

TOWN OF BRISTOL, RHODE ISLAND

**BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006**

TOWN OF BRISTOL, RHODE ISLAND

YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

This Section Contains the Following Subsections:

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List of Town Officials

Town of Bristol Organizational Chart

TOWN OF BRISTOL, RHODE ISLAND

Town Administrator

Diane C. Mederos

Town Treasurer

John M. Day

Town Clerk

Louis P. Cirillo

Town Council

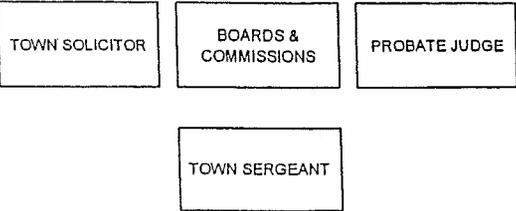
Richard Ruggiero, Chairman
David Barboza, Vice Chairman
Halsey C. Herreshoff
Mary Parella
Ken Marshall

Town of Bristol, R.I.
Municipal Organization Chart

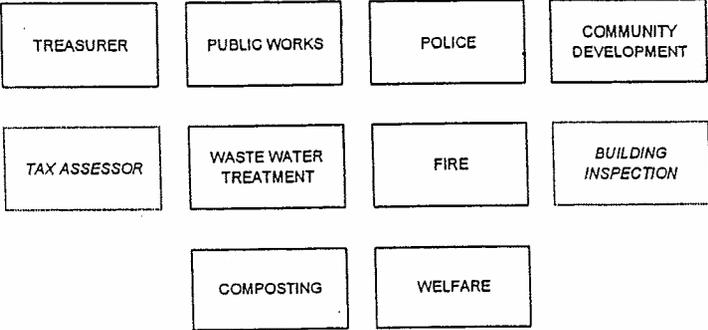


TOWNSPEOPLE

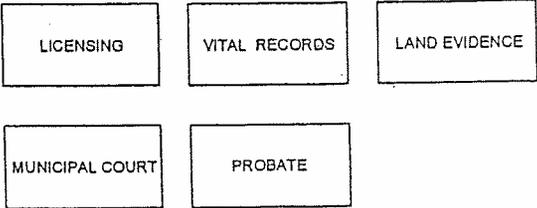
TOWN COUNCIL



TOWN ADMINISTRATOR



TOWN CLERK



FINANCIAL SECTION

This Section contains the Following Subsections:

Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information



PRESCOTT · CHATELLIER
FONTAINE · WILKINSON · LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Town Council
Town of Bristol, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Bristol, Rhode Island as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Bristol, Rhode Island'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 of America 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 the 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 activity, each major fund, the discretely presented component unit and the aggregate remaining fund information of the Town of Bristol, Rhode Island as of June 30, 2006, 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 22, 2006 on our consideration of the Town of Bristol, Rhode Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 is not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, Schedule of Funding Progress for Pension Plan, and Budgetary Comparison Schedule for the General Fund on pages 3 through 9 and 52 through 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Bristol, Rhode Island's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the basic financial statements of the Town of Bristol, Rhode Island. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 22, 2006

Prescott Chatterin Fountain & Wilkinson, LLP

**Town of Bristol, Rhode Island
Management's Discussion and Analysis
For the
Fiscal Year Ended June 30, 2006**

As management of the Town of Bristol, we offer readers of the Town of Bristol's financial statements this narrative overview and analysis of the financial activities of the Town of Bristol for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Town of Bristol exceeded its liabilities as of June 30, 2006, by \$13,839,666 (*net assets*). Of this amount, \$8,254,471 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The total net assets figure does not include any infrastructure of the governmental funds installed prior to 2000. When the historical cost of general infrastructure assets is available, a more meaningful comparison will be available

- As of June 30, 2006, the Town of Bristol's governmental funds reported combined ending fund balances of \$12,520,551, an increase of \$1,546,500 in comparison with the prior year.

- As of June 30, 2006, the unreserved fund balance for the general fund was \$8,582,490 or approximately 24 percent of total general fund expenditures. However, \$5,440,566 of this unreserved fund balance was appropriated to meet 2007 general fund expenditures. This reduces the available unreserved fund balance for the general fund to \$3,127,710, or approximately 9 percent of total general fund expenditures.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Town of Bristol'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 of Bristol is improving or deteriorating.

Overview of the Financial Statements (Continued)

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event 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 and sick leave).

Both of the government-wide financial statements distinguish functions of the Town of Bristol 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 of Bristol include general government, public safety, public works, parks and recreation. The business-type activities of the Town of Bristol include the sewer operation.

The government-wide financial statements include the activities of the Town of Bristol and its component unit Bristol-Warren Regional School District.

The government-wide financial statements can be found on pages 10 and 11 of this report.

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 of Bristol, 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 of Bristol 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.

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 funds* with similar 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 of Bristol maintains 100 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the remaining 99 governmental funds are combined into a single aggregated presentation.

Overview of the Financial Statements (Continued)

The basic governmental fund financial statements can be found on pages 12, 13 and 14 of this report.

Proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Bristol uses enterprise funds to account for its sewer operations.

The basic proprietary fund financial statements can be found on pages 15, 16 and 17 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 of Bristol's programs. The fiduciary funds maintained by the Town of Bristol include several private-purpose trusts, Police Pension Trust Fund and agency funds.

The basic fiduciary fund financial statements can be found on pages 18 and 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, *required supplementary information* presents a budgetary comparison schedule for the General Fund to demonstrate compliance with the budget.

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 of Bristol, assets exceeded liabilities by \$13,839,666 at the close of 2006.

	Governmental Activities		Business-type Activities		Total		Percentage change 2005-2006
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$18,141,705	\$18,950,393	\$3,013,319	\$3,007,814	\$21,155,024	\$21,958,207	3.80%
Capital assets	17,951,681	19,395,426	34,447,301	34,855,205	52,398,982	54,250,631	3.53%
Total assets	36,093,386	38,345,819	37,460,620	37,863,019	73,554,006	76,208,838	3.61%
Long-term debt	15,611,630	17,918,724	9,424,342	7,528,243	25,035,972	25,446,967	1.64%
Other liabilities	8,018,143	6,587,429	1,524,943	1,425,302	9,543,086	8,012,731	-16.04%
Total liabilities	23,629,773	24,506,153	10,949,285	8,953,545	34,579,058	33,459,698	-3.24%
Net Assets							
Invested in capital assets	2,340,051	1,476,702	25,022,959	27,326,962	27,363,010	28,803,664	5.26%
Restricted	587,916	4,108,493	0	0	587,916	4,108,493	598.82%
Unrestricted	9,535,646	8,254,471	1,488,376	1,582,512	11,024,022	9,836,983	-10.77%
Total net assets	\$12,463,613	\$13,839,666	\$26,511,335	\$28,909,474	\$38,974,948	\$42,749,140	9.68%

Government-wide Financial Analysis (Continued)

As identified earlier, infrastructure assets of the governmental funds put into service prior to 2000 are not included within this report. The general capital assets (e.g., land, buildings, machinery, and equipment) of the governmental activities of the Town of Bristol less outstanding debt equal \$1,476,702. A portion of the outstanding debt of the governmental activities was incurred for the installation of infrastructure. It is the goal of the management of the Town of Bristol to include the historical cost of existing infrastructure within the financial statements issued for the year ending June 30, 2007.

Even though historical infrastructure costs are not included, the governmental activities have total net assets of \$13,839,666. Included within the total net assets are capital assets of \$1,476,702 and restricted net assets of \$4,108,493 as of June 30, 2006, leaving an unrestricted balance of \$8,254,471.

It should be noted that, even though these net assets are available for future spending, the investment in capital assets is reported net of related debt. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

Governmental activities increased the Town of Bristol's net assets by \$1,376,053 accounting for a small portion of the growth in the net assets of the Town of Bristol. Much of this increase in net assets was attributed to the investment of current year revenues in the Town's capital assets.

Business-Type Activities

Business-type activities increased the Town of Bristol's net assets by \$2,398,139. The increase in unrestricted net assets was primarily due to the transfer from the Town to fund debt service.

	Governmental Activities		Business-type Activities		Total		Percentage change 2005-2006
	2005	2006	2005	2006	2005	2006	
Revenues							
Program revenues-							
Charges for services	\$1,771,188	\$2,027,022	\$2,773,072	\$2,945,235	\$4,544,260	\$4,972,257	9.42%
Grants	1,159,833	919,823		11,703	\$1,159,833	931,526	-19.68%
General revenues-							
Property taxes	28,096,506	30,397,442			\$28,096,506	30,397,442	8.19%
State Aid	3,134,909	2,988,139			\$3,134,909	2,988,139	-4.68%
Investment earnings	475,257	796,562	204	434	\$475,461	796,996	67.63%
Miscellaneous	395,824	778,207			\$395,824	778,207	96.60%
Transfers	(18,442,156)	(19,000,349)	2,216,647	2,268,134	(\$16,225,509)	(16,732,215)	3.12%
Total revenues	<u>16,591,361</u>	<u>18,906,846</u>	<u>4,989,923</u>	<u>5,225,506</u>	<u>21,581,284</u>	<u>24,132,352</u>	<u>11.82%</u>
Expenses							
General government	1,884,756	1,742,504			1,884,756	1,742,504	-7.55%
Public safety	5,360,951	6,029,247			5,360,951	6,029,247	12.47%
Public Works	4,805,133	4,970,762			4,805,133	4,970,762	3.45%
Human Resources	2,033,482	2,208,527			2,033,482	2,208,527	8.61%
Other	734,864	1,116,144			734,864	1,116,144	51.88%
Interest on long term debt	499,570	687,150			499,570	687,150	37.55%
Capital and special appropriations	545,066	757,493			545,066	757,493	38.97%
Landfill closure	150,000	-			150,000	-	
Loss on disposal of capital assets		13,216				13,216	
Amortization	5,750	5,750			5,750	5,750	
Sewer Fund			2,628,971	2,827,367	2,628,971	2,827,367	7.55%
Total expenses	<u>16,019,572</u>	<u>17,530,793</u>	<u>2,628,971</u>	<u>2,827,367</u>	<u>18,648,543</u>	<u>20,358,160</u>	<u>9.17%</u>
Increase/-decrease in net assets	571,789	1,376,053	2,360,952	2,398,139	2,932,741	3,774,192	28.69%
Net assets - beginning	<u>11,891,824</u>	<u>12,463,613</u>	<u>24,150,383</u>	<u>26,511,335</u>	<u>36,042,207</u>	<u>38,974,948</u>	
Net assets - ending	<u>\$12,463,613</u>	<u>\$13,839,666</u>	<u>\$26,511,335</u>	<u>\$28,909,474</u>	<u>\$38,974,948</u>	<u>\$42,749,140</u>	

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

Governmental funds. The focus of the Town of Bristol's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Bristol's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2006, the Town of Bristol's governmental funds reported combined ending fund balances of \$12,520,551. Approximately 56 percent or \$7,065,771 constitutes unreserved and undesignated fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period, represents unexpendable inventory items, or has been designated to fund appropriations of the subsequent fiscal year.

The General *Fund* is the chief operating fund of the Town of Bristol. As of June 30, 2006, the total fund balance of the general fund was \$8,582,490 of which \$3,127,710 was unreserved and undesignated. This unreserved fund balance represents approximately 9 percent of total general fund expenditures. Of this total fund balance, \$5,440,566 was appropriated to meet 2007 general fund expenditures.

Governmental Funds (Continued)

The fund balance of the general fund decreased by \$261,021 in fiscal year 2006. The 2007 annual budget for the Town of Bristol's general fund identified the appropriation of \$1,275,000 in fund balance to reduce the impact of taxes levied and to balance the budget. Actual expenses were less than budgeted expenditures by \$4,726,173. Of the \$4,726,173, \$4,108,493 was appropriated to continue capital projects in 2007. Actual revenues and other sources exceeded budgeted revenues in the general fund by \$1,316,202.

The increase in revenues was primarily associated with increases in intergovernmental revenues, as well as increases in the tax rate and tax base which produced greater tax revenue. Expenditures were \$4,726,173 below appropriated amounts, with four areas exceeding their budgets. The majority of expenditures over budget occurred in Public Works. Expenditures for education totaled \$16,742,213 and accounted for roughly 45% of total General Fund expenditures.

Proprietary fund. The Town of Bristol's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Enterprise fund at the end of the year amounted to \$28,909,474. The total increase in net assets was \$2,398,139.

The financial statements and a statement of cash flows for the enterprise funds can be found on pages 15, 16 and 17 of this report.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. There were no additional appropriations necessary during the fiscal year.

As identified earlier, actual revenues and other sources exceeded budgeted revenues by \$1,316,202 primarily in the property tax and intergovernmental revenue categories. Actual expenditures were less than budgeted expenditures by \$4,726,173.

Capital Asset and Debt Administration

Capital assets. The Town of Bristol's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$54,250,631 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress. As mentioned earlier, the infrastructure installed prior to 2000 is not included within these statements. Additional information on the Town of Bristol's capital assets can be found in Note 4 to the financial statements, which accompany this report.

Town of Bristol's Capital Assets

Several major additions to the Town's capital assets related to its governmental fund activities were realized during the year, including continuing street paving and sidewalk repair programs , recreation/ park projects, public safety and public works equipment upgrades as well as automated equipment upgrapes in Town offices.

Long-term debt. At the end of the current fiscal year, the Town of Bristol has total bonded debt and loans outstanding of \$25,446,967 entirely backed by the full faith and credit of the government.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total equalized valuation. The current debt limitation for the Town of Bristol is \$87,149,405 which significantly exceeds the Town of Bristol's current outstanding general obligation debt.

Additional information of the Town of Bristol's long-term debt can be found in note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The 2005 unemployment rate for Bristol County which includes the Town of Bristol was 4.2 percent. This compares with an unemployment rate of 5.0 percent for the State of Rhode Island and a national unemployment rate of 4.5 percent.
- \$5,440,566 of the unreserved fund balance in the general fund was appropriated for spending in the 2007 budget.
- Town's appropriation to fund its contribution to the regional school district increased by \$1,098,808, or 6.6%, to \$17,841,021 for the 2007 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town of Bristol'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 Treasurer's Office, Town Hall, 10 Court Street, Bristol, RI 02809.

Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 11,636,048	\$ 11,487	\$ 11,647,535	\$ 7,700,499
Investments	2,450,371		2,450,371	10,968,545
Inventory	14,214		14,214	153,000
Receivables:				
Taxes net	2,426,276		2,426,276	
Sewer assessment and usage fees		1,151,891	1,151,891	
Internal balances	(1,415,097)	1,415,097	0	
Accrued interest receivable	33,485		33,485	
Other receivables	907,073		907,073	113,843
Due from federal and state governments	2,476,758		2,476,758	72,690
Total current assets	18,529,128	2,578,475	21,107,603	19,008,577
Noncurrent Assets:				
Bond issue costs (net)	70,540		70,540	
Cash surrender value of insurance policies	310,725		310,725	
Other assets	40,000	429,339	469,339	
Capital assets (net)	19,395,426	34,855,205	54,250,631	25,392,097
Total noncurrent assets	19,816,691	35,284,544	55,101,235	25,392,097
TOTAL ASSETS	38,345,819	37,863,019	76,208,838	44,400,674
LIABILITIES				
Current Liabilities:				
Accounts payable	1,029,475	191,110	1,220,585	877,138
Accrued expenses	43,181		43,181	2,424,326
Accrued interest payable	126,024		126,024	243,835
Other payables	8,403		8,403	
Deferred revenue	1,253,820		1,253,820	79,987
Note payable	2,000,000		2,000,000	14,150,000
Current portion of long-term debt	1,590,996	1,954,659	3,545,655	1,210,000
Total current liabilities	6,051,899	2,145,769	8,197,668	18,985,286
Noncurrent Liabilities:				
Compensated absences	1,836,031	263,376	2,099,407	
Deferred revenue		970,816	970,816	
Landfill closure	8,112		8,112	
Net pension obligation	282,383		282,383	
Long-term liabilities (net)	16,327,728	5,573,584	21,901,312	14,968,403
Total noncurrent liabilities	18,454,254	6,807,776	25,262,030	14,968,403
TOTAL LIABILITIES	24,506,153	8,953,545	33,459,698	33,953,689
NET ASSETS				
Invested in capital assets, net of related debt	1,476,702	27,326,962	28,803,664	9,212,761
Restricted for capital improvements	4,108,493		4,108,493	
Unrestricted	8,254,471	1,582,512	9,836,983	1,234,224
TOTAL NET ASSETS	\$ 13,839,666	\$ 28,909,474	\$ 42,749,140	\$ 10,446,985

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND

**Statement of Activities
Year Ended June 30, 2006**

A - 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 1,742,504	\$ 1,222,962	\$ 55,332	\$ 133,057	\$ (464,210)	\$	\$ (464,210)	
Public safety	6,029,247	437,269			(5,458,921)		(5,458,921)	
Public works	4,970,762	330,477		31,682	(4,608,603)		(4,608,603)	
Human Resources	2,208,527	36,314	675,052	24,700	(1,472,461)		(1,472,461)	
Education								
Other	1,116,144				(1,116,144)		(1,116,144)	\$ (46,681,612)
Interest on long-term debt	687,150				(687,150)		(687,150)	
Capital and special approp.	757,493				(757,493)		(757,493)	
Loss on disposal of capital assets	13,216				(13,216)		(13,216)	
Amortization	5,750				(5,750)		(5,750)	
Total governmental activities	17,530,793	2,027,022	730,384	189,439	(14,583,948)		(14,583,948)	(46,681,612)
Business-type activity:								
Food service								
Sewer Fund	2,827,367	2,945,235		11,703		\$ 129,571	129,571	(9,137)
Total business-type activities	2,827,367	2,945,235		11,703		129,571	129,571	(9,137)
Totals	\$ 20,358,160	\$ 4,972,257	\$ 730,384	\$ 201,142	(14,583,948)		(14,454,377)	(46,690,749)
General revenues:								
Property taxes					30,397,442		30,397,442	
Contributions from Town of Wairren					2,988,139		2,988,139	10,165,876
State aid					796,562	434	796,996	19,005,854
Investment earnings					778,207		778,207	841,822
Miscellaneous					(19,000,349)	2,268,134	(16,732,215)	884,947
Transfers					15,960,001	2,268,568	18,228,569	16,742,213
Total general revenues and transfers					30,397,442		30,397,442	47,640,712
Change in Net Assets					1,376,053	2,398,139	3,774,192	949,963
Net Assets - beginning, component unit as restated					12,463,613	26,511,335	38,974,948	9,497,022
Net Assets - ending					\$ 13,839,666	\$ 28,909,474	\$ 42,749,140	\$ 10,446,985

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND

**Balance Sheet
Governmental Funds
June 30, 2006**

B - 1

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 9,943,606	\$ 1,692,442	\$ 11,636,048
Investments	500,000	1,950,371	2,450,371
Inventory	14,214		14,214
Uncollected property taxes	2,967,891		2,967,891
Due from federal and state governments	790,651	1,686,107	2,476,758
Cash surrender value of insurance policies		310,725	310,725
Accrued interest receivable	19,674	13,811	33,485
Other receivables	652,177	254,896	907,073
Deposits	40,000		40,000
Due from other funds	1,008,964	725,257	1,734,221
TOTAL ASSETS	\$ 15,937,177	\$ 6,633,609	\$ 22,570,786
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 942,775	\$ 86,700	\$ 1,029,475
Due to other funds	2,149,068	1,008,655	3,157,723
Deferred revenue	2,602,423	1,217,437	3,819,860
Bond anticipation note payable	1,617,244	382,756	2,000,000
Other liabilities	43,177		43,177
TOTAL LIABILITIES	7,354,687	2,695,548	10,050,235
FUND BALANCES:			
Reserved for inventory	14,214		14,214
Designated for subsequent year's expenditures	5,440,566		5,440,566
Unreserved	3,127,710		3,127,710
Unreserved, reported in nonmajor:			
Special revenue funds		1,659,610	1,659,610
Capital project fund		266,021	266,021
Permanent trust funds		2,012,430	2,012,430
TOTAL FUND BALANCES	8,582,490	3,938,061	12,520,551
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,937,177	\$ 6,633,609	

Amounts reported for governmental activities in the statement of net assets differ because:

Bond issuance cost is recorded in governmental activities, but not in recorded in the funds.	70,540
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,395,426
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(20,045,250)
Deferred revenues (net of an allowance for uncollectibles) are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Assets.	2,024,423
Accrued interest payable is recorded in government activities, but is not recorded in the funds.	(126,024)

Total Net Assets (A-1)

\$ 13,839,666

SEE NOTES TO THE BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
General property taxes	\$ 29,267,992		\$ 29,267,992
State aid and grants	3,237,241		3,237,241
Intergovernmental	107,232	\$ 844,491	951,723
Licenses and permits	1,774,393		1,774,393
Interest and investment income	559,498	115,265	674,763
Unrealized gain on investments		121,799	121,799
Other revenues	366,498	391,652	758,150
Total revenues	35,312,854	1,473,207	36,786,061
Expenditures			
<i>Current:</i>			
Legislative, judicial and general administration	896,040	30,553	926,593
Financial administration	397,694		397,694
Public safety	3,613,963	69,011	3,682,974
Public works	3,988,793	72,833	4,061,626
Human resources	1,079,698	756,599	1,836,297
Education	16,742,213		16,742,213
Sundry	3,952,357		3,952,357
<i>Debt Service:</i>			
Principal	1,354,790		1,354,790
Interest and other costs	678,714		678,714
<i>Capital:</i>			
Capital and special appropriations	2,466,181	543,870	3,010,051
Total expenditures	35,170,443	1,472,866	36,643,309
Excess of revenues over (under) expenditures before other financing sources	142,411	341	142,752
Other financing sources (uses)			
Proceeds from bond issuance	1,000,000	2,661,884	3,661,884
Transfers in	1,457,329	753,841	2,211,170
Transfers out	(2,860,761)	(1,608,545)	(4,469,306)
Net other financing sources (uses)	(403,432)	1,807,180	1,403,748
Net change in fund balances	(261,021)	1,807,521	1,546,500
Fund balance (deficit) - beginning of the year	8,843,511	2,130,540	10,974,051
Fund balance (deficit) - end of the year	\$ 8,582,490	\$ 3,938,061	\$ 12,520,551

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND***Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds (B-2) to the Statement of Activities (A-2)
Year Ended June 30, 2006***

Net Change in Fund Balances - Total Governmental Funds (B-2):	\$ 1,546,500
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,443,743
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences.	(2,307,095)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.	(4,762)
Increase in unpaid pension contributions. The liability is not recorded in the governmental fund. The change from prior year balances is reflected in the statement of activities and changes in net assets.	(207,909)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in government funds	911,124
Adjustment to accrued interest payable related to general obligation bonds which is required to be recorded for government-wide financial statement presentation.	<u>(5,548)</u>
Change in Net Assets of Governmental Activities In the Statement of Activities (A-2)	<u>\$ 1,376,053</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND**Statement of Net Assets
Proprietary Fund
June 30, 2006**

	Sewer Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,487
Sewer assessment and usage fees	1,151,891
Due from other funds	1,415,097
Total current assets	2,578,475
Noncurrent assets:	
Loan issuance cost, net of amortization of \$419,026	429,339
Capital assets (net)	34,855,205
Total noncurrent assets	35,284,544
TOTAL ASSETS	37,863,019
LIABILITIES	
Current liabilities:	
Accounts payable	191,110
Current portion of long-term debt	1,954,659
Total current liabilities	2,145,769
Noncurrent liabilities:	
Compensated absences	263,376
Deferred revenue	970,816
Long-term debt	5,573,584
Total noncurrent liabilities	6,807,776
TOTAL LIABILITIES	8,953,545
NET ASSETS	
Invested in capital assets, net of related debt	27,326,962
Unrestricted	1,582,512
TOTAL NET ASSETS	\$ 28,909,474

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the year ended June 30, 2006**

	<u>Sewer Enterprise Fund</u>
Operating Revenues:	
User fees	\$ 2,462,666
Other revenue	134,935
Total Operating revenues	<u>2,597,601</u>
Operating Expenses:	
Salaries	760,283
Materials and supplies	169,189
Repair and maintenance	342,390
Depreciation and amortization	868,521
Utilities	303,781
Administrative expense	20,837
Miscellaneous	46,628
Total Operating Expenses	<u>2,511,629</u>
Income from operations	85,972
Non-operating revenues (expenses):	
Assessment fees	347,634
Investment income	434
Capital asset contribution	11,703
Interest expense	(315,738)
Total non-operating revenues (expenses)	<u>44,033</u>
Net income before transfers	<u>130,005</u>
Transfers in	3,423,134
Transfers (out)	(1,155,000)
	<u>2,268,134</u>
Change in net assets	2,398,139
Net assets - beginning of the year	<u>26,511,335</u>
Net assets - end of the year	<u><u>\$ 28,909,474</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

**Statement of Cash Flow
Proprietary Fund
For the year ended June 30, 2006**

	<u>Sewer Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,594,017
Cash payments to suppliers for goods and services	(799,023)
Cash payments to employees for services	(737,472)
Net cash provided by operating activities	<u>1,057,522</u>
 Cash flows from noncapital financing activities:	
Operating transfers from other funds	3,423,135
Operating transfers (to) other funds	(1,155,000)
Assessment fees	347,634
Interfund borrowings	(246,616)
Net cash provided by non-capital financing activities	<u>2,369,153</u>
 Cash flows from capital-related financing activities:	
Acquisition and construction of capital assets	(1,232,908)
Principal paid on bonds and loans	(1,896,099)
Interest paid on bonds and loans	(297,668)
Net cash used for capital-related financing activities	<u>(3,426,675)</u>
 Cash flows from investing activities:	
Interest and dividends on investments	434
Net cash provided by investing activities	<u>434</u>
 Net increase in cash and cash equivalents	 434
 Cash and cash equivalents at beginning of the year	 <u>11,053</u>
 Cash and cash equivalents at end of the year	 <u>\$ 11,487</u>
 Reconciliation of net income to net cash provided by operating activities:	
Income from operations	\$ 85,972
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	868,521
Changes in assets and liabilities:	
Increase in accounts receivable	(3,583)
Increase in compensated absences	45,576
Decrease in accrued payroll	(22,764)
Increase in accounts payable	83,800
Total adjustments	<u>971,550</u>
Net cash provided by operating activities	<u>\$ 1,057,522</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	Private- Purpose Trusts	Police Pension Trust Fund	Agency Funds
ASSETS:			
Cash	\$ 1,120,852	\$ 155,270	\$ 740,264
Investments	5,423,556	11,107,090	
Accrued interest receivable	33,153		
Prepaid expenses		68,439	
Due from other funds			18,405
Total Assets	6,577,561	11,330,799	758,669
LIABILITIES:			
Due to other funds	\$ 10,000		
Deposits held in custody for others			758,669
Total Liabilities	10,000	0	758,669
NET ASSETS:			
Held in trust for private purpose and pension benefits	\$ 6,567,561	\$ 11,330,799	\$ 0

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2006

	Private- Purpose Trusts	Police Pension Trust Fund
ADDITIONS:		
Investment income	\$ 165,333	\$ 278,964
Contributions		352,420
Other income	662,484	
Increase in fair value of investments	328,430	427,828
Total additions	1,156,247	1,059,212
DEDUCTIONS:		
Trust expenses	145,036	
Investment expenses		141,507
Benefits		866,296
Transfers to other funds	10,000	
Total deductions	155,036	1,007,803
CHANGE IN NET ASSETS	1,001,211	51,409
Net Assets - beginning	5,566,350	11,279,390
Net Assets - ending	\$ 6,567,561	\$ 11,330,799

SEE NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. The exceptions to this rule are the charges between the transfer station enterprise fund and the general fund, as elimination of these charges would improperly distort the direct costs and operating revenues reported for the functions concerned.

Recently Issued Accounting Standards

The Town has implemented GASB Statement No. 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The adoption of this Statement did not have an effect on the Town's financial statements or results of operations.

The Town has implemented GASB Statement No. 47 – Accounting for Termination Benefits. The adoption of this Statement did not have an effect on the Town's financial statements or results of operations.

The Town will adopt the following new accounting pronouncements in future years:

- ✓ GASB Statement No. 45 – Accounting and Financial Reporting by Employees for Post-employment Benefits Other Than Pensions, effective for the Town's fiscal year ending June 30, 2009.

The impact of this pronouncement on the Town's financial statements has not been determined.

Reporting Entity

The Town of Bristol was founded in 1680. The Town is governed largely under the 1971 Bristol Home Rule Charter. In some matters, including the issuance of short and long-term debt, the Town is governed by the general laws of the State of Rhode Island. The Town operates under a Town Council/Town Administrator form of Government and provides the following services as authorized by its charter: public safety (police, fire, traffic safety, and harbor patrol); public works (sanitation, highways and streets, engineering and building maintenance); social services; and general administrative services.

An act was passed at the January 1991 session of the General Assembly which authorized the Towns of Warren and Bristol to form a regional school district of all the public schools in the Towns of Bristol and Warren to include all grades and programs currently provided and any other grades and programs specified by the regional school committee.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 39. Under GASB Statement No. 14, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate entities that meet any one of the following three tests:

- Test 1 – The primary government appoints the voting majority of the board of the potential component unit and is able to impose its will on the potential component unit and/or is in a relationship of financial benefit or burden with the potential component unit;
- Test 2 – The potential component is fiscally dependent upon the primary government; or
- Test 3 – The financial statements would be misleading if data from the potential component unit were not included

The following entity was considered for classification as a component unit for fiscal year 2006:

- ❖ Bristol Warren Regional School District

The Bristol Warren Regional School District operates the schools within the Towns of Bristol and Warren. The School Committee is elected by the citizens of Bristol and Warren. The School District does not have the authority to levy taxes and submits budget requests to the Towns of Bristol and Warren. Bristol provides 62 percent of the member Town contributions and, as a result, the Bristol Warren Regional School District is considered a component unit of the Town of Bristol. The School District is included in the financial statements of the Town as a discretely presented component unit.

Complete financial statements for the School District can be obtained from the School's administrative office at 151 State Street, Bristol, Rhode Island 02809.

There are no other component units of the Town.

Basis of Presentation

Government-Wide Financial Statements

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

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

- (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.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes four Capital Project Funds and they are used to account for the acquisition of capital assets.

Permanent Funds

The Permanent Funds account for assets held by the Town pursuant to trust agreements. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Fund

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (Not included in government wide statements)

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Funds

Agency funds account for assets held by the Town in a purely custodial capacity. The reporting entity includes nine agency funds. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The agency funds are as follows:

- Unclaimed Estates in Probate Court
- Recreation Leagues
- Performance Bond Fund
- Soda Machine
- HUD Held Funds
- Community Center
- Kid's Café
- Bristol Boat Show
- Police Sunshine Fund

Private-purpose Trust Funds

Private-purpose trust funds are used to account for resources legally held in trust for use by parties outside of the Town, and can not be used at the Town's discretion or to support the Town's general operations. These trusts are for the benefit of local educational organizations, social benefit groups, and other private parties.

Pension Trust Funds

Pension trust funds are used to account for resources legally held in trust for the payment of pension benefits.

Major and Non-Major Funds

The funds are further classified as major or non-major as follows:

<u>Fund</u>	<u>Brief Description</u>
Major:	
General:	See above for description
Proprietary Fund:	See above for description
Capital Projects Fund:	See above for description

Non-Major:

Special Revenue Funds:

Revolving Loan Fund, Business Loan Fund, Assessor Maps, CDBG, Community Center Youth Program, Visitors Center - Burnside, D.A.R.E. Program, Fire Prevention, Fire Victims, Historic District Commission, Keep Bristol Clean, Last Night, Mosquito Abatement, Naomi Street, Planning Engineering, Police Grants, Police Narcotics, Post Employment, Records Preservation, Rental Rehabilitation, Revaluation Defense, SATF 95-96, BSAPTF Substance Abuse, Shamrock, Substance Abuse, Vacation Camps, Veterinary, Zoning Revisions Phase III, Concerts on the Common, HDC Brochures, Bristol in Bloom, Recreation Tee Shirts, Library Aid, Salary Reserve, Revaluation, Cabana for Visitors, Post Retirement, Emergency Management, Senior Center, COPS Technology, Land Evidence and Technology, Revaluation State Funding, Thomas Park, Transient Harbor Mooring, Bristol First Century Project, Tent Inspections, Drawing Reviews, Burnside Portrait, and Town Hall Generator.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Major (Continued):

Capital Project Fund: See above for description.

Permanent Funds: Fund 7116 and 6180, Ruth A. Seldon, Davis Wilson, Colt Poor Farm, Poor Farm, Rev. John Bristed, Ann Fletcher, John B. Herreshoff, Frederick Easterbrooks, Isabelle Wardwell, Marshall Waldron, Martha Gardner, James Dimon.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. The Town considers property taxes as available if they are collected within 60 days after year end.
- (b) The proprietary fund and private purpose trust funds utilize "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.
- (c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

All proprietary funds, agency funds, pension trust and private purpose trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal operation. The principal operating revenues of the sewer enterprise fund are charges for waste disposal services. Operating expenses for the sewer enterprise fund include the costs of providing its services, including administration and depreciation on capital assets. All other revenue and expense items not meeting these criteria are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Fund Equity

Cash

Cash and cash equivalents are carried at cost. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased. Substantially, all of the Town's cash and cash equivalents are held in public deposit institutions, except for \$555 in unsecured petty cash. Pursuant to Section 35-10-1 of the Rhode Island General Laws, as of October 1, 1991, public deposit institutions are required to insure accounts which hold public funds in excess of the \$100,000 which is guaranteed by FDIC. Town pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in short-term treasury securities or as disclosed as part of the Town's investments.

Investments

The Town invests in various types of investments, which are stated at fair value. There are no investments reported at amortized cost.

Accounts Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for uncollectible accounts receivable amounted to \$541,614 at June 30, 2006. Major receivable balances for the governmental activities include property taxes (54% of balance) and intergovernmental grants and aid (46% of balance). Business-type activities report service fees as its major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Accounts Payable

Payable balances consist primarily of payables to vendors.

Property Taxes

Real and personal property taxes are based on values assessed as of each December 31 (lien date) and attach as an enforceable lien on property as of June 15 (levy date). Taxes are due and payable in quarterly installments on the August 15, November 15, February 15, and May 15 following the levy date. Taxes due and unpaid after the respective dues dates are subject to interest and penalties. Failure to make payments by the due dates will result in a lien on the taxpayer's property in September. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting.

Inventory

The Town maintains an "inventory" of fuel for use by the Town owned vehicles in various departments. Inventory is maintained on a periodic system and is stated at cost (first in, first out method of inventory valuation). Inventories in the Governmental Funds are recorded as expenditures when consumed.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid assets. Prepays recorded in governmental type funds do not reflect current appropriate resources and, thus, an equivalent portion of the fund balance is reserved.

Property, Plant and Equipment

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, long-lived 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 fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 1993.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Statements (Continued)

Capital 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 two years.

Infrastructure assets, (such as sidewalks, curbs, drainage systems, and road improvements) acquired by the Town subsequent to June 30, 1999 have been capitalized and reported within the financial statements. The Town is in the process of developing the information necessary to report all pre-existing infrastructure assets (including roads) within its future financial statements.

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

Buildings and land improvements	25 - 50 years
Motor vehicles	8 years
Equipment and heavy machinery	10 - 30 years
Infrastructure	10 - 20 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as in the government-wide statements.

Deferred Revenues

Represent funds received in advance of being owed or receivables which will be collected and included in revenues of future fiscal years. In the General Fund, deferred revenues relate to property tax receivables which are assessed on December 31.

Property, Plant and Equipment

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Interfund Transactions

Interfund activity within and among the funds of the Town have been classified and reported as follows:

- Reciprocal interfund activities:
 - Interfund loans are reported as interfund receivables in the lending fund and interfund payables in borrower funds.
 - Interfund services are reported as revenues in the seller fund and as expenditures or expenses in the purchasing fund.
- Non-reciprocal interfund activities:
 - Interfund transfers are reported in governmental funds as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds transfers are reported after nonoperating revenues and expenses.
 - Interfund reimbursements are repayments from the fund responsible for particular expenditures or expenses to other funds that initially paid for them. Reimbursements are not displayed separately within the financial statements.

Interfund transfers totaled \$19,000,349 for the year, representing the general fund's transfer to the Sewer Fund, component unit and private purpose trusts to subsidize their operation.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- (a) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination of death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay. The amount recorded is the unused days earned at the current rate of pay. For governmental activities the general fund is used to satisfy this liability as it becomes due, while the sewer enterprise fund accounts for all settlement of business-type liabilities for compensated absences.

Town Hall

Town hall employees are entitled to vacation based on length of service. Vacation time must be used within two years of the date earned.

Town employees are entitled to 1.25 sick leave per month worked. Sick leave may be accumulated to a maximum of 120 days. Upon retirement, employees have a vested interest in 100% of their accumulated sick time.

Police and Fire

Police are entitled to vacation based on length of service. Up to 30 vacation days are allowed to carry over to a succeeding year.

Police are entitled to 20 days per year and may be granted an additional 90 days. Sick leave may be accumulated to a maximum of 155 days. Upon retirement, police have a vested interest in 50% of their accumulated sick time.

Police - Civilians

Police civilians are entitled to vacation based on length of service. No more than one year's vacation time can be carried over to succeeding years.

Police civilians are entitled to sick leave based on length of service. Sick leave may be accumulated to a maximum of 60 days. Upon retirement, police civilians have a vested interest in 50% of their accumulated sick time.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$19,837,341 difference are as follows:

Bonds payable	\$ 7,766,005
Notes payable	10,152,719
Landfill closure	8,112
Compensated absences	1,836,031
Net pension obligation	<u>282,383</u>
Total	<u>\$20,045,250</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$1,443,743 difference are as follows:

Capital outlays (net of disposals).....	\$2,193,427
Depreciation expense	<u>(749,684)</u>
Net adjustment.....	<u>\$1,443,743</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$2,307,095 difference are as follows:

Debt issued	\$3,661,885
Principal repayments	<u>(1,354,790)</u>
Net adjustment.....	<u>\$2,307,095</u>

Another element of that reconciliation states that “Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$911,124 difference are as follows:

Increase in liability for compensated absences	\$ (269,261)
Decrease in liability for landfill closure.....	54,810
Decrease in loan issuance cost.....	(8,637)
Decrease in allowance for bad debt	<u>1,134,212</u>
Net adjustment.....	<u>\$ 911,124</u>

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Fund Equity (Continued)

Another element of that reconciliation states that, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds." The details of this \$4,762 difference are as follows:

Deferred revenue - beginning	\$2,570,802
Deferred revenue - ending	<u>(2,566,040)</u>
Net difference.....	<u>\$ (4,762)</u>

Another element of that reconciliation states that "Adjustment to accrued interest payable related to general obligations bonds which is required to be recorded for government-wide financial statement presentation." The details of this \$5,548 difference are as follows:

Accrued interest - beginning	\$120,476
Accrued interest - ending	<u>(126,024)</u>
Net difference.....	<u>\$ (5,548)</u>

2. BUDGETARY AND LEGAL COMPLIANCE

In accordance with the Town's Charter, the Town has formally established budgetary accounting control for its General Fund. The General Fund is subject to an annual operating budget legally adopted by the Town Council. The annual operating budget's appropriation amounts are supported by revenue estimates and taken into account the elimination of accumulated deficits and the reappropriation of accumulated surpluses to the extent necessary. The General Fund operating budget is in conformance with legally enacted budgetary basis, which is not in conformance with generally accepted accounting principles. The budget to actual presentation in the financial statements for the General Fund is reflected on the budgetary basis.

Appropriations in addition to those contained in the annual operating budget require Town Council approval. Amendments to the operating budget that do not result in additional appropriations may be made within departments by means of transfer. Transfers made within and outside the departmental level require Town Council approval. The level at which the General Fund budgeted expenditures may not legally exceed appropriations is at the department level.

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

Town Administrator	\$ 2,388
Senior Center.....	1,075
Fire Department.....	19,819
Rogers Free Library.....	17,362
Town Solicitor	29,171
Welfare	24
Public Works.....	285,189
Recreation	3,277
Town Hall Complex.....	15,268
Fixed Charges	152,041
Debt Service	11,102
Police.....	32,229
Animal Control	1,644
Harbor Patrol	2,332

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. CASH AND INVESTMENTS

Deposits

Deposits are in various financial institutions and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and includes \$530 of petty cash.

At year-end, the Town's carrying amount of deposits was \$7,246,323 and the bank balance was \$7,707,136. Of the bank balance, \$340,641 was covered by Federal Depository Insurance. The remaining balance of \$7,366,495 was collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the Town's name.

Reconciliation to Government-wide Statement of Net Assets:

Unrestricted cash, including time deposits	\$13,663,921
Less: Fiduciary funds cash, including time deposits (not included in the government-wide statement)	<u>(2,016,386)</u>
Total cash and cash equivalents on A-1	<u>\$11,647,535</u>

Investments

At June 30, 2006, the Town's investments totaled \$18,981,017 (including those held in Fiduciary Funds) and consisted of the following:

	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Rating</u>
Common Stocks.....	\$11,033,038	N/A	N/A	N/A
United States Treasury Notes	1,297,981	2.625 - 6.5%	10/15/2006-11/15/2015	AAA
United States Treasury Bonds	344,626	5.25-7.25%	5/15/2016-11/15/2031	AAA
Federal Home Loan Bank Bonds...	1,514,078	2.875-5.75%	11/15/2006-2/7/2013	AAA
Federal National Mortgage Assoc..	484,442	3.0-6.25%	1/15/2007-5/15/2029	AAA
FNMA Global Notes	99,766	5.0%	1/15/2007	AAA
US Inflation Index Notes	516,330	1.875-3.625%	7/15/13-4/15/2028	AAA
FHMLC Gold	30,826	5.0%	7/1/2019	AAA
FNMA Pool.....	38,332	5.5%	12/1/2034	AAA
Corporate Bonds	226,708	3.5%-7.8%	2/15/2008-1/28/2010	A+
Corporate Bonds	375,109	4.125-7.0%	4/10/2007-4/30/2010	A
Corporate Bonds	166,333	5.875-6.375%	6/1/2007-3/30/2009	A-
Corporate Bonds	68,300	4.125-4.75%	3/10/2008-5/15/2009	AA-
Corporate Bonds	69,887	3.66-5.6.25%	11/15/2006-9/15/2010	BBB+
Corporate Bonds	24,281	5.75%	7/15/2014	BBB
Corporate Bonds	10,112	7.3%	1/15/2007	BBB-
Corporate Bonds	293,228	6.15-6.875%	4/5/2007-9/15/2011	BB
Corporate Bonds	24,957	6.50%	1/25/2007	B+
Corporate Bonds	99,028	7.25%	10/1/2008	BB-
Certificate of Deposit.....	500,000	4.97%	1/27/2007	N/A
Foreign Bonds.....	9,394	5.25%	7/22/2013	A-
Foreign Bonds.....	14,343	4.875%	10/1/2010	BBB+
Foreign Bonds.....	10,600	7.50%	1/14/2012	BBB
Mutual Funds	<u>1,729,318</u>	N/A	N/A	N/A
Total investments	<u>\$18,981,017</u>			

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

3. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

As noted above, approximately 30% of the Town's investments are in long-term Corporate and Government Bonds which have interest rates that are fixed for long-term periods and are subject to more variability in their fair value as a result of future changes in interest rates. The remaining 70% of the investments are held in common stock and mutual funds. These investments do not specify an interest rate rather the rate of return is dependent on operating results and economic conditions.

Concentration of Credit Risk

At June 30, 2006, the Town had a diversified portfolio and was not deemed to be concentrated in any one investment category. Although 70% of the investments were held in common stock and mutual funds, these investments were in a wide range of companies and various industries enabling the Town to minimize its risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of financial institution failure, the Town's deposits and/or investments may not be returned. The Town does not believe that it has a significant custodial risk with regards to investments as substantially all investments securities are registered and held in the name of the Town. The Town does not have custodial credit risk with regards to deposits as the total amount was insured or collateralized.

4. CAPITAL ASSETS

Activity for governmental activity capital assets is summarized below:

	Balances <u>7/1/05</u>	Additions	Deductions	Balances <u>6/30/06</u>
<u>Governmental activity fixed assets:</u>				
Land (not being depreciated).....	\$ 7,730,539	\$ 30,000		\$ 7,760,539
Buildings and improvements.....	8,894,926	465,628		9,360,554
Motor vehicles.....	4,565,693	277,440	\$ 94,490	4,748,643
Equipment and machinery.....	721,496	74,142		795,638
Infrastructure.....	2,958,312	1,063,416		4,021,728
Construction in progress.....	407,486	296,017		703,503
<i>Total cost</i>	<u>25,278,452</u>	<u>2,206,643</u>	<u>94,490</u>	<u>27,390,605</u>
Less: accumulated depreciation				
Buildings and improvements.....	(3,152,661)	(201,502)		(3,354,163)
Motor vehicles.....	(3,423,952)	(345,975)	(81,274)	(3,688,653)
Equipment and machinery.....	(199,446)	(62,315)		(261,761)
Infrastructure.....	(550,712)	(139,890)		(690,602)
<i>Total accumulated depreciation</i> ...	<u>(7,326,771)</u>	<u>(749,682)</u>	<u>(81,274)</u>	<u>(7,995,179)</u>
<i>Net capital assets</i>	<u>\$17,951,681</u>	<u>\$1,456,961</u>	<u>\$ 13,216</u>	<u>\$19,395,426</u>

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

4. FIXED ASSETS (Continued)

Activity for the Proprietary Fund capital assets is summarized below:

	Balances <u>7/1/05</u>	Additions	Deductions	Balances <u>6/30/06</u>
Land (not being depreciated).....	\$ 132,577			\$ 132,577
Equipment.....	1,366,113	\$ 108,033		1,474,146
Sewer Lines	40,374,581	1,595,272		41,969,853
Construction in progress.....	1,814,384	1,151,498	\$1,595,272	1,370,610
Total cost	<u>43,687,655</u>	<u>2,854,803</u>	<u>1,595,272</u>	<u>44,947,186</u>
Less: accumulated depreciation				
Equipment.....	(626,540)	(90,789)		(717,329)
Sewer lines	(8,613,814)	(760,838)		(9,374,652)
Total accumulated depreciation	<u>(9,240,354)</u>	<u>(851,627)</u>		<u>(10,091,981)</u>
Net capital assets	<u>\$34,447,301</u>	<u>\$2,003,176</u>	<u>\$1,595,272</u>	<u>\$34,855,205</u>

Depreciation expense was charged to the following functions/programs of the Town:

Governmental activities:

General government.....	\$ 94,850
Public safety.....	319,894
Public works.....	234,815
Library	15,006
Community development.....	8,379
Recreation.....	75,341
Senior Center.....	1,397
Total.....	<u>\$749,682</u>

Business-type activity:

Waste water treatment.....	<u>\$836,580</u>
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5. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the Town of Bristol provides post retirement health care benefits to all Town employees who are eligible for the State Retirement Plan. Currently, 79 retirees meet these eligibility requirements. The Town paid 100% of the amount for medical and hospitalization costs incurred by retirees, which amounted to \$560,435 for the year ended June 30, 2006 as required by the employees' union contract.

6. DEFERRED REVENUES

General Fund deferred revenues relate to revenue that is measurable but not available. General Fund deferred revenues are summarized as follows:

Property taxes receivable	\$2,967,891
Less: current year 60 day accrual.....	(401,851)
Total deferred tax revenue	<u>\$2,566,040</u>

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. LONG-TERM DEBT

(a) Changes in general long-term obligations

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2006:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>	<u>Current Portion</u>
General long-term obligations:					
General obligation bonds	\$ 7,671,147	\$ 1,000,000	\$ 905,142	\$ 7,766,005	\$ 976,202
Loan payable.....	7,940,483	2,661,883	449,647	10,152,719	614,794
Landfill closure and postclosure care costs.....	62,922	0	54,810	8,112	8,112
Accrued vacation and sick leave	1,566,770	674,775	405,514	1,836,031	
Net pension obligation.....	74,474	207,909		282,383	
Subtotal.....	<u>17,315,796</u>	<u>4,544,567</u>	<u>1,815,113</u>	<u>20,045,250</u>	<u>1,599,108</u>
Enterprise Funds:					
General obligation bonds	7,083,853		1,639,858	5,443,995	1,688,798
Loans payable.....	2,340,489		256,241	2,084,248	265,861
Accrued vacation and sick leave	217,780	81,217	35,621	263,376	
Subtotal.....	<u>9,642,122</u>	<u>81,217</u>	<u>1,931,720</u>	<u>7,791,619</u>	<u>1,954,659</u>
Total.....	<u>\$26,957,918</u>	<u>\$4,625,784</u>	<u>\$3,746,833</u>	<u>\$27,836,869</u>	<u>\$3,553,767</u>

(b) Bonds outstanding

	<u>Interest Rate</u>	<u>Interest Dates</u>	<u>Issue/Maturity Date</u>	<u>Original Issue</u>	<u>Balance June 30, 2006</u>
General long-term debt:					
General obligation refunding bonds.....	3.90% - 5.40%	8/15 - 2/15	08/15/97 - 08/15/09	\$2,195,200	\$ 840,000
General obligation refunding bonds.....	5.125% - 6.0%	9/15 - 3/15	09/15/00 - 09/15/19	\$3,290,000	1,850,000
General obligation refunding bonds.....	3.0% - 4.35%	12/1/5 - 6/15	12/01/501 - 12/15/12	\$ 470,625	278,755
General obligation refunding bonds.....	1.30% - 3.85%	10/1 - 4/1	10/01/02 - 10/01/13	\$1,986,050	822,250
General obligation refunding bonds.....	5.20% - 5.50%	8/15 - 2/15	08/15/98 - 08/15/17	\$2,725,000	600,000
General obligation refunding bonds.....	3.50% - 4.25%	5/1 - 11/1	08/01/06 - 08/01/25	\$2,500,000	2,375,000
General obligation refunding bonds.....	4.00% - 4.50%	5/1 - 11/1	05/01/07 - 05/01/20	\$1,000,000	1,000,000
Enterprise funds:					
General obligation refunding bonds.....	3.90% - 5.40%	8/15 - 2/15	08/15/97 - 08/15/09	\$1,724,800	660,000
General obligation refunding bonds.....	3.0% - 4.35%	12/15 - 6/15	12/15/01 - 12/15/12	\$3,429,375	2,031,245
General obligation refunding bonds.....	1.30% - 3.85%	10/1 - 4/1	10/01/02 - 10/01/13	\$6,648,950	2,752,750
Total.....				<u>\$13,210,000</u>	

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7. LONG-TERM OBLIGATIONS (Continued)

(c) Debt Service Requirements

The Town's future debt service requirements consist of the following:

General Long-Term Debt

Year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 976,202	\$ 324,055	\$ 1,300,257
2008	885,213	286,186	1,171,399
2009	722,923	250,942	973,865
2010	676,689	218,479	895,168
2011	451,700	193,541	645,241
2012 - 2016	1,928,278	698,602	2,626,880
2017 - 2021	1,375,000	316,375	1,691,375
2022 - 2026	750,000	86,594	836,594
Total	<u>\$7,766,005</u>	<u>\$2,374,774</u>	<u>\$10,140,779</u>

Enterprise Funds

Year ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$1,688,798	\$167,427	\$1,856,225
2008	1,369,787	119,699	1,489,486
2009	812,077	80,897	892,974
2010	633,311	51,224	684,535
2011	468,300	28,210	496,510
2012 - 2014	471,722	23,801	495,523
Total	<u>\$5,443,995</u>	<u>\$471,258</u>	<u>\$5,915,253</u>

(d) General Long-Term Debt - Loan Payable

The Town of Bristol has entered into loan agreements with the Rhode Island Clean Water Finance (Agency) as follows:

<u>Loan Date</u>	<u>Original Loan Amount</u>	<u>Matures</u>
September 18, 1997	\$1,200,000	September 1, 1998 - 2017
November 25, 1999	\$3,700,000	September 1, 1999 - 2019
April 25, 2002	\$4,695,000	September 1, 2003 - 2022
December 30, 2004	\$1,000,000	September 1, 2005 - 2024
December 15, 2005	\$3,655,000	September 1, 2006 - 2025

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7. LONG-TERM OBLIGATIONS (Continued)

(d) General Long-Term Debt – Loan Payable (Continued)

The loan proceeds are to be used by the Town for landfill closure and sewer projects. The Agency pays project invoices certified by the Town directly to the contractors or reimburses the Town for costs incurred on the projects. The Town is responsible for drawing down and repaying the full amount of the loans.

The debt service through maturity for the above loan dated September 18, 1997 is as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 56,015	\$20,578
2008	57,921	19,004
2009	59,891	17,377
2010	61,929	15,694
2011	64,036	13,954
2012 – 2016	354,382	41,530
2017 – 2018	159,207	2,199
Total	<u>\$813,381</u>	<u>\$130,336</u>

The debt service through maturity for the above loan dated November 25, 1999 is as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 172,165	\$ 79,797
2008	177,034	74,859
2009	182,041	69,781
2010	187,189	64,560
2011	192,483	59,191
2012 – 2016	1,047,216	209,959
2017 - 2020	949,517	54,643
Total	<u>\$2,907,645</u>	<u>\$612,790</u>

The debt service through maturity for the above loan dated April 25, 2002 is as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>
2007	\$ 190,613
2008	196,348
2009	202,257
2010	208,343
2011	214,612
2012 – 2016	1,173,898
2017 – 2021	1,361,464
2022	603,663
Total	<u>\$4,151,198</u>

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7. LONG-TERM OBLIGATIONS (Continued)

(d) General Long-Term Debt – Loan Payable (Continued)

The debt service through maturity for the above loan dated December 30, 2004 is as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 43,000	\$ 16,658
2008	44,000	16,093
2009	45,000	15,485
2010	45,000	14,830
2011	46,000	14,127
2011 – 2016	241,000	58,677
2017 – 2021	265,000	35,628
2022 – 2025	<u>228,000</u>	<u>9,195</u>
Total	<u>\$957,000</u>	<u>\$180,693</u>

The debt service through maturity for the above loan dated December 15, 2005 is as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>
2007	\$ 153,000
2008	156,000
2009	159,000
2010	161,000
2011	164,000
2012 – 2016	865,000
2017 – 2021	948,000
2022 – 2026	<u>1,049,000</u>
Total	<u>\$3,655,000</u>

The interest due through maturity is not available as of June 30, 2006 for the loans dated April 25, 2002 and December 15, 2005. Interest is calculated monthly based on the loan balances and the Town has not completely drawn down all of the proceeds as of June 30, 2006. The amount available for draw down was \$2,331,509 at June 30, 2006. The total cost of all interest and administrative fees shall be structured by the Agency to equal two-thirds of the prevailing tax-exempt interest rate for issuers of comparable credit quality to the Town. Interest payments are due March 1 and September 1. Principal payments are due annually on September 1.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

7. LONG-TERM OBLIGATIONS (Continued)

(e) Enterprise Fund – Loan Payable

The Town of Bristol entered into two loan agreements with the Rhode Island Clean Water Finance Agency for the Sewer Enterprise Fund in the amounts of the \$4,000,000 and \$780,000, respectively. The \$4,000,000 loan was used by the Town for the Sludge Composting Facility Project. The loan agreement was entered into on March 12, 1992. The \$780,000 loan was used for improvements to the Water Pollution Control Facility Project. The loan agreement was entered into on November 2, 1992. The agreement was entered on June 24, 1998. The Agency pays capital costs incurred on each project on behalf of the Town of Bristol. As of June 30, 2006, the entire \$4,000,000 loan has been expended and the outstanding balance of \$1,744,140 is reflected as a loan payable on the Sewer Enterprise Fund. As of June 30, 2006, the entire \$780,000 loan has been expended and the outstanding balance of \$340,107 is reflected as a loan payable on the Sewer Enterprise Fund.

The debt service through maturity for the above loans is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007.....	\$ 265,861	\$ 73,256
2008.....	275,842	63,088
2009.....	286,198	52,538
2010.....	296,942	41,592
2011.....	308,090	30,235
2012 – 2013.....	651,314	24,677
Total.....	<u>\$2,084,247</u>	<u>\$285,386</u>

(f) Other Debt Information

On May 11, 2006, the Town issued \$2,000,000 of General Obligation Bond Anticipation Notes which were used to refund the Town's \$2,000,000 General Obligation Bond Anticipation Note which matured on May 11, 2006. The interest on the notes is 4.50% and is due on May 10, 2007.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

8. FUND DEFICITS

The following individual funds had deficit fund equity balances as of June 30, 2006:

Non-major Governmental Funds:

Community Center Youth Program.....	\$ 400
Historical District Commission	12,001
Last Night	5,158
SATF 95-96.....	31,146
Cabana and for Visitors	14
Transient Harbor Mooring.....	7,955
Library Renovation	382,756
Town Beach Enhancement.....	54,096
Rental Rehabilitation	100
HDC Brochures	12
Senior Center.....	58
Planning Engineering	12,458
Main Pumping Station	93,304
Wastewater Services	85,357

Deficit balances will be eliminated with future revenues.

Reserves/Designated Fund Balances

The Town of Bristol records several types of reserves. The reserves indicate that a portion of fund equity is segregated for a specific use. In addition, a portion of the unreserved fund equity is designated for specific purposes.

	<u>General Fund</u>	<u>Trust Funds</u>
Reserved:		
Reserved for inventory	\$ 14,214	
Reserved for nonexpendable bequests		\$2,012,430
Designated for expenditures	5,440,566	
Unreserved.....	3,127,710	
Total	<u>\$8,582,490</u>	<u>\$2,012,430</u>

9. RISK MANAGEMENT

The Town of Bristol is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; and natural disasters. As a result, the Town participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) 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. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

10. CLOSURE AND POSTCLOSURE CARE COST

The Town and its residents dispose of their refuse at a landfill in Bristol, Rhode Island. The Town's operation of the landfill is subject to, and monitored by, the Department of Environmental Management (DEM). The Town is currently subject to a Consent Order issued by the Department of Environmental Management, which requires, among other issues, that the Town evidence its ability to finance closure of the landfill in accordance with DEM rules and regulations. On November 2, 1993, the voters approved a \$3,700,000 bond referendum proposed by the Town to finance closure of the landfill and on February 17, 1994, the Rhode Island General Assembly passed the referendum. The passage of the referendum provides the financial ability to satisfy the requirement of the Consent Order. On May 14, 2004, the Town issued a \$1,500,000 bond anticipation note to finance the closure of the landfill. On May 12, 2005, the Town issued an additional \$150,000 bond anticipation note to finance the closure of the landfill.

State and Federal laws and regulations require the Town of Bristol to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The \$8,112 reported as landfill closure liability at June 30, 2006, represents the cumulative amount reported to date based on an estimated cost to complete the landfill closure. The costs related to the landfill closure are reported in the landfill closure capital project fund. The costs related to the landfill closure during 2006 were \$139,919.

11. CONTINGENT LIABILITIES

Under the terms of federal and state grants, periodic compliance audits by the grantors or their representatives are required and, consequently, certain costs may be questioned as not being appropriate, and result in reimbursement to the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies could not be determined at this time. Town officials believe that such disallowances, if any would not be material.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

12. LEASE COMMITMENTS

Town as Lessor

The Town's operating leases consist principally of leased real estate. Rental income for all operating leases for the fiscal year ended June 30, 2006 was as follows:

Minimum rental income	<u>\$14,650</u>
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(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

12. LEASE COMMITMENTS (Continued)

Town as Lessor (Continued)

As of June 30, 2006, future minimum rental income under non-cancelable operating leases is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Governmental Fund Types</u>
2007	\$ 9,500
2008	<u>9,500</u>
Future minimum rental income	<u>\$19,000</u>

Town as Lessee

The Town's operating lease consists of leased real estate. Rental expenditures for the operating lease for the fiscal year ended June 30, 2006 was as follows:

Minimum rental expenditures	<u>\$10,358</u>
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As of June 30, 2006, future minimum rental expenditures under the operating lease is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Governmental Fund Types</u>
2007	<u>\$10,358</u>

13. SUBSEQUENT EVENT

On December 18, 2006, the Town entered into a \$3,700,000 loan agreement with the Rhode Island Clean Water Finance Agency. The note bears interest at rates from 1.18% to 1.345% and matures in 2027.

14. PENSION PLAN

Plan Description

The State of Rhode Island through the Retirement Board, administers the Municipal Employee's Retirement System that acts as a common investment and administrative agent for pension benefits to be provided to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fireman that have elected to participate. The MERS receives all member and employer contributions with investment earnings being added to the fund and available for reinvestment. Assets are invested by the State Investment Commission. The State of Rhode Island and Providence Plantations issues a publicly available annual financial report that includes financial statements and required supplementary information for the MERS. The financial report may be obtained by writing to Employees' Retirement System of Rhode Island, 40 Fountain Street, 1st Floor, Providence, RI 02903-1854 or by accessing their website at www.ersri.org.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Plan Description (Continued)

All full-time employees are eligible and must participate in the State MERS. The pension plan provides retirement, deferred allowances, disability and survivor benefits to state employees, public school teachers, and municipal employees who are employed by the participating municipality. The laws governing retirement differ according to employment status as a State employee, public school teacher or municipal employee. Under the MERS, there is one plan for general employees of the Town and two optional plans for police and firemen. Benefits vest after 10 years of creditable service.

General employees may retire after reaching the age of 58 with 10 years of contributing service or accumulating 30 years of service, regardless of age. Employees who retire with 10 or more years of creditable service are entitled to pension payments for the remainder of their lives equal to 2% of their final three year average salary times the number of years for which they were employed by a participant in the State PERS. The final three year average salary is the average salary of the employee during the final three consecutive years of full-time employment exclusive of overtime, bonuses or severance pay. The maximum benefit for municipal employees is 75% of their final three year average salary.

Under the optional plans available for police and firemen, the Town's police have elected the 20 year service option. Police members may retire after reaching the age of 50 with twenty years of contributing service or after 25 years of contributing service, regardless of age. This optional plan provides a benefit equal to 2.5% of their final three average salaries, with a maximum benefit of 75% of final average salary. In addition, any police member retiring after July 1, 1994 shall be entitled to C.O.L.A. Plan C as defined in the General Laws of Rhode Island Title 45, Chapter 21-52, as amended.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the Town after accumulating 10 years of contributing service but before reaching the age of 58. If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching the age of 58.

The MERS also provides nonservice-connected disability benefits after 5 years of service, service-connected disability benefits with no minimum service requirement, vested benefits after 10 years of service, surviving spouse benefits and certain lump sum death benefits. The disabled employee is entitled to receive disability payments for life, while the surviving spouse may receive death benefits for life or as long as he or she does not remarry. Benefits are determined by state statute.

As of June 30, 2005, employee membership data related to the pension plan was as follows:

	<u>General Employees</u>	<u>Police/Fire</u>	<u>Total</u>
Active member	102	25	127
Retired member	<u>80</u>	0	<u>80</u>
	<u>182</u>	<u>25</u>	<u>207</u>

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the MERS are prepared in accordance with generally accepted accounting principles using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Dividend income is recorded on the ex-dividend date. Interest income is accrued daily.

GASB No. 25 and GASB No. 27

Effective for periods beginning after June 15, 1997, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements, which replace GASB Statement No. 5, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- Current financial information about plan assets and financial activities
- Actuarially determined information from a long-term perspective
- The funded status of the plan, and
- Progress being made in accumulating sufficient assets to pay benefits when due

Method Used to Value Investments

MERS assets are invested under the direction and authority of the State Investment Commission (SIC) and are recorded at fair value. The cost of investments sold is determined using the average cost method.

Mortgage – Backed Securities

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations, interest-only strips, and principal-only strips. These securities are reported at cost.

Investments

The Municipal Employees' Retirement System's investments are pooled with other funds.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Summary of Significant Accounting Policies (Continued)

Administration of the System

The System is administered by the State of Rhode Island Retirement Board which consists of 15 members: the General Treasurer; the Director of Administration or his or her designee; the President of the League of Cities and Towns or his or her designee; two (2) active teacher members of the retirement system or officials from a teachers union to be elected by active teachers; one active municipal employee member of the retirement system or an official from a municipal employees union to be elected by active municipal employees; one retired member of the retirement system to be elected by retired members of the System; the Chairperson of the House Finance Committee or his or her designee; the Chairperson of the Senate Finance Committee or his or her designee; and two (2) public representatives, one of whom shall be a C.L.U. competent in the area of pension benefits, shall be appointed by the governor and whose term shall be four (4) years, or until their successors are appointed.

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the System. Certain investments are made by investment managers, engaged by the Commission, at their discretion in accordance with the investment objectives and guidelines for the System. Short-term investments are made on a daily basis by the General Treasurer.

Rhode Island General Laws, Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

Funding Policy

Section 45-21-41 of the Rhode Island General Laws requires that employees contribute a fixed percentage of their compensation to the MERS. For the year ended June 30, 2006, this percentage was 7.0% for general employees, 8.0% for firemen and 9.0% for police under the elected option. Section 45-21-42 of the Rhode Island General Laws contains the contribution requirements for participating employers. These rates are actuarially determined for each participating employer on an annual basis in accordance with Section 45-21-42 of the Rhode Island General Laws. For the year ended June 30, 2006, the actuarially determined contribution rates for the Town were 5.19% of covered payroll for general employees, 13.29% of covered payroll for police and 10.66% for firemen.

Employer contributions to the MERS include normal cost and a payment, where applicable, to amortize the unfunded actuarial liability over a period of 25 years from the date the municipality joined the system. The normal cost is determined using the entry age normal cost method. Modifications were adopted by the Retirement Board, effective with the June 30, 1999 actuarial valuation which provide for the following:

An optional smoothing of contribution rates for municipalities with a rate increase over 2% in one year, and

For those municipalities that are unfunded, changes in the unfunded actuarial liability after June 30, 1998 are to be funded over projected future salaries of active members, rather than on a fixed funding scale.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Funding Policy (Continued)

For the year ended June 30, 2006, the Town's total payroll was approximately \$6,300,000 and the Town's contribution to the MERS was based on covered payroll of \$4,085,725 for general employees, \$1,242,812 for police and fire.

The total contribution made to MERS during fiscal year 2006 amounted to \$771,080 of which \$374,326 was made by the Town and \$396,754 was made by employees. These employee contributions represented 7.0% (Town), 8.0% (fire), and 9.0% (police) of covered payroll.

Annual Pension Cost

For fiscal year 2006, the Town's annual pension cost of \$374,326 for MERS was equal to the Town's required actuarial contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal cost method, and "Level Percentage Closed" amortization method. Significant actuarial assumptions used in that valuation include (a) 8.25% annual percent rate of return on investments, compounded annually; (b) projected annual salary increases of 4.50% to 9.0%, (5.0% to 15.50% for police and fire) compounded annually; (c) mortality rates based on the 1994 group annuity mortality table; (d) a retirement age of 65 for general employees and 60 for police and fire personnel, or completion of service requirement, if later. For police and fire departments electing the 20 year service plan with unreduced 15% of all disabilities are considered occupational for general employees and 50% of disabilities are considered occupational for police and firemen; (f) 3% cost of living adjustment, not compounded, beginning January 1 following a participant's retirement; (g) the actuarial value of assets spreads investment gains and losses relative to the assumed return of 8%, over a three year period; (h) unknown employee characteristics are estimated using a bond-type averaging method, and; (i) inflation rate of 3.0%. Due to large fluctuations in contribution rates, the Retirement Board adopted a procedure which allows an employer the option of paying a contribution rate equal to the previous year's rate plus the cost of any benefit improvements. The existing funding excess in 1999 is being amortized over the remainder of a 25 year period which commenced on the date the Town joined the System. The amortization period is open. Subsequent divergence from actuarial assumptions will be amortized over the projected future salaries of active members.

The Town's fiscal 2006 required contribution to the State PERS represents 100% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during fiscal 2006.

Trend Information

Three-year trend information for the Town of Bristol is presented below:

<u>Fiscal Year</u> <u>Funding</u>	<u>Annual</u> <u>Pension Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/04	\$ 97,038	100%	\$0
6/30/05	\$135,820	100%	\$0
6/30/06	\$374,326	100%	\$0

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Trend Information (Continued)

Ten-year historical trend information is presented in the fiscal 2005 State of Rhode Island and Providence Plantations Employees' Retirement System annual financial report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

Related Party Investments

The assets of the MERS are held in the custody of the State Treasurer as an undivided single fund and the system is administered by the State Retirement Board.

Police Pension Plan

Plan Description

The Town contributes to the Police Pension Plan, a single-employer public employee retirement plan. The Plan is considered part of the Town's financial reporting entity and is included in the Town's annual financial report as a pension trust fund. The Plan was established by the Town in accordance with the Town Charter. The Town's payroll for employees covered by this Plan for the year ended June 30, 2006 was \$938,251.

Benefit Provisions

All members of the Police Force hired prior to March 22, 1998 are eligible to participate in the Police Pension Plan. Employees hired after March 22, 1998 will enter the Municipal Employees Retirement System. The Plan provides retirement benefits as well as death and disability benefits. Participants in the Plan are eligible for retirement at the completion of 20 or more years of service. The normal retirement benefit is 60% of average monthly salary for the two consecutive years which results in the highest salary, and 1% of average monthly salary for each completed year of service in excess of 20 years to the maximum of 10 additional years. Average monthly salary is base pay plus longevity and holiday pay. The retirement benefit for late retirement is the same as above, except that salary and years of service are recognized to late retirement date (maximum of 30 years).

Participants are eligible for disability benefits after 10 years of service or immediately if the disability results from performance of duties. The benefit is 72% of average monthly salary and will be adjusted annually on July 1 each year by a 3% cost of living adjustment. Upon reaching normal retirement date, the disability benefit will stop and the retirement benefit based on the accrual benefit at the time of disability will begin.

Eligibility for preretirement survivor's benefits is death as a result of performance of duties or completion of at least 5 years of service. The spouse is entitled to 67.5% of the accrued benefit and children to 22.5% until the earliest of the child's 22nd birthday, they cease to attend school unless disabled, or marriage of child. If the spouse is more than 3 years younger than the participant is, then the survivor's benefit is reduced to the actuarial equivalent of a survivor's benefit where the spouse is precisely 3 years younger. A maximum of three children is eligible to receive benefits for each death claim.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLAN (Continued)

Benefit Provisions (Continued)

Eligibility for post-retirement survivor's benefits is if death occurs after retirement. The spouse is entitled to 67.5% of the normal retirement benefit and children to 22.5% (i.e. one-third of 67.5%) until the earliest of 22nd birthday, ceases to attend school unless disabled, or marriage of child. If spouse is more than three years younger than participant, then survivor's benefit is reduced to the actuarial equivalent of a survivor's benefit where spouse is precisely three years younger. A maximum of three children is eligible to receive benefits for each death claim.

An additional death benefit is given if death occurs after the participant's actual retirement date.

A participant is eligible for severance benefits for less than 10 years of service. The benefit is the greater of the participant's accumulations or two week's pay for each year of service.

Participants are eligible for vested severance benefits after 10 years of service. The benefit is the greater of the normal retirement benefit reduced by the ratio of actual years of service at date of termination over total years of service the participant would have worked had they continued working to their normal retirement date, or the greater of three weeks pay for each year of service or the total of their contributions to the fund with interest at 3%.

All participants retiring on and after April 1, 1998 will be eligible for annuity payments with an annual 3% cost of living adjustment. The cost of living increase is payable on July 1 of each year.

Contributions

Employees in the Police Pension Fund are required to contribute 13% of pay with adjustments based on funding requirements and the Town is required to contribute 53.4% of pay with adjustments up or down based on funding requirements. Administrative costs are included in the actuarial valuation as part of the normal cost and financed through contributions.

Summary of Significant Accounting Policies

Basis of Accounting

The Police Pension Trust Fund's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

(CONTINUED)

TOWN OF BRISTOL, RHODE ISLAND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

14. PENSION PLANS (Continued)

Summary of Significant Accounting Policies (Continued)

Annual Pension Cost and Net Pension Obligations

The Town's annual pension cost and net pension obligation to the Police Pension Fund for the current year were as follows:

Annual required contribution	\$438,015
Interest on the net pension obligation	5,958
Adjustment to the annual required contribution	<u>(5,617)</u>
Annual pension cost	438,356
Contributions made	<u>230,447</u>
Increase in net pension obligation.....	207,909
Net pension obligation beginning of year	<u>74,474</u>
Net pension obligation end of year	<u>\$ 282,383</u>

The Town's contribution to the pension plan was determined as part of the July 1, 2004 actuarial valuation using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a 30-year period. The amortization period remaining on the unfunded actuarial accrued liability at July 1, 2004 was 18 years. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The actuarial assumptions included (a) 8% interest compounded annually and (b) projected salary increases of 5% compounded annually. The assumptions did not include post retirement health insurance benefit increases, which are funded by the Town on a pay-as-you basis. The asset valuation method used is designed to stabilize the investment yield credited for actuarial valuation purposes. The method does not distinguish investment yield by source such as interest, dividends or realized or unrealized capital gains. Investment yield variances from the expected yield, the valuation interest rate applied to market value, are spread over five years.

Total contributions to the Pension Plan in 2006 amounted to \$352,420; \$121,973 was contributed by the employees and \$230,447 by the Town. The contributed amount was actuarially determined as described above. Contributions made by the employees and the Town represent 13% and 25.5% of covered payroll, respectively.

SEVEN YEAR TREND INFORMATION

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of (APC) Contributed</u>	<u>Net Pension Obligation</u>
2000	\$199,194	112.2%	\$ 0
2001	\$131,126	179%	\$ 0
2002	\$ 90,685	100%	\$ 0
2003	\$ 76,739	100%	\$ 0
2004	\$168,914	100%	\$ 0
2005	\$255,088	77.4%	\$ 74,474
2006	\$438,356	52.6%	\$282,383

The Town has an unfunded actuarial liability, which is disclosed in the schedule of funding progress.

(CONCLUDED)

Required Supplementary Information

Required Supplementary Information
Schedule of Funding Progress for Pension Plans
June 30, 2006
Unaudited

Actuarial Valuation Date (1)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
Municipal employees retirement system general employees						
06/30/03	\$ 12,777,488	\$ 13,219,563	\$ (442,075)	97%	\$ 3,023,307	-15%
06/30/04	\$ 12,257,279	\$ 14,359,275	\$ (2,101,996)	85%	\$ 3,391,375	-62%
06/30/05	\$ 11,958,748	\$ 15,157,399	\$ (3,198,651)	79%	\$ 3,521,419	-91%
Municipal employees retirement system - fire employees						
06/30/03	\$ 176,787	\$ 177,290	\$ (503)	100%	\$ 90,247	-1%
06/30/04	\$ 195,765	\$ 199,256	\$ (3,491)	98%	\$ 93,956	-4%
06/30/05	\$ 218,784	\$ 208,603	\$ 10,181	105%	\$ 133,207	8%
Municipal employees retirement system - police employees						
06/30/03	\$ 684,231	\$ 622,974	\$ 61,257	110%	\$ 645,881	9%
06/30/04	\$ 887,454	\$ 824,199	\$ 63,255	108%	\$ 764,298	8%
06/30/05	\$ 1,105,787	\$ 1,018,320	\$ 87,467	109%	\$ 912,700	10%
Police pension plan						
06/30/00	\$ 12,056,093	\$ 10,876,311	\$ 1,179,782	111%	\$ 1,143,838	103%
06/30/01	\$ 13,030,660	\$ 11,494,945	\$ 1,535,715	113%	\$ 1,191,685	129%
06/30/02	\$ 12,839,134	\$ 13,410,033	\$ (570,899)	96%	\$ 986,640	-58%
06/30/03	\$ 12,495,234	\$ 14,319,683	\$ (1,824,449)	87%	\$ 1,018,009	-179%
06/30/04	\$ 12,132,515	\$ 15,799,856	\$ (3,667,341)	77%	\$ 820,436	-447%
06/30/05	\$ 11,716,695	\$ 16,656,846	\$ (4,940,151)	70%	\$ 902,186	-548%
06/30/06	\$ 11,575,785	\$ 17,184,668	\$ (5,608,883)	67%	\$ 918,225	-611%

(1) The Actuarial Valuation Dates are presented for the most recent years of available information provided by the State of Rhode Island.

TOWN OF BRISTOL, RHODE ISLAND**Schedule of Revenues, Expenditures (Non-GAPP Budgetary Basis)
Budget and Actual
(Unaudited)****General Fund
Year Ended June 30, 2006**

	Originally Adopted Budget	Adjustments Carryforwards and Transfers	Final Approved Budget	Actual (Budgetary Basis)	Variance Over (Under)
Revenues:					
General property taxes	\$ 28,056,621		\$ 28,056,621	\$ 29,267,992	\$ 1,211,371
State aid and grants	3,294,655		3,294,655	3,237,241	(57,414)
Intergovernmental	450,100		450,100	107,232	(342,868)
Licenses and permits	1,544,000		1,544,000	1,774,393	230,393
Interest on investments and taxes	300,000		300,000	559,498	259,498
Other	351,276		351,276	366,498	15,222
Total Revenues	33,996,652		33,996,652	35,312,854	1,316,202
Expenditures:					
Current:					
Legislative, judicial and general administrative	968,164		968,164	896,040	72,124
Financial administration	412,276		412,276	397,694	14,582
Public safety	3,557,939		3,557,939	3,613,963	(56,024)
Public works and service	3,720,348		3,720,348	3,988,793	(268,445)
Human resources	1,082,509	(255)	1,082,254	1,079,698	2,556
Education	16,742,213		16,742,213	16,742,213	0
Debt service	2,022,402		2,022,402	2,033,504	(11,102)
Capital expenditures	4,792,161	1,481,041	6,273,202	2,466,181	3,807,021
Sundry	3,801,616		3,801,616	3,952,357	(150,741)
Total expenditures	37,099,628	1,480,786	38,580,414	35,170,443	3,409,971
Excess of revenues over (under) expenditures before other financing sources (uses)	(3,102,976)		(4,583,762)	142,411	4,726,173
Other financing sources (uses):					
Transfers from fund balance	4,513,544	480,786	4,994,330	4,994,330	0
Bond proceeds	0	1,000,000	1,000,000	1,000,000	0
Operating transfers from other funds	1,240,000		1,240,000	1,457,329	217,329
Operating transfer (to) other funds	(2,650,568)		(2,650,568)	(2,860,761)	(210,193)
Total other financing sources (uses)	3,102,976		4,583,762	4,590,898	7,136
Excess of revenues and other sources over expenditures and other uses	\$ 0	\$ 0	\$ 0	\$ 4,733,309	\$ 4,733,309

TOWN OF BRISTOL, RHODE ISLAND

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2006**

Budgetary To GAAP Basis Reconciliation

The following reconciliation summarizes the difference between budgetary and GAAP basis accounting principles for the year ended June 30, 2006:

	<u>General Fund</u>
Excess of revenues and other sources over expenditures and other uses (Non-GAAP Budgetary Basis).....	\$4,733,309
Use of accumulated fund balance	<u>(4,994,330)</u>
Excess of revenues and other sources over expenditures and other uses (GAAP)	<u>\$ (261,021)</u>

(CONCLUDED)

Single Audit Section

TOWN OF BRISTOL

**SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor Pass-Through Grantor Program title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Type of Program</u>	<u>Expenditures For the Year</u>
U.S. Department of Housing and Urban Development				
U.S. Department of Housing and Urban Development				
Governor's Office of Housing & Community Development				
Community Development Block Grants - Small Cities Program	14.228	05-02-22	Major	\$ 232,179
Community Development Block Grants - Small Cities Program	14.228	04-02-21	Major	100,888
Community Development Block Grants - Small Cities Program	14.228	03-02-20	Major	18,130
Community Development Block Grants - Small Cities Program	14.228	02-02-19	Major	55,742
Community Development Block Grants - Small Cities Program	14.228	01-02-18	Major	11,868
Community Development Block Grants - Small Cities Program	14.228	00-02-17	Major	10,000
Community Development Block Grants - Small Cities Program	14.228	99-02-16	Major	2,200
Total U.S. Department of Housing and Urban Development				<u>431,007</u>
U.S. Department of Justice				
COPS Technology Grant	16.710	N/A	Non-major	20,183
Juvenile Justice and Delinquency Prevention grant	16.541	N/A	Non-major	48,438
RI Governor's Justice Commission				
Local Law Enforcement Block Grant	16.592	LLEBG -02	Non-major	599
Total RI Governor's Justice Commission				<u>599</u>
Total U.S. Department of Justice				<u>69,220</u>
Department of Homeland Security				
RI Emergency Management Agency				
State Homeland Security Program	97.073	2-79-FY03(II)	Non-major	73,191
State Domestic Preparedness Equipment Support Program	97.004	N/A	Non-major	58,554
Local Emergency Operations Plan	83.562	N/A	Non-major	2,862
Total RI Emergency Management Agency				<u>134,607</u>
Environmental Protection Agency				
RI Department of Environmental Management				
Water Pollution Control - State and Interstate Program Support	66.419	N/A	Non-major	4,864
Total Environmental Protection Agency				<u>4,864</u>
Total Expenditures of Federal Awards				<u>\$ 639,698</u>

SEE ACCOMPANYING NOTES TO SCHEDULE

TOWN OF BRISTOL

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006**

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Town of Bristol. All federal awards received from federal agencies are included on the Schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. DETERMINATION OF MAJOR PROGRAMS

The determination of major awards programs was based upon the overall level of expenditures for all federal programs for the *Town of Bristol*. As such, the threshold for determining Type A and Type B programs is defined as those with program expenditures greater than \$300,0000 or 3 percent of total expenditures when the total expenditures are over \$10,000,000. For the fiscal year ended June 30, 2006, the following program was considered to be a major program:

Community Development Block Grant State Administered Small Cities.....	14.228
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Town Council
Town of Bristol
Bristol, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely component unit, each major fund, and the aggregate remaining fund information of the Town of Bristol, Rhode Island as of and for the year ended June 30, 2006, which collectively comprise the Town of Bristol's basic financial statements and have issued our report thereon dated December 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Bristol's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in or judgment, could adversely affect the Town of Bristol's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Items 06-1, 06-02 and 06-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Bristol's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we have reported to management of the Town in a separate letter dated December 22, 2006.

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

Prescott Chatterlain Fountain & Wilkinson, LLP

December 22, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the Town Council
Town of Bristol
Bristol, Rhode Island

Compliance

We have audited the compliance of the Town of Bristol, Rhode Island with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Town of Bristol's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Bristol's management. Our responsibility is to express an opinion on the Town of Bristol's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Bristol's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Bristol's compliance with those requirements.

As described in Items 06-4 in the accompanying schedule of findings and questioned costs, the Town of Bristol did not comply with requirements regarding reporting that is applicable to its Community Development Block Grants/State's Program. Compliance with such requirements is necessary in our opinion, for the Town of Bristol, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, The Town of Bristol complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town of Bristol is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Bristol's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment could adversely affect the Town of Bristol's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the City Council, management, others within the Town of Bristol and federal awarding agencies and pass-through entities and is not intended to be and should not be and should not be used by anyone other than these specified parties.

Prescott Chastellan Fountain & Wilkinson, LLP

December 22, 2006

TOWN OF BRISTOL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expressed an unqualified opinion on the financial statements of the Town of Bristol.
2. Reportable conditions in internal control over financial reporting were identified. Findings 06-1, 06-2 and 06-3 were not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Town of Bristol were disclosed during the audit.
4. Reportable conditions in internal control over compliance with requirements applicable in major federal award programs were identified.
5. The auditor's report on compliance for the major federal award programs for the Town of Bristol expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Town of Bristol are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Community Development Block Grant-Small Cities 14.228
8. The threshold for distinguishing Type A and B programs is described in Note 3 to the Schedule of Expenditures of Federal Awards.
9. The Town of Bristol does not qualify as a low risk auditee.

B. FINDINGS – RELATED TO AUDIT OF FINANCIAL STATEMENTS

- 06-1 A majority of the Town's General Fund balance sheet accounts required a large number of adjustments in order to reflect its status and activity for the fiscal year. These accounts included receivables, accounts payable, accrued compensation and benefits, deferred revenue and fund balance.
- 06-2 The Town does not maintain a separate, self-balancing general ledger for all funds. This increases the likelihood that errors could be made and remain undetected for extended periods.
- 06-3 The Community Development Block Grant (CDBG) activity as maintained by the CDBG program manager did not agree with the activity reported in the Town's general ledger. There were variances with the amount of expenditures incurred as well as the CDBG grant year and grant budget items charged.

TOWN OF BRISTOL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

06-4. Program Community Development Block Grant – Small Cities Program CFDA 14.228

Criteria: Financial and progress reports must be filed in the time frame established by the funding agency.

Condition: The progress and financial reports were not filed on a quarterly basis as required.

Recommendation: We recommend that procedures be established to ensure that these required reports are filed in the require time frames.

Prior Year Findings:

05-3: Prior Year Finding - Community Development Block Grant – Small Cities Program

A system is not implemented for the filing of financial and progress reports in the time frame established by the funding agency.

Status: The Town has not implemented procedures to correct this finding.

05-4. Juvenile Justice and Delinquency Prevention Program

Criteria: Semiannual progress reports must be submitted within 30 days after the end of the reportable periods, which are June 30 and December 31, for the life of the award.

Condition: The progress reports were not submitted as required.

Recommendation: We recommend that procedures be established to ensure that the required reports are submitted in the required time frames.

Status: The grant was closed out in 2005-2006 and all required reports were filed.