

TOWN OF NEW SHOREHAM, RHODE ISLAND

BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007



TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2007

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TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2007

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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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of New Shoreham, Rhode Island (the Town) as of and for the year ended June 30, 2007, 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 did not audit the financial statements of the School Funds, which is a major fund and represents 2 percent, 1 percent, 4 percent and 42 percent, respectively, of the assets, net assets, revenues and expenditures of the Governmental Activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Funds, is based on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of New Shoreham, Rhode Island as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

Independent Auditors' Report (Continued)

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

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2007 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.

The Management's Discussion and Analysis on pages 3 through 12, and budgetary comparison schedules and historical pension information on pages 53 through 57 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion based on our report and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Handwritten signature in cursive script: Jeffrey A. Finkel, CPA

December 5, 2007

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, 2007.

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2007 by \$30,116,117 (*net assets*). Net assets include \$22,362,631 invested in capital assets, net of related debt; \$1,235,664 of restricted net assets; and \$6,517,822 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$50,929,884 and total liabilities were \$20,813,767 at June 30, 2007. The Town's total net assets increased by \$460,352 in the current fiscal year (FY 2007).

As of June 30, 2007, the Town's governmental funds reported combined ending fund balances of \$6,548,762, a decrease of \$1,763,513 from the prior year. This decrease is primarily due to capital outlay in the Town Hall Construction Fund.

As of June 30, 2007, the unreserved fund balance for the General Fund was \$2,137,713, or 19% of total budgeted 2007 General Fund expenditures and other financing uses (\$11,022,186). This amount is available for spending at the Town's discretion. However, \$265,000 of this unreserved fund balance was appropriated May 7, 2007 to meet 2008 General Fund expenditures and \$200,000 is appropriated for the Town Hall construction project. This reduces the available unreserved fund balance for the General Fund to \$1,672,713, or 15% of total budgeted 2007 General Fund expenditures and other financing uses.

The Town's total debt increased by \$141,519 (1%) during the current fiscal year. The key factors in this increase were the issuance of \$722,100 of enterprise fund debt and the recording of \$250,000 of claims, partially offset by the retirement of \$916,528 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 and maintenance; state roads; harbors; building official; recreation; library; GIS/Technology; boards and commissions; community support and education. The business-type activities of the Town include a Sewer Fund and a Water Fund.

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

The government-wide financial statements can be found on pages 13-14 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 8 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 Funds, 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 15-19 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 20-23 of this report.

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

The basic fiduciary fund financial statement can be found on page 24 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 25-52 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 53-57 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 \$30,116,117 at June 30, 2007.

Net assets invested in capital assets, net of related debt, makes up \$22,362,631, or 74%, 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 \$1,235,664, or 4%, represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$140,731 is permanently restricted and is nonexpendable. The remaining balance of *unrestricted net assets* (\$6,517,822) 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 8,388,543	\$10,376,489	\$ 1,127,185	\$ 1,042,011	\$ 9,515,728	\$11,418,500
Capital assets	32,038,218	30,472,448	9,375,938	8,546,798	41,414,156	39,019,246
Total assets	40,426,761	40,848,937	10,503,123	9,588,809	50,929,884	50,437,746
Long-term obligations	17,017,036	17,607,420	2,364,888	1,632,985	19,381,924	19,240,405
Other liabilities	1,245,307	1,527,482	186,536	67,734	1,431,843	1,595,216
Total liabilities	18,262,343	19,134,902	2,551,424	1,700,719	20,813,767	20,835,621
Net assets:						
Invested in capital assets, net of related debt	15,306,054	13,127,402	7,056,577	6,952,885	22,362,631	20,080,287
Restricted	1,235,664	2,343,185			1,235,664	2,343,185
Unrestricted	5,622,700	6,243,448	895,122	935,205	6,517,822	7,178,653
Total net assets	\$22,164,418	\$21,714,035	\$ 7,951,699	\$ 7,888,090	\$30,116,117	\$29,602,125

At June 30, 2007 and 2006, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, and 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 \$16,619,163. Net assets invested in capital assets, net of related debt, makes up \$15,636,945, or 94%, of total net assets. The remaining balance of net assets of the Land Trust, totaling \$982,218, is restricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

The Town's net assets increased by \$460,352. Approximately 53% of the Town's total revenue came from taxes and payments in lieu of taxes, while 19% 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 2007, governmental activity expenses exceeded program revenues by \$7,631,767. Program revenues exceeded net expenses from business-type activities in 2007 by \$27,707.

The Town of New Shoreham's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,831,601	\$ 1,821,809	\$ 1,404,174	\$ 1,244,186	\$ 3,235,775	\$ 3,065,995
Operating grants and contributions	605,152	567,084			605,152	567,084
Capital grants and contributions	258,157	1,203,801	322,219	230,050	580,376	1,433,851
General revenues:						
Property taxes	6,529,612	6,080,634			6,529,612	6,080,634
Grants and contributions, nonspecific	1,156,061	669,228			1,156,061	669,228
Other	215,174	160,470	35,902	14,752	251,076	175,222
Total revenues	<u>10,595,757</u>	<u>10,503,026</u>	<u>1,762,295</u>	<u>1,488,988</u>	<u>12,358,052</u>	<u>11,992,014</u>
Expenses:						
General government and finance	1,360,035	1,297,004			1,360,035	1,297,004
Public safety	981,272	885,493			981,272	885,493
Public works, highways, harbors	1,590,462	938,803			1,590,462	938,803
Recreation	241,882	191,927			241,882	191,927
Public services, library	1,084,978	1,140,589			1,084,978	1,140,589
Education	4,328,807	3,891,198			4,328,807	3,891,198
Interest on long-term debt	739,241	678,897			739,241	678,897
Sewer			1,138,734	1,147,877	1,138,734	1,147,877
Water			559,952	448,408	559,952	448,408
Total expenses	<u>10,326,677</u>	<u>9,023,911</u>	<u>1,698,686</u>	<u>1,596,285</u>	<u>12,025,363</u>	<u>10,620,196</u>
Change in net assets	269,080	1,479,115	63,609	(107,297)	332,689	1,371,818
Transfers	<u>127,663</u>	<u>131,188</u>			<u>127,663</u>	<u>131,188</u>
Increase (decrease) in net assets	<u>396,743</u>	<u>1,610,303</u>	<u>63,609</u>	<u>(107,297)</u>	<u>460,352</u>	<u>1,503,006</u>
Net assets, beginning of year:						
As previously reported	21,714,035	20,103,732	7,888,090	7,995,387	29,602,125	28,099,119
Prior period adjustment	<u>53,640</u>				<u>53,640</u>	
As restated	<u>21,767,675</u>	<u>20,103,732</u>	<u>7,888,090</u>	<u>7,995,387</u>	<u>29,655,765</u>	<u>28,099,119</u>
Net assets, end of year	<u>\$ 22,164,418</u>	<u>\$ 21,714,035</u>	<u>\$ 7,951,699</u>	<u>\$ 7,888,090</u>	<u>\$ 30,116,117</u>	<u>\$ 29,602,125</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the Town's net assets by \$396,743, thereby accounting for 86% 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	
	2007	2006	2007	2006
General government and finance	\$ 1,360,035	\$ 1,297,004	\$ 1,042,231	\$ 945,295
Public safety	981,272	885,493	898,090	822,337
Public works, highways, harbors	1,590,462	938,803	344,751	(1,455,903)
Recreation	241,882	191,927	(75,730)	39,596
Public/social services, library	1,084,978	1,140,589	723,773	810,674
Education	4,328,807	3,891,198	3,959,411	3,590,321
Interest on long-term debt	739,241	678,897	739,241	678,897
Total expenses	<u>\$ 10,326,677</u>	<u>\$ 9,023,911</u>	<u>\$ 7,631,767</u>	<u>\$ 5,431,217</u>

Business-Type Activities

- Business-type activities increased the Town's net assets by \$63,609.

Component Unit

The assets of the Town's component unit increased by \$1,212,387. 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 2007, totaling \$1,456,651.

General Fund Budgetary Highlights

The original budget adopted at the Financial Town Meeting on May 1, 2006 was \$11,022,186 (including \$297,000 reappropriated unrestricted fund balance) and no changes were made to the final budget for FY 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

General Fund Budgetary Highlights (Continued)

Budgeted revenues reported in FY 2007 exceeded actual amounts by \$589,719. The principal reasons for this include:

- No actual grant revenue related to the High Street sidewalk project was received in 2007. This is \$828,589 less than budgeted because the majority of the project expenditures did not occur in the 2007 budget year and those that were expended were not reimbursed by DOT in the period of availability.
- The budgeted transfer of \$125,000 principal payment from the component unit is recorded as a reduction of a note receivable rather than as revenue.
- Other town clerk fees and recording fees totaled \$69,496 less than their combined budgeted amount. Clerk and recording fees are dependent upon a number of variable and uncontrollable factors, making them difficult to forecast.

Budgeted expenditures exceeded actual amounts by \$512,702. The principal reasons for this include:

- Actual grant expenditures related to the High Street sidewalk project of \$101,295 were \$797,294 less than budgeted because a majority of the project was completed prior to the 2007 budget year.
- Legal expenditures of \$148,293 in excess of budget are a result of continued legal proceedings related to the Block Island School construction project, the Champlin's Marina expansion, and other legal situations in which the Town is involved.
- Expenditures in the police department were \$111,248 in excess of budget primarily as a result of the hiring of an additional police officer and severance paid to a retiring officer.
- Insurance expenditures of \$31,399 in excess of budget are a result of required participation in the National Flood Insurance Program effective October 2006 for some Town properties.

The total excess of expenditures and other financing uses over revenue and other financing sources on a budgetary basis was \$277,017. This includes budgeted transfers to the School Fund of \$3,699,139 and unbudgeted but voter-approved transfers to the Town Hall Construction Fund of \$200,000.

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, 2007 amounts to \$41,414,156 (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 \$2,394,910 (6%), of which \$1,565,770 is related to governmental activities and \$829,140 is related to business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration (Continued)

Capital assets (continued). Additions to capital assets in 2007 for governmental activities included development of athletic facilities at Ball O'Brien park, High Street sidewalk improvements, library books, upgrades and renovation plans for the North Light improvements, at the Coast Guard Station, and additional costs related to the renovation of the Block Island school.

Renovations and expansion of the Town Hall of \$1,496,498 accounted for the major addition to capital assets, recorded as construction in progress.

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.

Additional information regarding capital assets can be found in Note 6 on pages 37 and 38.

Long-term debt. As of June 30, 2007, the Town has total bonded debt outstanding of \$18,890,982 backed by the full faith and credit of the Town.

The Town has no capital leases outstanding at June 30, 2007.

Long-term debt includes \$2,319,361 of outstanding loans to the Block Island Water Company and New Shoreham Sewer Commissions (Business Activities), which includes \$1,728,156 payable to the United States Department of Agriculture (USDA).

The Town's Component Unit has total bonded debt outstanding of \$826,079, which are general obligation bonds of the Town. The Component Unit also has a note outstanding totaling \$3,040,000 due to the Town.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$16,571,531	\$17,441,407	\$ 2,319,361	\$ 1,593,913	\$18,890,892	\$19,035,320
Claims and judgments	250,000				250,000	
Accrued compensated absences	195,505	166,013	45,527	39,072	241,032	205,085
Total	<u>\$17,017,036</u>	<u>\$17,607,420</u>	<u>\$ 2,364,888</u>	<u>\$ 1,632,985</u>	<u>\$19,381,924</u>	<u>\$19,240,405</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 \$62,151,591 as of the December 31, 2006 assessment, which significantly exceeds the Town's outstanding general debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital assets (Continued):

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 7 on pages 39-45.

Commitments

At June 30, 2007, the Town had commitments totaling \$205,376 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 \$125,000 and \$65,000, payable in 2008 and 2009, respectively.

Economic Factors and Next Year's Budget and Rates

The Town of New Shoreham, popularly known as Block Island, enjoys a favorable economic environment and local indicators point to continued stability. Block Island is a 10 square mile island off the coast of Rhode Island at the mouth of Long Island Sound. The year-round population of approximately 1,010 ranks New Shoreham last among the 39 cities and towns in Rhode Island, but the summer population swells to between 15,000 and 20,000. Employment is primarily in service industries, focused on the tourism sector. The predominantly residential tax base (92% residential) shows small but steady growth that brought the net assessed value to \$2,071,719,694 at December 31, 2006.

With the approval of the taxpayers at the May 7, 2007 Financial Town Meeting, the tax rate on real property decreased by \$1.12/\$1,000 (26%), from \$4.29/\$1,000 in 2007 to \$3.17/\$1,000 in 2008. The decrease was driven by a statistical revaluation of assessed values as of December 31, 2006, offset by increasing operational costs of the Town.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Component Unit (Continued)

The Land Trust is funded principally by fees levied on qualifying real property transfers within the Town. The transfer fee adopted by the Land Trust for the year ended June 30, 2007 was 3%.

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

The \$1,212,387 increase in net assets for 2007 is due primarily to \$1,420,584 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, 2007

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Block Island Land Trust
ASSETS:				
Cash and cash equivalents	\$ 3,632,756	\$ 521,807	\$ 4,154,563	\$ 450,552
Investments				383,639
Accounts receivable, less allowance for doubtful accounts of \$59,274:				
Property taxes	100,383		100,383	
Federal and state government	1,149,009	645,013	1,794,022	
Assessments and user fees	163	98,161	98,324	
Note receivable				149,786
Other	150,884	2,852	153,736	6,329
Internal balances	163,788	(163,788)	-	
Deposits	30,000		30,000	
Temporarily restricted assets, cash and cash equivalents	32,193		32,193	
Note receivable from component unit	3,040,000		3,040,000	
Deferred charges	89,367	23,140	112,507	10,215
Capital assets not being depreciated	18,178,054	2,381,268	20,559,322	19,503,024
Capital assets being depreciated, net	13,860,164	6,994,670	20,854,834	
Total assets	40,426,761	10,503,123	50,929,884	20,503,545
LIABILITIES:				
Accounts payable and accrued expenses	1,189,021	186,536	1,375,557	18,303
Due to federal and state government	6,966		6,966	
Unearned revenue	49,320		49,320	
Due to primary government:				
Due within one year				130,000
Due in more than one year				2,910,000
Long-term obligations:				
Due within one year	1,131,348	66,961	1,198,309	83,066
Due in more than one year	15,885,688	2,297,927	18,183,615	743,013
Total liabilities	18,262,343	2,551,424	20,813,767	3,884,382
Commitments and contingencies (Notes 11 and 12)				
NET ASSETS:				
Invested in capital assets, net of related debt	15,306,054	7,056,577	22,362,631	15,636,945
Restricted for:				
Capital projects	219,204		219,204	
Education	200,379		200,379	
Library	60,752		60,752	
Land to be held in perpetuity				982,218
Other:				
Expendable	614,598		614,598	
Nonexpendable	140,731		140,731	
Unrestricted	5,622,700	895,122	6,517,822	
Total net assets	\$ 22,164,418	\$ 7,951,699	\$ 30,116,117	\$ 16,619,163

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

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	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,013,816	\$ 277,504	\$ 300	\$ -	\$ (736,012)		\$ (736,012)	
Finance administration	346,219	-	40,000	-	(306,219)		(306,219)	
Fire, rescue and emergency services	313,064	13,250	-	-	(299,814)		(299,814)	
Police	668,208	20,381	19,472	30,079	(598,276)		(598,276)	
Town highways/maintenance	540,444	10,314	-	48,954	(481,176)		(481,176)	
State roads	224,740	308,606	-	-	83,866		83,866	
Harbors	502,924	744,833	-	-	241,909		241,909	
Building official	172,656	93,722	39,282	-	(39,652)		(39,652)	
Recreation	241,882	174,774	-	142,838	75,730		75,730	
Library	510,143	28,136	111,822	-	(370,185)		(370,185)	
GIS/Technology	149,698	-	-	-	(149,698)		(149,698)	
Boards and commissions	226,244	9,902	59,802	36,286	(120,254)		(120,254)	
Community support	348,591	92,840	22,417	-	(233,334)		(233,334)	
Education	4,328,807	57,339	312,057	-	(3,959,411)		(3,959,411)	
Interest on long-term debt	739,241	-	-	-	(739,241)		(739,241)	
Total governmental activities	<u>10,326,677</u>	<u>1,831,601</u>	<u>605,152</u>	<u>258,157</u>	<u>(7,631,767)</u>		<u>(7,631,767)</u>	
Business-type activities:								
Sewer	1,138,734	905,870	-	193,738		\$ (39,126)	(39,126)	
Water	559,952	498,304	-	128,481		66,833	66,833	
Total business-type activities	<u>1,698,686</u>	<u>1,404,174</u>		<u>322,219</u>		<u>27,707</u>	<u>27,707</u>	
Total primary government	<u>\$ 12,025,363</u>	<u>\$ 3,235,775</u>	<u>\$ 605,152</u>	<u>\$ 580,376</u>	<u>(7,631,767)</u>	<u>27,707</u>	<u>(7,604,060)</u>	
Component unit:								
Block Island Land Trust	<u>\$ 261,069</u>	<u>\$ 1,420,584</u>						<u>\$ 1,159,515</u>
General revenues:								
Property taxes					6,529,612		6,529,612	
Grants and contributions not restricted to specific programs					1,156,061		1,156,061	
Investment earnings					215,174	35,902	251,076	52,872
Transfers from component unit					127,663		127,663	
Total general revenues and transfers					<u>8,028,510</u>	<u>35,902</u>	<u>8,064,412</u>	<u>52,872</u>
Change in net assets					<u>396,743</u>	<u>63,609</u>	<u>460,352</u>	<u>1,212,387</u>
Net assets, beginning of year:								
As previously reported					21,714,035	7,888,090	29,602,125	15,406,776
Prior period adjustment					53,640		53,640	
As restated					<u>21,767,675</u>	<u>7,888,090</u>	<u>29,655,765</u>	<u>15,406,776</u>
Net assets, end of year					<u>\$ 22,164,418</u>	<u>\$ 7,951,699</u>	<u>\$ 30,116,117</u>	<u>\$ 16,619,163</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>General Fund</u>	<u>School Funds</u>	<u>Town Hall Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,136,791	\$ 179,800	\$ 437,744	\$ 910,614	\$ 3,664,949
Receivables:					
Property taxes, less allowance for doubtful accounts of \$40,000	100,383				100,383
Assessment and user fees	163				163
Intergovernmental	1,131,314	17,695			1,149,009
Other	97,675	53,209			150,884
Due from other funds	166,035	360,761		3,235	530,031
Land deposit				30,000	30,000
Notes receivable, component unit	<u>3,040,000</u>				<u>3,040,000</u>
Total assets	<u>\$ 6,672,361</u>	<u>\$ 611,465</u>	<u>\$ 437,744</u>	<u>\$ 943,849</u>	<u>\$ 8,665,419</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued expenses	\$ 320,352	\$ 411,086	\$ 216,293	\$ 127,768	\$ 1,075,499
Due to federal and state government	6,966				6,966
Due to other funds	363,996		2,247		366,243
Deferred revenue	<u>667,949</u>				<u>667,949</u>
Total liabilities	<u>1,359,263</u>	<u>411,086</u>	<u>218,540</u>	<u>127,768</u>	<u>2,116,657</u>
Fund balances:					
Reserved for:					
Encumbrances	102,348				102,348
Note receivable	3,040,000				3,040,000
Perpetual care				140,731	140,731
Other	33,037	88,164		6,333	127,534
Unreserved, reported in:					
General Fund	2,137,713				2,137,713
Special revenue funds		112,215		669,017	781,232
Capital project funds			<u>219,204</u>		<u>219,204</u>
Total fund balances	<u>5,313,098</u>	<u>200,379</u>	<u>219,204</u>	<u>816,081</u>	<u>6,548,762</u>
Total liabilities and fund balances	<u>\$ 6,672,361</u>	<u>\$ 611,465</u>	<u>\$ 437,744</u>	<u>\$ 943,849</u>	<u>\$ 8,665,419</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, 2007

Total fund balances for governmental funds		\$	6,548,762
Assets used in governmental activities which are not financial resources and, therefore, are not reported in the funds:			
Capital assets, net	\$	32,038,218	
Deferred charges		<u>89,367</u>	32,127,585
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.			618,629
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable		16,571,531	
Claims and judgments		250,000	
Compensated absences payable		195,505	
Accrued interest		<u>113,522</u>	<u>(17,130,558)</u>
Net assets of governmental activities			<u>\$ 22,164,418</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, 2007

	<u>General Fund</u>	<u>School Funds</u>	<u>Town Hall Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes	\$ 6,656,768				\$ 6,656,768
Intergovernmental	1,840,086	\$ 312,057		\$ 22,417	2,174,560
Licenses, permits and fees	360,478				360,478
Interest and investment	141,169		\$ 36,226	37,779	215,174
Transfer from component unit	127,663				127,663
Other revenues	988,730	57,339		140,024	1,186,093
	<u>10,114,894</u>	<u>369,396</u>	<u>36,226</u>	<u>200,220</u>	<u>10,720,736</u>
Total revenues					
Expenditures:					
Current:					
General government	1,006,558				1,006,558
Finance administration	331,357				331,357
Fire, rescue and emergency services	266,540				266,540
Police	594,452				594,452
Town highways/maintenance	603,018				603,018
State roads	224,740				224,740
Harbors	459,859				459,859
Building official	172,809				172,809
Recreation	443,185				443,185
Library	408,781			38,526	447,307
GIS/Technology	149,698				149,698
Boards and commissions	221,656			13,216	234,872
Community support	300,138			28,156	328,294
Education		3,946,859			3,946,859
Capital outlay			1,496,498	160,675	1,657,173
Debt service:					
Principal	875,845				875,845
Interest	741,683				741,683
	<u>6,800,319</u>	<u>3,946,859</u>	<u>1,496,498</u>	<u>240,573</u>	<u>12,484,249</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>3,314,575</u>	<u>(3,577,463)</u>	<u>(1,460,272)</u>	<u>(40,353)</u>	<u>(1,763,513)</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>School Funds</u>	<u>Town Hall Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):					
Transfers from other funds		\$ 3,716,927	\$ 200,000		\$ 3,916,927
Transfers to other funds	<u>\$ (3,916,927)</u>				<u>(3,916,927)</u>
Total other financing sources (uses)	<u>(3,916,927)</u>	<u>3,716,927</u>	<u>200,000</u>		<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(602,352)</u>	<u>139,464</u>	<u>(1,260,272)</u>	<u>\$ (40,353)</u>	<u>(1,763,513)</u>
Fund balance, beginning of year:					
As previously reported	5,915,450	60,915	1,479,476	802,794	8,258,635
Prior period adjustment				<u>53,640</u>	<u>53,640</u>
As restated	<u>5,915,450</u>	<u>60,915</u>	<u>1,479,476</u>	<u>856,434</u>	<u>8,312,275</u>
Fund balance, end of year	<u>\$ 5,313,098</u>	<u>\$ 200,379</u>	<u>\$ 219,204</u>	<u>\$ 816,081</u>	<u>\$ 6,548,762</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, 2007

Net change in fund balances for governmental funds		\$ (1,763,513)
<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	\$ 2,075,571	
Depreciation expense	<u>(759,801)</u>	1,315,770
<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>		
		(6,994)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
		2,684
<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>		
Principal repayment on general obligation bonds and capital leases	875,845	
Amortization of premiums, discounts and deferred charges on refundings	<u>(5,970)</u>	869,875
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Accrued compensated absences	(29,491)	
Accrued interest	<u>8,412</u>	<u>(21,079)</u>
Change in net assets of governmental activities		<u><u>\$ 396,743</u></u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF NET ASSETS - ENTERPRISE FUNDS

JUNE 30, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 4,007	\$ 517,800	\$ 521,807
Accounts receivable, net of allowance for accounts of \$9,274 and \$10,000, respectively:			
Assessments and user fees	40,496	57,665	98,161
Federal and state government	529,165	115,848	645,013
Other	2,852		2,852
Due to other funds	19,008	(19,008)	-
	<u>595,528</u>	<u>672,305</u>	<u>1,267,833</u>
Total current assets			
Noncurrent assets:			
Deferred charges, net	6,474	16,666	23,140
Capital assets not being depreciated	1,711,999	669,269	2,381,268
Capital assets being depreciated, net	3,372,885	3,621,785	6,994,670
	<u>5,686,886</u>	<u>4,980,025</u>	<u>10,666,911</u>
Total assets			
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	125,316	61,220	186,536
Due to other funds	149,794	13,994	163,788
Accrued compensated absences	15,469		15,469
Current portion of long-term debt	10,594	40,898	51,492
	<u>301,173</u>	<u>116,112</u>	<u>417,285</u>
Total current liabilities			
Noncurrent liabilities:			
Accrued compensated absences	30,058		30,058
Loans payable, net of current portion	991,658	1,276,211	2,267,869
	<u>1,021,716</u>	<u>1,276,211</u>	<u>2,297,927</u>
Total noncurrent liabilities			
	<u>1,322,889</u>	<u>1,392,323</u>	<u>2,715,212</u>
Total liabilities			
NET ASSETS:			
Invested in capital assets, net of related debt	4,082,632	2,973,945	7,056,577
Unrestricted	281,365	613,757	895,122
	<u>\$ 4,363,997</u>	<u>\$ 3,587,702</u>	<u>\$ 7,951,699</u>
Total net assets			

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, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Assessments and user fees	\$ 629,819	\$ 455,010	\$ 1,084,829
Water contract	189,258		189,258
Other revenues	86,793	43,294	130,087
	<u>905,870</u>	<u>498,304</u>	<u>1,404,174</u>
Operating expenses:			
Salaries and benefits	534,555		534,555
Contracted services	68,900	195,588	264,488
Materials and supplies	48,297	12,677	60,974
Repairs and maintenance	26,828	43,546	70,374
Depreciation	295,916	144,645	440,561
Utilities	93,536	51,241	144,777
Professional services	27,666	15,887	43,553
Miscellaneous	13,463	60,011	73,474
	<u>1,109,161</u>	<u>523,595</u>	<u>1,632,756</u>
Operating loss	<u>(203,291)</u>	<u>(25,291)</u>	<u>(228,582)</u>
Nonoperating revenues (expenses):			
Interest revenue	11,241	24,661	35,902
Grant revenue	193,738	128,481	322,219
Interest expense	(29,453)	(34,866)	(64,319)
Amortization of bond issuance costs	(120)	(1,491)	(1,611)
	<u>175,406</u>	<u>116,785</u>	<u>292,191</u>
Change in net assets	(27,885)	91,494	63,609
Net assets, beginning of year	<u>4,391,882</u>	<u>3,496,208</u>	<u>7,888,090</u>
Net assets, end of year	<u>\$ 4,363,997</u>	<u>\$ 3,587,702</u>	<u>\$ 7,951,699</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 638,924	\$ 500,483	\$ 1,139,407
Cash received from other sources	85,567	43,294	128,861
Cash receipts for quasi-external transactions	170,250		170,250
Cash paid to employees for benefits	(525,416)		(525,416)
Cash paid to suppliers	(273,327)	(200,594)	(473,921)
Cash payments for quasi-external transactions		(170,250)	(170,250)
Net cash provided by operating activities	<u>95,998</u>	<u>172,933</u>	<u>268,931</u>
Cash provided by noncapital financing activities, interfund balances	<u>123,450</u>	<u>15,004</u>	<u>138,454</u>
Cash flows from capital and related financing activities:			
Debt issuances		442,000	442,000
Debt issuance costs	(3,632)	(3,633)	(7,265)
Capital contributions	10,163	20,286	30,449
Acquisition and construction of fixed assets	(585,385)	(563,841)	(1,149,226)
Principal paid on bonds and notes	(2,034)	(39,915)	(41,949)
Interest paid on bonds and notes	(28,290)	(34,847)	(63,137)
Net cash used in capital and related financing activities	<u>(609,178)</u>	<u>(179,950)</u>	<u>(789,128)</u>
Cash provided by investing activities, interest received	<u>11,241</u>	<u>24,661</u>	<u>35,902</u>
Net increase (decrease) in cash and cash equivalents	(378,489)	32,648	(345,841)
Cash and cash equivalents, beginning of year	<u>382,496</u>	<u>485,152</u>	<u>867,648</u>
Cash and cash equivalents, end of year	<u>\$ 4,007</u>	<u>\$ 517,800</u>	<u>\$ 521,807</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2007

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (203,291)	\$ (25,291)	\$ (228,582)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	295,916	144,645	440,561
Changes in assets and liabilities:			
Increase in:			
Accounts receivable, other	(1,226)		(1,226)
Due from other funds	(19,008)	19,008	
Accounts payable and accrued expenses	8,047		8,047
Accrued compensated absences	6,455		6,455
Decrease in:			
Accounts receivable, assessments and fees	9,105	45,473	54,578
Accounts payable and accrued expenses		(10,902)	(10,902)
Net cash provided by operating activities	<u>\$ 95,998</u>	<u>\$ 172,933</u>	<u>\$ 268,931</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 36,018</u>
Total assets	<u><u>\$ 36,018</u></u>
LIABILITIES:	
Deposits held in custody for others	<u>\$ 36,018</u>
Total liabilities	<u><u>\$ 36,018</u></u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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, 2007

1. Summary of significant accounting policies (continued):

Financial reporting entity (continued):

An elected Board of Trustees governs the Land Trust. The purpose of the Land Trust is to promote preservation of the environment and character of the Town, to preserve suitable open spaces for recreation and 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 and wetlands and to promote public access and views of harbors, ponds, marshes, farmland or forest situated in the Town. Upon termination or dissolution of the Land Trust, title to all remaining funds, land and land rights will vest with the Town. The Land Trust is included in the Town's reporting entity because of the significance of its operational and financial relationships with the Town.

Basis of presentation:

Government-wide financial statements:

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

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

Fund financial statements:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

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

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

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

Governmental funds:

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

General Fund:

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

Special revenue funds:

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

Capital projects funds:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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, 2007

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, 2007

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 31st day of August. Taxes may be paid in quarterly installments on August 15, November 15, February 15 and May 15.

Rhode Island general laws restrict the Town's ability to increase either its total tax levy or its tax rates by more than 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, 2007

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, 2007

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

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, 2007.

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, 2007

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:

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, 2007

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, 2007, unreserved fund balance designations are as follows:

	<u>General Fund</u>
Town Hall construction	\$ 200,000
To balance fiscal 2008 budget	<u>265,000</u>
Total	<u>\$ 465,000</u>

3. Deposits and investments:

At June 30, 2007, the carrying amount of the Town's deposits, including \$2,948,082 of cash equivalents, was \$4,222,774 and the total bank balance was \$4,524,162, of which \$4,069,265 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, 2007

3. Deposits and investments (continued):

As of June 30, 2007, the component unit had deposits with a bank balance of \$450,664, of which \$350,664 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, 2007, deposits 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	\$ 380,828			\$ 1,544,891	\$ 1,237,134
Restricted cash				32,193	32,193
Petty cash					5,365
Certificates of Deposit	74,069		7/13/07 7/18/07 7/20/07 7/27/07	1,929,431	1,930,455
Commercial paper		A-1+	7/30/07	800,000	800,000
Money market				217,647	217,627
	<u>\$ 454,897</u>			<u>\$ 4,524,162</u>	<u>\$ 4,222,774</u>

At June 30, 2007, 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			\$ 150,552
Commercial paper	A-1+	7/05/2007	<u>300,000</u>
Total deposits			<u>\$ 450,552</u>
Investment, United States Treasury Bill		7/12/2007	<u>\$ 383,639</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

4. Assets held in trust:

The Town's library is the beneficiary of the Island Free Library Endowment Fund held by the Rhode Island Foundation. Since the assets are administered at the discretion of the trustee, which has the unilateral power to redirect the use of the assets to another beneficiary, the assets are not included in the accompanying financial statements. The fair value of these assets at June 30, 2007 totaled approximately \$77,000. Distributions of net investment income, which totaled \$12,517 for the year ended June 30, 2007, were contributed to the endowment fund.

5. Interfund receivables/payables:

Interfund receivables and payables at June 30, 2007 were as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds: General Fund	Governmental funds: Town Hall Construction Fund	\$ 2,247
	Enterprise funds: Sewer	149,794
	Water	<u>13,994</u>
		166,035
RI Substance Abuse	Governmental funds: General Fund	135
School Funds	Governmental funds: General Fund	360,761
Cemetery Fund	Government funds: General Fund	<u>3,100</u>
		<u>\$ 530,031</u>
Enterprise funds: Sewer	Fiduciary funds: Water	<u>\$ 19,008</u>

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, 2007

6. Capital assets:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,435,557	\$ -	\$ -	\$ 14,435,557
Construction in progress	1,749,837	2,033,146	(40,486)	3,742,497
Total capital assets not being depreciated	<u>16,185,394</u>	<u>2,033,146</u>	<u>(40,486)</u>	<u>18,178,054</u>
Capital assets being depreciated:				
Land improvements	1,337,311	-	-	1,337,311
Buildings and improvements	15,931,546	279,275	-	16,210,821
Vehicles and vessels	1,804,481	-	(11,000)	1,793,481
Furniture and equipment	505,977	23,696	-	529,673
Machinery and equipment	706,505	7,859	-	714,364
Infrastructure	171,220	22,081	-	193,301
Total capital assets being depreciated	<u>20,457,040</u>	<u>332,911</u>	<u>(11,000)</u>	<u>20,778,951</u>
Less accumulated depreciation for:				
Land improvements	668,152	35,042	-	703,194
Buildings and improvements	3,587,222	536,177	-	4,123,399
Vehicles and vessels	1,090,543	98,464	(11,000)	1,178,007
Furniture and equipment	315,808	45,792	-	361,600
Machinery and equipment	505,407	37,515	-	542,922
Infrastructure	2,854	6,811	-	9,665
Total accumulated depreciation	<u>6,169,986</u>	<u>759,801</u>	<u>(11,000)</u>	<u>6,918,787</u>
Total capital assets being depreciated, net	<u>14,287,054</u>	<u>(426,890)</u>	<u>-</u>	<u>13,860,164</u>
Governmental activity capital assets, net	<u>\$ 30,472,448</u>	<u>\$ 1,606,256</u>	<u>\$ (40,486)</u>	<u>\$ 32,038,218</u>
Component unit:				
Capital assets not being depreciated, land and land rights under management	<u>\$ 18,046,373</u>	<u>\$ 1,456,651</u>	<u>\$ -</u>	<u>\$ 19,503,024</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

6. 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	175,187	1,251,878	-	1,427,065
Total capital assets not being depreciated	<u>1,129,390</u>	<u>1,251,878</u>	<u>-</u>	<u>2,381,268</u>
Capital assets being depreciated:				
Buildings and improvements	4,178,553	-	-	4,178,553
Equipment	1,179,589	17,823	-	1,197,412
Underground piping	8,160,179	-	-	8,160,179
Wells/reserve osmosis/water supply	1,194,448	-	-	1,194,448
Total capital assets being depreciated	<u>14,712,769</u>	<u>17,823</u>	<u>-</u>	<u>14,730,592</u>
Less accumulated depreciation for:				
Buildings and improvements	1,571,364	106,529	-	1,677,893
Equipment	735,264	57,109	-	792,373
Underground piping	4,834,328	250,380	-	5,084,708
Wells/reserve osmosis/water supply	154,405	26,543	-	180,948
Total accumulated depreciation	<u>7,295,361</u>	<u>440,561</u>	<u>-</u>	<u>7,735,922</u>
Total capital assets being depreciated, net	<u>7,417,408</u>	<u>(422,738)</u>	<u>-</u>	<u>6,994,670</u>
Business-type activities capital assets, net	<u>\$ 8,546,798</u>	<u>\$ 829,140</u>	<u>\$ -</u>	<u>\$ 9,375,938</u>
Depreciation was charged to functions as follows:				
Governmental activities:				
General government		\$ 2,745		
Finance administration		15,548		
Fire, rescue and emergency services		54,946		
Police		44,711		
Town highways/maintenance		60,693		
Harbors		43,544		
Recreation		5,573		
Library		83,593		
Boards and commissions		27,341		
Community support		43,188		
Education		377,919		
		<u>\$ 759,801</u>		
Business-type activities:				
Sewer Fund		\$ 295,916		
Water Fund		144,645		
		<u>\$ 440,561</u>		

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

7. Long-term obligations:

A summary of long-term obligations as of June 30, 2007 is as follows:

	Primary Government			Component Unit
	Governmental activities	Business-type activities	Total	Block Island Land Trust
Bonds and notes	\$ 16,630,796	\$ 2,319,361	\$ 18,950,157	\$ 826,079
Deferred amounts:				
For issuance costs	(42,669)		(42,669)	
On refunding	(23,468)		(23,468)	
On premium	6,872		6,872	
	16,571,531	2,319,361	18,890,892	826,079
Claims and judgments	250,000		250,000	
Accrued compensated absences	195,505	45,527	241,032	
	17,017,036	2,364,888	19,381,924	826,079
Less portion due within one year	1,131,348	66,961	1,198,309	83,066
	\$ 15,885,688	\$ 2,297,927	\$ 18,183,615	\$ 743,013

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

7. Long-term obligations (continued):

Changes in long-term obligations during the year ended June 30, 2007 were as follows:

	Balance, July 1, 2006	Additions	Retirements	Balance, June 30, 2007	Due within one year
Governmental activities:					
Bonds payable:					
Bonds and notes	\$ 17,506,641	\$ - 0 -	\$ 875,845	\$ 16,630,796	\$ 840,683
Deferred amounts:					
For issuance discounts	(47,467)		(4,798)	(42,669)	(4,125)
On refunding	(25,014)		(1,546)	(23,468)	(1,565)
On premium	7,247		375	6,872	375
Total bonds payable	17,441,407	- 0 -	869,876	16,571,531	835,368
Claims and judgments		250,000		250,000	250,000
Accrued compensated absences	166,013	29,492		195,505	45,980
Total long-term obligations	<u>\$ 17,607,420</u>	<u>\$ 279,492</u>	<u>\$ 869,876</u>	<u>\$ 17,017,036</u>	<u>\$ 1,131,348</u>
Business-type activities:					
Bonds and notes	\$ 1,593,913	\$ 772,100	\$ 46,652	\$ 2,319,361	\$ 51,492
Accrued compensated absences	39,072	6,455		45,527	15,469
Total long-term obligations	<u>\$ 1,632,985</u>	<u>\$ 778,555</u>	<u>\$ 46,652</u>	<u>\$ 2,364,888</u>	<u>\$ 66,961</u>
Component unit:					
Bonds and notes	<u>\$ 901,674</u>	<u>\$ - 0 -</u>	<u>\$ 75,595</u>	<u>\$ 826,079</u>	<u>\$ 83,066</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. 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, 2006</u>	<u>New issues</u>	<u>Retirements</u>	<u>Balance, June 30, 2007</u>
Governmental activities:								
Town Hall Construction	\$ 1,350,000	2006	4.0-4.75%	2026	\$ 1,350,000	\$ - 0 -	\$ 70,000	\$ 1,280,000
School Construction	1,100,000	2006	4.0-4.75%	2026	1,100,000		55,000	1,045,000
School Construction	7,160,000	2005	3.5-4.25%	2025	6,960,000		230,000	6,730,000
Hodge Property	1,000,000	2002	2.5-5.0%	2022	900,000		35,000	865,000
Hodge Property	3,500,000	2002	2.5-5.0%	2022	3,165,000		125,000	3,040,000
Refunding bond - school	1,913,000	2002	4.25-5.0%	2022	1,655,000		70,000	1,585,000
Town library - additions/renovations	1,257,000	2002	4.25-5.0%	2022	1,085,000		45,000	1,040,000
Town hall - additions/renovations	750,000	2002	4.25-5.0%	2022	650,000		30,000	620,000
Old Harbor lavatories	260,000	1998	3.65-4.6%	2010	100,000		25,000	75,000
Land acquisition	170,000	1998	3.65-5.0%	2010	65,000		15,000	50,000
Refunding bond - open space	838,768	1998	3.65-4.6%	2010	206,213		76,076	130,137
Refunding bond - school	583,107	1998	3.65-4.6%	2010	143,318		52,877	90,441
Refunding bond - sewer	<u>516,960</u>	1998	3.65-4.6%	2010	<u>127,110</u>		<u>46,892</u>	<u>80,218</u>
Total	<u>\$ 20,398,835</u>				<u>\$ 17,506,641</u>	<u>\$ - 0 -</u>	<u>\$ 875,845</u>	<u>\$ 16,630,796</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

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

Purpose	Authorized and issued	Fiscal year of issue	Interest rate	Fiscal year of maturity	Balance, July 1, 2006	New issues	Retirements	Balance, June 30, 2007
Enterprise funds:								
Sewer Fund:								
Headworks	\$ 349,000	2007	4.13%	2047	\$ 16,174 (1)	\$ 332,826		\$ 349,000
Sewer improvements	192,500	2006	4.375%	2046	192,500		\$ 1,854	190,646
Land	<u>472,175</u>	2005	4.25%	2045	<u>467,490</u>		4,884	<u>462,606</u>
	<u>1,013,675</u>				<u>676,164</u>	<u>332,826</u>	<u>6,738</u>	<u>1,002,252</u>
Water Fund:								
Discharge	442,000	2007	4.125%	2047	2,726 (1)	439,274		442,000
Water improvements	109,000	2006	4.25%	2045	109,000		904	108,096
Water supply	179,445	2005	4.25%	2045	177,664		1,856	175,808
Clean Water GOB	614,287	2004	3.26%	2024	590,000		23,000	567,000
Refunding bond	<u>156,165</u>	1998	3.65-4.6%	2010	<u>38,359</u>		<u>14,154</u>	<u>24,205</u>
	<u>1,500,897</u>				<u>917,749</u>	<u>439,274</u>	<u>39,914</u>	<u>1,317,109</u>
Total	<u>\$ 2,514,572</u>				<u>\$ 1,593,913</u>	<u>\$ 772,100</u>	<u>\$ 46,652</u>	<u>\$ 2,319,361</u>
Component unit:								
Land acquisition	\$ 450,000	2004	6.00%	2013	\$ 341,674	\$ - 0 -	\$ 40,595	\$ 301,079
Land acquisition	<u>800,000</u>	1998	3.65%-5.0%	2018	<u>560,000</u>		<u>35,000</u>	<u>525,000</u>
	<u>\$ 1,250,000</u>				<u>\$ 901,674</u>	<u>\$ - 0 -</u>	<u>\$ 75,595</u>	<u>\$ 826,079</u>

(1) Although monies were spent in 2006 in accordance with the terms of and were due from the United States Department of Agriculture, the debt was not actually issued until 2007.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

At June 30, 2007, 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
2008	\$ 840,683	\$ 706,109	\$ 1,546,792
2009	837,546	671,978	1,509,524
2010	877,567	637,204	1,514,771
2011	770,000	600,580	1,370,580
2012	800,000	569,168	1,369,168
2013-2017	4,530,000	2,315,909	6,845,909
2018-2022	5,585,000	1,247,673	6,832,673
2023-2026	2,390,000	194,225	2,584,225
	\$ 16,630,796	\$ 6,942,846	\$ 23,573,642

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2008	\$ 51,492	\$ 94,034	\$ 145,526
2009	50,393	92,258	142,651
2010	52,168	90,444	142,612
2011	46,566	88,507	135,073
2012	47,432	86,818	134,250
2013-2017	266,470	405,352	671,822
2018-2022	324,273	341,829	666,102
2023-2027	305,443	279,119	584,562
2028-2032	225,438	229,265	454,703
2033-2037	277,050	177,742	454,792
2038-2042	340,484	114,419	454,903
2043-2047	332,152	37,908	370,060
	\$ 2,319,361	\$ 2,037,695	\$ 4,357,056

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

Component unit:

Year ending June 30,	Principal	Interest	Total
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	99,554	23,585	123,139
2013-2017	312,876	56,618	369,494
2018	60,000	3,000	63,000
	<u>\$ 826,079</u>	<u>\$ 226,451</u>	<u>\$ 1,052,530</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, 2006 was \$2,071,719,694, limiting the amount of non-excepted general obligation bonds outstanding to \$62,151,591. At June 30, 2007, general obligation bonds outstanding totaled \$16,630,796.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

The Town has authorized, but unissued, general obligation bonds in the amount of \$6,050,000 related to the component unit, \$350,000 related to the Block Island Housing Board and \$1,700,000 related to the Old Harbor Renovation project.

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.

Claims and judgments (see Note 11):

Claims and judgments are expected to be liquidated from the nonmajor School Construction Fund and the General Fund.

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, 2007

8. 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	\$ 224,276	\$ 7,524	\$ 88,552		\$ 320,352
School Department	42,020		369,066		411,086
Capital Projects Fund	216,293				216,293
Nonmajor funds	127,768				127,768
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 113,522	113,522
	<u>\$ 610,357</u>	<u>\$ 7,524</u>	<u>\$ 457,618</u>	<u>\$ 113,522</u>	<u>\$ 1,189,021</u>
Business-type activities:					
Sewer	\$ 109,336		\$ 10,488	\$ 5,492	\$ 125,316
Water	48,403	\$ 1,222		11,595	61,220
	<u>\$ 157,739</u>	<u>\$ 1,222</u>	<u>\$ 10,488</u>	<u>\$ 17,087</u>	<u>\$ 186,536</u>
Component unit	<u>\$ 2,570</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 15,733</u>	<u>\$ 18,303</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

9. Employee retirement systems:

All eligible employees of the Town are covered by one of two pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan) or the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. Business managers are also eligible to participate. The Municipal Plan covers substantially all of the Town's employees except public school teachers. Total covered payroll under all plans during 2007 was \$3,752,454. Total Town payroll was \$4,106,395 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 2007 was \$1,483,903.

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, 2007

9. 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 2007, actuarial required contributions were 18.53% of participant salary, which resulted in a contribution rate paid by the State on behalf of Town teachers of 7.57% (\$112,331). The Town's contribution rate was 10.96%. The Town's required and actual contributions to the Teachers' Plan for fiscal years 2007, 2006 and 2005 were \$162,636, \$144,129 and \$113,507, 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 2007, payroll for employees covered under the plan totaled \$2,268,551 (including \$218,990 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, 2007, active employees who were members of the Municipal Plan are as follows:

Municipal workers	45 (11 school)
Police	5

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

Annual pension costs and net pension obligations:

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual pension costs	\$ 372,168	\$ 327,091	\$ 189,878
Actual contributions:			
Municipal:			
Employee	143,663	133,368	93,300
Employer	167,523	133,784	43,051
Police:			
Employee	19,709	18,365	15,121
Employer	41,273	41,574	38,406
Percent of annual pension costs contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The School Department was required to contribute 8.15% to the Municipal Plan during the fiscal year ended June 30, 2007, which resulted in a contribution of \$26,453 by the School Department. School employees under the Municipal Plan were required to contribute \$22,721.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

9. 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, 2007

10. Risk management:

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

Effective October 14, 2006, the Town insures 7 properties located in Flood Zone A through First American Property & Casualty Insurance Company and the National Flood Insurance Program (NFIP), as the Trust reduced the coverage limits for those properties located in Flood Zone A effective October 1, 2006.

There have been no significant reductions in insurance coverage during the year ended June 30, 2007.

11. Litigation and contingencies:

Litigation:

The Town is party to a dispute arising from a construction contract with H.V. Collins Company related to construction and renovation of the Block Island School. This matter has been submitted to binding arbitration and will be aggressively defended by the Town. In light of potential future judgments relating to this dispute, a liability in the amount of \$250,000 has been recorded in the financial statements (see Note 7).

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.

The Town is presently engaged in litigation with Kenneth J. Filarski and Filarski Architecture Planning related to architecture services at the Block Island School. A counterclaim has been made against the Town for \$553,616; this matter is pending in Washington County Superior Court. It is possible that the Town may realize a loss as a result of this claim, although the likelihood of a loss in the full amount of the counterclaim is remote.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

11. Litigation and contingencies (continued):

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 \$1.36 million for the year ended June 30, 2007.

12. Commitments:

Construction and renovation of the Town Hall is underway and completion is expected in the fall of 2007. At year-end, the Town had commitments totaling \$205,376 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 \$125,000 and \$65,000 in 2008 and 2009, respectively.

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

13. Prior period adjustment:

The Town recorded a prior period adjustment of \$53,640 to record the Library Fund, a nonmajor special revenue fund, which was inadvertently omitted from the Town's financial statement in prior years. The effect of the correction on the change in net assets for the fiscal year ended June 30, 2006 is not readily determinable.

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2007

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes	\$ 6,521,687	\$ 6,656,768	\$ 135,081
Intergovernmental	2,380,453	1,840,086	(540,367)
Licenses, permits and fees	434,450	360,478	(73,972)
Interest and investment	120,000	141,169	21,169
Transfer from component unit	252,663	127,663	(125,000)
Other revenues	<u>1,015,933</u>	<u>1,009,303</u>	<u>(6,630)</u>
Total revenues	<u>10,725,186</u>	<u>10,135,467</u>	<u>(589,719)</u>
Expenditures:			
Current:			
General government	862,593	1,006,558	(143,965)
Finance administration	278,662	294,030	(15,368)
Fire, rescue and emergency services	270,429	265,353	5,076
Police	483,204	594,452	(111,248)
Town highways and maintenance	417,946	473,419	(55,473)
State roads	308,595	224,740	83,855
Harbors	411,908	434,015	(22,107)
Building official	174,399	158,658	15,741
Recreation	226,641	241,839	(15,198)
Library	406,633	408,781	(2,148)
GIS/Technology	142,429	141,128	1,301
Boards and commissions	183,960	131,774	52,186
Community support	293,805	295,108	(1,303)
Capital outlay	1,241,589	521,562	720,027
Debt service	<u>1,620,254</u>	<u>1,618,928</u>	<u>1,326</u>
Total expenditures	<u>7,323,047</u>	<u>6,810,345</u>	<u>512,702</u>
Excess of revenues over expenditures, budgetary basis	<u>3,402,139</u>	<u>3,325,122</u>	<u>(77,017)</u>
Other financing sources (uses):			
Reappropriated fund balances:			
Designated for Town Hall construction	-	(200,000)	(200,000)
Unrestricted fund balances	297,000	297,000	-
Transfers to other funds	<u>(3,699,139)</u>	<u>(3,699,139)</u>	<u>-</u>
Total other financing sources (uses)	<u>(3,402,139)</u>	<u>(3,602,139)</u>	<u>(200,000)</u>
Excess of expenditures and other financing uses over revenues and other financing sources, budgetary basis	<u>\$ -</u>	<u>(277,017)</u>	<u>\$ (277,017)</u>
Adjustments of budgetary basis to U.S. GAAP basis		<u>(325,335)</u>	
Excess of expenditures and other financing uses over revenues and other financing sources, U. S. GAAP basis		(602,352)	
Net assets, beginning of year		<u>5,915,450</u>	
Net assets, end of year		<u>\$ 5,313,098</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - SCHOOL DEPARTMENT

YEAR ENDED JUNE 30, 2007

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 106,345	\$ 199,726	\$ 93,381
Other revenues		57,339	57,339
Total revenues	<u>106,345</u>	<u>257,065</u>	<u>150,720</u>
Expenditures:			
Current:			
Salaries	2,221,675	2,180,423	41,252
Employee benefits	886,900	842,952	43,948
Purchased services	536,871	557,146	(20,275)
Supplies and materials	94,470	149,982	(55,512)
Other	-	1,871	(1,871)
Capital expenditures	<u>65,568</u>	<u>84,366</u>	<u>(18,798)</u>
Total expenditures	<u>3,805,484</u>	<u>3,816,740</u>	<u>(11,256)</u>
Excess of expenditures over revenues, budgetary basis	(3,699,139)	(3,559,675)	139,464
Other financing sources, transfer from General Fund	<u>3,699,139</u>	<u>3,716,927</u>	<u>17,788</u>
Excess of revenues and other financing sources over expenditures, budgetary basis	<u>\$ -</u>	157,252	<u>\$ 157,252</u>
Adjustments of budgetary basis to U.S. GAAP basis		<u>(17,788)</u>	
Excess of revenues over expenditures, U.S. GAAP basis		139,464	
Net assets, beginning of year		<u>60,915</u>	
Net assets, end of year		<u>\$ 200,379</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGET COMPARISON

YEAR ENDED JUNE 30, 2007

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, 2007

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, unrestricted fund balances	\$ (297,000)	
Change in reserve for encumbrances	(10,547)	
Transfer to School recognized under U.S.GAAP but not yet budgeted	(17,788)	
Accrued payroll not yet budgeted	<u> </u>	<u>\$ (17,788)</u>
Total adjustments	<u>\$ (325,335)</u>	<u>\$ (17,788)</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, 2007

<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, 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	652,277	1,008,223	355,946	64.70%	268,978	132.33%
June 30, 2007	N/A	N/A	N/A	N/A	218,990	N/A
<i>Municipal Employees Retirement System, Other</i>						
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	3,146,380	3,936,518	790,138	79.93%	1,961,604	40.28%
June 30, 2007	N/A	N/A	N/A	N/A	2,049,561	N/A

(1) N/A not available

(2) The latest actuarial valuation for the plan is as of June 30, 2006.

TOWN OF NEW SHOREHAM, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2007

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2006</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2007</u>
2007	\$ -	\$ 6,349,538	\$ (16,774)	\$ 6,332,764	\$ 6,213,369	\$ 119,395
2006	199,835		(480)	199,355	195,512	3,843
2005	60,265		(452)	59,813	56,332	3,481
2004	32,917			32,917	31,886	1,031
2003	12,860			12,860	11,145	1,715
2002	7,342			7,342	5,468	1,874
2001	4,575			4,575	2,006	2,569
2000	4,210			4,210	1,900	2,310
1999	2,557			2,557	266	2,291
1998	1,344			1,344	430	914
1997	960			960		960
	<u>\$ 326,865</u>	<u>\$ 6,349,538</u>	<u>\$ (17,706)</u>	<u>\$ 6,658,697</u>	<u>\$ 6,518,314</u>	140,383
						Less allowance for doubtful accounts
						<u>40,000</u>
						<u>\$ 100,383</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2007

Schedule of most recent net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 1,462,406,552	\$ 6,207,043
Motor vehicles	15,159,484	75,748
Tangible personal	4,266,046	18,383
Total	1,481,832,082	6,301,174
Exemptions	22,931,805	-
Current year assessment	<u>\$ 1,458,900,277</u>	<u>\$ 6,301,174</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 6,518,314
Revenue collected within 60 days subsequent to year ended June 30, 2007	<u>60,562</u>
	6,578,876
Prior year revenue received in current year	<u>(126,016)</u>
Current year real estate and personal property tax revenue	<u>\$ 6,452,860</u>



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

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Peter Mezei, CPA
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, 2007, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 5, 2007. We did not audit the financial statements of the School Funds, which is a major fund and represents 2 percent, 1 percent, 4 percent and 42 percent, respectively, of the assets, net assets, revenues and expenditures of the Governmental Activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the School Funds, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

**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

Internal Control over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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 December 5, 2007.

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.

Hefkaatz, Jan Jankel, Charpi & DeGonzal.P.C.

December 5, 2007