

TOWN OF NEW SHOREHAM, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006



TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2006

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TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2006

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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, 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, 2006, 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, 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2006 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.

Independent Auditors' Report (Continued)

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

The Management's Discussion and Analysis on pages 3 through 13, and budgetary comparison schedules and historical pension information on pages 54 through 58 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 information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lefkowitz, Joseph, Cianci & DeGuzo P.C.

November 10, 2006

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, 2006.

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2006 by \$29,602,125 (*net assets*). Net assets include \$20,080,287 invested in capital assets, net of related debt; \$2,343,185 of restricted net assets; and \$7,178,653 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$50,437,746 and total liabilities were \$20,835,621 at June 30, 2006. The Town's total net assets increased by \$1,503,006 in the current fiscal year (FY 2006).

As of June 30, 2006, the Town's governmental funds reported combined ending fund balances of \$8,258,635, a decrease of \$2,630,985 from the prior year. This decrease is primarily due to capital outlay in the School Construction Fund and capital outlay in the General Fund for sidewalk construction.

As of June 30, 2006, the unreserved fund balance for the General Fund was \$2,611,886, or 31% of total budgeted 2006 General Fund expenditures and other financing uses (\$8,546,177). This amount is available for spending at the Town's discretion. However, \$297,000 of this unreserved fund balance was appropriated May 1, 2006 to meet 2007 General Fund expenditures and \$400,000 was appropriated for the Town Hall construction project. This reduces the available unreserved fund balance for the General Fund to \$1,914,886, or 17% of total budgeted 2007 General Fund expenditures and other financing uses (\$11,022,186).

The Town's total debt increased by \$1,538,543 (9%) during the current fiscal year. The key factors in this increase were the issuance of \$2,450,000 of general obligation bonds to fund school and town hall construction projects and the retirement of \$715,000 in bonds.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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, harbors, maintenance, building official, recreation, library, 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 14-15 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 *government funds* and *governmental activities*.

The Town maintains 7 individual governmental funds and 1 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, the School Fund, the School Construction Fund, and the Town Hall Construction Fund, all of 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 16-20 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 21-24 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 statements can be found on page 25 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 26-53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. It presents 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 54-58 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 \$29,602,125 at June 30, 2006.

Net assets invested in capital assets, net of related debt, makes up \$20,080,287, or 68%, 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 \$2,343,185, or 8%, represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$124,274 is permanently restricted and is nonexpendable. The remaining balance of *unrestricted net assets* (\$7,178,653) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$10,376,489	\$13,481,840	\$ 1,042,011	\$ 1,518,224	\$11,418,500	\$15,000,064
Capital assets	30,472,448	24,762,323	8,546,798	8,677,917	39,019,246	33,440,240
Total assets	40,848,937	38,244,163	9,588,809	10,196,141	50,437,746	48,440,304
Long-term liabilities	16,682,692	15,825,341	1,574,493	1,876,521	18,257,185	17,701,862
Other liabilities	2,452,210	2,315,090	126,226	324,233	2,578,436	2,639,323
Total liabilities	19,134,902	18,140,431	1,700,719	2,200,754	20,835,621	20,341,185
Net assets:						
Invested in capital assets, net of related debt	13,127,402	9,145,684	6,952,885	6,829,310	20,080,287	15,974,994
Restricted	2,343,185	4,512,893			2,343,185	4,512,893
Unrestricted	6,243,448	6,445,155	935,205	1,166,077	7,178,653	7,611,232
Total net assets	\$21,714,035	\$20,103,732	\$ 7,888,090	\$ 7,995,387	\$29,602,125	\$28,099,119

At June 30, 2006 and 2005, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Component unit. The assets of the Town's Component Unit, The Block Island Land Trust, exceeded liabilities by \$15,406,776. Net assets invested in capital assets, net of related debt, makes up \$13,979,700, or 91%, of total net assets. The remaining balance of net assets of the Land Trust, totaling \$1,427,076, is restricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

The Town's net assets increased by \$1,503,006. Approximately 51% of the Town's total revenue came from taxes and payments in lieu of taxes, while 22% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 26% of the total revenues; investment and miscellaneous revenue accounted for the remainder. The Town's expenses cover a range of services. The largest expenses were for schools, public safety, public works and harbors, retirement costs, and employee benefits. In 2006, governmental activity expenses exceeded program revenues by \$5,431,217. Net expenses exceeded program revenues from business-type activities in 2006 by \$122,049.

The Town of New Shoreham's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,821,809	\$ 1,406,725	\$ 1,244,186	\$ 1,233,166	\$ 3,065,995	\$ 2,639,891
Operating grants and contributions	567,084	660,250			567,084	660,250
Capital grants and contributions	1,203,801	217,253	230,050	919,615	1,433,851	1,136,868
General revenues:						
Property taxes	6,080,634	5,557,348			6,080,634	5,557,348
Grants and contributions, nonspecific	669,228	638,904		118,669	669,228	757,573
Other	160,470	74,471	14,752	11,420	175,222	85,891
Total revenues	10,503,026	8,554,951	1,488,988	2,282,870	11,992,014	10,837,821
Expenses:						
General government and finance	1,297,004	1,161,342			1,297,004	1,161,342
Public safety	885,493	751,388			885,493	751,388
Public works, highways, harbors	938,803	936,989			938,803	936,989
Recreation	191,927	570,163			191,927	570,163
Public services, library	1,140,589	847,850			1,140,589	847,850
Education	3,891,198	3,326,966			3,891,198	3,326,966
Interest on long-term debt	678,897	428,913			678,897	428,913
Sewer			1,147,877	1,043,956	1,147,877	1,043,956
Water			448,408	429,309	448,408	429,309
Total expenses	9,023,911	8,023,611	1,596,285	1,473,265	10,620,196	9,496,876
Change in net assets	1,479,115	531,340	(107,297)	809,605	1,371,818	1,340,945
Loss on disposal of asset		(110,499)				(110,499)
Transfers	131,188	134,213			131,188	134,213
Increase (decrease) in net assets	1,610,303	555,054	(107,297)	809,605	1,503,006	1,364,659
Net assets - beginning	20,103,732	19,548,678	7,995,387	4,250,204	28,099,119	23,798,882
Contributed capital - beginning				3,054,247		3,054,247
Depreciation of contributed capital				(118,669)		(118,669)
Contributed capital - ending				2,935,578		2,935,578
Net assets - ending	\$ 21,714,035	\$ 20,103,732	\$ 7,888,090	\$ 7,995,387	\$ 29,602,125	\$ 28,099,119

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the Town's net assets by \$1,610,303, thereby accounting for 100% of the total growth in the net assets of the Town. Key elements of this increase are as follows:

- Property taxes were levied for debt service payments.
- Expenses for governmental activities were more than anticipated; however, revenues were more favorable than expected, offsetting the increased expenses.

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	
	2006	2005	2006	2005
General government and finance	\$ 1,297,004	\$ 1,161,342	\$ 945,295	\$ 856,706
Public safety	885,493	751,388	822,337	696,382
Public works, highways, harbors	938,803	936,989	(1,455,903)	(149,995)
Recreation and commission	191,927	570,163	39,596	240,183
Public/social services, library	1,140,589	847,850	810,674	623,316
Education	3,891,198	3,326,966	3,590,321	3,043,878
Interest on long-term debt	678,897	428,913	678,897	428,913
Total expenses	<u>\$ 9,023,911</u>	<u>\$ 8,023,611</u>	<u>\$ 5,431,217</u>	<u>\$ 5,739,383</u>

Business-Type Activities

- Business-type activities decreased the Town's net assets by \$102,297.

Component Unit

The assets of the Town's component unit increased by \$1,899,600. 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 2006, totaling \$3,106,383.

General Fund Budgetary Highlights

The original budget adopted at the Financial Town Meeting on May 2, 2005 was \$8,913,977 and no changes were made to the final budget for FY 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

General Fund Budgetary Highlights (Continued):

Actual revenues reported in FY 2006 exceeded budgeted amounts by \$1,339,050. The principal reasons for this include:

- \$761,431 unbudgeted grant revenue from the Rhode Island Department of Transportation related to sidewalk improvements on High Street
- \$113,804 unbudgeted Community Development Block Grant revenue
- \$162,059 in prior year tax collections above budgeted amounts, plus \$87,817 of prior year interest collected in excess of budget
- \$47,880 of interest income above budgeted amounts as a result of higher interest rates and larger cash balances on hand
- \$34,515 in meals tax revenue above budgeted amounts

Actual expenditures exceeded budgeted amounts by \$1,508,146. The principal reasons for this include:

- \$992,618 unbudgeted expenditures for work related to the High Street sidewalk project, plus an additional \$31,290 for police detail on the project. All expenditures are reimbursed by a grant through the Rhode Island Department of Transportation.
- \$113,805 unbudgeted Community Development Block Grant expense related to the Rhode Island Housing and Mortgage Finance Corporation/Block Island Economic Development Foundation Housing Corporation West Side Road housing project
- \$100,000 unbudgeted expense for the purchase of a patrol boat, \$88,000 of which was offset by grant revenue from RIEMA and \$11,000 of which was an overexpenditure in the Harbors Department
- \$45,305 expended in excess of budget for legal fees related to the Champlin's Marina hearings, the Interstate rate case, Block Island Power Company rate hearings, Seawinds and other legal matters
- \$35,909 for unbudgeted expenditures for the hiring of consultants for the operation of the Finance Department during an unanticipated personnel change

The total excess of expenditures over revenue on a budgetary basis was \$169,096, including transfers to other funds (primarily the School Fund) of \$3,165,657 and transfers from other funds (Block Island Land Trust) of \$131,188.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Annually Budgeted Special Revenue Fund Budgetary Highlights (School Department Unrestricted and Article 31 Restricted Funds).

Actual revenues reported in FY 2006 exceeded budgeted revenues by \$66,139, due primarily to unbudgeted revenues of \$61,587, including school lunch revenues of \$36,968.

Actual expenditures were \$134,775 more than budgeted expenditures of \$3,371,922, primarily due to capital expenditures and operational costs associated with the new, significantly larger, school building. Supplies and materials exceeded budgeted expenditures of \$79,987 by \$46,646, offsetting some of the total budgeted savings in purchased services.

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, 2006 amounts to \$39,019,246 (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 \$5,579,006 (17%), of which \$5,710,125 is related to governmental activities and (\$131,119) is related to business-type activities.

The Town began reporting infrastructure assets as acquired during fiscal year 2006. Governments with total revenues of less than \$10,000,000 in the first fiscal year ending after June 15, 1999 (Phase 3 governments) are exempt from the requirement to retroactively apply the infrastructure reporting provisions.

Additions to capital assets in 2006 for governmental activities included the takeover of a highways garage from the State of Rhode Island; a patrol boat for the Harbors Department; a highways vehicle and other highways equipment; library books; four new engines for the Harbors Department and improvements at the Coast Guard Station.

Additions and renovations to the Block Island School of \$8,043,646 accounted for the major addition to capital assets. Of this, \$4,265,587 was previously recorded as construction in progress. The increase in construction in progress in the amount of \$1,658,628 includes amounts for the Town Hall construction project and High Street sidewalk project, as well as continued work on the development of Heinz recreation field and renovations to the North Light House.

Additions to capital assets in the Sewer Fund consisted primarily of the continued addition of underground piping and related construction in progress. Additions in the Water Fund consisted mostly of increases in wells/reserve osmosis/water supply and underground piping and related construction in progress.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital assets (Continued):

Additional information regarding capital assets can be found in Note 5 on pages 38 and 39.

Long-term debt. As of June 30, 2006, the Town has total bonded debt outstanding of \$19,035,320 backed by the full faith and credit of the Town. On May 1, 2006, the Town issued \$2,450,000 in general obligation bonds due 2026 for the School Construction and Town Hall Construction projects. The school construction portion of the bonds (\$1,100,000) qualifies for 30% reimbursement by the Rhode Island Department of Education, to be paid to the Town over the life of the bond.

The Town has no capital leases outstanding at June 30, 2006.

Long-term debt includes \$1,593,913 of outstanding loans to the Block Island Water Company and New Shoreham Sewer Commissions (Business Activities), which includes \$965,554 payable to the United States Department of Agriculture (USDA). During FY 2006 the Sewer Fund paid off several USDA loans.

The Town's Component Unit has total bonded debt outstanding of \$560,000, which are general obligation bonds of the Town. The Trust also has a note outstanding totaling \$341,674.

Town of New Shoreham's Outstanding Debt General Obligation Bonds, Loans payable, and Capital Leases

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$17,441,407	\$15,673,886	\$ 1,593,913	\$ 1,848,607	\$19,035,320	\$17,522,493
Accrued compensated absences	166,013	147,110	39,072	27,914	205,085	175,024
Capital leases		4,345				4,345
Total	<u>\$17,607,420</u>	<u>\$15,825,341</u>	<u>\$ 1,632,985</u>	<u>\$ 1,876,521</u>	<u>\$19,240,405</u>	<u>\$17,701,862</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 \$43,753,304 as of the December 31, 2005 assessment, which significantly exceeds the Town's outstanding general debt.

In May 2005, Standard and Poor's Rating Service (S&P) upgraded the Town's bond rating from A to A+. This rating was affirmed in April 2006. Primary factors driving the ratings increase include strong reserve levels and a growing tax base. Additional information regarding the Town's long-term debt can be found in Note 6 on pages 40-46.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Commitments

The Town has several active construction projects as of June 30, 2006. At year-end, the Town had commitments of \$77,360 remaining on contracts related to the school addition. Construction and renovation of the Town Hall is underway with an expected completion date of spring 2007. At June 30, 2006, the Town had commitments totaling \$1,626,515 remaining on the Town Hall construction contract.

The Town has entered into Personal Service Contracts with two individuals who are employed by the Town, but not covered under a unionized contract. Commitments related to the enterprise funds total \$60,000, payable in 2007, 2008 and 2009. Commitments related to the General Fund total \$62,131 for 2007.

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 (90% residential) shows small but steady growth that brought the net assessed value to \$1,458,443,473 at December 31, 2005.

With the approval of the taxpayers at the May 1, 2006 Financial Town Meeting, the tax rate on real property increased by \$0.31/\$1,000 (7.8%), from \$3.98/\$1,000 in 2006 to \$4.29/\$1,000 in 2007. The increase was driven primarily by rising salaries and insurance costs and by debt service related to the issuance of general obligation bonds for the School and Town Hall construction projects.

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 will oversee the day-to-day maintenance and operations of the State highways. In exchange, the State will compensate the Town \$250,000 annually, adjusted in 2007 for inflation and for additional personnel. The State retains responsibility for any major capital improvements required.

Component Unit

The Town has one component unit, the Block Island Land Trust (Trust), which was created by an Act of the Rhode Island General Assembly on January 15, 1986. The purpose of the 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 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 Trust is funded principally by fees levied on qualifying real property transfers within the Town. The Transfer fee adopted by the Trust for the year ended June 30, 2006 was 3%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Component Unit (Continued)

The Trust may request the Town to issue bonds for the purpose of financing its activities. The 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 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 \$1,899,600 increase in net assets for 2006 is due primarily to \$2,092,872 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, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Block Island Land Trust
ASSETS:				
Cash and cash equivalents	\$ 5,547,900	\$ 867,648	\$ 6,415,548	\$ 875,141
Investments				381,557
Accounts receivable, less allowance for doubtful accounts of \$79,274:				
Property taxes	266,865		266,865	
Federal and state government	1,071,326	35,134	1,106,460	
Assessments and user fees	2,320	152,739	155,059	
Note receivable				170,202
Other	113,636	1,626	115,262	7,192
Internal balances	32,622	(32,622)	-	
Due from fiduciary funds	5,600		5,600	
Deposits	30,000		30,000	
Temporarily restricted assets, cash and cash equivalents	44,859		44,859	
Note receivable from component unit	3,165,000		3,165,000	
Deferred charges	96,361	17,486	113,847	11,188
Capital assets not being depreciated	16,185,394	1,129,390	17,314,784	18,046,373
Capital assets being depreciated, net	14,287,054	7,417,408	21,704,462	
Total assets	40,848,937	9,588,809	50,437,746	19,491,653
LIABILITIES:				
Accounts payable and accrued expenses	1,426,529	67,734	1,494,263	18,204
Due to federal and state government	4,794		4,794	
Unearned revenue	96,159		96,159	
Due to primary government:				
Due within one year				125,000
Due in more than one year				3,040,000
Long-term obligations:				
Due within one year	924,728	58,492	983,220	75,594
Due in more than one year	16,682,692	1,574,493	18,257,185	826,079
Total liabilities	19,134,902	1,700,719	20,835,621	4,084,877
NET ASSETS:				
Invested in capital assets, net of related debt	13,127,402	6,952,885	20,080,287	13,979,700
Restricted for:				
Capital projects	1,911,285		1,911,285	
Education	60,915		60,915	
Land to be held in perpetuity				1,427,076
Other:				
Expendable	246,711		246,711	
Nonexpendable	124,274		124,274	
Unrestricted	6,243,448	935,205	7,178,653	
Total net assets	\$ 21,714,035	\$ 7,888,090	\$ 29,602,125	\$ 15,406,776

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

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	\$ 940,424	\$ 351,709	\$ -	\$ -	\$ (588,715)		\$ (588,715)	
Finance administration	356,580	-	-	-	(356,580)		(356,580)	
Fire, rescue and emergency services	311,915	13,150	1,625	16,117	(281,023)		(281,023)	
Police	573,578	13,872	1,683	16,709	(541,314)		(541,314)	
Town highways/maintenance	83,798	4,174	-	1,060,422	980,798		980,798	
State roads	222,062	250,000	-	-	27,938		27,938	
Harbors	424,303	749,642	-	110,553	435,892		435,892	
Building official	208,640	104,052	115,863	-	11,275		11,275	
Recreation	191,927	152,331	-	-	(39,596)		(39,596)	
Library	445,451	6,284	81,499	-	(357,668)		(357,668)	
Boards and commissions	342,842	14,223	113,805	-	(214,814)		(214,814)	
Community support	352,296	100,785	13,319	-	(238,192)		(238,192)	
Education	3,891,198	61,587	239,290	-	(3,590,321)		(3,590,321)	
Interest on long-term debt	678,897	-	-	-	(678,897)		(678,897)	
Total governmental activities	9,023,911	1,821,809	567,084	1,203,801	(5,431,217)		(5,431,217)	
Business-type activities:								
Sewer	1,147,877	792,377		49,691		\$ (305,809)	(305,809)	
Water	448,408	451,809		180,359		183,760	183,760	
Total business-type activities	1,596,285	1,244,186		230,050		(122,049)	(122,049)	
Total primary government	\$ 10,620,196	\$ 3,065,995	\$ 567,084	\$ 1,433,851	(5,431,217)	(122,049)	(5,553,266)	
Component unit:								
Block Island Land Trust	\$ 261,765	\$ 2,092,872						\$ 1,831,107
General revenues:								
Property taxes					6,080,634		6,080,634	
Grants and contributions not restricted to specific programs					669,228		669,228	
Investment earnings					160,470	14,752	175,222	68,493
Transfers from component unit					131,188		131,188	
Total general revenues and transfers					7,041,520	14,752	7,056,272	68,493
Change in net assets					1,610,303	(107,297)	1,503,006	1,899,600
Net assets, beginning of year					20,103,732	7,995,387	28,099,119	13,507,176
Net assets, end of year					\$ 21,714,035	\$ 7,888,090	\$ 29,602,125	\$ 15,406,776

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

ASSETS	General Fund	School Funds	School Construction Fund	Town Hall Construction Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 2,641,835	\$ 121,432	\$ 959,070	\$ 1,523,623	\$ 346,799	\$ 5,592,759
Receivables:						
Property taxes, less allowance for doubtful accounts of \$60,000	266,865					266,865
Assessment and user fees	2,320					2,320
Intergovernmental	1,070,629				697	1,071,326
Other	108,345	5,291				113,636
Due from other funds	41,087	354,186			1,200	396,473
Due from fiduciary funds		5,600				5,600
Land deposit					30,000	30,000
Notes receivable, component unit	<u>3,165,000</u>					<u>3,165,000</u>
Total assets	<u>\$ 7,296,081</u>	<u>\$ 486,509</u>	<u>\$ 959,070</u>	<u>\$ 1,523,623</u>	<u>\$ 378,696</u>	<u>\$ 10,643,979</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued expenses	\$ 308,347	\$ 425,594	\$ 524,403	\$ 43,881	2,370	\$ 1,304,595
Due to federal and state government	4,794					4,794
Due to other funds	355,386		2,858	266	5,341	363,851
Deferred revenue	<u>712,104</u>					<u>712,104</u>
Total liabilities	<u>1,380,631</u>	<u>425,594</u>	<u>527,261</u>	<u>44,147</u>	<u>7,711</u>	<u>2,385,344</u>
Fund balances:						
Reserved for:						
Encumbrances	112,895		6,333			119,228
Note receivable	3,165,000					3,165,000
Perpetual care					124,274	124,274
Other	25,669	8,266				33,935
Unreserved, reported in:						
General Fund	2,611,886					2,611,886
Special revenue funds		52,649			240,299	292,948
Capital project funds			425,476	1,479,476		1,904,952
Permanent funds					6,412	6,412
Total fund balances	<u>5,915,450</u>	<u>60,915</u>	<u>431,809</u>	<u>1,479,476</u>	<u>370,985</u>	<u>8,258,635</u>
Total liabilities and fund balances	<u>\$ 7,296,081</u>	<u>\$ 486,509</u>	<u>\$ 959,070</u>	<u>1,523,623</u>	<u>\$ 378,696</u>	<u>\$ 10,643,979</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, 2006

Total fund balances for governmental funds		\$	8,258,635
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	30,472,448	
Deferred charges		<u>96,361</u>	30,568,809
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.			615,945
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable		17,441,407	
Compensated absences payable		166,013	
Accrued interest		<u>121,934</u>	<u>(17,729,354)</u>
Net assets of governmental activities			<u>\$ 21,714,035</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, 2006

	<u>General Fund</u>	<u>School Funds</u>	<u>School Construction Fund</u>	<u>Town Hall Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes	\$ 6,207,860					\$ 6,207,860
Intergovernmental	2,015,561	\$ 239,290			\$ 22,828	2,277,679
Licenses, permits and fees	447,364					447,364
Interest and investment	102,881		\$ 43,605	\$ 5,212	8,772	160,470
Transfer from component unit	131,188					131,188
Other revenues	960,873	61,587			101,985	1,124,445
	<u>9,865,727</u>	<u>300,877</u>	<u>43,605</u>	<u>5,212</u>	<u>133,585</u>	<u>10,349,006</u>
Total revenues						
Expenditures:						
Current:						
General government	934,141					934,141
Finance administration	386,514					386,514
Fire, rescue and emergency services	272,969					272,969
Police	521,434					521,434
Town highways/maintenance	1,583,020					1,583,020
State roads	222,062					222,062
Harbors	568,465					568,465
Building official	207,892					207,892
Recreation	214,066					214,066
Library	375,294					375,294
Boards and commissions	352,638					352,638
Community support	307,319				41,168	348,487
Education		3,640,799				3,640,799
Capital outlay			3,778,059	627,747		4,405,806
Debt service:						
Principal	715,092					715,092
Interest	662,305					662,305
Bond issuance costs			8,848	10,859		19,707
	<u>7,323,211</u>	<u>3,640,799</u>	<u>3,786,907</u>	<u>638,606</u>	<u>41,168</u>	<u>15,430,691</u>
Total expenditures						
Excess (deficiency) of revenues over expenditures	<u>2,542,516</u>	<u>(3,339,922)</u>	<u>(3,743,302)</u>	<u>(633,394)</u>	<u>92,417</u>	<u>(5,081,685)</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>School Funds</u>	<u>School Construction Fund</u>	<u>Town Hall Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):						
Issuance of debt			\$ 1,100,000	\$ 1,350,000		\$ 2,450,000
Premium on issuance of debt			314	386		700
Transfers from other funds		\$ 3,201,286				3,201,286
Transfers to other funds	<u>\$ (3,201,286)</u>					<u>(3,201,286)</u>
Total other financing sources (uses)	<u>(3,201,286)</u>	<u>3,201,286</u>	<u>1,100,314</u>	<u>1,350,386</u>		<u>2,450,700</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(658,770)	(138,636)	(2,642,988)	716,992	\$ 92,417	(2,630,985)
Fund balance, beginning of year	<u>6,574,220</u>	<u>199,551</u>	<u>3,074,797</u>	<u>762,484</u>	<u>278,568</u>	<u>10,889,620</u>
Fund balance, end of year	<u>\$ 5,915,450</u>	<u>\$ 60,915</u>	<u>\$ 431,809</u>	<u>\$ 1,479,476</u>	<u>\$ 370,985</u>	<u>\$ 8,258,635</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, 2006

Net change in fund balances for governmental funds		\$ (2,630,985)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities these costs are allocated over the life of the related debt and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 6,331,613	
Depreciation expense	<u>(621,488)</u>	5,710,125
<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>		
Payment of bond issuance costs	19,707	
Amortization	<u>(6,994)</u>	12,713
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		285,208
<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	(2,450,000)	
Principal repayment on general obligation bonds and capital leases	719,437	
Bond premium	(700)	
Amortization of premiums, discounts and deferred charges on refundings	<u>(5,512)</u>	(1,736,775)
<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	(18,903)	
Accrued interest	<u>(11,080)</u>	<u>(29,983)</u>
Change in net assets of governmental activities		<u>\$ 1,610,303</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 382,496	\$ 485,152	\$ 867,648
Accounts receivable, net of allowance for accounts of \$9,274 and \$10,000, respectively:			
Assessments and user fees	49,601	103,138	152,739
Federal and state government	23,676	11,458	35,134
Other	1,626		1,626
	<u>457,399</u>	<u>599,748</u>	<u>1,057,147</u>
Noncurrent assets:			
Deferred charges, net	2,962	14,524	17,486
Capital assets not being depreciated	1,056,611	72,779	1,129,390
Capital assets being depreciated, net	3,650,977	3,766,431	7,417,408
	<u>5,167,949</u>	<u>4,453,482</u>	<u>9,621,431</u>
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	28,279	39,455	67,734
Due to other funds	32,553	69	32,622
Accrued compensated absences	11,653		11,653
Current portion of long-term debt	6,738	40,101	46,839
	<u>79,223</u>	<u>79,625</u>	<u>158,848</u>
Noncurrent liabilities:			
Accrued compensated absences	27,419		27,419
Loans payable, net of current portion	669,425	877,649	1,547,074
	<u>696,844</u>	<u>877,649</u>	<u>1,574,493</u>
Total liabilities	<u>776,067</u>	<u>957,274</u>	<u>1,733,341</u>
NET ASSETS:			
Invested in capital assets, net of related debt	4,031,425	2,921,460	6,952,885
Unrestricted	360,457	574,748	935,205
	<u>\$ 4,391,882</u>	<u>\$ 3,496,208</u>	<u>\$ 7,888,090</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, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Assessments and user fees	\$ 607,240	\$ 392,421	\$ 999,661
Water contract	151,575		151,575
Other revenues	<u>33,562</u>	<u>59,388</u>	<u>92,950</u>
Total operating revenues	<u>792,377</u>	<u>451,809</u>	<u>1,244,186</u>
Operating expenses:			
Salaries and benefits	501,796		501,796
Contracted services	63,450	157,575	221,025
Materials and supplies	73,720	15,488	89,208
Repairs and maintenance	54,297	39,384	93,681
Depreciation	280,307	134,535	414,842
Utilities	99,465	48,618	148,083
Professional services	30,436	11,533	41,969
Miscellaneous	<u>12,396</u>	<u>7,232</u>	<u>19,628</u>
Total operating expenses	<u>1,115,867</u>	<u>414,365</u>	<u>1,530,232</u>
Operating income (loss)	<u>(323,490)</u>	<u>37,444</u>	<u>(286,046)</u>
Nonoperating revenues (expenses):			
Interest revenue	10,465	4,287	14,752
Grant revenue	49,691	180,359	230,050
Interest expense	(31,972)	(32,639)	(64,611)
Amortization of bond issuance costs	<u>(38)</u>	<u>(1,404)</u>	<u>(1,442)</u>
Total nonoperating revenues (expenses)	<u>28,146</u>	<u>150,603</u>	<u>178,749</u>
Change in net assets	(295,344)	188,047	(107,297)
Net assets, beginning of year	<u>4,687,226</u>	<u>3,308,161</u>	<u>7,995,387</u>
Net assets, end of year	<u>\$ 4,391,882</u>	<u>\$ 3,496,208</u>	<u>\$ 7,888,090</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 612,050	\$ 352,597	\$ 964,647
Cash received from other sources	33,945	59,388	93,333
Cash receipts for quasi-external transactions	151,575		151,575
Cash paid to employees for benefits	(488,436)		(488,436)
Cash paid to suppliers	(381,563)	(116,729)	(498,292)
Cash payments for quasi-external transactions	-	(157,575)	(157,575)
Net cash provided by (used in) operating activities	<u>(72,429)</u>	<u>137,681</u>	<u>65,252</u>
Cash provided by (used in) noncapital financing activities, interfund balances	<u>17,813</u>	<u>(89)</u>	<u>17,724</u>
Cash flows from capital and related financing activities:			
Debt issuances	192,500	108,951	301,451
Debt issuance costs	(3,000)	(3,314)	(6,314)
Capital contributions	143,725	217,958	361,683
Acquisition and construction of fixed assets	(115,948)	(367,647)	(483,595)
Principal paid on bonds and notes	(242,824)	(36,976)	(279,800)
Interest paid on bonds and notes	(36,061)	(30,208)	(66,269)
Net cash used in capital and related financing activities	<u>(61,608)</u>	<u>(111,236)</u>	<u>(172,844)</u>
Cash provided by investing activities, interest received	<u>10,465</u>	<u>4,287</u>	<u>14,752</u>
Net increase (decrease) in cash and cash equivalents	(105,759)	30,643	(75,116)
Cash and cash equivalents, beginning of year	<u>488,255</u>	<u>454,509</u>	<u>942,764</u>
Cash and cash equivalents, end of year	<u>\$ 382,496</u>	<u>\$ 485,152</u>	<u>\$ 867,648</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2006

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (323,490)	\$ 37,444	\$ (286,046)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	280,307	134,535	414,842
Loss on disposal of assets	1,339		1,339
Changes in assets and liabilities:			
Increase in:			
Accounts receivable, assessments and fees		(39,824)	(39,824)
Accrued compensated absences	11,158		11,158
Decrease in:			
Accounts receivable, assessments and fees	4,810		4,810
Accounts receivable, other	383		383
Accounts payable and accrued expenses	<u>(46,936)</u>	<u>5,526</u>	<u>(41,410)</u>
Net cash provided by (used in) operating activities	<u>\$ (72,429)</u>	<u>\$ 137,681</u>	<u>\$ 65,252</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 39,339
	<hr/>
Total assets	\$ 39,339
	<hr/> <hr/>
LIABILITIES:	
Due to other funds	\$ 5,600
Deposits held in custody for others	33,739
	<hr/>
Total liabilities	\$ 39,339
	<hr/> <hr/>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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, 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 (the 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.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

1. Summary of significant accounting policies (continued):

Financial reporting entity (continued):

An elected Board of Trustees governs the Trust. The purpose of the Trust is to promote preservation of the environment and character of the Town, to preserve suitable open spaces for recreation, for the conservation of forestry and wildlife, to promote responsible development of real estate and sound conservational practices, to protect environmentally sensitive or threatened existing and/or future fresh-water wellfields, aquifer recharge areas, 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 Trust, title to all remaining funds, land and land rights will vest with the Town. The 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, 2006

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.

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 School Construction Fund and Town Hall Construction Fund are major capital projects funds.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 and, therefore, 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, 2006

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 (sixty days). Revenues not considered to be available are recorded as deferred revenues. Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

Those revenues susceptible to accrual are property taxes, special assessments, payments in lieu of taxes, federal impact aid, state aid, telephone, hotel and meals taxes collected by 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, 2006

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 government's policy to use restricted resources first, and then unrestricted resources as they are needed.

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 30th day of September. 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 5.5% over those of the preceding year.

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 fiscal year.

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.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

1. Summary of significant accounting policies (continued):

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. Fair values are 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 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."

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.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

1. Summary of significant accounting policies (continued):

Capital assets (continued):

Government-wide financial statements (continued):

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 range of estimated useful lives by type of asset is 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 years

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, 2006.

Fund financial statements:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

1. Summary of significant accounting policies (continued):

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 funds 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.

Fund equity:

Government-wide financial statements:

Net assets:

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

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

1. Summary of significant accounting policies (continued):

Fund equity (continued):

Government-wide financial statements (continued):

Net assets (continued):

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

2. Designated fund balances:

As of June 30, 2006, unreserved fund balance designations are as follows:

	<u>General Fund</u>
Town Hall construction	\$ 400,000
To balance fiscal 2007 budget	<u>297,000</u>
Total	<u><u>\$ 697,000</u></u>

3. Deposits and investments:

At June 30, 2006, the carrying amount of the Town's deposits, including \$5,246,856 of cash equivalents, was \$6,499,746 and the total bank balance was \$6,900,808, of which \$6,592,756 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution, but not in the Town's name.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

3. Deposits and investments (continued):

As of June 30, 2006, the component unit had deposits with a bank balance of \$880,403, of which \$780,403 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution, but not in the component unit's name.

At June 30, 2006, deposits and investments are categorized as follows:

	<u>Insured</u>	<u>Rating</u>	<u>Maturities</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Deposits:					
Demand deposits	\$ 308,052			\$ 1,615,491	\$ 1,208,031
Restricted cash				44,859	44,859
Certificates of Deposit			7/3/2006 7/18/2006 7/24/2006 7/31/2006		
Commercial paper		A-1+	7/14/2006	1,568,544 2,075,000	1,574,942 2,075,000
Money market				<u>1,596,914</u>	<u>1,596,914</u>
	<u>\$ 308,052</u>			<u>\$ 6,900,808</u>	<u>\$ 6,499,746</u>

At June 30, 2006, deposits and investments of the component unit are categorized as follows:

<u>Type</u>	<u>Rating</u>	<u>Maturities</u>	<u>Carrying value</u>
Deposits:			
Cash on hand			\$ 125,141
Commercial paper	A-1+	7/31/2006	<u>750,000</u>
Total deposits			<u>\$ 875,141</u>
Investment, United States Treasury Bill			<u>\$ 381,557</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

4. Interfund receivables/payables:

Interfund receivables and payables at June 30, 2006 were as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	RI Substance Abuse	\$ 5,341
	School Construction Fund	2,858
	Town Hall Construction Fund	266
	Enterprise funds:	
	Sewer	32,553
	Water	69
		41,087
School Fund	Governmental funds:	
	General Fund	354,186
Cemetery Fund	Government funds:	
	General Fund	1,200
		\$ 396,473
School Fund	Fiduciary funds:	
	Agency funds	\$ 5,600

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, 2006

5. Capital assets:

Governmental activities:	Beginning balances	Increases	Decreases	Ending balances
Capital assets not being depreciated:				
Land	\$ 13,989,457	\$ 446,100	\$ -	\$ 14,435,557
Construction in progress	4,475,579	1,658,628	(4,384,370)	1,749,837
Total capital assets not being depreciated	<u>18,465,036</u>	<u>2,104,728</u>	<u>(4,384,370)</u>	<u>16,185,394</u>
Capital assets being depreciated:				
Land improvements	1,330,056	7,255	-	1,337,311
Buildings and improvements	7,840,879	8,090,667	-	15,931,546
Vehicles and vessels	1,638,785	205,696	(40,000)	1,804,481
Furniture and equipment	433,652	72,325	-	505,977
Machinery and equipment	708,030	64,092	(65,617)	706,505
Infrastructure	-	171,220	-	171,220
Total capital assets being depreciated	<u>11,951,402</u>	<u>8,611,255</u>	<u>(105,617)</u>	<u>20,457,040</u>
Less accumulated depreciation for:				
Land improvements	626,288	41,864	-	668,152
Buildings and improvements	3,200,103	387,119	-	3,587,222
Vehicles and vessels	1,031,522	99,021	(40,000)	1,090,543
Furniture and equipment	275,845	39,963	-	315,808
Machinery and equipment	520,357	50,667	(65,617)	505,407
Infrastructure	-	2,854	-	2,854
Total accumulated depreciation	<u>5,654,115</u>	<u>621,488</u>	<u>(105,617)</u>	<u>6,169,986</u>
Total capital assets being depreciated, net	<u>6,297,287</u>	<u>7,989,767</u>	<u>-</u>	<u>14,287,054</u>
Governmental activity capital assets, net	<u>\$ 24,762,323</u>	<u>\$ 10,094,495</u>	<u>\$ (4,384,370)</u>	<u>\$ 30,472,448</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

5. Capital assets (continued):

	Beginning balances	Increases	Decreases	Ending balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 954,203	\$ -	\$ -	\$ 954,203
Construction in progress	1,120,641	55,072	(1,000,526)	175,187
Total capital assets not being depreciated	<u>2,074,844</u>	<u>55,072</u>	<u>(1,000,526)</u>	<u>1,129,390</u>
Capital assets being depreciated:				
Buildings and improvements	4,178,553	-	-	4,178,553
Equipment	1,054,823	124,766	-	1,179,589
Underground piping	7,061,287	1,105,750	(6,858)	8,160,179
Wells/reserve osmosis/water supply	1,194,448	-	-	1,194,448
Total capital assets being depreciated	<u>13,489,111</u>	<u>1,230,516</u>	<u>(6,858)</u>	<u>14,712,769</u>
Less accumulated depreciation for:				
Buildings and improvements	1,470,354	106,529	(5,519)	1,571,364
Equipment	683,263	52,001	-	735,264
Underground piping	4,604,559	229,769	-	4,834,328
Wells/reserve osmosis/water supply	127,862	26,543	-	154,405
Total accumulated depreciation	<u>6,886,038</u>	<u>414,842</u>	<u>(5,519)</u>	<u>7,295,361</u>
Total capital assets being depreciated, net	<u>6,603,073</u>	<u>815,674</u>	<u>(1,339)</u>	<u>7,417,408</u>
Business-type activities capital assets, net	<u>\$ 8,677,917</u>	<u>\$ 870,746</u>	<u>\$ (1,001,865)</u>	<u>\$ 8,546,798</u>
Depreciation was charged to functions as follows:				
Governmental activities:				
General government		\$ 4,419		
Finance administration		12,207		
Fire, rescue and emergency services		55,063		
Police		50,530		
Town highways/maintenance		59,845		
Harbors		34,271		
Recreation		4,544		
Library		86,344		
Boards and commissions		25,884		
Community support		41,282		
Education		247,099		
		<u>\$ 621,488</u>		
Business-type activities:				
Sewer Fund		\$ 280,307		
Water Fund		134,535		
		<u>\$ 414,842</u>		

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2006

6. Long-term obligations:

A summary of long-term obligations as of June 30, 2006 is as follows:

	Primary Government			Component Unit
	Governmental activities	Business-type activities	Total	Block Island Land Trust
Bonds and notes	\$ 17,506,641	\$ 1,593,913	\$ 19,100,554	\$ 901,673
Deferred amounts:				
For issuance costs	(47,467)		(47,467)	
On refunding	(25,014)		(25,014)	
On premium	7,247		7,247	
	17,441,407	1,593,913	19,035,320	901,673
Accrued compensated absences	166,013	39,072	205,085	
	17,607,420	1,632,985	19,240,405	901,673
Less portion due within one year	924,728	58,492	983,220	75,594
	\$ 16,682,692	\$ 1,574,493	\$ 18,257,185	\$ 826,079

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. Long-term obligations (continued):

Changes in long-term obligations during the year ended June 30, 2006 were as follows:

	Balance, July 1, 2005	Additions	Retirements	Balance, June 30, 2006	Due within one year
Governmental activities:					
Bonds payable:					
Bonds and notes	\$ 15,771,733	\$ 2,450,000	\$ 715,092	\$ 17,506,641	\$ 875,875
Deferred amounts:					
For issuance discounts	(78,173)		(30,706)	(47,467)	(4,798)
On refunding	(26,539)		(1,525)	(25,014)	(1,546)
On premium	6,865	700	318	7,247	375
Total bonds payable	15,673,886	2,450,700	683,179	17,441,407	869,906
Accrued compensated absences	147,110	18,903		166,013	54,822
Capital leases	4,345		4,345	-	
Total long-term obligations	<u>\$ 15,825,341</u>	<u>\$ 2,469,603</u>	<u>\$ 687,524</u>	<u>\$ 17,607,420</u>	<u>\$ 924,728</u>
Business-type activities:					
Bonds and notes	\$ 1,848,607	\$ 20,399	\$ 275,093	\$ 1,593,913	\$ 46,839
Accrued compensated absences	27,914	11,158		39,072	11,653
Total long-term obligations	<u>\$ 1,876,521</u>	<u>\$ 31,557</u>	<u>\$ 275,093</u>	<u>\$ 1,632,985</u>	<u>\$ 58,492</u>
Component unit:					
Bonds and notes	<u>\$ 974,937</u>	<u>\$ -</u>	<u>\$ 73,263</u>	<u>\$ 901,674</u>	<u>\$ 75,594</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. Long-term obligations (continued):

General obligation bonds and notes:

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

<u>Purpose</u>	<u>Amount of original issue</u>	<u>Fiscal year of issue</u>	<u>Interest rate</u>	<u>Fiscal year of maturity</u>	<u>Balance, July 1, 2005</u>	<u>New issues</u>	<u>Retirements</u>	<u>Balance, June 30, 2006</u>
Governmental activities:								
Town Hall Construction	\$ 1,350,000	2006	4.0-4.75%	2026		\$ 1,350,000		\$ 1,350,000
School Construction	1,100,000	2006	4.0-4.75%	2026		1,100,000		1,100,000
School Construction	7,160,000	2005	3.5-4.25%	2025	\$ 7,160,000		\$ 200,000	6,960,000
Hodge Property	1,000,000	2002	2.5-5.0%	2022	935,000		35,000	900,000
Hodge Property	3,500,000	2002	2.5-5.0%	2022	3,285,000		120,000	3,165,000
Refunding bond - school	1,913,000	2002	4.25-5.0%	2022	1,720,000		65,000	1,655,000
Town library - additions/renovations	1,257,000	2002	4.25-5.0%	2022	1,130,000		45,000	1,085,000
Town hall - additions/renovations	750,000	2002	4.25-5.0%	2022	675,000		25,000	650,000
Old Harbor lavatories	260,000	1998	3.65-4.6%	2010	125,000		25,000	100,000
Land acquisition	170,000	1998	3.65-5.0%	2010	80,000		15,000	65,000
Refunding bond - open space	838,768	1998	3.65-4.6%	2010	286,286		80,073	206,213
Refunding bond - school	583,107	1998	3.65-4.6%	2010	198,985		55,667	143,318
Refunding bond - sewer	516,960	1998	3.65-4.6%	2010	176,462		49,352	127,110
Total	<u>\$ 20,398,835</u>				<u>\$ 15,771,733</u>	<u>\$ 2,450,000</u>	<u>\$ 715,092</u>	<u>\$ 17,506,641</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. 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:

<u>Purpose</u>	<u>Authorized and issued</u>	<u>Fiscal year of issue</u>	<u>Interest rate</u>	<u>Fiscal year of maturity</u>	<u>Balance, July 1, 2005</u>	<u>New issues</u>	<u>Retirements</u>	<u>Balance, June 30, 2006</u>
Enterprise funds:								
Sewer Fund:								
Sewer improvements	\$ 192,500	2006	4.375%	2046	\$ 192,500			\$ 192,500
Land Improvements	472,175	2005	4.25%	2045	472,175		\$ 4,685	467,490
Service building	118,009	2002	4.50%	2042	115,668		115,668	-
Building renovation and vehicles	84,000	1998	4.75%	2038	77,973		77,973	-
Headworks	72,500	1997	4.50%	2012	39,791		39,791	-
	<u>248,000</u>	N/A	N/A	N/A		\$ 16,174 (1)		<u>16,174</u>
	<u>1,187,184</u>				<u>898,107</u>	<u>16,174</u>	<u>238,117</u>	<u>676,164</u>
Water Fund:								
Water supply	109,000	2006	4.25%	2045	107,501	1,499		109,000
Clean Water GOB	179,445	2005	4.25%	2045	179,445		1,781	177,664
Refunding bond	614,287	2004	3.26%	2024	610,287		20,287	590,000
Discharge	156,165	1998	3.65-4.6%	2010	53,267		14,908	38,359
	<u>442,000</u>	N/A	N/A	N/A		<u>2,726 (1)</u>		<u>2,726</u>
	<u>1,500,897</u>				<u>950,500</u>	<u>4,225</u>	<u>36,976</u>	<u>917,749</u>
Total	<u>\$ 2,688,081</u>				<u>\$ 1,848,607</u>	<u>\$ 20,399</u>	<u>\$ 275,093</u>	<u>\$ 1,593,913</u>
Component unit:								
Land acquisition	\$ 450,000	2004	6.00%	2013	\$ 379,937	\$ -	\$ 38,263	\$ 341,674
Land acquisition	<u>800,000</u>	1998	3.65%-5.0%	2018	<u>595,000</u>		<u>35,000</u>	<u>560,000</u>
	<u>\$ 1,250,000</u>				<u>\$ 974,937</u>	<u>\$ -</u>	<u>\$ 73,263</u>	<u>\$ 901,674</u>

(1) Although this debt is an obligation of the Town, as the monies were spent in accordance with the terms of and are due from the United States Department of Agriculture, the debt was not actually issued as of June 30, 2006.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. Long-term obligations (continued):

General obligation bonds and notes (continued):

At June 30, 2006, scheduled annual debt service requirements to maturity for general obligations bonds and notes are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2007	\$ 875,875	\$ 741,680	\$ 1,617,555
2008	840,683	706,109	1,546,792
2009	837,546	671,978	1,509,524
2010	877,537	637,205	1,514,742
2011	770,000	600,580	1,370,580
2012-2016	4,350,000	2,499,243	6,849,243
2017-2021	5,350,000	1,483,496	6,833,496
2022-2026	3,605,000	344,235	3,949,235
	<u>\$ 17,506,641</u>	<u>\$ 7,684,526</u>	<u>\$ 25,191,167</u>

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2007	\$ 46,839	\$ 62,913	\$ 109,752
2008	43,407	61,357	104,764
2009	41,974	59,913	101,887
2010	43,424	58,444	101,868
2011	37,439	56,866	94,305
2012-2016	204,959	262,997	467,956
2017-2021	248,080	219,634	467,714
2022-2026	258,721	164,964	423,685
2027-2031	121,702	128,468	250,170
2032-2036	150,033	100,003	250,036
2037-2041	184,962	64,911	249,873
2042-2045	193,473	21,660	215,133
	1,575,013	<u>\$ 1,262,130</u>	<u>\$ 2,837,143</u>

Maturities not applicable as debt not issued as of June 30, 2006

16,174
<u>2,726</u>
<u>\$ 1,593,913</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. Long-term obligations (continued):

General obligation bonds and notes (continued):

Component unit:

Year ending June 30,	Principal	Interest	Total
2007	\$ 75,594	\$ 46,583	\$ 122,177
2008	83,066	42,588	125,654
2009	85,689	38,206	123,895
2010	88,471	33,623	122,094
2011	96,423	28,831	125,254
2012-2016	357,431	74,452	431,883
2017-2018	115,000	8,750	123,750
	<u>\$ 901,674</u>	<u>\$ 273,033</u>	<u>\$ 1,174,707</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, 2005 was \$1,458,443,473, limiting the amount of non-excepted general obligation bonds outstanding to \$43,753,304. At June 30, 2006, general obligation bonds outstanding totaled \$17,506,641.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

6. Long-term obligations (continued):

General obligation bonds and notes (continued):

The Town has authorized, but unissued, general obligation bonds in the amount of \$6,500,000 related to the component unit and \$350,000 related to the Block Island Housing Board.

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.

Accrued compensated absences:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2006

7. Accounts payable and accrued expenses:

Accounts payable and accrued expenses are as follows:

	<u>Vendors</u>	<u>Other Governments</u>	<u>Employees</u>	<u>Accrued Interest</u>	<u>Total</u>
Governmental activities:					
General Fund	\$ 239,129	\$ 17,071	\$ 52,147		\$ 308,347
School Department	83,434		342,160		425,594
Capital Projects Fund:					
School Construction Fund	524,403				524,403
Town Hall Construction Fund	43,881				43,881
Nonmajor funds	2,370				2,370
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 121,934	121,934
	<u>\$ 893,217</u>	<u>\$ 17,071</u>	<u>\$ 394,307</u>	<u>\$ 121,934</u>	<u>\$ 1,426,529</u>
Business-type activities:					
Sewer	\$ 16,146		\$ 7,804	\$ 4,329	\$ 28,279
Water	29,011	\$ (1,132)		11,576	39,455
	<u>\$ 45,157</u>	<u>\$ (1,132)</u>	<u>\$ 7,804</u>	<u>\$ 15,905</u>	<u>\$ 67,734</u>
Component unit	<u>\$ 1,207</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 16,997</u>	<u>\$ 18,204</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

8. 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 all plans during 2006 was \$3,688,761. Total Town payroll was \$4,424,954 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 plan during 2006 was \$1,579,438.

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

Funding policy:

Rhode Island general laws set the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of July 1, 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.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

8. Employee retirement systems (continued):

Teachers' Plan (continued):

Funding policy (continued):

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 2006, actuarial required contributions were 15.36% of participant salary. This resulted in a contribution rate paid by the State on behalf of Town teachers of 6.31% (\$98,473). The Town's contribution rate was 9.05%. The Town's required and actual contributions to the Teacher's Plan for fiscal years 2006, 2005 and 2004 were \$144,129, \$113,507 and \$96,641, 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 2006, payroll for employees covered under the plan totaled \$2,109,323 (including \$204,061 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.

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

As of June 30, 2006, active employees who were members of the Municipal Plan are as follows:

Municipal workers	47 (11 school)
Police	6

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

8. Pension plans (continued):

Municipal Plan (continued)

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

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>2006</u>	<u>2005</u>	<u>2004</u>
Annual pension costs	\$ 327,091	\$ 189,878	\$ 166,391
Actual contributions:			
Municipal:			
Employee	133,368	93,300	93,288
Employer	133,784	43,051	5,197
Police:			
Employee	18,365	15,121	18,320
Employer	41,574	38,406	49,586
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 7.14% to the Municipal Plan during fiscal year ended June 30, 2006, which resulted in a contribution of \$23,207 by the School Department. School employees under the Municipal Plan were required to contribute \$22,751.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

8. Pension plans (continued):

Municipal Plan (continued)

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.

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

Asset appreciation: 8.25% annually

Salary increases: 3.75% 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)

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. 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. There have been no significant reductions in insurance coverage during the year ended June 30, 2006.

10. Litigation and contingencies:

Litigation:

The Town is a party to various other 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.

Other contingencies:

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 \$1.56 million for the year ended June 30, 2006.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

11. Commitments:

The Town has several active construction projects as of June 30, 2006. At year-end, the Town had commitments of \$77,360 remaining on contracts related to the school addition. Construction and renovation of the Town Hall is underway and completion is expected in the spring of 2007. At year-end, the Town had commitments totaling \$1,626,515 remaining on the Town Hall construction contract.

The Town has entered into Personal Service Contracts with two individuals who are employed by the Town, but not covered under a unionized contract. Commitments related to the enterprise funds total \$60,000 in 2007, 2008 and 2009 and commitments related to the General Fund total \$62,131 for 2007.

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 5,937,248	\$ 6,207,860	\$ 270,612
Intergovernmental	1,052,531	2,015,561	963,030
Licenses, permits and fees	423,950	447,364	23,414
Interest and investment	55,000	102,881	47,881
Transfer from component unit	131,188	131,188	-
Other revenues	946,260	980,373	34,113
Total revenues	8,546,177	9,885,227	1,339,050
Expenditures:			
Current:			
General government	874,953	933,104	(58,151)
Finance administration	305,392	366,190	(60,798)
Fire, rescue and emergency services	241,894	237,885	4,009
Police	443,082	497,427	(54,345)
Town highways and maintenance	420,248	451,302	(31,054)
State roads	250,000	222,062	27,938
Harbors	380,779	452,910	(72,131)
Building official	149,079	139,031	10,048
Recreation	195,220	189,285	5,935
Library	379,668	375,294	4,374
Boards and commissions	216,903	202,547	14,356
Community support	307,585	307,319	266
Capital outlay	236,333	1,503,313	(1,266,980)
Debt service	1,347,184	1,378,797	(31,613)
Total expenditures	5,748,320	7,256,466	(1,508,146)
Excess of revenues over expenditures, budgetary basis	2,797,857	2,628,761	(169,096)
Other financing sources (uses):			
Reappropriated fund balances:			
Designated for school construction	117,800	117,800	-
Unrestricted fund balances	250,000	250,000	-
Transfers to other funds	(3,165,657)	(3,165,657)	-
Total other financing sources (uses)	(2,797,857)	(2,797,857)	-
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	\$ -	(169,096)	\$ (169,096)
Adjustments of budgetary basis to U.S. GAAP basis		(489,674)	
Excess of expenditures and other financing uses over revenues and other financing sources, U. S. GAAP basis		(658,770)	
Net assets, beginning of year		6,574,220	
Net assets, end of year		\$ 5,915,450	

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT

YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 136,265	\$ 140,817	\$ 4,552
Other revenues		<u>61,587</u>	<u>61,587</u>
Total revenues	<u>136,265</u>	<u>202,404</u>	<u>66,139</u>
Expenditures:			
Current:			
Salaries	2,004,480	2,013,508	(9,028)
Employee benefits	770,742	771,200	(458)
Purchased services	437,129	477,126	(39,997)
Supplies and materials	79,987	126,633	(46,646)
Other	2,200	12,588	(10,388)
Capital expenditures	<u>77,384</u>	<u>105,642</u>	<u>(28,258)</u>
Total expenditures	<u>3,371,922</u>	<u>3,506,697</u>	<u>(134,775)</u>
Excess of expenditures over revenues, budgetary basis	<u>(3,235,657)</u>	<u>(3,304,293)</u>	<u>(68,636)</u>
Other financing sources (uses):			
Transfer from General Fund	3,165,657	3,201,286	35,629
Reappropriated fund balance	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total other financing sources (uses)	<u>3,235,657</u>	<u>3,271,286</u>	<u>35,629</u>
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	<u>\$ -</u>	<u>(33,007)</u>	<u>\$ (33,007)</u>
Adjustments of budgetary basis to U.S. GAAP basis		<u>(105,629)</u>	
Excess of expenditures over revenue, U.S. GAAP basis		(138,636)	
Net assets, beginning of year		<u>199,551</u>	
Net assets, end of year		<u>\$ 60,915</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGET COMPARISON

YEAR ENDED JUNE 30, 2006

Budget preparation and budgetary basis of accounting:

In accordance with 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.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGET COMPARISON
(CONTINUED)

YEAR ENDED JUNE 30, 2006

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

	<u>General Fund</u>	<u>School Department</u>
Reappropriated fund balances:		
Designated for school construction	\$ (117,800)	
Unrestricted fund balances	(250,000)	\$ (70,000)
Change in reserve for encumbrances	(86,245)	
Transfer to School recognized under U.S.GAAP but not yet budgeted	(35,629)	
Accrued payroll not yet budgeted		(35,629)
	<u> </u>	<u> </u>
Total adjustments	<u>\$ (489,674)</u>	<u>\$ (105,629)</u>

Budget compliance:

Costs of operations for all departments, offices and agencies established within the Town Charter must be appropriated through an annual budget ordinance. These departments are presented within the General Fund and the School Department Municipal 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 - SCHEDULES OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2006

<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, 2003	\$ 459,852	\$ 687,307	\$ 227,455	66.91%	\$ 166,918	136.27%
June 30, 2004	543,164	852,385	309,221	63.72%	267,641	115.54%
June 30, 2005	585,177	924,032	338,855	63.33%	174,633	194.04%
June 30, 2006	N/A	N/A	N/A	N/A	204,061	N/A
<i>Municipal Employees Retirement System, Other</i>						
June 30, 2003	\$ 2,690,396	\$ 3,020,096	\$ 329,700	89.08%	\$ 1,686,959	19.54%
June 30, 2004	2,701,194	3,165,316	464,122	85.34%	1,519,889	30.54%
June 30, 2005	2,791,780	3,533,859	742,079	79.00%	1,783,163	41.62%
June 30, 2006	N/A	N/A	N/A	N/A	1,905,262	N/A

(1) N/A not available

(2) The latest actuarial valuation for the plan is as of June 30, 2005.

TOWN OF NEW SHOREHAM, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2006

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2005</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2006</u>
2006	\$ -	\$ 5,854,638	\$ (24,355)	\$ 5,830,283	\$ 5,630,448	\$ 199,835
2005	318,315		22,568	340,883	280,618	60,265
2004	90,391		(3,833)	86,558	53,641	32,917
2003	47,606		(2,788)	44,818	31,958	12,860
2002	31,349		(1,151)	30,198	22,856	7,342
2001	20,642		(25)	20,617	16,042	4,575
2000	14,396		(24)	14,372	10,162	4,210
1999	2,631		(65)	2,566	9	2,557
1998	1,455		(111)	1,344		1,344
1997	1,418		(458)	960		960
	<u>\$ 528,203</u>	<u>\$ 5,854,638</u>	<u>\$ (10,242)</u>	<u>\$ 6,372,599</u>	<u>\$ 6,045,734</u>	326,865
					Less allowance for doubtful accounts	<u>60,000</u>
						<u>\$ 266,865</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2006

Schedule of net assessed property value by category:

<u>Description of property</u>	<u>Valuations</u>	<u>Levy</u>
Real property	\$ 1,448,600,728	\$ 5,759,272
Motor vehicles	14,185,782	78,148
Tangible personal	<u>4,305,904</u>	<u>17,218</u>
Total	1,467,092,414	5,854,638
Exemptions	<u>20,904,387</u>	<u>-</u>
Current year assessment	<u><u>\$ 1,446,188,027</u></u>	<u><u>\$ 5,854,638</u></u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 6,045,734
Revenue collected within 60 days subsequent to year ended June 30, 2006	<u>126,016</u>
	6,171,750
Prior year revenue received in current year	<u>(204,939)</u>
Current year real estate and personal property tax revenue	<u><u>\$ 5,966,811</u></u>



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

Principals

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Richard J. DeRienzo, CPA
Jerrold N. Dorfman, CPA, PFS
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Stephen W. Geremia, CPA
Susan R. Johnson, CPA
Michael E. Criscione, CPA
John E. Finnerty, Jr., CPA, CVA

**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, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 10, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

**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
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 that are required to be reported under Government Auditing Standards.

We have communicated other comments to help improve the efficiency and accountability of the Town in a separate letter dated November 10, 2006.

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

Saffowitz, Garofalo, Cianci & DeGuzo P.C.

November 10, 2006