

TOWN OF NEW SHOREHAM, RHODE ISLAND
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012



A Limited Liability Partnership

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TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2012

CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
Basic financial statements:	
Government-wide financial statements:	
Statement of net assets	12
Statement of activities	13
Fund financial statements:	
Balance sheet – governmental funds	14
Reconciliation of governmental funds balance sheet to statement of net assets	15
Statement of revenues, expenditures and changes in fund balances – governmental funds	16
Reconciliation of governmental funds statement of revenues, expenditures and changes in fund balances to statement of activities	17
Statement of net assets – enterprise funds	18
Statement of revenues, expenses and changes in fund net assets – enterprise funds	19
Statement of cash flows – enterprise funds	20-21
Statement of fiduciary net assets – fiduciary funds	22
Notes to basic financial statements	23-53

TOWN OF NEW SHOREHAM, RHODE ISLAND

YEAR ENDED JUNE 30, 2012

CONTENTS (CONTINUED)

	Page
Required supplementary information to financial statements:	
Budgetary comparison schedules	54-55
Notes to required supplementary information	56-57
Schedule of funding progress	58
Supplementary information to financial statements, tax collector's annual report	59-60



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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2012, 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 of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2012 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditors' Report (Continued)

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 11, and budgetary comparison schedules and historical pension information on pages 54 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

LJC & D LLP

December 3, 2012

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, 2012 (FY 2012).

Financial Highlights

The assets of the Town exceeded its liabilities as of June 30, 2012 by \$30,671,320 (*net assets*). Net assets include \$24,416,416 invested in capital assets, net of related debt; \$514,018 of restricted net assets; and \$5,740,886 of unrestricted net assets that may be used to meet the Town's ongoing obligations to citizens and creditors. Total assets were \$56,297,634 and total liabilities were \$25,626,314 at June 30, 2012. The Town's total net assets increased by \$1,418,909 in FY 2012.

As of June 30, 2012, the Town's governmental funds reported combined ending fund balances of \$6,589,180, an increase of \$2,569,300 from the prior year, primarily due to proceeds of bond issuance.

As of June 30, 2012, the unassigned fund balance for the General Fund was \$819,068, or 7% of total budgeted 2012 General Fund expenditures and other financing uses (\$11,196,245). This amount is available for spending at the Town's discretion.

The Town's total debt increased by \$1,533,804 (7%) during the current fiscal year. The key factors in this increase were the issuance of \$2,364,000 in general obligation bonds and the advance refunding of \$5,340,000 and retirement of \$6,879,785 of principal and other long-term obligations.

Overview of the Financial Statements

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements (Continued)

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

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

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

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund financial statements (continued):

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

The Town maintains nine individual governmental funds and one component unit fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and School Department, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. The individual Component Unit fund has been separately presented.

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

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

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

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

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

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 23-53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Supplementary information presents schedules detailing certain pension information, as well as budgetary comparison schedules for the General Fund and the School Unrestricted Fund to demonstrate compliance with their respective budgets. Required supplementary information can be found on pages 54-58 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$30,671,320 at June 30, 2012.

Net assets invested in capital assets, net of related debt, comprises \$24,416,416, or 80%, 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 \$514,018, or 2%, represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, \$177,251 is permanently restricted and is nonexpendable. Unrestricted net assets, totaling \$5,740,886, 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,791,702	\$ 5,198,465	\$ 738,292	\$ 275,156	\$ 8,529,994	\$ 5,473,621
Capital assets	38,046,244	38,258,896	9,721,396	9,319,668	47,767,640	47,578,564
Total assets	45,837,946	43,457,361	10,459,688	9,594,824	56,297,634	53,052,185
Long-term obligations	21,624,885	20,046,064	2,468,877	2,513,894	24,093,762	22,559,958
Other liabilities	948,189	1,008,571	584,363	231,245	1,532,552	1,239,816
Total liabilities	22,573,074	21,054,635	3,053,240	2,745,139	25,626,314	23,799,774
Net assets:						
Invested in capital assets, net of related debt	17,108,717	18,813,850	7,307,699	6,854,232	24,416,416	25,668,082
Restricted	499,018	433,761	15,000	10,000	514,018	443,761
Unrestricted	5,657,137	3,155,115	83,749	(14,547)	5,740,886	3,140,568
Total net assets	\$23,264,872	\$22,402,726	\$ 7,406,448	\$ 6,849,685	\$30,671,320	\$29,252,411

Component unit. The assets of the Town's Component Unit, the Block Island Land Trust (Land Trust), exceeded its liabilities by \$21,078,951. Net assets invested in capital assets, net of related debt, comprises \$19,112,747, or 91%, of total net assets. The remaining balance of net assets of the Land Trust, totaling \$1,966,204, is restricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

The Town's net assets increased by \$1,418,909 in FY 2012. Approximately 56% of the Town's total revenue came from taxes and payments in lieu of taxes, while 18% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 26% of total revenues. The Town's expenses cover a range of services, the largest of which were for schools, public works and harbors, administration costs, and employee benefits. In 2012, governmental activities expenses exceeded program revenues by \$8,326,384. Net revenues from business-type activities exceeded program expenses in 2012 by \$550,771.

The Town of New Shoreham's Changes in Net Assets – Primary Government

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 2,163,076	\$ 1,914,133	\$ 1,714,774	\$ 1,476,141	\$ 3,877,850	\$ 3,390,274
Operating grants and contributions	521,697	550,838			521,697	550,838
Capital grants and contributions	549,869	(5,685)	837,083	242,319	1,386,952	236,634
General revenues:						
Property taxes	8,264,732	7,956,587			8,264,732	7,956,587
Grants and contributions, nonspecific	816,028	773,404			816,028	773,404
Other	3,308	9,021	5,992	18,077	9,300	27,098
Total revenues	<u>12,318,710</u>	<u>11,198,298</u>	<u>2,557,849</u>	<u>1,736,537</u>	<u>14,876,559</u>	<u>12,934,835</u>
Expenses:						
General government and finance	1,451,404	1,305,254			1,451,404	1,305,254
Public safety	977,945	959,783			977,945	959,783
Public works, highways, harbors	1,664,695	1,575,928			1,664,695	1,575,928
Recreation	337,116	345,443			337,116	345,443
Public services, library	1,325,146	1,234,768			1,325,146	1,234,768
Education	5,020,847	5,040,538			5,020,847	5,040,538
Interest on long-term debt	783,873	827,833			783,873	827,833
Sewer			1,380,194	1,327,954	1,380,194	1,327,954
Water			620,892	607,042	620,892	607,042
Total expenses	<u>11,561,026</u>	<u>11,289,547</u>	<u>2,001,086</u>	<u>1,934,996</u>	<u>13,562,112</u>	<u>13,224,543</u>
Change in net assets before transfers	757,684	(91,249)	556,763	(198,459)	1,314,447	(289,708)
Transfers	104,462	109,800			104,462	109,800
Increase (decrease) in net assets	862,146	18,551	556,763	(198,459)	1,418,909	(179,908)
Net assets, beginning of year	22,402,726	22,384,175	6,849,685	7,048,144	29,252,411	29,432,319
Net assets, end of year	<u>\$ 23,264,872</u>	<u>\$ 22,402,726</u>	<u>\$ 7,406,448</u>	<u>\$ 6,849,685</u>	<u>\$ 30,671,320</u>	<u>\$ 29,252,411</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the Town's net assets by \$862,146, or less than 4%, over the prior year. Key elements of this increase are as follows:

- Bonds were issued on behalf of the component unit, with the related obligation shown as a note receivable by the Town.
- Bond proceeds and capital grants were used to finance acquisitions, capital improvements and bond refundings.
- Property taxes were levied for debt service payments and program 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	
	2012	2011	2012	2011
General government and finance	\$ 1,451,404	\$ 1,305,254	\$ 562,278	\$ 972,723
Public safety	977,945	959,783	935,167	934,373
Public works, highways, harbors	1,664,695	1,575,928	437,440	106,735
Recreation	337,116	345,443	93,390	105,900
Public/social services, library	1,325,146	1,234,768	891,908	1,206,940
Education	5,020,847	5,040,538	4,622,328	4,675,757
Interest on long-term debt	783,873	827,833	783,873	827,833
Total expenses	<u>\$ 11,561,026</u>	<u>\$ 11,289,547</u>	<u>\$ 8,326,384</u>	<u>\$ 8,830,261</u>

Component Unit

The net assets of the Town's Component Unit increased by \$1,185,843. 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 2012, totaling \$2,071,526.

General Fund Budgetary Highlights

The original budget for FY 2012 adopted at the Financial Town Meeting on May 2, 2011 was \$11,192,545; no changes were made to the final budget.

Actual revenues reported in FY 2012 were greater than budgeted amounts by \$518,117, due principally to a \$546,892 contribution to the Town from the estate of a community member. The contribution was used, along with Town funds, for the acquisition of property in accordance with the terms of the gift.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

General Fund Budgetary Highlights (Continued)

Actual expenditures exceeded budgeted amounts by \$812,380. The principal reasons for this include:

- Capital outlay in the amount of \$750,537 for the acquisition of property, partially offset by a contribution to the Town for that purpose. Other expenditures in capital outlay were a result of grant expenditures which were unbudgeted.
- Savings in Police, Highways and Maintenance, and GIS/Technology were partially offset by over-expenditures in General Government, Harbors and Recreation, among other departments.

The total excess of revenues and other financing sources over expenditures and other financing uses on a budgetary basis was \$2,406,987.

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, 2012 amounts to \$47,767,640 (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 net increase in the Town's investment in capital assets for the current fiscal year was \$189,076, comprised of an increase related to business-type activities of \$401,728, offset by a decrease of \$212,652 related to governmental activities.

Additions to capital assets in 2012 for governmental activities included acquisition of property, various renovations and improvements, library books and continued improvements at the School, offset by the sale of property and depreciation expense.

Additions to capital assets for business-type activities were primarily electrical upgrades and extension of a water line, partially offset by depreciation expense.

Additional information regarding capital assets can be found in Note 6 on pages 36 and 37 of this report.

Long-term debt. As of June 30, 2012, the Town has total bonded debt outstanding of \$23,457,457, which is backed by the full faith and credit of the Town.

The Town has one capital lease outstanding at June 30, 2012 with a balance totaling \$50,212.

Long-term debt includes \$2,413,697 of outstanding loans to the Block Island Water Company and New Shoreham Sewer Commission (business-type activities), which includes \$1,971,697 payable to the United States Department of Agriculture (USDA).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration (Continued)

Long-term debt (continued). The Town's Component Unit has total notes payable outstanding of \$4,832,937, consisting primarily of general obligation bonds issued through the Town (\$4,775,060). The Component Unit also has a note outstanding totaling \$57,877 due to a third party.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$21,043,760	\$19,438,187	\$2,413,697	\$2,465,436	\$23,457,457	\$21,903,623
Capital leases	50,212	106,346			50,212	106,346
Accrued compensated absences	449,913	409,531	55,180	48,458	505,093	457,989
Other post-employment benefit obligation	81,000	92,000			81,000	92,000
Total	<u>\$21,624,885</u>	<u>\$20,046,064</u>	<u>\$2,468,877</u>	<u>\$2,513,894</u>	<u>\$24,093,762</u>	<u>\$22,559,958</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 \$52,560,356 as of the December 31, 2010 assessment, which significantly exceeds the Town's outstanding general debt.

In January 2009, S&P upgraded the Town's bond rating from A+ to AA. Primary factors driving the ratings increase include sound financial position, low per capita debt levels and strong market value per capita. This rating was affirmed in June 2009, June 2010 and June 2012. Additional information regarding the Town's long-term debt can be found in Note 7 on pages 38-44 of this report.

In June 2012, the Town issued \$7,704,000 of general obligation bonds, including \$2,364,000 issued on behalf of the Block Island Land Trust for acquisitions. The balance was used to refund general obligation bonds from 1998 and 2002 in order to realize a lower interest rate. Debt service savings over the life of the refunding transaction will approximate 13%.

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 1,051 ranks New Shoreham smallest 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 \$1,752,011,854 at December 31, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

With the approval of the taxpayers at the May 7, 2012 Financial Town Meeting, the tax rate on real property increased by \$0.10/\$1,000 (2.1%), from \$4.74/\$1,000 in 2011 to \$4.84/\$1,000 in 2012. The increase was driven by increasing 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 oversees the day-to-day maintenance and operations of the State highways. In exchange, the State compensates the Town \$341,092 annually. The State retains responsibility for any major capital improvements required.

Component Unit

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

The Land Trust is funded principally by fees levied on qualifying real property transfers within the Town. The transfer fee adopted by the Land Trust for the year ended June 30, 2012 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. During 2012, the Town issued a bond in the amount of \$2,364,000 to finance the Trust's acquisitions. The remaining authority is \$3,686,000.

The \$1,185,843 increase in net assets for 2012 is due primarily to \$1,377,615 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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Block Island Land Trust
ASSETS:				
Cash and cash equivalents	\$ 1,691,714	\$ 302,272	\$ 1,993,986	\$ 1,907,315
Investments				389,138
Accounts receivable, less allowance for doubtful accounts of \$64,274:				
Property taxes	241,485		241,485	
Federal and state government	174,632	809,902	984,534	
Assessments and user fees	103	192,509	192,612	
Note receivable				28,596
Other	156,578	6,871	163,449	1,209
Internal balances	590,217	(590,217)	-	
Temporarily restricted assets, cash and cash equivalents	5,468		5,468	
Note receivable from component unit	4,775,060		4,775,060	
Deferred charges	156,445	16,955	173,400	
Capital assets not being depreciated	18,990,733	1,498,407	20,489,140	23,945,684
Capital assets being depreciated, net	19,055,511	8,222,989	27,278,500	
Total assets	45,837,946	10,459,688	56,297,634	26,271,942
LIABILITIES:				
Accounts payable and accrued expenses	884,865	584,363	1,469,228	56,911
Due to federal and state government	22,515		22,515	
Unearned revenue	40,809		40,809	
Deferred gain				303,143
Due to primary government:				
Due within one year				188,890
Due in more than one year				4,586,170
Long-term obligations:				
Due within one year	1,302,862	74,965	1,377,827	29,367
Due in more than one year	20,322,023	2,393,912	22,715,935	28,510
Total liabilities	22,573,074	3,053,240	25,626,314	5,192,991
Commitments and contingencies (Notes 11 and 12)				
NET ASSETS:				
Invested in capital assets, net of related debt	17,108,717	7,307,699	24,416,416	19,112,747
Restricted for:				
Education	266,016		266,016	
Library	55,751		55,751	
Land acquisitions				1,245,000
Land to be held in perpetuity				721,204
Other:				
Expendable		15,000	15,000	
Nonexpendable	177,251		177,251	
Unrestricted	5,657,137	83,749	5,740,886	
Total net assets	\$ 23,264,872	\$ 7,406,448	\$ 30,671,320	\$ 21,078,951

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total	
			Capital Grants and Contributions					
Primary government:								
Governmental activities:								
General government	\$ 1,164,608	\$ 336,207	\$ 250	\$ 552,669	\$ (275,482)		\$ (275,482)	
Finance administration	286,796	-	-	-	(286,796)		(286,796)	
Fire, rescue and emergency services	311,007	19,950	-	-	(291,057)		(291,057)	
Police	666,938	15,128	8,819	(1,119)	(644,110)		(644,110)	
Town highways/maintenance	504,738	25,044	12,836	-	(466,858)		(466,858)	
State roads	338,575	341,092	-	-	2,517		2,517	
Harbors	633,895	763,207	6,601	-	135,913		135,913	
Building official	187,487	78,475	-	-	(109,012)		(109,012)	
Recreation	337,116	241,726	2,000	-	(93,390)		(93,390)	
Library	556,183	148,103	73,576	-	(334,504)		(334,504)	
GIS/Technology	102,578	-	-	-	(102,578)		(102,578)	
Boards and commissions	202,805	14,034	2,710	(36,960)	(223,021)		(223,021)	
Community support	463,580	117,201	79,295	35,279	(231,805)		(231,805)	
Education	5,020,847	62,909	335,610	-	(4,622,328)		(4,622,328)	
Interest on long-term debt	783,873	-	-	-	(783,873)		(783,873)	
Total governmental activities	11,561,026	2,163,076	521,697	549,869	(8,326,384)		(8,326,384)	
Business-type activities:								
Sewer	1,380,194	1,151,651	-	732,405	\$ 503,862		503,862	
Water	620,892	563,123	-	104,678	46,909		46,909	
Total business-type activities	2,001,086	1,714,774	-	837,083	550,771		550,771	
Total primary government	\$ 13,562,112	\$ 3,877,850	\$ 521,697	\$ 1,386,952	(8,326,384)		(7,775,613)	
Component unit:								
Block Island Land Trust	\$ 209,986	\$ 1,377,615	\$ -	\$ -				\$ 1,167,629
General revenues:								
Property taxes					8,264,732		8,264,732	
Grants and contributions not restricted to specific programs					816,028		816,028	
Investment earnings					3,308	5,992	9,300	2,240
Other income								15,974
Transfers from component unit					104,462		104,462	
Total general revenues and transfers					9,188,530	5,992	9,194,522	18,214
Change in net assets					862,146	556,763	1,418,909	1,185,843
Net assets, beginning of year					22,402,726	6,849,685	29,252,411	19,893,108
Net assets, end of year					\$ 23,264,872	\$ 7,406,448	\$ 30,671,320	\$ 21,078,951

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2012

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 775,461	\$ 390,869	\$ 530,852	\$ 1,697,182
Receivables:				
Property taxes, less allowance for doubtful accounts of \$40,000	241,485			241,485
Assessments and user fees	103			103
Intergovernmental	165,837	8,795		174,632
Other	156,209	369		156,578
Due from other funds	646,621	374,517	4,744	1,025,882
Notes receivable, component unit	4,775,060			4,775,060
Total assets	<u>\$ 6,760,776</u>	<u>\$ 774,550</u>	<u>\$ 535,596</u>	<u>\$ 8,070,922</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 282,649	\$ 501,824	\$ 3,116	\$ 787,589
Due to federal and state government	22,515			22,515
Due to other funds	431,265		4,400	435,665
Deferred revenue	229,263	6,710		235,973
Total liabilities	<u>965,692</u>	<u>508,534</u>	<u>7,516</u>	<u>1,481,742</u>
Fund balances:				
Nonspendable, in form	4,775,060		177,251	4,952,311
Restricted	93,568	(1,105)	3,267	95,730
Committed	78,139	28,769		106,908
Assigned	29,249	14,366	347,562	391,177
Unassigned	819,068	223,986		1,043,054
Total fund balances	<u>5,795,084</u>	<u>266,016</u>	<u>528,080</u>	<u>6,589,180</u>
Total liabilities and fund balances	<u>\$ 6,760,776</u>	<u>\$ 774,550</u>	<u>\$ 535,596</u>	<u>\$ 8,070,922</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, 2012

Total fund balances for governmental funds		\$	6,589,180
Assets used in governmental activities which are not financial resources and are therefore not reported in the funds:			
Capital assets, net	\$	38,046,244	
Deferred charges		<u>156,445</u>	38,202,689
Some taxes and grants will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the funds.			195,164
Liabilities not due and payable in the current period which therefore are not reported in the funds:			
Bonds payable		21,043,760	
Capital leases		50,212	
Accrued other post-employment benefits		81,000	
Compensated absences payable		449,913	
Accrued interest		<u>97,276</u>	<u>(21,722,161)</u>
Net assets of governmental activities			<u>\$ 23,264,872</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, 2012

	General Fund	School Department	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 8,210,695			\$ 8,210,695
Intergovernmental	1,310,020	\$ 335,610	\$ 17,331	1,662,961
Licenses, permits and fees	377,875			377,875
Interest and investment	2,742		566	3,308
Transfer from component unit	104,462			104,462
Other revenues	1,704,868	62,909	280,136	2,047,913
Total revenues	<u>11,710,662</u>	<u>398,519</u>	<u>298,033</u>	<u>12,407,214</u>
Expenditures:				
Current:				
General government	1,807,381			1,807,381
Finance administration	288,314			288,314
Fire, rescue and emergency services	277,192			277,192
Police	625,036			625,036
Town highways/maintenance	436,174			436,174
State roads	338,575			338,575
Harbors	456,831		55,739	512,570
Building official	188,263			188,263
Recreation	332,759			332,759
Library	460,262		32,618	492,880
GIS/Technology	102,578			102,578
Boards and commissions	145,566		15,166	160,732
Community support	339,443		17,752	357,195
Education		4,645,466		4,645,466
Capital outlay			464,083	464,083
Debt service:				
Principal	1,282,668		350,000	1,632,668
Interest	584,934		9,586	594,520
Total expenditures	<u>7,665,976</u>	<u>4,645,466</u>	<u>944,944</u>	<u>13,256,386</u>
Excess (deficiency) of revenues over expenditures	<u>4,044,686</u>	<u>(4,246,947)</u>	<u>(646,911)</u>	<u>(849,172)</u>
Other financing sources (uses):				
Proceeds of bond issuance	2,604,000		250,000	2,854,000
Bond premium	438,217			438,217
Sale of property			478,411	478,411
Bond issuance costs	(97,424)			(97,424)
Refunding bond proceeds	5,340,000			5,340,000
Payment to refunding bond escrow agent	(5,594,732)			(5,594,732)
Transfers from other funds	14,889	4,342,649		4,357,538
Transfers to other funds	(4,342,649)		(14,889)	(4,357,538)
Total other financing sources (uses)	<u>(1,637,699)</u>	<u>4,342,649</u>	<u>713,522</u>	<u>3,418,472</u>
Excess of revenues and other financing sources over expenditures and other financing uses	2,406,987	95,702	66,611	2,569,300
Fund balance, beginning of year	<u>3,388,097</u>	<u>170,314</u>	<u>461,469</u>	<u>4,019,880</u>
Fund balance, end of year	<u>\$ 5,795,084</u>	<u>\$ 266,016</u>	<u>\$ 528,080</u>	<u>\$ 6,589,180</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, 2012

Net change in fund balances for governmental funds		\$ 2,569,300
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities these costs are allocated over the life of the related asset and reported as depreciation expense.</p>		
Capital outlays, including amounts charged to current expenditures	\$ 1,487,161	
Disposals	(629,566)	
Depreciation expense	<u>(1,070,247)</u>	(212,652)
<p>Governmental funds report bond issuance costs as expenditures. However, in the statement of activities these costs are allocated over the life of the related debt and reported as amortization expense.</p>		
Bond issuance costs	97,424	
Amortization expense	<u>(40,466)</u>	56,958
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		15,958
<p>The issuance of long-term debt (including premiums or discounts) provides current resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment and refunding of bonds and notes use current financial resources, but decrease long-term liabilities in the statement of net assets. Bond premiums, discounts and refunding charges are deferred and amortized as part of future interest expense.</p>		
Issuance of general obligation bonds and capital leases	(8,194,000)	
Principal repayment on general obligation bonds and capital leases	1,688,802	
Payment to refunding bond escrow agent	5,594,732	
Amortization of premiums, discounts and deferred charges on refundings	<u>(638,973)</u>	(1,549,439)
<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	(40,382)	
Accrued other post-employment benefits	11,000	
Accrued interest	<u>11,403</u>	<u>(17,979)</u>
Change in net assets of governmental activities		<u>\$ 862,146</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND
STATEMENT OF NET ASSETS – ENTERPRISE FUNDS

JUNE 30, 2012

	Sewer Fund	Water Fund	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 49,149	\$ 253,123	\$ 302,272
Accounts receivable, net of allowance for doubtful accounts of \$9,274 and \$15,000, respectively:			
Federal and state government	787,107	22,795	809,902
Assessments and user fees	100,278	92,231	192,509
Other	6,871		6,871
Due from other funds	3,563	52,004	55,567
Total current assets	946,968	420,153	1,367,121
Noncurrent assets:			
Deferred charges	5,644	11,311	16,955
Capital assets not being depreciated	1,381,714	116,693	1,498,407
Capital assets being depreciated, net	3,690,683	4,532,306	8,222,989
Total assets	6,025,009	5,080,463	11,105,472
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	483,118	101,245	584,363
Due to other funds	642,221	3,563	645,784
Accrued compensated absences	21,198		21,198
Current portion of long-term debt	13,033	40,734	53,767
Total current liabilities	1,159,570	145,542	1,305,112
Noncurrent liabilities:			
Accrued compensated absences	33,982		33,982
Loans payable, net of current portion	931,571	1,428,359	2,359,930
Total noncurrent liabilities	965,553	1,428,359	2,393,912
Total liabilities	2,125,123	1,573,901	3,699,024
NET ASSETS:			
Invested in capital assets, net of related debt	4,127,793	3,179,906	7,307,699
Restricted for building	15,000		15,000
Unrestricted	(242,907)	326,656	83,749
Total net assets	\$ 3,899,886	\$ 3,506,562	\$ 7,406,448

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, 2012

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating revenues:			
Assessments and user fees	\$ 811,331	\$ 515,169	\$ 1,326,500
Water contract	253,749		253,749
Other revenues	65,850	47,954	113,804
	<u>1,130,930</u>	<u>563,123</u>	<u>1,694,053</u>
Total operating revenues			
Operating expenses:			
Salaries and benefits	623,884		623,884
Contracted services	53,809	253,749	307,558
Materials and supplies	55,356	19,438	74,794
Repairs and maintenance	40,810	29,037	69,847
Depreciation	373,404	175,137	548,541
Utilities	154,497	53,074	207,571
Professional services	20,465	24,465	44,930
Miscellaneous	17,354	9,106	26,460
	<u>1,339,579</u>	<u>564,006</u>	<u>1,903,585</u>
Total operating expenses			
Operating loss	<u>(208,649)</u>	<u>(883)</u>	<u>(209,532)</u>
Nonoperating revenues (expenses):			
Interest revenue	1,364	4,628	5,992
Grant revenue	732,405	104,678	837,083
Rentals and fees	20,721		20,721
Interest expense	(40,449)	(56,280)	(96,729)
Amortization of bond issuance costs	(166)	(606)	(772)
	<u>713,875</u>	<u>52,420</u>	<u>766,295</u>
Total nonoperating revenues (expenses)			
Change in net assets	505,226	51,537	556,763
Net assets, beginning of year	<u>3,394,660</u>	<u>3,455,025</u>	<u>6,849,685</u>
Net assets, end of year	<u>\$ 3,899,886</u>	<u>\$ 3,506,562</u>	<u>\$ 7,406,448</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND
STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 774,700	\$ 503,182	\$ 1,277,882
Cash received from other sources	65,850	47,954	113,804
Cash receipts for quasi-external transactions	253,744		253,744
Cash paid to employees for benefits	(609,857)		(609,857)
Cash paid to suppliers	(307,784)	(124,804)	(432,588)
Cash payments for quasi-external transactions		(253,744)	(253,744)
Net cash provided by operating activities	<u>176,653</u>	<u>172,588</u>	<u>349,241</u>
Cash flows from noncapital financing activities:			
Interfund balances	262,466	(60,282)	202,184
Rental income	<u>20,721</u>		<u>20,721</u>
Net cash provided by (used in) noncapital financing activities	<u>283,187</u>	<u>(60,282)</u>	<u>222,905</u>
Cash flows from capital and related financing activities:			
Capital contributions	10,905	231,373	242,278
Acquisition and construction of fixed assets	(427,254)	(221,693)	(648,947)
Principal paid on bonds and notes	(12,504)	(39,235)	(51,739)
Interest paid on bonds and notes	<u>(40,488)</u>	<u>(56,573)</u>	<u>(97,061)</u>
Net cash used in capital and related financing activities	<u>(469,341)</u>	<u>(86,128)</u>	<u>(555,469)</u>
Cash provided by investing activities, interest received	<u>1,364</u>	<u>4,628</u>	<u>5,992</u>
Net increase (decrease) in cash and cash equivalents	(8,137)	30,806	22,669
Cash and cash equivalents, beginning of year	<u>57,286</u>	<u>222,317</u>	<u>279,603</u>
Cash and cash equivalents, end of year	<u>\$ 49,149</u>	<u>\$ 253,123</u>	<u>\$ 302,272</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2012

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$(208,649)	\$ (883)	\$(209,532)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	373,404	175,137	548,541
Changes in assets and liabilities:			
Accounts receivable, assessment and user fees	(36,631)	(11,987)	(48,618)
Due from other funds	(5)	5	-
Accounts payable and accrued expenses	41,812	10,316	52,128
Accrued compensated absences	<u>6,722</u>	<u> </u>	<u>6,722</u>
Net cash provided by operating activities	<u>\$ 176,653</u>	<u>\$ 172,588</u>	<u>\$ 349,241</u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

STATEMENT OF FIDUCIARY NET ASSETS –
FIDUCIARY FUNDS

JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 16,386</u>
Total assets	<u><u>\$ 16,386</u></u>
LIABILITIES:	
Deposits held in custody for others	<u>\$ 16,386</u>
Total liabilities	<u><u>\$ 16,386</u></u>

See notes to basic financial statements.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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 of America 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 and 2011. The charter provides for a Town Council/Town Manager form of government. Legislative authority is vested in a five-member Town Council elected to biennial terms. A five-member School Committee is vested with autonomous legislative authority over the Town's public school system. Members of the School Committee are elected to biennial terms.

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

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

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Financial reporting entity (continued):

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

Basis of presentation:

Government-wide financial statements:

The statement of net assets and statement of activities display information about the Town as a whole. They include all funds of the Town except for fiduciary funds and 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, 2012

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 and report all financial resources not accounted for and reported in another fund.

Special revenue funds:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Town's only major special revenue fund is the School Department.

Capital projects funds:

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays. The Town's only capital projects fund is the Old Harbor Dock Construction Fund, which is a nonmajor fund.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued):

Permanent funds:

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings and not principal may be used for purposes that support the Town's programs. The Town's only permanent fund is the Cemetery Fund, which is a nonmajor fund.

Proprietary funds:

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

Fiduciary funds:

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

Measurement focus and basis of accounting:

The government-wide financial statements, including the component unit, are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available for liquidating liabilities of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (60 days). Revenues not considered to be available are recorded as deferred revenues. Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in 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, 2012

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Measurement focus and basis of accounting (continued):

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

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

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 and local ordinance. Taxes levied in July are payable on the 15th day of August. Taxes may be paid in quarterly installments on August 15, November 15, February 15 and May 15.

Rhode Island general laws restrict the Town's ability to increase either its total tax levy or its tax rates by more than 4.25% over that of the preceding fiscal year for 2012. The rate will decrease by .25% to 4% in 2013.

Intergovernmental revenues:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Use of estimates:

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

Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition.

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

Investments:

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

Interfund transactions:

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

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Capital assets:

Government-wide financial statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

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

The Town is exempt from reporting the value of prior infrastructure assets in its financial statements; however, the Town 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 fund financial statements.

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

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

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

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Capital assets (continued):

Government-wide financial statements (continued):

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, 2012.

Fund financial statements:

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

Bond issuance costs:

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

Compensated absences:

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

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

Long-term obligations:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Long-term obligations (continued):

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 an other financing source. 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.

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:

The Town's fund balance is reported in the following categories:

Nonspendable – amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact

Restricted – amounts that have been restricted to specific purposes either by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

1. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Committed – amounts constrained to specific purposes by the Town, using its highest level of decision-making authority

Commitments will only be used for specific purposes pursuant to a formal action of the Town Council at a Financial Town Meeting. Formal action is required to approve, modify, or rescind a fund balance commitment.

Assigned – amounts that are intended by the Town to be used for specific purposes, but are neither restricted nor committed

The Town Council has the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned – amounts available for any purpose

Expenditures may be incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Composition of the ending fund balance will be determined by applying the following: In those instances where both restricted and unrestricted amounts are available, restricted amounts will be considered to have been spent first (as allowed and in compliance with stated and specified terms or requirements), followed by committed amounts, followed by assigned amounts, and then unassigned amounts.

2. Fund balances:

At June 30, 2012, none of the Town's funds had a deficit (negative) fund balance.

3. Deposits and investments:

At June 30, 2012, the carrying amount of the Town's deposits was \$2,015,840, including \$1,306,584 of cash equivalents, and the total bank balance was \$2,056,524. Included in these balances are deposits of agency funds totaling \$16,386.

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

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

3. Deposits and investments (continued):

At June 30, 2012, deposits are categorized as follows:

	Insured/ collateralized in Town's name	Maturities	Total bank balance	Carrying amount
Deposits:				
Demand deposits	\$ 744,490		\$ 744,490	\$ 702,258
Restricted cash and cash equivalents	5,468		5,468	5,468
Petty cash				1,530
Certificates of deposit	640,679	7/23/12 - 8/10/12	640,679	640,697
Money market	<u>665,887</u>		<u>665,887</u>	<u>665,887</u>
	<u>\$ 2,056,524</u>		<u>\$ 2,056,524</u>	<u>\$ 2,015,840</u>

At June 30, 2012, deposits and investment of the component unit are categorized as follows:

Type	Maturities	Total bank balance	Carrying value
Deposits, demand deposits		<u>\$ 1,907,264</u>	<u>\$ 1,907,315</u>
Investment, United States Treasury Bill	9/26/2012		<u>\$ 389,138</u>

The component unit's deposit bank balance is insured or collateralized.

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, 2012 totaled approximately \$51,700; the net investment loss for the year was approximately \$3,600.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

5. Interfund receivables/payables:

Interfund receivables and payables at June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from:		
Governmental funds:		
General Fund	Governmental funds:	
	Other Governmental Funds	\$ 4,400
	Enterprise funds:	
	Sewer	<u>642,221</u>
		646,621
School Department	Governmental funds:	
	General Fund	374,517
Other Governmental Funds	General Fund	4,744
Enterprise funds:		
Sewer	Water	3,563
Water	General Fund	<u>52,004</u>
		<u>\$ 1,081,449</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, 2012

6. Capital assets:

	Beginning balances	Increases	Decreases	Ending balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,265,449	\$ 750,537	\$ (106,210)	\$ 18,909,776
Construction in progress	111,018	493,295	(523,356)	80,957
Total capital assets not being depreciated	<u>18,376,467</u>	<u>1,243,832</u>	<u>(629,566)</u>	<u>18,990,733</u>
Capital assets being depreciated:				
Land improvements	4,473,186	118,374	-	4,591,560
Buildings and improvements	20,271,050	31,206	-	20,302,256
Vehicles and vessels	1,938,372	6,470	-	1,944,842
Furniture and equipment	714,128	31,745	-	745,873
Machinery and equipment	1,016,966	55,534	-	1,072,500
Infrastructure	1,810,045	-	-	1,810,045
Total capital assets being depreciated	<u>30,223,747</u>	<u>243,329</u>	<u>-</u>	<u>30,467,076</u>
Less accumulated depreciation for:				
Land improvements	719,355	154,029	-	873,384
Buildings and improvements	6,728,315	676,130	-	7,404,445
Vehicles and vessels	1,496,030	72,620	-	1,568,650
Furniture and equipment	470,394	49,453	-	519,847
Machinery and equipment	713,923	56,208	-	770,131
Infrastructure	213,301	61,807	-	275,108
Total accumulated depreciation	<u>10,341,318</u>	<u>1,070,247</u>	<u>-</u>	<u>11,411,565</u>
Total capital assets being depreciated, net	<u>19,882,429</u>	<u>(826,918)</u>	<u>-</u>	<u>19,055,511</u>
Governmental activities capital assets, net	<u>\$ 38,258,896</u>	<u>\$ 416,914</u>	<u>\$ (629,566)</u>	<u>\$ 38,046,244</u>
Component unit:				
Capital assets not being depreciated, land and land rights under management	<u>\$ 21,874,158</u>	<u>\$ 2,071,526</u>	<u>\$ -</u>	<u>\$ 23,945,684</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

6. Capital assets (continued):

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 954,203	\$ 27,987	\$ -	\$ 982,190
Construction in progress	746,490	514,033	(744,306)	516,217
	<u>1,700,693</u>	<u>542,020</u>	<u>(744,306)</u>	<u>1,498,407</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings and improvements	4,634,683	334,838	-	4,969,521
Equipment	1,400,795	73,411	-	1,474,206
Underground piping	10,135,277	744,306	-	10,879,583
Wells/reserve osmosis/water supply	1,194,448	-	-	1,194,448
	<u>17,365,203</u>	<u>1,152,555</u>	<u>-</u>	<u>18,517,758</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	2,162,614	144,972	-	2,307,586
Equipment	1,064,064	69,095	-	1,133,159
Underground piping	6,232,429	307,931	-	6,540,360
Wells/reserve osmosis/water supply	287,121	26,543	-	313,664
	<u>9,746,228</u>	<u>548,541</u>	<u>-</u>	<u>10,294,769</u>
Total accumulated depreciation				
	<u>7,618,975</u>	<u>604,014</u>	<u>-</u>	<u>8,222,989</u>
Total capital assets being depreciated, net				
Business-type activities capital assets, net	<u>\$ 9,319,668</u>	<u>\$ 1,146,034</u>	<u>\$ (744,306)</u>	<u>\$ 9,721,396</u>
Depreciation was charged to functions as follows:				
Governmental activities:				
General government		\$ 94,596		
Finance administration		5,726		
Fire, rescue and emergency services		73,966		
Police		22,996		
Town highways/maintenance		105,451		
Harbors		124,009		
Recreation		45,526		
Library		95,993		
Boards and commissions		42,358		
Community support		47,610		
Education		412,016		
		<u>\$ 1,070,247</u>		
Business-type activities:				
Sewer Fund		\$ 373,404		
Water Fund		175,137		
		<u>\$ 548,541</u>		

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations:

A summary of long-term obligations as of June 30, 2012 is as follows:

	Primary Government			Component Unit
	Governmental activities	Business-type activities	Total	Block Island Land Trust
Bonds and notes	\$ 20,851,332	\$ 2,413,697	\$ 23,265,029	\$ 57,877
Deferred amounts:				
On refunding	(255,705)		(255,705)	
On premium	448,133		448,133	
	21,043,760	2,413,697	23,457,457	57,877
Capital leases	50,212		50,212	
Other post-employment benefit obligation	81,000		81,000	
Accrued compensated absences	449,913	55,180	505,093	
	21,624,885	2,468,877	24,093,762	57,877
Less portion due within one year	1,302,862	74,965	1,377,827	29,367
	<u>\$ 20,322,023</u>	<u>\$ 2,393,912</u>	<u>\$ 22,715,935</u>	<u>\$ 28,510</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

Changes in long-term obligations during the year ended June 30, 2012 were as follows:

	Balance, July 1, 2011	Additions	Retirements	Balance, June 30, 2012	Due within one year
Governmental activities:					
Bonds payable:					
Bonds and notes	\$19,475,000	\$ 8,194,000	\$ 6,817,668	\$20,851,332	\$ 1,133,101
Deferred amounts:					
For issuance costs	(28,452)		(28,452)	- 0 -	
On refunding	(17,268)	(254,732)	(16,295)	(255,705)	18,698
On premium	8,907	438,217	(1,009)	448,133	29,270
Total bonds payable	19,438,187	8,377,485	6,771,912	21,043,760	1,181,069
Capital leases	106,346		56,134	50,212	21,505
Other post-employment benefit obligation	92,000		11,000	81,000	31,176
Accrued compensated absences	409,531	40,382		449,913	69,112
Total long-term obligations	<u>\$20,046,064</u>	<u>\$ 8,417,867</u>	<u>\$ 6,839,046</u>	<u>\$21,624,885</u>	<u>\$ 1,302,862</u>
Business-type activities:					
Bonds and notes	\$ 2,465,436		\$ 51,739	\$ 2,413,697	\$ 53,767
Accrued compensated absences	48,458	\$ 6,722		55,180	21,198
Total long-term obligations	<u>\$ 2,513,894</u>	<u>\$ 6,722</u>	<u>\$ 51,739</u>	<u>\$ 2,468,877</u>	<u>\$ 74,965</u>
Component unit:					
Bonds and notes	<u>\$ 472,431</u>		<u>\$ 414,554</u>	<u>\$ 57,877</u>	<u>\$ 29,367</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

General obligation bonds and notes:

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

Purpose	Amount of original issue	Fiscal year of issue	Interest rate	Fiscal year of maturity	Balance, July 1, 2011	New issues	Retirements	Balance, June 30, 2012
Governmental activities:								
2012 Bond	\$ 2,364,000	2012	2.0-4.0%	2032	\$ - 0 -	\$ 2,364,000		\$ 2,364,000
2012 Refunding Bond	5,340,000	2012	2.0-4.0%	2022	- 0 -	5,340,000		5,340,000
Thomas Property	240,000	2012	5.25%	2022	- 0 -	240,000	\$ 7,668	232,332
Housing Board Land Acquisition (RAN)	250,000	2012	3.75%	2012	- 0 -	250,000	250,000	- 0 -
2010 Bond	3,440,000	2010	3.0-4.0%	2030	3,330,000		115,000	3,215,000
2009 Bond	2,975,000	2009	2.25-4.5%	2029	2,740,000		150,000	2,590,000
Housing Board Land Acquisition (RAN)	100,000	2009	3.25%	2011	100,000		100,000	- 0 -
Town Hall Construction 2006	1,350,000	2006	4.0-4.75%	2026	1,000,000		70,000	930,000
School Construction 2006	1,100,000	2006	4.0-4.75%	2026	825,000		55,000	770,000
School Construction 2005	7,160,000	2005	3.5-4.25%	2025	5,700,000		290,000	5,410,000
Hodge Property	1,000,000	2002	2.5-5.0%	2022	700,000		700,000	- 0 -
Hodge Property	3,500,000	2002	2.5-5.0%	2022	2,485,000		2,485,000	- 0 -
Refunding bond - school	1,913,000	2002	4.25-5.0%	2022	1,275,000		1,275,000	- 0 -
Town library – additions/renovations	1,257,000	2002	4.25-5.0%	2022	830,000		830,000	- 0 -
Town Hall – additions/renovations	750,000	2002	4.25-5.0%	2022	490,000		490,000	- 0 -
Total	\$ 32,739,000				\$ 19,475,000	\$ 8,194,000	\$ 6,817,668	\$ 20,851,332

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

Bonds and notes currently outstanding for business-type activities are as follows:

Purpose	Authorized and issued	Fiscal year of issue	Interest rate	Fiscal year of maturity	Balance, July 1, 2011	New issues	Retirements	Balance, June 30, 2012
Enterprise funds:								
Sewer Fund:								
Headworks	\$ 349,000	2007	4.13%	2047	\$ 333,821	\$ - 0 -	\$ 4,194	\$ 329,627
Sewer improvements	192,500	2006	4.375%	2046	182,381	-	2,297	180,084
Land	472,175	2005	4.25%	2045	440,906	-	6,013	434,893
	<u>1,013,675</u>				<u>957,108</u>	<u>- 0 -</u>	<u>12,504</u>	<u>944,604</u>
Water Fund:								
Discharge	442,000	2007	4.125%	2047	422,780	- 0 -	5,310	417,470
Water supply	179,445	2005	4.25%	2045	167,548	-	2,286	165,262
Clean Water GOB	614,287	2004	3.26%	2024	468,000	-	26,000	442,000
Water supply	450,000	2011	3.25%	2051	450,000	-	5,639	444,361
	<u>1,685,732</u>				<u>1,508,328</u>	<u>- 0 -</u>	<u>39,235</u>	<u>1,469,093</u>
Total	\$ 2,699,407				\$ 2,465,436	- 0 -	\$ 51,739	\$ 2,413,697
Component unit:								
Land acquisition	\$ 450,000	2004	6.00%	2013	\$ 112,431	- 0 -	\$ 54,554	\$ 57,877
Land acquisition	800,000	1998	3.65%-5.0%	2018	360,000	-	360,000	- 0 -
	<u>\$ 1,250,000</u>				<u>\$ 472,431</u>	<u>- 0 -</u>	<u>\$ 414,554</u>	<u>\$ 57,877</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

At June 30, 2012, scheduled annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Governmental activities:

Year ending June 30,	Principal	Interest	Total
2013	\$ 1,133,101	\$ 716,872	\$ 1,849,973
2014	1,370,143	715,416	2,085,559
2015	1,391,241	670,067	2,061,308
2016	1,447,377	623,556	2,070,933
2017	1,488,620	574,338	2,062,958
2018-2022	7,800,850	1,944,514	9,745,364
2023-2027	4,440,000	846,920	5,286,920
2028-2032	1,780,000	171,400	1,951,400
	\$ 20,851,332	\$ 6,263,083	\$ 27,114,415

Business-type activities:

Year ending June 30,	Principal	Interest	Total
2013	\$ 53,767	\$ 95,155	\$ 148,922
2014	55,838	93,141	148,979
2015	57,951	91,022	148,973
2016	60,109	88,800	148,909
2017	62,314	86,474	148,788
2018-2022	351,421	393,372	744,793
2023-2027	336,759	319,958	656,717
2028-2032	261,521	265,544	527,065
2033-2037	318,573	208,492	527,065
2038-2042	388,201	138,864	527,065
2043-2047	392,486	55,338	447,824
2048-2052	74,757	6,167	80,924
	\$ 2,413,697	\$ 1,842,327	\$ 4,256,024

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

Component unit:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 29,367	\$ 811	\$ 30,178
2014	28,510	1,736	30,246
	<u>\$ 57,877</u>	<u>\$ 2,547</u>	<u>\$ 60,424</u>

Capital leases:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 21,505	\$ 2,367	\$ 23,872
2014	22,797	1,075	23,872
2015	5,910	58	5,968
	<u>\$ 50,212</u>	<u>\$ 3,500</u>	<u>\$ 53,712</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 Law caps 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, 2010 was \$1,752,011,854, limiting the amount of non-exempted general obligation bonds outstanding to \$52,560,356. At June 30, 2012, general obligation bonds outstanding totaled \$20,851,332, including amounts which are exempt from the cap.

The previously authorized, but unissued, general obligation bonds related to the component unit totals \$3,686,000.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

7. Long-term obligations (continued):

General obligation bonds and notes (continued):

On June 6, 2012, the Town issued \$5,340,000 in general obligation bonds with an average interest rate of 3.0% to advance refund \$5,500,000 of outstanding 2002 various purpose general obligation bonds with an average interest rate of 4.25%. The net proceeds of \$5,594,732, which reflect \$324,872 of bond premium monies used to purchase U.S. Government securities, and the payment of \$31,079 in underwriting fees and \$39,061 in cost of issuance fees were deposited with an escrow agent to provide for all future debt service payments on the 2002 various purpose general obligation bonds. As a result, the 2002 various purpose general obligation bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$123,184. The Town completed the advance refunding to reduce its total debt service payments over the next 11 years by \$819,487 and to obtain an economic gain of \$719,827.

The component unit may request that the Town 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. On June 6, 2012, the Town issued \$2,364,000 in general obligation bonds with an average interest rate of 3.0% to refinance the acquisition of open space by the component unit.

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 generally coincide with the interest rates, principal installments and maturities of the related general obligation bond of the Town. In 2012, as a result of the refunding and the additional bond, as discussed above, the balance of the note receivable from the component unit at June 30, 2012 was \$4,775,060.

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, 2012

7. Long-term obligations (continued):

Other post-employment benefits:

Through its single-employer defined benefit other post-employment benefit plan, the School Department provides health benefits to its public school professional staff with 20 years of accumulated service. A teacher at the Block Island School may continue to receive the same health care coverage as offered to the bargaining unit for five contract years, until Medicare takes over or age 65, whichever occurs first. For governmental activities, this liability reflects amounts attributable to employees' services already rendered, considered probable for payment and reasonably estimated. The Town funds these benefits on a pay-as-you-go basis. The Town's annual other post-employment benefit (OPEB) cost is calculated using the estimated amounts that will be paid or payable to covered employees based upon their current actual years of service and the current premium cost (without regard to inflation), and without regard to the probability of their remaining employed for the required 20 years. For the year ended June 30, 2012, covered payroll under the plan amounts to approximately \$1,862,000 and OPEB expense is \$31,000, which is included in the obligation reported by the Town. The estimated undiscounted total liability for post-employment benefits is as follows:

Fully vested employees	\$ 814,030
Non-vested employees	<u>1,024,351</u>
	<u><u>\$ 1,838,381</u></u>

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	\$ 133,524	\$ 48,070	\$ 101,055		\$ 282,649
School Department	89,546	36,284	375,994		501,824
Nonmajor funds	3,116				3,116
Reconciliation of balances in fund financial statements to government-wide financial statements				\$ 97,276	<u>97,276</u>
	<u>226,186</u>	<u>84,354</u>	<u>477,049</u>	<u>97,276</u>	<u>884,865</u>

(continued)

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

8. Accounts payable and accrued expenses (continued):

	Vendors	Other Governments	Employees	Accrued Interest	Total
Business-type activities:					
Sewer	\$ 456,857	\$ 2,339	\$ 18,351	\$ 5,571	\$ 483,118
Water	94,252			6,993	101,245
	<u>551,109</u>	<u>2,339</u>	<u>18,351</u>	<u>12,564</u>	<u>584,363</u>
	<u>\$ 777,295</u>	<u>\$ 86,693</u>	<u>\$ 495,400</u>	<u>\$ 109,840</u>	<u>\$ 1,469,228</u>
Component unit	<u>\$ 6,721</u>		<u>\$ 894</u>	<u>\$ 806</u>	<u>\$ 8,421</u>

9. Employee retirement systems:

All eligible employees of the Town are covered by one of two pension plans: the Employees' Retirement System of the State of Rhode Island (Teachers' Plan) or the Municipal Employees' Retirement System of the State of Rhode Island (Municipal Plan). The Teachers' Plan covers all School Department personnel certified by the Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. Business managers are also eligible to participate. The Municipal Plan covers substantially all of the Town's employees except public school teachers. Total covered payroll under both plans during 2012 was \$4,135,577. Total Town payroll was \$5,997,752 for the same period.

In November 2011, the State enacted the Rhode Island Retirement Security Act of 2011 (RIRSA), which substantially changed the Teacher's Plan and Municipal Plan. The changes, which became effective on July 1, 2012, include adding a defined contribution element, and future cost-of-living adjustments, among others.

Teachers' Plan

Plan description:

The Teachers' Plan is a statutory, mandatory, statewide, cost-sharing multiple-employer public employee retirement system administered by the State. The Teachers' Plan covers all school department personnel certified by the State of Rhode Island Department of Education who are or have been engaged in teaching as a principal occupation. Financial statements for the Teachers' Plan are issued separately and may be obtained from the Employees' Retirement System, 50 Service Avenue, Warwick, RI 02886. Total covered payroll under the Teachers' Plan during 2012 was \$1,862,175.

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2012

9. Employee retirement systems (continued):

Teachers' Plan (continued)

Plan description (continued):

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

Schedule A Benefits:

Schedule A benefits are available to members who possessed ten years or more of contributory service on or before July 1, 2005. Schedule A provides unreduced benefits of 1.70% of earnings for each of the first ten years of service; 1.90% for each of the next ten years of service; 3.00% per year for each of the next fourteen years; and 2.00% for the 35th year. Joint and survivor options are available as well as the Service Retirement Allowance Plus option that provides for the payment of a larger benefit before the attainment of age 62, including cost-of-living increases, minus the member's estimated social security benefit payable at age 62. The maximum benefit is 80% of final average earnings after 35 years of service. Such benefits are available to members who are at least age 60 with ten years of credited service, or after 28 years of service at any age. Benefits for all employees are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

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

Schedule B Benefits:

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

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Employee retirement systems (continued):

Teachers' Plan (continued):

Schedule B Benefits (continued):

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

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

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

Funding policy:

Rhode Island General Law sets the contribution rates of participating employees at 9.5% of salary. Annual required contributions by both employers and the State on behalf of those employees are determined by actuaries and assessed as a percentage of participants' payroll. The required contributions include (a) normal costs; (b) payments to amortize the unfunded frozen actuarial accrued liability as of June 30, 2010 over 25 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, 2012

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 2012, actuarial required contributions were 21.19% of participant salary, which resulted in a contribution rate paid by the State on behalf of Town teachers of 8.64% (\$158,440). The Town's contribution rate was 12.55%. The Town's required and actual contributions to the Teachers' Plan for fiscal years 2012, 2011 and 2010 were \$228,330, \$197,367 and \$198,609, 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, 50 Service Avenue, Warwick RI 02886. For fiscal year 2012, payroll for employees covered under the Municipal Plan totaled \$2,273,402 (including \$250,238 for police).

Participants' rights to pension benefits become fully vested after 10 years of service. They are also eligible to retire after ten years of service if they have attained age 58 (age 55 for police) or after 30 years of service (20 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 five years of service, and at 67% of salary for occupational disabilities regardless of service. Surviving spouses are also eligible for both pre- and post-retirement death benefits with minimum amounts established under varying circumstances.

As of June 30, 2012, active employees who were members of the Municipal Plan are as follows:

Municipal workers	52 (12 school)
Police	4

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Employee retirement systems (continued):

Municipal Plan (continued)

Funding policy:

Rhode Island General Law sets 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 June 30, 2010 over a closed period of 25 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:

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.

	2012	2011	2010
Annual pension costs	\$ 344,112	\$ 349,342	\$ 387,678
Actual contributions:			
Municipal:			
Employee	118,114	126,750	138,498
Employer	141,568	132,907	173,519
Police:			
Employee	22,521	24,752	19,112
Employer	61,909	64,933	56,549
Percent of annual pension costs contributed	100.0%	100.0%	100.0%

The School Department was required to contribute 8.39% to the Municipal Plan during the fiscal year ended June 30, 2012, resulting in a contribution of \$28,175. School employees under the Municipal Plan were required to contribute \$23,507.

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Employee retirement systems (continued):

Municipal Plan (continued)

Funded status and funding progress:

As of June 30, 2011, the most recent actuarial valuation date, the Municipal Plan was 64.9% and 97.2% funded for police and all other, respectively. The actuarial accrued liability for benefits was \$1,397,245 and \$5,176,585 for police and all other, respectively, and the actuarial value of assets was \$907,407 and \$5,031,517, respectively. This resulted in an unfunded actuarial accrued liability (UAAL) of \$489,838 and \$145,068 for police and all other, respectively. The covered payroll (annual payroll of active employees covered by the Municipal Plan) was \$262,941 and \$2,094,541 for police and all other, respectively, and the ratio of the UAAL to the covered payroll was 186.3% and 6.9%, respectively.

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

Actuarial methods and significant assumptions:

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

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

Asset appreciation:	7.50% annually
Salary increases:	4.00% annually (4.25% police) and a service-related component
Cost-of-living adjustments:	0.00-4.00% noncompounded
Payroll growth rate:	3.75% annually
Retirement probability:	100% at age 75 or upon eligibility (100% at age 65 or upon eligibility – police)

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

9. Employee retirement systems (continued):

Municipal Plan (continued)

Actuarial methods and significant assumptions (continued):

Mortality:

Healthy members – 115% (for Male Employees) and 95% (for Female Employees) of the RP 2000 Combined Healthy with White Collar Adjustments, projected with Scale AA

Disabled members – 60% of the PBGC Table Va (VIa for females) set to age 65 (55 for police employees)

Disability:

Probabilities per 1,000 ranging from .08% at age 25 to 9.87% at age 60 (.43% at age 25 to 18.15% at age 50 for police)

10. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participates in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, the Town is insured for a maximum of \$3,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage during the year ended June 30, 2012.

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

TOWN OF NEW SHOREHAM, RHODE ISLAND
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2012

10. Risk management (continued):

The Town also participates in the Health Pool (the Pool), a non-profit, public entity risk pool which provides programs of liability, workers' compensation, and health insurance coverage to Rhode Island cities, towns and other governmental units. Upon joining the Pool, members execute a member agreement. That document, pursuant to which the Pool was established and operates, outlines the rights and responsibilities of both the members and the Pool. Members of the Pool participate in the Pool's health insurance plan administered through the Trust and Blue Cross Blue Shield of Rhode Island (BCBSRI). The Pool sets annual contribution rates for the subscribers of each member for each program offered. The Pool agreement requires that those contribution rates be set at a level sufficient, in the aggregate, to satisfy the funding requirements of the Pool. The contributions of each member are deposited into the General Fund and are used to pay for claims, reinsurance and all administrative expenses.

11. Litigation:

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

12. Commitments and contingencies:

During 2007, the component unit acquired a partial interest in a fee title ownership of the Kalba property for approximately \$483,000. The remainder of the ownership was acquired by The Nature Conservancy (TNC) for \$490,000, payable in 10 annual installments of \$49,000 plus interest at 6% commencing January 15, 2008. The component unit and TNC entered into an agreement whereby in the event that the component unit pays any or all of the amounts due under TNC's promissory note, the parties will equitably adjust their respective interests in the ownership. In 2012, the component unit made the fifth installment plus interest totaling \$66,640.

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 \$957,000 for the year ended June 30, 2012.

TOWN OF NEW SHOREHAM, RHODE ISLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes	\$ 8,255,679	\$ 8,210,695	\$ (44,984)
Intergovernmental	1,220,924	1,310,020	89,096
Licenses, permits and fees	352,975	377,875	24,900
Interest and investment	10,000	2,742	(7,258)
Transfer from component unit	259,463	104,462	(155,001)
Other revenues	1,093,504	1,704,868	611,364
Total revenues	11,192,545	11,710,662	518,117
Expenditures:			
Current:			
General government	1,022,472	1,047,792	(25,320)
Finance administration	294,083	288,314	5,769
Fire, rescue and emergency services	258,921	271,415	(12,494)
Police	614,902	596,955	17,947
Town highways and maintenance	442,719	423,338	19,381
State roads	341,092	338,575	2,517
Harbors	422,920	443,760	(20,840)
Building official	188,961	188,263	698
Recreation	284,311	295,741	(11,430)
Library	432,396	440,446	(8,050)
GIS/Technology	119,631	95,426	24,205
Boards and commissions	138,541	142,856	(4,315)
Community support	292,502	296,522	(4,020)
Capital outlay	147,600	928,971	(781,371)
Debt service	1,852,545	1,867,602	(15,057)
Total expenditures	6,853,596	7,665,976	(812,380)
Excess of revenues over expenditures, budgetary basis	4,338,949	4,044,686	(294,263)
Other financing sources (uses):			
Transfers to other funds	(4,342,649)	(4,342,649)	-
Transfers from other funds	3,700	14,889	11,189
Other financing sources	-	8,382,217	8,382,217
Other financing uses	-	(5,692,156)	(5,692,156)
Total other financing sources (uses)	(4,338,949)	(1,637,699)	2,701,250
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	\$ -	2,406,987	\$ 2,406,987
Excess of revenues and other financing sources over expenditures and other financing uses, U.S. GAAP basis		2,406,987	
Net assets, beginning of year		3,388,097	
Net assets, end of year		\$ 5,795,084	

NEW SHOREHAM SCHOOL DEPARTMENT

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – SCHOOL UNRESTRICTED FUND

YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Federal and state governments	\$ 89,610	\$ 266,859	\$ 177,249
Other revenues	-	18,367	18,367
Total revenues	<u>89,610</u>	<u>285,226</u>	<u>195,616</u>
Expenditures:			
Salaries	2,698,787	2,622,074	76,713
Employee benefits	987,010	1,115,033	(128,023)
Purchased services	451,660	461,629	(9,969)
Supplies and materials	255,302	257,381	(2,079)
Capital outlay	30,500	45,815	(15,315)
Total expenditures	<u>4,423,259</u>	<u>4,501,932</u>	<u>(78,673)</u>
Excess of expenditures over revenues, budgetary basis	<u>(4,333,649)</u>	<u>(4,216,706)</u>	<u>116,943</u>
Other financing sources (uses):			
Transfers from Town of New Shoreham	4,342,649	4,342,649	-
Transfer to School Lunch	(20,000)	(20,000)	-
Appropriations of Unrestricted Fund Balance	11,000	-	(11,000)
Total other financing sources (uses)	<u>4,333,649</u>	<u>4,322,649</u>	<u>(11,000)</u>
Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis	<u>\$ -</u>	<u>105,943</u>	<u>\$ 105,943</u>
Excess of revenues and other financing sources over expenditures and other financing uses, U.S. GAAP basis		105,943	
Fund balance, beginning of year		<u>161,178</u>	
Fund balance, end of year		<u>\$ 267,121</u>	

TOWN OF NEW SHOREHAM, RHODE ISLAND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULES

YEAR ENDED JUNE 30, 2012

Budget preparation and budgetary basis of accounting:

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

The General Fund and the School Department annual operating budgets are in conformity with the legally enacted budgetary basis. The legally enacted budgetary basis differs from accounting principles generally accepted in the United States of America (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. However, there were no adjustments from the budgetary basis to the U.S. GAAP basis of accounting for the year ended June 30, 2012.

TOWN OF NEW SHOREHAM, RHODE ISLAND

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

YEAR ENDED JUNE 30, 2012

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, 2012

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
<i>Municipal Employees Retirement System, Police</i>						
June 30, 2009	\$ 833,702	\$ 1,251,857	\$ 418,155	66.60%	\$ 237,034	176.41%
June 30, 2010	866,662	1,513,386	646,724	57.27%	251,988	256.65%
June 30, 2011	907,407	1,397,245	489,838	64.94%	262,941	186.29%
June 30, 2012	N/A	N/A	N/A	N/A	250,238	N/A
<i>Municipal Employees Retirement System, Other</i>						
June 30, 2009	\$ 4,500,415	\$ 5,209,876	\$ 709,461	86.38%	\$ 2,089,994	33.95%
June 30, 2010	4,749,070	6,221,418	1,472,348	76.33%	2,048,103	71.89%
June 30, 2011	5,031,517	5,176,585	145,068	97.20%	2,094,541	6.93%
June 30, 2012	N/A	N/A	N/A	N/A	1,687,347	N/A

(1) N/A not available

(2) The latest actuarial valuation for the plan is as of June 30, 2011

TOWN OF NEW SHOREHAM, RHODE ISLAND

TAX COLLECTOR'S ANNUAL REPORT

YEAR ENDED JUNE 30, 2012

Real estate and personal property taxes receivable:

<u>Year</u>	<u>Balance, July 1, 2011</u>	<u>Current year assessment</u>	<u>Adjustments/ abatements</u>	<u>Amount to be collected</u>	<u>Collections</u>	<u>Balance, June 30, 2012</u>
2012	\$ -	\$ 8,190,015	\$ 2,662	\$ 8,192,677	\$ 7,971,562	\$ 221,115
2011	202,567		2,178	204,745	158,394	46,351
2010	2,944			2,944	107	2,837
2009	3,640			3,640		3,640
2008	512			512		512
2007	1,301			1,301		1,301
2006	487			487		487
2005	809			809		809
2004	976			976		976
2003	1,686		(422)	1,264		1,264
2002	1,180			1,180		1,180
2001	1,013			1,013		1,013
	<u>\$ 217,115</u>	<u>\$ 8,190,015</u>	<u>\$ 4,418</u>	<u>\$ 8,411,548</u>	<u>\$ 8,130,063</u>	281,485
					Less allowance for doubtful accounts	<u>40,000</u>
						<u>\$ 241,485</u>

TOWN OF NEW SHOREHAM, RHODE ISLAND
TAX COLLECTOR'S ANNUAL REPORT (CONTINUED)
YEAR ENDED JUNE 30, 2012

Schedule of most recent net assessed property value by category:

Description of property	Valuations	Levy
Real property	\$ 1,728,567,048	\$ 8,082,111
Motor vehicles	19,660,793	86,946
Tangible personal	3,784,013	18,092
Total	1,752,011,854	8,187,149
Exemptions	34,221,800	-
Current year assessment	<u>\$ 1,717,790,054</u>	<u>\$ 8,187,149</u>

Reconciliation of current year property tax revenue:

Current year collections	\$ 8,130,063
Revenue collected within 60 days subsequent to year ended June 30, 2012	<u>95,880</u>
	8,225,943
Prior year revenue received in current year	<u>(74,521)</u>
Current year real estate and personal property tax revenue	<u>\$ 8,151,422</u>