 3, 2010 Financial Town Meeting, the tax rate on real property increased by \$1.00/\$1,000 (28%), from \$3.58/\$1,000 in 2009 to \$4.58/\$1,000 in 2010. The increase was driven by a statistical revaluation of assessed values as of December 31, 2009, partially offset by increasing debt service costs of the Town and reductions in other funding sources.

In October 2004, the Town entered into an agreement with the State of Rhode Island Department of Transportation for the management of the State-owned highways on the island. Under this agreement, the Town oversees the day-to-day maintenance and operations of the State highways. In exchange, the State compensates the Town \$327,958 annually. The State retains responsibility for any major capital improvements required.

Component Unit

The Town's component unit, the Block Island Land Trust, was created by an Act of the Rhode Island General Assembly on January 15, 1986. The purpose of the Land Trust is to acquire, hold and manage real property and interests in real property situated in the Town consisting of open, agricultural or littoral property. With the exception of property acquired for public recreational purposes, the Land Trust is required to hold all property solely as open space or for agricultural use or for water protection purposes, as determined by the Board of Trustees.

The Land Trust is funded principally by fees levied on qualifying real property transfers within the Town. The transfer fee adopted by the Land Trust for the year ended June 30, 2010 was 3%.

The Land Trust may request the Town to issue bonds for the purpose of financing its activities. The Land Trust has used proceeds from portions of authorized bond amounts for land and land right acquisitions and is responsible for the repayment of all principal and interest. The Land Trust was authorized to bond up to \$6,000,000 in May 2001. It used \$3,500,000 to purchase the Hodge property in FY 2003, and \$450,000 to purchase the Turnip Farm land. There is \$2,050,000 in authority remaining. At the May 2, 2005 Financial Town Meeting, voters authorized an additional \$4,000,000 for total authority of \$6,050,000.

The \$807,703 increase in net assets for 2010 is due primarily to \$1,004,040 in revenue derived from the transfer tax.

Requests for information

This financial report is designed to provide a general overview of the Town of New Shoreham's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, PO Box 220, 16 Old Town Road, Block Island, RI 02807.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Block Island Land Trust
ASSETS:				
Cash and cash equivalents	\$ 3,668,929	\$ 316,973	\$ 3,985,902	\$ 358,458
Investment				384,985
Accounts receivable, less allowance for doubtful accounts of \$64,274:				
Property taxes	201,672		201,672	
Federal and state government	573,810	29,725	603,535	
Assessments and user fees	103	125,181	125,284	
Note receivable				81,187
Other	537,660	5,862	543,522	3,430
Internal balances	355,394	(354,576)	818	(818)
Temporarily restricted assets, cash and cash equivalents	2,742		2,742	
Note receivable from component unit	2,630,000		2,630,000	
Deferred charges	106,938	18,499	125,437	7,296
Capital assets not being depreciated	18,528,393	974,882	19,503,275	21,489,446
Capital assets being depreciated, net	18,115,568	8,108,140	26,223,708	
Total assets	44,721,209	9,224,686	53,945,895	22,323,984
LIABILITIES:				
Accounts payable and accrued expenses	1,204,952	56,281	1,261,233	16,260
Due to federal and state government	24,902		24,902	
Unearned revenue	33,365		33,365	
Due to primary government:				
Due within one year				150,000
Due in more than one year				2,480,000
Long-term obligations:				
Due within one year	1,282,924	73,960	1,356,884	96,423
Due in more than one year	19,790,891	2,046,301	21,837,192	472,431
Total liabilities	22,337,034	2,176,542	24,513,576	3,215,114
Commitments and contingencies (Notes 11 and 12)				
NET ASSETS:				
Invested in capital assets, net of related debt	16,126,457	7,022,280	23,148,737	18,290,592
Restricted for:				
Capital projects	2,462,321		2,462,321	
Education	214,562		214,562	
Library	32,928		32,928	
Land to be held in perpetuity				818,278
Other:				
Expendable	-	5,000	5,000	
Nonexpendable	164,724		164,724	
Unrestricted	3,383,183	20,864	3,404,047	
Total net assets	\$ 22,384,175	\$ 7,048,144	\$ 29,432,319	\$ 19,108,870

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,007,885	\$ 273,055	\$ 5,000	\$ 7,392	\$ (722,438)		\$ (722,438)	
Finance administration	310,206	-	32,848	-	(277,358)		(277,358)	
Fire, rescue and emergency services	240,139	-	21,700	-	(218,439)		(218,439)	
Police	675,612	13,393	41,510	(10,363)	(631,072)		(631,072)	
Town highways/maintenance	552,949	14,515	2,894	-	(535,540)		(535,540)	
State roads	304,664	327,958	-	-	23,294		23,294	
Harbors	560,792	745,540	1,000	24,000	209,748		209,748	
Building official	174,965	79,201	-	-	(95,764)		(95,764)	
Recreation	331,601	234,224	-	70,065	(27,312)		(27,312)	
Library	556,572	6,087	127,961	55,000	(367,524)		(367,524)	
GIS/Technology	96,003	-	-	-	(96,003)		(96,003)	
Boards and commissions	187,979	8,511	-	349,682	170,214		170,214	
Community support	369,372	115,687	21,984	-	(231,701)		(231,701)	
Education	4,994,145	53,920	282,255	-	(4,657,970)		(4,657,970)	
Interest on long-term debt	804,301	-	-	-	(804,301)		(804,301)	
Total governmental activities	11,167,185	1,872,091	537,152	495,776	(8,262,166)		(8,262,166)	
Business-type activities:								
Sewer	1,321,256	878,694	-	-		\$ (442,562)	(442,562)	
Water	608,462	401,425	-	18,699		(188,338)	(188,338)	
Total business-type activities	1,929,718	1,280,119	-	18,699		(630,900)	(630,900)	
Total primary government	\$ 13,096,903	\$ 3,152,210	\$ 537,152	\$ 514,475	(8,262,166)	(630,900)	(8,893,066)	
Component unit:								
Block Island Land Trust	\$ 202,044	\$ 1,004,040	\$ 100	\$ -				\$ 802,096
General revenues:								
Property taxes					7,687,341		7,687,341	
Grants and contributions not restricted to specific programs					774,034		774,034	
Investment earnings					18,505	9,949	28,454	5,607
Transfers from component unit					114,963		114,963	
Total general revenues and transfers					8,594,843	9,949	8,604,792	5,607
Change in net assets					332,677	(620,951)	(288,274)	807,703
Net assets, beginning of year					22,051,498	7,669,095	29,720,593	18,301,167
Net assets, end of year					\$ 22,384,175	\$ 7,048,144	\$ 29,432,319	\$ 19,108,870

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2010

	<u>General Fund</u>	<u>School Funds</u>	<u>Old Harbor Dock Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 907,487	\$ 329,953	\$ 2,067,695	\$ 366,536	\$ 3,671,671
Receivables:					
Property taxes, less allowance for doubtful accounts of \$40,000	201,672				201,672
Assessments and user fees	103				103
Intergovernmental	555,873	17,937			573,810
Other	57,238	5,315	475,107		537,660
Due from other funds	395,190	400,871			796,061
Note receivable, component unit	<u>2,630,000</u>				<u>2,630,000</u>
Total assets	<u>\$ 4,747,563</u>	<u>\$ 754,076</u>	<u>\$ 2,542,802</u>	<u>\$ 366,536</u>	<u>\$ 8,410,977</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 510,906	\$ 524,413	\$ 50,656	\$ 4,669	\$ 1,090,644
Due to federal and state government	24,902				24,902
Due to other funds	385,770	15,101	9,273	30,523	440,667
Deferred revenue	<u>690,708</u>				<u>690,708</u>
Total liabilities	<u>1,612,286</u>	<u>539,514</u>	<u>59,929</u>	<u>35,192</u>	<u>2,246,921</u>
Fund balances:					
Reserved for:					
Note receivable	2,630,000				2,630,000
Perpetual care				164,724	164,724
Other	43,751	9,429			53,180
Unreserved, reported in:					
General Fund	461,526				461,526
Special revenue funds		205,133		187,172	392,305
Capital project funds			<u>2,482,873</u>	<u>(20,552)</u>	<u>2,462,321</u>
Total fund balances	<u>3,135,277</u>	<u>214,562</u>	<u>2,482,873</u>	<u>331,344</u>	<u>6,164,056</u>
Total liabilities and fund balances	<u>\$ 4,747,563</u>	<u>\$ 754,076</u>	<u>\$ 2,542,802</u>	<u>\$ 366,536</u>	<u>\$ 8,410,977</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS

JUNE 30, 2010

Total fund balances for governmental funds		\$	6,164,056
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	36,643,961	
Deferred charges		<u>106,938</u>	36,750,899
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds.			657,343
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable		20,464,800	
Capital leases		159,642	
Accrued other post-employment benefits		69,000	
Compensated absences payable		380,373	
Accrued interest		<u>114,308</u>	<u>(21,188,123)</u>
Net assets of governmental activities			<u>\$ 22,384,175</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>School Funds</u>	<u>Old Harbor Dock Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 7,587,972				\$ 7,587,972
Intergovernmental	1,321,509	\$ 282,255		\$ 17,331	1,621,095
Licenses, permits and fees	332,176				332,176
Interest and investment	12,919		\$ 2,067	3,519	18,505
Transfer from component unit	114,963				114,963
Other revenues	1,193,920	53,920		193,558	1,441,398
Total revenues	<u>10,563,459</u>	<u>336,175</u>	<u>2,067</u>	<u>214,408</u>	<u>11,116,109</u>
Expenditures:					
Current:					
General government	1,008,938				1,008,938
Finance administration	303,956				303,956
Fire, rescue and emergency services	260,164				260,164
Police	633,150				633,150
Town highways/maintenance	715,960				715,960
State roads	304,664				304,664
Harbors	467,280				467,280
Building official	172,914				172,914
Recreation	279,138				279,138
Library	444,925			32,149	477,074
GIS/Technology	96,003				96,003
Boards and commissions	204,814			11,451	216,265
Community support	298,835			21,123	319,958
Education		4,496,590			4,496,590
Capital outlay			674,801	99,659	774,460
Debt service:					
Principal	962,563				962,563
Interest	785,362			3,295	788,657
Bond issuance costs			28,460		28,460
Total expenditures	<u>6,938,666</u>	<u>4,496,590</u>	<u>703,261</u>	<u>167,677</u>	<u>12,306,194</u>
Excess (deficiency) of revenues over expenditures	<u>3,624,793</u>	<u>(4,160,415)</u>	<u>(701,194)</u>	<u>46,731</u>	<u>(1,190,085)</u>
Other financing sources (uses):					
Other financing sources	3,490,012		2,670,000		6,160,012
Sale of property			475,107		475,107
Transfers to other funds	(4,230,251)			(3,465)	(4,233,716)
Other financing uses	(3,905,165)				(3,905,165)
Transfers from other funds	3,465	4,230,251			4,233,716
Total other financing sources (uses)	<u>(4,641,939)</u>	<u>4,230,251</u>	<u>3,145,107</u>	<u>(3,465)</u>	<u>2,729,954</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(1,017,146)</u>	<u>69,836</u>	<u>2,443,913</u>	<u>43,266</u>	<u>1,539,869</u>
Fund balance, beginning of year	<u>4,152,423</u>	<u>144,726</u>	<u>38,960</u>	<u>288,078</u>	<u>4,624,187</u>
Fund balance, end of year	<u>\$ 3,135,277</u>	<u>\$ 214,562</u>	<u>\$ 2,482,873</u>	<u>\$ 331,344</u>	<u>\$ 6,164,056</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2010

Net change in fund balances for governmental funds		\$ 1,539,869
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities these costs are allocated over the life of the related asset and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 1,658,762	
Depreciation expense	<u>(983,756)</u>	675,006
<p>Governmental funds report bond issuance costs as expenditures. However, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.</p>		
Bond issuance costs	26,277	
Amortization expense	<u>6,137</u>	32,414
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		383,753
<p>The issuance of long-term debt (including premiums or discounts) 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. Bond premiums, discounts and refunding charges are deferred and amortized as part of future interest expense.</p>		
Issuance of general obligation bonds and capital leases	(6,263,283)	
Principal repayment on general obligation bonds and capital leases	4,078,751	
Amortization of premiums, discounts and deferred charges on refundings	<u>(4,814)</u>	(2,189,346)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Accrued compensated absences	(29,189)	
Accrued other post-employment benefits	(69,000)	
Accrued interest	<u>(10,830)</u>	(109,019)
Change in net assets of governmental activities		<u>\$ 332,677</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF NET ASSETS – ENTERPRISE FUNDS

JUNE 30, 2010

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 98,931	\$ 218,042	\$ 316,973
Accounts receivable, net of allowance for doubtful accounts of \$9,274 and \$15,000, respectively:			
Assessments and user fees	56,042	69,139	125,181
Federal and state government		29,725	29,725
Other	<u>5,862</u>		<u>5,862</u>
Total current assets	160,835	316,906	477,741
Noncurrent assets:			
Deferred charges	5,976	12,523	18,499
Capital assets not being depreciated	892,880	82,002	974,882
Capital assets being depreciated, net	<u>4,006,858</u>	<u>4,101,282</u>	<u>8,108,140</u>
Total assets	<u>5,066,549</u>	<u>4,512,713</u>	<u>9,579,262</u>
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	39,557	16,724	56,281
Due to other funds	354,576		354,576
Accrued compensated absences	28,671		28,671
Current portion of long-term debt	<u>11,997</u>	<u>33,292</u>	<u>45,289</u>
Total current liabilities	<u>434,801</u>	<u>50,016</u>	<u>484,817</u>
Noncurrent liabilities:			
Accrued compensated absences	30,848		30,848
Loans payable, net of current portion	<u>957,109</u>	<u>1,058,344</u>	<u>2,015,453</u>
Total noncurrent liabilities	<u>987,957</u>	<u>1,058,344</u>	<u>2,046,301</u>
Total liabilities	<u>1,422,758</u>	<u>1,108,360</u>	<u>2,531,118</u>
NET ASSETS:			
Invested in capital assets, net of related debt	3,930,632	3,091,648	7,022,280
Reserved for building	5,000		5,000
Unrestricted	<u>(291,841)</u>	<u>312,705</u>	<u>20,864</u>
Total net assets	<u>\$ 3,643,791</u>	<u>\$ 3,404,353</u>	<u>\$ 7,048,144</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS –
ENTERPRISE FUNDS

YEAR ENDED JUNE 30, 2010

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Assessments and user fees	\$ 582,165	\$ 390,950	\$ 973,115
Water contract	233,811		233,811
Other revenues	<u>44,718</u>	<u>10,475</u>	<u>55,193</u>
Total operating revenues	<u>860,694</u>	<u>401,425</u>	<u>1,262,119</u>
Operating expenses:			
Salaries and benefits	584,002		584,002
Contracted services	72,595	258,410	331,005
Materials and supplies	57,558	16,454	74,012
Repairs and maintenance	55,022	26,923	81,945
Depreciation	348,342	176,834	525,176
Utilities	114,460	42,629	157,089
Professional services	36,012	16,393	52,405
Miscellaneous	<u>11,584</u>	<u>25,522</u>	<u>37,106</u>
Total operating expenses	<u>1,279,575</u>	<u>563,165</u>	<u>1,842,740</u>
Operating loss	<u>(418,881)</u>	<u>(161,740)</u>	<u>(580,621)</u>
Nonoperating revenues (expenses):			
Interest revenue	4,928	5,021	9,949
Grant revenue		18,699	18,699
Rentals and fees	18,000		18,000
Interest expense	(41,437)	(44,226)	(85,663)
Amortization of bond issuance costs	(166)	(1,071)	(1,237)
Miscellaneous	<u>(78)</u>		<u>(78)</u>
Total nonoperating revenues (expenses)	<u>(18,753)</u>	<u>(21,577)</u>	<u>(40,330)</u>
Change in net assets	(437,634)	(183,317)	(620,951)
Net assets, beginning of year	<u>4,081,425</u>	<u>3,587,670</u>	<u>7,669,095</u>
Net assets, end of year	<u>\$ 3,643,791</u>	<u>\$ 3,404,353</u>	<u>\$ 7,048,144</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND
STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 576,439	\$ 390,644	\$ 967,083
Cash received from other sources	38,157	10,475	48,632
Cash receipts for quasi-external transactions	239,985		239,985
Cash paid to employees for benefits	(578,131)		(578,131)
Cash paid to suppliers	(339,253)	(136,169)	(475,422)
Cash payments for quasi-external transactions		(250,088)	(250,088)
Net cash provided by (used in) operating activities	<u>(62,803)</u>	<u>14,862</u>	<u>(47,941)</u>
Cash flows from noncapital financing activities:			
Interfund balances	109,870	2,365	112,235
Rental income	<u>17,922</u>		<u>17,922</u>
Net cash provided by noncapital financing activities	<u>127,792</u>	<u>2,365</u>	<u>130,157</u>
Cash flows from capital and related financing activities:			
Capital contributions	-	5,001	5,001
Acquisition and construction of fixed assets	(102,605)	(23,600)	(126,205)
Principal paid on bonds and notes	(11,509)	(39,440)	(50,949)
Interest paid on bonds and notes	<u>(41,482)</u>	<u>(44,640)</u>	<u>(86,122)</u>
Net cash used in capital and related financing activities	<u>(155,596)</u>	<u>(102,679)</u>	<u>(258,275)</u>
Cash provided by investing activities, interest received	<u>4,928</u>	<u>5,021</u>	<u>9,949</u>
Net decrease in cash and cash equivalents	(85,679)	(80,431)	(166,110)
Cash and cash equivalents, beginning of year	<u>184,610</u>	<u>298,473</u>	<u>483,083</u>
Cash and cash equivalents, end of year	<u>\$ 98,931</u>	<u>\$ 218,042</u>	<u>\$ 316,973</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (418,881)	\$ (161,740)	\$ (580,621)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	348,342	176,834	525,176
Changes in assets and liabilities:			
Accounts receivable:			
Assessments and user fees	(5,726)	(306)	(6,032)
Other	(387)		(387)
Accounts payable and accrued expenses	9,026	74	9,100
Accrued compensated absences	4,823		4,823
Net cash provided by (used in) operating activities	<u>\$ (62,803)</u>	<u>\$ 14,862</u>	<u>\$ (47,941)</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS

JUNE 30, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 19,302</u>
Total assets	<u><u>\$ 19,302</u></u>
LIABILITIES:	
Deposits held in custody for others	<u>\$ 19,302</u>
Total liabilities	<u><u>\$ 19,302</u></u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies:

The basic financial statements of the Town of New Shoreham, Rhode Island (the Town) have been prepared in conformity with accounting principles generally accepted in the United States applicable to governmental entities (U.S. GAAP). In certain instances, summaries of the Town's significant accounting policies have been presented throughout the notes to the basic financial statements in conjunction with other disclosures to which they relate.

Financial reporting entity:

The Town was incorporated in 1672 and is governed under a home rule charter adopted in 1988 and revised in 2001. The charter provides for a Town Council/Town Manager form of government. Legislative authority is vested in a five-member Town Council elected to biennial terms. A five-member School Committee is vested with autonomous legislative authority over the Town's public school system. Members of the School Committee are elected to biennial terms.

The council-appointed Town Manager serves as chief executive officer over all municipal services including public safety (police, fire, rescue, and emergency services), public works (highway, harbors, maintenance, and sanitation), health and social services, recreation, public improvements, planning, zoning and inspection, and general administrative services. The Superintendent of Schools, appointed by the School Committee, serves as the chief executive officer for the School Department, which provides elementary and secondary education to Town residents.

All legislative powers of the Town, except such powers as are reserved by state law or vested in the Financial Town Meeting by the Charter and by-laws enacted by the Town Council, are vested in the Town Council by the Charter, including the ordering of any tax, making of appropriations and transacting of any other business pertaining to the financial affairs of the Town.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Town applied the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Through the application of GASB Statement Nos. 14 and 39 criteria, the Block Island Land Trust (Land Trust) has been presented as a component unit of the Town, hereinafter referred to as "component unit," in the accompanying government-wide financial statements. The separate financial statements of the Land Trust can be obtained from the Block Island Land Trust, PO Box Drawer 220, Block Island, RI 02807.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Financial reporting entity (continued):

An elected Board of Trustees governs the Land Trust. The purpose of the Land Trust is to promote preservation of the environment and character of the Town; preserve suitable open spaces for recreation and for the conservation of forestry and wildlife; promote responsible development of real estate and sound conservational practices; protect environmentally sensitive or threatened existing and/or future fresh-water wellfields, aquifer recharge areas and wetlands; and to promote public access and views of harbors, ponds, marshes, farmland or forest situated in the Town. Upon termination or dissolution of the Land Trust, title to all remaining funds, land and land rights will vest with the Town. The Land Trust is included in the Town's reporting entity because of the significance of its operational and financial relationships with the Town.

Basis of presentation:

Government-wide financial statements:

The statement of net assets and statement of activities display information about the Town as a whole. They include all funds of the Town except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between expenses and program revenue for each function of the Town's governmental activities. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements:

Fund financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

- (a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- (b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Fund types used by the Town and a description of the funds comprising each are as follows:

Governmental funds:

Governmental funds are used to account for operations that supply basic government services. The Town uses the following governmental funds:

General Fund:

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special revenue funds:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The Town's only major special revenue fund is the School Department, reported as School Funds.

Capital projects funds:

Capital projects funds are used to account for financial resources designated for the acquisition or construction of major capital projects or items, other than those financed by a proprietary fund. The Town's only major capital projects fund is the Old Harbor Dock Construction Fund.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Permanent funds:

Permanent funds account for assets held by the Town where the principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. The Town's only permanent fund is the Cemetery Fund, which is a nonmajor fund.

Proprietary funds:

Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Both of the Town's enterprise funds, Sewer Fund and Water Fund, are major funds. The Town has no internal service funds.

Fiduciary funds:

Fiduciary funds are used to report assets held by the Town in a trustee or agency capacity; therefore, they cannot be used to support the Town's own programs. The Town's only fiduciary funds are agency funds which are established when the Town holds assets in custody for others in an agency capacity.

Measurement focus and basis of accounting:

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

Governmental fund 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 (60 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, payments in lieu of taxes, federal impact aid, state aid, telephone, hotel and 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 and thus 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 both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The 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 NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

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

When both restricted and unrestricted resources are available for use, it is the Town'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.

Property taxes:

Property taxes are recognized as revenue in the year they are levied and become available. Taxes are levied in July on (a) eighty percent of the full and fair value of real and tangible personal property owned within the Town the previous December 31; and, (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the Town the previous calendar year, prorated for the actual number of days so registered, reduced by the amount exempt under the Motor Vehicle Phase-Out Program. Taxes levied in July are payable on and between the 15th day of August and the 31st day of August. Taxes may be paid in quarterly installments on August 15, November 15, February 15 and May 15.

Rhode Island general laws restrict the Town's ability to increase either its total tax levy or its tax rates by more than 4.75% over those of the preceding year. However, in April 2009, the Rhode Island Department of Revenue – Division of Municipal Finance, authorized the Town to exceed the limit for fiscal year 2010 by no more than \$297,550.

Intergovernmental revenues:

State aid is recognized as revenue in the year in which funds are appropriated by the Rhode Island General Assembly, provided they are collected during the same fiscal year.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

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 must insure deposits of municipalities or pledge eligible collateral equal to 100% of deposits maturing in greater than 60 days. Any institution not meeting certain federally prescribed minimum capital standards must insure deposits or provide collateral regardless of date of maturity. The Town complied with these requirements. The Town does not have a deposit policy for custodial credit risk or other risks.

Investments:

Investments are reported at fair value, as established by quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income. State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. The Town does not have an investment policy for custodial credit risk or other risks.

Interfund transactions:

Transactions between funds have been eliminated in the government-wide financial statements but are fully presented within the governmental fund financial statements with no elimination made between or within funds. Reimbursements are accounted for as expenditures in the reimbursing fund and reductions to expenditures in the reimbursed fund. All other interfund transactions in the governmental fund financial statements are operating transfers on the operating statements of the funds involved.

Interfund receivables and payables are classified as "due from other funds" or "due to other funds."

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Capital assets:

Government-wide financial statements:

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 their estimated fair value at the date of donation.

Capitalizable fixed assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Town is exempt from reporting the value of prior infrastructure assets in its financial statements. However, the Town has elected to report infrastructure assets, commencing July 1, 2005. The value of business-type fund infrastructure assets is fully reported and depreciated as applicable in the enterprise funds financial statements.

Depreciation of 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 of depreciation. The ranges of estimated useful lives by type of asset are as follows:

	<u>Years</u>
Land improvements	30
Buildings and improvements	10-30
Furniture and fixtures	5
Motor vehicles and vessels	5-10
Machinery and equipment	5-10
Infrastructure	30

Capital assets of the component unit consist principally of nondepreciable land. Land in the component unit is stated at cost, if acquired, or estimated fair value at date of donation, if donated.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest was capitalized for the year ended June 30, 2010.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Capital assets (continued):

Fund financial statements:

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

Bond issuance costs:

Bond issuance costs for government-wide operations and proprietary funds are deferred and amortized over the term of the bonds using the straight-line method. In governmental funds, bond issuance costs are recognized as debt service expenditures in the current period.

Compensated absences:

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual vacation 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(s) that will pay it.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations (including compensated absences) are reported as liabilities in the statement of net assets. Bond issuance premiums and discounts are deferred and amortized over the term of the related debt using the effective interest method.

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. The face amount of debt issued is reported as other financing sources. Bond issuance costs are expensed as incurred. Bond premiums are reported as other financing sources while discounts are reported as other financing uses.

TOWN OF NEW SHOREHAM, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

1. Summary of significant accounting policies (continued):

Fund equity:

Government-wide financial statements:

Net assets:

The Town's net assets have been segregated into the following three components:

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.

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 either not appropriable for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

2. Fund balances:

Designated fund balances:

As of June 30, 2010, unreserved fund balance designations are as follows:

	General Fund
Town Hall construction	\$ 70,000
North Light construction	46,626
Total	\$ 116,626

At June 30, 2010, only the Town Hall Construction Fund had a deficit (negative) fund balance.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. Deposits and investments:

At June 30, 2010, the carrying amount of the Town's deposits was \$4,007,946, including \$3,193,972 of cash equivalents, and the total bank balance was \$4,211,437. Included in these balances are deposits of agency funds totaling \$19,302.

The Town continues to maintain its collateralization and custodian agreement with The Washington Trust Company whereby certain funds are collateralized and held in the Town's name.

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

	Insured/ collateralized in Town's name	Maturities	Total bank balance	Carrying amount
Deposits:				
Demand deposits	\$ 1,011,454		\$ 1,011,454	\$ 806,931
Restricted cash and cash equivalents	6,193		6,193	2,742
Petty cash				4,311
Certificates of deposit	2,429,937	7/15/10- 7/31/10	2,429,937	2,430,109
Money market	<u>763,853</u>		<u>763,853</u>	<u>763,853</u>
	<u>\$ 4,211,437</u>		<u>\$ 4,211,437</u>	<u>\$ 4,007,946</u>

At June 30, 2010, deposits and investment of the component unit are categorized as follows:

Type	Maturities	Total bank balance	Carrying value
Deposits, demand deposits		<u>\$ 362,774</u>	<u>\$ 358,458</u>
Investment, United States Treasury Bill	7/15/2010		<u>\$ 384,985</u>

At June 30, 2010, the component unit had \$112,774 on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) under the revised FDIC limits.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. Assets held in trust:

The Town's library is the beneficiary of the Island Free Library Endowment Fund held by the Rhode Island Foundation. Since the assets are administered at the discretion of the trustee, which has the unilateral power to redirect the use of the assets to another beneficiary, the assets are not included in the accompanying financial statements. The fair value of these assets at June 30, 2010 totaled approximately \$47,500. The net investment gain for the year was approximately \$6,100.

5. Interfund receivables/payables:

Interfund receivables and payables at June 30, 2010 were as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:	Governmental funds:	
General Fund	School Funds	\$ 15,101
	Old Harbor Dock Construction Fund	9,273
	Other Governmental Funds	30,523
	Enterprise funds:	
	Sewer	354,576
	Component unit:	
	Block Island Land Trust	818
		410,291
School Funds	Governmental funds:	
	General Fund	385,770
		\$ 796,061

The interfund receivables and payables arose from normal operations – principally payroll and school appropriations.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Capital assets:

Governmental activities:	Beginning balances	Increases	Decreases	Ending balances
Capital assets not being depreciated:				
Land	\$ 17,521,552	\$ 743,897	\$ -	\$ 18,265,449
Construction in progress	586,085	295,025	(618,166)	262,944
Total capital assets not being depreciated	<u>18,107,637</u>	<u>1,038,922</u>	<u>(618,166)</u>	<u>18,528,393</u>
Capital assets being depreciated:				
Land improvements	2,032,257	-	-	2,032,257
Buildings and improvements	19,539,229	716,666	-	20,255,895
Vehicles and vessels	1,909,872	28,500	-	1,938,372
Furniture and equipment	668,335	64,552	(23,185)	709,702
Machinery and equipment	835,610	178,606	-	1,014,216
Infrastructure	1,560,363	249,682	-	1,810,045
Total capital assets being depreciated	<u>26,545,666</u>	<u>1,238,006</u>	<u>(23,185)</u>	<u>27,760,487</u>
Less accumulated depreciation for:				
Land improvements	800,374	65,108	-	865,482
Buildings and improvements	5,395,657	664,127	-	6,059,784
Vehicles and vessels	1,325,207	92,194	-	1,417,401
Furniture and equipment	451,716	49,020	(23,185)	477,551
Machinery and equipment	617,545	55,661	-	673,206
Infrastructure	93,849	57,646	-	151,495
Total accumulated depreciation	<u>8,684,348</u>	<u>983,756</u>	<u>(23,185)</u>	<u>9,644,919</u>
Total capital assets being depreciated, net	<u>17,861,318</u>	<u>254,250</u>	<u>-</u>	<u>18,115,568</u>
Governmental activities capital assets, net	<u>\$ 35,968,955</u>	<u>\$ 1,293,172</u>	<u>\$ (618,166)</u>	<u>\$ 36,643,961</u>
Component unit:				
Capital assets not being depreciated, land and land rights under management	<u>\$ 21,090,250</u>	<u>\$ 399,196</u>	<u>\$ -</u>	<u>\$ 21,489,446</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

6. Capital assets (continued):

Business-type activities:	Beginning balances	Increases	Decreases	Ending balances
Capital assets not being depreciated:				
Land	\$ 954,203	\$ -	\$ -	\$ 954,203
Construction in progress	1,980	18,699	-	20,679
Total capital assets not being depreciated	956,183	18,699	-	974,882
Capital assets being depreciated:				
Buildings and improvements	4,619,701	14,982	-	4,634,683
Equipment	1,329,268	53,803	-	1,383,071
Underground piping	10,105,012	13,665	-	10,118,677
Wells/reserve osmosis/water supply	1,194,448	-	-	1,194,448
Total capital assets being depreciated	17,248,429	82,450	-	17,330,879
Less accumulated depreciation for:				
Buildings and improvements	1,901,009	127,856	-	2,028,865
Equipment	923,051	71,332	-	994,383
Underground piping	5,639,469	299,444	-	5,938,913
Wells/reserve osmosis/water supply	234,034	26,544	-	260,578
Total accumulated depreciation	8,697,563	525,176	-	9,222,739
Total capital assets being depreciated, net	8,550,866	(442,726)	-	8,108,140
Business-type activities capital assets, net	\$ 9,507,049	\$ (424,027)	\$ -	\$ 9,083,022
Depreciation was charged to functions as follows:				
Governmental activities:				
General government		\$ 88,966		
Finance administration		5,726		
Fire, rescue and emergency services		79,094		
Police		27,325		
Town highways/maintenance		120,913		
Harbors		42,652		
Recreation		54,930		
Library		96,433		
Boards and commissions		32,055		
Community support		47,366		
Education		388,296		
		\$ 983,756		
Business-type activities:				
Sewer Fund		\$ 348,342		
Water Fund		176,834		
		\$ 525,176		

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

7. Long-term obligations:

A summary of long-term obligations as of June 30, 2010 is as follows:

	Primary Government			Component Unit
	Governmental activities	Business-type activities	Total	Block Island Land Trust
Bonds and notes	\$ 20,505,000	\$ 2,060,742	\$ 22,565,742	\$ 568,854
Deferred amounts:				
For issuance costs	(30,890)		(30,890)	
On refunding	(18,826)		(18,826)	
On premium	9,516		9,516	
	20,464,800	2,060,742	22,525,542	568,854
Capital lease	159,642		159,642	
Other post-employment obligation	69,000		69,000	
Accrued compensated absences	380,373	59,519	439,892	
	21,073,815	2,120,261	23,194,076	568,854
Less portion due within one year	1,282,924	73,960	1,356,884	96,423
	<u>\$ 19,790,891</u>	<u>\$ 2,046,301</u>	<u>\$ 21,837,192</u>	<u>\$ 472,431</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

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

	Balance, July 1, 2009	Additions	Retirements	Balance, June 30, 2010	Due within one year
Governmental activities:					
Bonds payable:					
Bonds and notes	\$ 18,377,563	\$ 6,160,000	\$ 4,032,563	\$ 20,505,000	\$ 1,130,000
Deferred amounts:					
For issuance discounts	(34,724)		(3,834)	(30,890)	(2,438)
On refunding	(20,372)		(1,546)	(18,826)	(1,558)
On premium	10,070	12	566	9,516	610
Total bonds payable	18,332,537	6,160,012	4,027,749	20,464,800	1,126,614
Capital leases	102,559	103,271	46,188	159,642	53,296
Other post-employment obligation	- 0 -	69,000		69,000	28,362
Accrued compensated absences	351,184	29,189		380,373	74,652
Total long-term obligations	<u>\$ 18,786,280</u>	<u>\$ 6,361,472</u>	<u>\$ 4,073,937</u>	<u>\$ 21,073,815</u>	<u>\$ 1,282,924</u>
Business-type activities:					
Bonds and notes	\$ 2,111,691		\$ 50,949	\$ 2,060,742	\$ 45,289
Accrued compensated absences	54,696	\$ 4,823		59,519	28,671
Total long-term obligations	<u>\$ 2,166,387</u>	<u>\$ 4,823</u>	<u>\$ 50,949</u>	<u>\$ 2,120,261</u>	<u>\$ 73,960</u>
Component unit:					
Bonds and notes	<u>\$ 657,325</u>	<u>\$ - 0 -</u>	<u>\$ 88,471</u>	<u>\$ 568,854</u>	<u>\$ 96,423</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

General obligation bonds and notes:

General obligation bonds currently outstanding for governmental activities are as follows:

Purpose	Amount of original issue	Fiscal year of issue	Interest rate	Fiscal year of maturity	Balance, July 1, 2009	New issues	Retirements	Balance, June 30, 2010
Governmental activities:								
2010 Bond	\$ 3,440,000	2010	3.0-4.0%	2030	\$ - 0 -	\$ 3,440,000	\$ - 0 -	\$ 3,440,000
2009 BAN	2,720,000	2010	1.89%	2010	- 0 -	2,720,000	2,720,000	- 0 -
2009 Bond	2,975,000	2009	2.25-4.5%	2029	2,975,000		85,000	2,890,000
Housing Board Land Acquisition (RAN)	100,000	2009	3.25%	2011	100,000			100,000
School Construction (BAN)	350,000	2009	4.00%	2010	350,000		350,000	- 0 -
Town Hall Construction 2006	1,350,000	2006	4.0-4.75%	2026	1,140,000		70,000	1,070,000
School Construction 2006	1,100,000	2006	4.0-4.75%	2026	935,000		55,000	880,000
School Construction 2005	7,160,000	2005	3.5-4.25%	2025	6,240,000		265,000	5,975,000
Hodge Property	1,000,000	2002	2.5-5.0%	2022	790,000		40,000	750,000
Hodge Property	3,500,000	2002	2.5-5.0%	2022	2,775,000		145,000	2,630,000
Refunding bond - school	1,913,000	2002	4.25-5.0%	2022	1,435,000		80,000	1,355,000
Town library – additions/renovations	1,257,000	2002	4.25-5.0%	2022	940,000		55,000	885,000
Town Hall – additions/renovations	750,000	2002	4.25-5.0%	2022	560,000		30,000	530,000
Old Harbor lavatories	260,000	1998	3.65-4.6%	2010	25,000		25,000	- 0 -
Land acquisition	170,000	1998	3.65-5.0%	2010	20,000		20,000	- 0 -
Refunding bond – open space	838,768	1998	3.65-4.6%	2010	40,051		40,051	- 0 -
Refunding bond – school	583,107	1998	3.65-4.6%	2010	27,819		27,819	- 0 -
Refunding bond – sewer	516,960	1998	3.65-4.6%	2010	24,693		24,693	- 0 -
Total	<u>\$ 29,983,835</u>				<u>\$ 18,377,563</u>	<u>\$ 6,160,000</u>	<u>\$ 4,032,563</u>	<u>\$ 20,505,000</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

Bonds and notes currently outstanding and recorded in the business-type activities statement of net assets are as follows:

Purpose	Authorized and issued	Fiscal year of issue	Interest rate	Fiscal year of maturity	Balance, July 1, 2009	New issues	Retirements	Balance, June 30, 2010
Enterprise funds:								
Sewer Fund:								
Headworks	\$ 349,000	2007	4.13%	2047	\$ 341,717	\$ - 0 -	\$ 3,868	\$ 337,849
Sewer improvements	192,500	2006	4.375%	2046	186,691		2,108	184,583
Land	<u>472,175</u>	2005	4.25%	2045	<u>452,207</u>		<u>5,533</u>	<u>446,674</u>
	<u>1,013,675</u>				<u>980,615</u>	<u>- 0 -</u>	<u>11,509</u>	<u>969,106</u>
Water Fund:								
Discharge	442,000	2007	4.125%	2047	432,778	- 0 -	4,898	427,880
Water supply	179,445	2005	4.25%	2045	171,856		2,100	169,756
Clean Water GOB	614,287	2004	3.26%	2024	519,000		25,000	494,000
Refunding bond	<u>156,165</u>	1998	3.65-4.6%	2010	<u>7,442</u>		<u>7,442</u>	<u>- 0 -</u>
	<u>1,391,897</u>				<u>1,131,076</u>	<u>- 0 -</u>	<u>39,440</u>	<u>1,091,636</u>
Total	<u>\$ 2,405,572</u>				<u>\$ 2,111,691</u>	<u>\$ - 0 -</u>	<u>\$ 50,949</u>	<u>\$ 2,060,742</u>
Component unit:								
Land acquisition	\$ 450,000	2004	6.00%	2013	\$ 212,325	\$ - 0 -	\$ 48,471	\$ 163,854
Land acquisition	<u>800,000</u>	1998	3.65%-5.0%	2018	<u>445,000</u>		<u>40,000</u>	<u>405,000</u>
	<u>\$ 1,250,000</u>				<u>\$ 657,325</u>	<u>\$ - 0 -</u>	<u>\$ 88,471</u>	<u>\$ 568,854</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

At June 30, 2010, scheduled annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2011	\$ 1,130,000	\$ 833,280	\$ 1,963,280
2012	1,065,000	787,593	1,852,593
2013	1,100,000	748,103	1,848,103
2014	1,150,000	706,144	1,856,144
2015	1,185,000	661,518	1,846,518
2016-2020	6,635,000	2,550,102	9,185,102
2021-2025	6,335,000	1,110,312	7,445,312
2026-2030	1,905,000	218,741	2,123,741
	<u>\$ 20,505,000</u>	<u>\$ 7,615,793</u>	<u>\$ 28,120,793</u>

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2011	\$ 45,289	\$ 84,070	\$ 129,359
2012	46,100	82,436	128,536
2013	47,945	80,713	128,658
2014	49,826	78,889	128,715
2015	51,744	76,965	128,709
2016-2020	290,898	352,469	643,367
2021-2025	354,381	287,993	642,374
2026-2030	194,612	231,133	425,745
2031-2035	239,134	186,611	425,745
2036-2040	293,847	131,898	425,745
2041-2045	360,874	64,661	425,535
2046-2047	86,092	76,697	162,789
	<u>\$ 2,060,742</u>	<u>\$ 1,734,535</u>	<u>\$ 3,795,277</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

Component unit:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 96,423	\$ 28,831	\$ 125,254
2012	99,554	23,585	123,139
2013	102,877	18,125	121,002
2014	50,000	13,347	63,347
2015	50,000	10,923	60,923
2016-2018	<u>170,000</u>	<u>17,222</u>	<u>187,222</u>
	<u>\$ 568,854</u>	<u>\$ 112,033</u>	<u>\$ 680,887</u>

Capital leases:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 53,296	\$ 8,195	\$ 61,491
2012	56,134	5,337	61,471
2013	21,505	2,367	23,872
2014	22,797	1,075	23,872
2015	<u>5,910</u>	<u>58</u>	<u>5,968</u>
	<u>\$ 159,642</u>	<u>\$ 17,032</u>	<u>\$ 176,674</u>

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities and are direct obligations and pledge the full faith and credit of the Town. In addition, general obligation bonds have been issued to refund previously outstanding general obligation bonds.

Rhode Island general laws cap the amount of each municipality's general obligation bonds that may be outstanding to 3% of its assessed property values. Exceptions apply to bonds financed from non-tax revenues and special exemptions are granted for other purposes as well. The assessed value of the Town's properties at December 31, 2008 was \$2,127,072,029, limiting the amount of non-exempted general obligation bonds outstanding to \$63,812,161. At June 30, 2010, general obligation bonds outstanding totaled \$20,505,000.

During 2010, the Town approved and issued a general obligation bond totaling \$3,440,000. Of this amount, \$720,000 was used to purchase a parcel of land and \$2,720,000 was used to refund the bond anticipation note (BAN) issued in December 2009 to finance renovations to the Old Harbor Dock and North Light. The previously authorized, but unissued, general obligation bonds related to the component unit remain at \$6,050,000.

TOWN OF NEW SHOREHAM, RHODE ISLAND
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

The component unit may request the Town to issue bonds for the purpose of financing its activities. On November 15, 2002, the Town issued general obligation bonds in the amount of \$4,500,000, of which \$3,500,000 was designated to finance the acquisition of open space and farmland by the component unit. These funds were used to purchase the 24.8 acre Hodge Property for an aggregate sale price of \$8,500,000. The component unit, the Town, and each of the other two unrelated third parties are identified as the buyers, and the agreement between the buyers and seller is executed as a single contract, according an undivided interest in the property among the four parties.

In 2003, the component unit issued a note to the Town in the amount of \$3,500,000 as its portion of the Town's general obligation bond related to the acquisition of the Hodge Property. The terms and payments required on this note coincide, generally, with the interest rates, principal installments and maturities of the related general obligation bond of the Town. At June 30, 2010, the balance of the note was \$2,630,000.

Accrued compensated absences:

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

Other post-employment benefit:

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. The School Department provides health benefits to its public school professional staff with 20 years of accumulated service. A teacher at the Block Island School may continue to receive the same health care coverage as offered to the bargaining unit for five contract years, until Medicare takes over or age 65, whichever occurs first. For all governmental funds, this liability reflects amounts attributable to employees' services already rendered, considered probable for payment and reasonably estimated. The Town funds these benefits on a pay-as-you-go basis. The Town's annual other post-employment benefit (OPEB) cost is calculated using the estimated amounts that will be paid or payable to covered employees based upon their current actual years of service and the current premium cost (without regard to inflation), and without regard to the probability of their remaining employed for the required 20 years. For the year ended June 30, 2010, covered payroll under the plan amounts to approximately \$1,874,000 and OPEB expense is \$69,000, which is recorded as an obligation by the Town. The estimated undiscounted total liability for post-employment benefits is as follows:

Fully vested employees	\$ 525,981
Non-vested employees	<u>1,117,471</u>
	<u><u>\$ 1,643,452</u></u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

8. Accounts payable and accrued expenses:

Accounts payable and accrued expenses are as follows:

	Vendors	Other Governments	Employees	Accrued Interest	Total
Governmental activities:					
General Fund	\$ 427,522	\$ 15,656	\$ 67,728		\$ 510,906
School Department	119,532		404,881		524,413
Old Harbor Dock Construction Fund	50,656				50,656
Nonmajor funds	4,669				4,669
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 114,308	114,308
	<u>602,379</u>	<u>15,656</u>	<u>472,609</u>	<u>114,308</u>	<u>1,204,952</u>
Business-type activities:					
Sewer	22,294	2,206	9,390	5,667	39,557
Water	8,662	491		7,571	16,724
	<u>30,956</u>	<u>2,697</u>	<u>9,390</u>	<u>13,238</u>	<u>56,281</u>
	<u>\$ 633,335</u>	<u>\$ 18,353</u>	<u>\$ 481,999</u>	<u>\$ 127,546</u>	<u>\$ 1,261,233</u>
Component unit	<u>\$ 4,408</u>	<u>\$ - 0 -</u>	<u>\$ 508</u>	<u>\$ 11,344</u>	<u>\$ 16,260</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Employee retirement systems:

All eligible employees of the Town are covered by one of two pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan) or the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. Business managers are also eligible to participate. The Municipal Plan covers substantially all of the Town's employees except public school teachers. Total covered payroll under both plans during 2010 was \$4,064,574. Total Town payroll was \$4,976,403 for the same period.

Teachers' Plan

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. Financial statements for the 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 during 2010 was \$1,873,672.

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

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Employee retirement systems (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 July 1, 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 does not participate in the optional Teachers Survivor Benefits Fund.

As prescribed by Rhode Island general law, the State pays the entire portion of the annual required contribution attributable to the costs of contributions deferred by the State in prior years, plus 40% of contributions assessed to employers on payroll not reimbursable through federal programs. For fiscal year 2010, actuarial required contributions were 17.92% of participant salary, which resulted in a contribution rate paid by the State on behalf of Town teachers of 7.32% (\$137,153). The Town's contribution rate was 10.6%. The Town's required and actual contributions to the Teachers' Plan for fiscal years 2010, 2009 and 2008 were \$198,609, \$253,398 and \$222,230, respectively.

Municipal Plan

Plan description:

The Municipal Plan is an agent multiple-employer public employee retirement system administered by the State. Financial statements for the Municipal Plan are issued separately and may be obtained from the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903. For fiscal year 2010, payroll for employees covered under the Municipal Plan totaled \$2,190,902 (including \$212,352 for police).

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after 10 years of service if they have attained age 58 (age 55 for police) or after 30 years of service (25 years for police) regardless of age. Benefits are equal to 2% of final average salary for each year of service, with a maximum benefit of 75% of final average salary. Final average salary is computed using the highest three consecutive years of base earnings, exclusive of overtime. Retiree benefits are adjusted annually by 3%, not compounded, to allow for cost-of-living increases under an optional benefit provision adopted by the Town.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Employee retirement systems (continued):

Municipal Plan (continued)

Plan description (continued):

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

As of June 30, 2010, active employees who were members of the Municipal Plan are as follows:

Municipal workers	53 (12 school)
Police	5

Funding policy:

Rhode Island general laws set contributions of participating employees at 6% (8% for police) of salary. An additional 1% of salary is assessed to employees under the optional cost-of-living provision. Annual required contributions are actuarially determined for each separate employer and are assessed to each as a percentage of their participating employees' payroll. The annual required contribution covers normal costs and, where applicable, a payment to amortize the unfunded actuarial accrued liability as of July 1, 1999 over a closed period of 30 years. Normal cost is determined using the entry age normal cost method. Unlike in the Teachers' Plan, the State makes no contributions to the Municipal Plan on behalf of the Town nor does it assume any liability for funding pension benefits for the Town's participants.

Annual pension costs and net pension obligations:

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual pension costs	\$ 387,678	\$ 414,692	\$ 376,375
Actual contributions:			
Municipal:			
Employee	138,498	148,938	133,309
Employer	173,519	193,099	168,993

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Employee retirement systems (continued):

Municipal Plan (continued)

Annual pension costs and net pension obligations (continued):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Police:			
Employee	\$ 19,112	\$ 21,341	\$ 20,014
Employer	56,549	51,314	54,059
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The School Department was required to contribute 8.77% to the Municipal Plan during the fiscal year ended June 30, 2010, resulting in a contribution of \$31,114. School employees under the Municipal Plan were required to contribute \$24,834.

Funded status and funding progress:

As of June 30, 2009, the most recent actuarial valuation date, the Municipal Plan was 66.6% and 86.4% funded for police and all other, respectively. The actuarial accrued liability for benefits was \$1,251,857 and \$5,209,876 for police and all other, respectively, and the actuarial value of assets was \$833,702 and \$4,500,415, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$418,155 and \$709,461 for police and all other, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$237,034 and \$2,089,994 for police and all other, respectively, and the ratio of the UAAL to the covered payroll was 176.4% and 34.0%, respectively.

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

Actuarial methods and significant assumptions:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

9. Employee retirement systems (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

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

Asset appreciation: 8.25% annually

Salary increases: 4.5% annually

Cost of living adjustments: 3.00%, non-compounded

Retirement probability:

100% at age 70 or upon eligibility (100% at age 60 or upon eligibility – police)

Mortality:

Healthy members – 1994 Group Annuity Mortality Table

Disabled members – 1994 PBGC Table Va (VIa for females) set to age 65 (60 for police employees)

Disability:

Probabilities ranging from .05% at age 25 to .71% at age 60 (.17% at age 25 to 1.21% at age 50 for police)

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, the Town is insured for a maximum of \$3,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

10. Risk management (continued):

The Town insures seven properties located in Flood Zone A through First American Property & Casualty Insurance Company and the National Flood Insurance Program (NFIP).

There were no significant reductions in insurance coverage during the year ended June 30, 2010.

11. Litigation:

The Town is a party to various claims, legal actions, and complaints. It is not presently possible to determine the outcome of these cases; as a result, no liability has been recorded in the financial statements. In the opinion of the Town's management and Town Solicitor, these matters are not anticipated to have a material financial impact on the Town.

12. Commitments and contingencies:

Construction of the Old Harbor Dock commenced during 2010, at which time gasoline contamination in the soil was discovered. The Town hired a third-party contractor to facilitate the remediation, which was completed in October 2010. Construction was postponed until the remediation was completed. The total amount of the construction contract of \$2,097,000 and estimated remediation cost of \$50,000 will be funded by \$2,670,000 of the bond proceeds received during fiscal year 2010.

During 2007, the component unit acquired a partial interest in a fee title ownership of the Kalba property for approximately \$483,000. The remainder of the ownership was acquired by The Nature Conservancy (TNC) for \$490,000, payable in 10 annual installments of \$49,000 plus interest at 6% commencing January 15, 2008. The component unit and TNC entered into an agreement whereby in the event that the component unit pays any or all of the amounts due under TNC's promissory note, the parties will equitably adjust their respective interests in the ownership. In 2010, the component unit made the third installment plus interest totaling approximately \$72,500.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

12. Commitments and contingencies (continued):

Amounts received or receivable from grantor agencies are subject to audit and adjustment 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 approximated \$453,700 for the year ended June 30, 2010.

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 7,806,332	\$ 7,587,972	\$ (218,360)
Intergovernmental	1,275,720	1,446,509	170,789
Licenses, permits and fees	299,520	332,176	32,656
Interest and investment	83,226	12,919	(70,307)
Transfer from component unit	259,963	114,963	(145,000)
Other revenues	<u>1,094,972</u>	<u>1,106,735</u>	<u>11,763</u>
Total revenues	<u>10,819,733</u>	<u>10,601,274</u>	<u>(218,459)</u>
Expenditures:			
Current:			
General government	947,739	995,480	(47,741)
Finance administration	287,135	280,907	6,228
Fire, rescue and emergency services	249,906	257,644	(7,738)
Police	557,391	590,138	(32,747)
Town highways and maintenance	403,062	399,468	3,594
State roads	327,958	304,664	23,294
Harbors	426,875	457,280	(30,405)
Building official	184,700	172,914	11,786
Recreation	281,479	274,874	6,605
Library	446,924	444,925	1,999
GIS/Technology	96,050	77,750	18,300
Boards and commissions	152,882	145,715	7,167
Community support	305,802	298,835	6,967
Capital outlay	72,614	526,112	(453,498)
Debt service	<u>1,848,965</u>	<u>1,749,775</u>	<u>99,190</u>
Total expenditures	<u>6,589,482</u>	<u>6,976,481</u>	<u>(386,999)</u>
Excess of revenues over expenditures, budgetary basis	<u>4,230,251</u>	<u>3,624,793</u>	<u>(605,458)</u>
Other financing sources (uses):			
Transfers to other funds	(4,230,251)	(4,230,251)	-
Transfers from other funds		3,465	3,465
Other financing sources		3,490,012	3,490,012
Other financing uses		<u>(3,905,165)</u>	<u>(3,905,165)</u>
Total other financing sources (uses)	<u>(4,230,251)</u>	<u>(4,641,939)</u>	<u>(411,688)</u>
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	<u>\$ -</u>	<u>(1,017,146)</u>	<u>\$ (1,017,146)</u>
Excess of expenditures and other financing uses over revenues and other financing sources, U. S. GAAP basis		(1,017,146)	
Net assets, beginning of year		<u>4,152,423</u>	
Net assets, end of year		<u>\$ 3,135,277</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SCHOOL DEPARTMENT

YEAR ENDED JUNE 30, 2010

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 143,405	\$ 282,255	\$ 138,850
Other revenues	60,000	53,920	(6,080)
Total revenues	<u>203,405</u>	<u>336,175</u>	<u>132,770</u>
Expenditures:			
Current:			
Salaries	2,638,757	2,625,321	13,436
Employee benefits	1,003,964	1,069,979	(66,015)
Purchased services	446,731	521,967	(75,236)
Supplies and materials	281,517	243,334	38,183
Capital expenditures	62,687	80,189	(17,502)
Total expenditures	<u>4,433,656</u>	<u>4,540,790</u>	<u>(107,134)</u>
Excess of expenditures over revenues, budgetary basis	<u>(4,230,251)</u>	<u>(4,204,615)</u>	<u>25,636</u>
Other financing sources (uses):			
Transfer to School Lunch		(37,829)	(37,829)
Transfer from Operational Unrestricted Fund		37,829	37,829
Transfer from General Fund	4,230,251	4,230,251	-
Total other financing sources (uses)	<u>4,230,251</u>	<u>4,230,251</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	25,636	<u>\$ 25,636</u>
Adjustments of budgetary basis to U.S. GAAP basis		44,200	
Excess of revenues over expenditures, U.S. GAAP basis		69,836	
Net assets, beginning of year		144,726	
Net assets, end of year		<u>\$ 214,562</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON

YEAR ENDED JUNE 30, 2010

Budget preparation and budgetary basis of accounting:

In accordance with the Town Charter, the Town Manager must present to the Council, no later than the third Monday in March of each year, recommended annual operating and capital budgets for the operations of each department, agency, board and commission of town government whose activities are to be supported in whole or in part by Town funds during the next fiscal year. The School Committee makes such submissions of estimates no later than the first Monday in March. The Town Council schedules at least one public hearing on the budget recommendations it receives from the Town Manager, which takes place prior to final Council approval of the Town budgets for submission to the Financial Town Meeting, with whatever changes the Council deems appropriate to be voted no later than the third Monday in April. The electors of the Town assemble annually at a Financial Town Meeting on the first Monday in May for the purpose of approving the budget. The recommended budget must include an appropriation to fund school expenditures in excess of their anticipated revenues as requested by the Superintendent and approved by the School Committee. Estimates of sums expected to become available from federal and state grants for the support of the public schools are to be included in the total requested for school expenditures. The Town Council appropriates these funds for expenditure by the School Committee, and appropriates such additional funds from local tax revenues as may be required to meet the total school budget which the Town Council approves. The School Committee does not have the authority to obligate the Town financially beyond the total budgetary amount voted by the Town Council. The Town Council can change only the total amount of the School Committee's recommended budget. The Town Council can authorize, as required, capital expenditures, grants, and expenditures over a certain dollar amount, as set by ordinance, after the Financial Town Meeting, and oversee implementation of budget proposals.

The General Fund and the School Department annual operating budgets are in conformity with the legally enacted budgetary basis. The legally enacted budgetary basis differs from accounting principles 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. Enterprise fund budgetary expenses include expenses for fixed asset additions, debt service issuance costs and debt service principal payments not recognized under U.S. GAAP but exclude depreciation and amortization, U.S. GAAP basis expenses.

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

Encumbrances for purchased services	\$ 5,250
Encumbrances for capital outlay	<u>38,950</u>
Total adjustments	<u>\$ 44,200</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 budgetary control is legally enforced at the department level. Appropriation transfers between departments require approval by three of the five-member Town Council. The Town Council may authorize other over-expenditures of certain appropriations, which were due to circumstances that could not be anticipated in budget preparations provided that the over-expenditures do not exceed the total budget amount for the fiscal year.

The Town Council is authorized to expend grant funds applied for and awarded to the Town, and, to the extent proceeds from grants exceed the amount budgeted by the Town, the Town Treasurer is authorized with the advice and consent of the Town Council to expend these excess proceeds for the purposes designated in the grant.

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Valuation of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<i>Municipal Employees Retirement System, Police</i>						
June 30, 2007	\$ 749,397	\$ 1,149,748	\$ 400,351	65.18%	\$ 209,013	191.54%
June 30, 2008	832,678	1,199,366	366,688	69.43%	222,375	164.90%
June 30, 2009	833,702	1,251,857	418,155	66.60%	237,034	176.41%
June 30, 2010	N/A	N/A	N/A	N/A	212,352	N/A
<i>Municipal Employees Retirement System, Other</i>						
June 30, 2007	\$ 3,711,018	\$ 4,421,529	\$ 710,511	83.93%	\$ 2,026,568	35.06%
June 30, 2008	4,254,010	4,740,547	486,537	89.74%	1,972,982	24.66%
June 30, 2009	4,500,415	5,209,876	709,461	86.38%	2,089,994	33.95%
June 30, 2010	N/A	N/A	N/A	N/A	1,766,198	N/A

(1) N/A not available

(2) The latest actuarial valuation for the plan is as of June 30, 2009.

TOWN OF NEW SHOREHAM, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2010

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2009</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2010</u>
2010	\$ -	\$ 7,556,246	\$ (7,010)	\$ 7,549,236	\$ 7,366,942	\$ 182,294
2009	162,882		2,389	165,271	116,120	49,151
2008	2,334		(118)	2,216	219	1,997
2007	651		(158)	493	42	451
2006	629		(150)	479	10	469
2005	965		(142)	823		823
2004	1,006			1,006	30	976
2003	1,686			1,686		1,686
2002	1,836			1,836		1,836
2001	2,065		(1,052)	1,013		1,013
2000	2,305		(1,329)	976		976
	<u>\$ 176,359</u>	<u>\$ 7,556,246</u>	<u>\$ (7,570)</u>	<u>\$ 7,725,035</u>	<u>\$ 7,483,363</u>	241,672
					Less allowance for doubtful accounts	<u>40,000</u>
						<u>\$ 201,672</u>

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

Schedule of most recent net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 2,108,139,320	\$ 7,450,519
Motor vehicles	15,204,878	65,801
Tangible personal	<u>3,727,831</u>	<u>13,537</u>
Total	2,127,072,029	7,529,857
Exemptions	<u>35,444,785</u>	<u>-</u>
Current year assessment	<u><u>\$ 2,091,627,244</u></u>	<u><u>\$ 7,529,857</u></u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 7,483,363
Revenue collected within 60 days subsequent to year ended June 30, 2009	<u>58,388</u>
	7,541,751
Prior year revenue received in current year	<u>(83,370)</u>
Current year real estate and personal property tax revenue	<u><u>\$ 7,458,381</u></u>



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

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

The Honorable First Warden and
Members of the Town Council
Town of New Shoreham, Rhode Island
New Shoreham, Rhode Island

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of New Shoreham, Rhode Island (the Town) 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 November 1, 2010. 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 opinions on the basic 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

The Honorable First Warden and
Members of the Town Council
Town of New Shoreham, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Lefkowitz, Jan. Jankel, Charpi & DeGonzal. C.

November 1, 2010