

***TOWN OF HOPKINTON, RHODE ISLAND
AUDITED FINANCIAL STATEMENTS***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

THE TOWN OF HOPKINTON, RHODE ISLAND
AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

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AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

To the Honorable President
and Members of the Town Council
Town of Hopkinton, Rhode Island
Hopkinton, Rhode Island

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Hopkinton, 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 Hopkinton, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Hopkinton, Rhode Island, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2006 on our consideration of the Town of Hopkinton, Rhode Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, and budgetary comparison schedule and supplementary pension information on pages 40 through 43 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 Hopkinton Rhode Island's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bacon & Company, CPAs, LLC

Warwick, Rhode Island

November 2, 2006

TOWN OF HOPKINTON MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Town of Hopkinton provides this Management Discussion and Analysis of the Town of Hopkinton's Annual Financial Report for the readers of the Town's financial statements. This narrative overview and analysis of the financial statements of the Town of Hopkinton is for fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the additional information that is furnished in the Town's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, total fund balance for the General Fund was \$3,183,082 or 15.01% of total 2006 budgeted revenues. This is an increase of \$306,109 from the prior year total fund balance.
- The total unreserved fund balance of the General Fund is \$3,011,994, or 14.21% of total 2006 budgeted revenues. This is an increase of \$282,957 from the prior year unreserved fund balance.
- The total reserved fund balance of the General Fund is \$171,088. This is an increase of \$23,152 from the prior year reserved fund balance.
- The Town General Fund ended fiscal year 2006 with a budgetary operating surplus of \$272,133.
- The total debt amount of the Town of Hopkinton decreased by \$97,466. This decrease was due to the payment on existing debt.
- As reported in the government wide financial statements, the assets of the Town of Hopkinton exceeded its liabilities at the close of the most recent fiscal year by \$7,580,814. The Town's capital asset base has been developed from both current operations and debt. The Town has recorded its property and equipment at original values in order to insure proper asset management.
- The Town's total net assets increased by \$614,475 for the fiscal year ended June 30, 2006

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's annual audit report. The financial section of this report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information that includes combining statements for non-major governmental funds and other fiduciary funds.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Town's overall status.
- The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.

- ✓ The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
- ✓ *Proprietary fund* statements offer short and long term financial information about the activities the government operates like businesses, such as the water system.
- ✓ *Fiduciary Fund* statements provide information about assets that are held by the Town as a trustee or agent for the benefit of someone or something other than the Town itself. The Town cannot use these assets to support its own programs.

The financial statements also include notes that provide more detailed data about some of the information in the financial statements. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and how they relate to one another. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds and fiduciary funds, which are added together and presented in a single column in the basic financial statements.

Figure A-1
Required Components of
Town of Hopkinton's Basic Financial Report

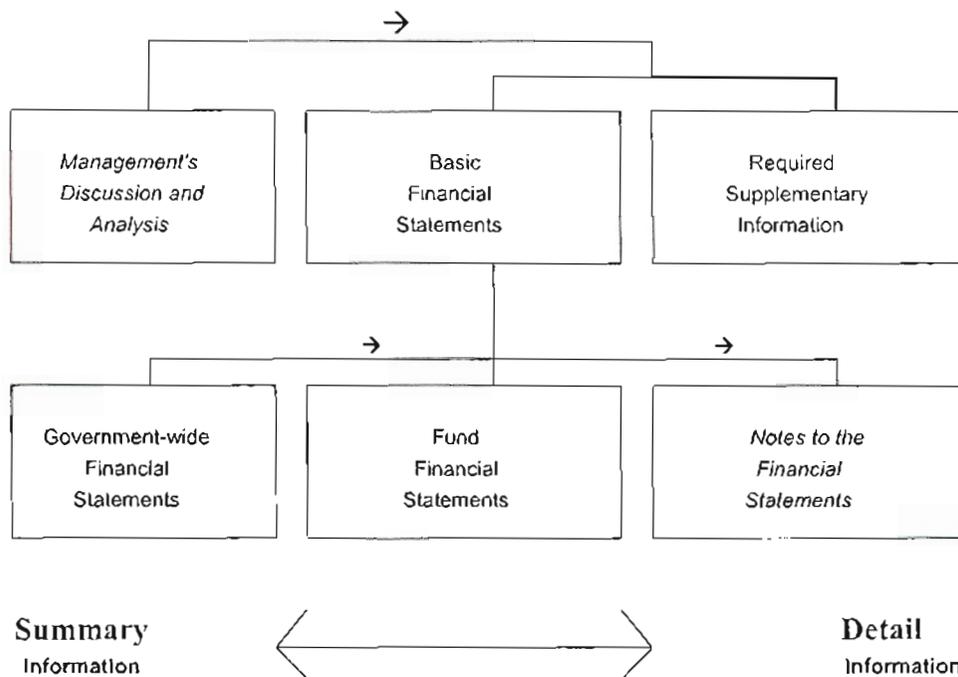


Figure A- 2

Major Features of the Town of Hopkinton’s Government-Wide and Fund Financial Statements

	Government- Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Town government (except fiduciary funds)	The activities of the Town (that are not proprietary or fiduciary, such as police, rescue and DPW)	Activities the Town operates similar to private businesses such as the water system	Instances in which the Town is the trustee or agent for someone else’s resources.
Required financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Net Assets. Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting Basis & Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Assets/ Liability Information	All assets and liabilities both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, (the Town’s funds do not currently contain capital assets, although they can
Type of inflow/ Outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the Town’s financial statements, including the portion of the Town government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Government-wide financial statements – The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government’s assets and liabilities. All of the current year’s revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town’s *net assets* and how they have changed. Net assets – the difference between the Town’s assets and liabilities – is one way to measure the Town’s financial health, or position.

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town you need to consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's roads.

The government-wide financial statements of the Town are divided into three categories.

- *Governmental activities* – Most of the Town's basic services are included here, such as the police, rescue, library, public works and general administration. Property taxes, charges for services and state funding finance most of these activities.
- *Business-Type activities* - The Town operates the Thayer House which houses both the Finance and Planning Departments, as well as being landlord to the US Postal Service. Activities of the Town's water service is also included here.
- *Component units* – The Land Trust is deemed to be a component unit.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

Governmental Funds – Most of the basic services provided by the Town are financed through 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, the government fund statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirement.

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 the governmental activities.

The basic governmental fund financial statements are presented on pages 15 through 18 of this report.

Proprietary Funds – The Town maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town's proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town has two enterprise funds. A brief description follows:

Hopkinton Waterline – the Town has a municipally owned water system. It buys water from the Richmond Water Supply Board and bills the recipient waterline residents.

The Thayer House – Renting space to the US Postal Service.

The basic proprietary fund financial statements are presented on pages 19 through 22.

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

The basic fiduciary fund financial statements are presented on page 23.

Notes to 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 follow the basic financial statements.

The notes of the financial statements are presented on pages 24 through 39.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This section includes budgetary comparison schedules, which include a reconciliation between the statutory fund balance for budgetary purposes and the fund balances for the General Fund and School Unrestricted Funds as presented in the governmental fund financial statements. **Required supplementary information follow the notes to the financial statements.**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of the Town of Hopkinton's Net Assets

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 Hopkinton, assets exceeded liabilities by \$7,580,814 as of June 30, 2006.

In regard to the Town's net assets (45.1%) consists of its investments in capital assets such as land, buildings and improvements, motor vehicles, furniture and equipment and infrastructure, less any debt used to acquire these assets which is still outstanding. The Town uses these capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are highly unlikely to be used to liquidate these liabilities.

TOWN OF HOPKINTON'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 5,164,443	\$ 4,428,225	\$ (18,258)	\$ (40,909)	\$ 5,146,185	\$ 4,387,316
Capital Assets	<u>3,693,483</u>	<u>3,943,462</u>	<u>632,016</u>	<u>650,935</u>	<u>4,325,499</u>	<u>4,594,397</u>
Total Assets	8,857,926	8,371,687	613,758	610,026	9,471,684	8,981,713
Current Liabilities	392,878	403,039	6,411	7,354	399,289	410,393
Long term liabilities	<u>1,491,581</u>	<u>1,604,981</u>	<u>-0-</u>	<u>-0-</u>	<u>1,491,581</u>	<u>1,604,981</u>
Total Liabilities	1,884,459	2,008,020	6,411	7,354	1,890,870	2,015,374
Net Assets:						
Invested in capital assets	2,830,689	3,002,389	590,803	516,804	3,421,492	3,519,193
Net of related debt						
Restricted	851,698	553,227			851,698	553,227
Unrestricted	<u>3,291,080</u>	<u>2,808,051</u>	<u>16,544</u>	<u>85,868</u>	<u>3,307,624</u>	<u>2,893,919</u>
Total net assets	<u>\$ 6,973,467</u>	<u>\$ 6,363,667</u>	<u>\$ 607,347</u>	<u>\$ 602,672</u>	<u>\$ 7,580,814</u>	<u>\$ 6,966,339</u>

Of the Town's net assets, \$851,698 (11.2%), represents resources that are subject to external restriction on how they may be used. Of this amounts, \$531,666 is set aside for various capital projects.

Change in Net Assets

The total net assets of the Town of Hopkinton increased by \$614,475 during fiscal year 2005-2006.

Analysis of the Town of Hopkinton's Operations

The following analysis provides a summary of the Town's operations for the year ended June 30, 2006.

Governmental activities increased the Town's net assets by \$609,800 accounting for 99.2% of the Town's total growth in net assets, while business type activities increased the Town's net assets by \$4,675, accounting for .8% of the Town's total growth in net assets.

TOWN OF HOPKINTON'S CHANGES IN NET ASSETS

	Government Activities		Business-Type		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program						
Charges for services	\$ 970,104	\$ 954,331	\$ 38,276	\$ 35,103	\$ 1,008,380	\$ 989,434
Operating grants and contribution	5,786,538	5,721,128			5,786,538	5,721,128
General revenues						
Property taxes	14,145,251	13,104,016			14,145,251	13,104,016
State Aid	1,037,859	901,004			1,037,859	901,004
Investment earnings	74,974	37,588	1,531	360	76,505	37,948
Miscellaneous	853	5,154			853	5,154
Total Revenues	22,015,579	20,723,221	39,807	35,463	22,055,386	20,758,684
Program Expenses						
General government	1,499,380	1,337,864			1,499,380	1,337,864
Recreation	183,473	177,918			183,473	177,918
Public safety	2,201,936	1,971,734			2,201,936	1,971,734
Public works	1,105,437	1,024,457			1,105,437	1,024,457
Social services	276,774	198,502			276,774	198,502
Education	16,076,294	15,666,290			16,076,294	15,666,290
Interest on long-term debt	62,485	69,217			62,485	69,217
Water Fund			23,814	25,254	23,814	25,254
Thayer House			11,318	11,203	11,318	11,203
Total Expenses	21,405,779	20,445,982	35,132	36,457	21,440,911	20,482,439
Change in net assets	609,800	277,239	4,675	(994)	614,475	276,245
Net assets beginning of year	6,363,667	6,086,428	602,672	603,666	6,966,339	6,690,094
Net assets end of year	\$ 6,973,467	\$ 6,363,667	\$ 607,347	\$ 602,672	\$ 7,580,814	\$ 6,966,339

Financial Analysis of the Town of Hopkinton's Funds

Governmental Funds – The focus of the Town of Hopkinton'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's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, 2006, the Town's governmental funds reported combined ending fund balances of \$4,454,721. The General Fund reported an unreserved fund balance of \$3,011,994 representing approximately 67.6% of total fund balance.

Reserved fund balances:

Advances to Other Funds	\$ 125,475
Tax Title Property	11,637
Permanent	11,337
Encumbrances	<u>33,976</u>
Total Reserved Fund Balances	<u>\$ 182,425</u>

Proprietary Funds – The Town of Hopkinton's proprietary fund statements provide the same type of information as presented in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are the Hopkinton Water Line Fund \$7,651 and the Thayer House \$8,893.

The Town of Hopkinton's General Fund Budgetary Highlights

The Town General Fund shows an operating surplus of \$272,133. Of a budget in excess of \$21.3 million, this exhibits fairly accurate budget projections by Town officials, as well as prudent and responsible spending by department heads.

The Town of Hopkinton's Capital Assets

The Town of Hopkinton's investment in capital assets for its governmental and business-type activities amounts to \$4,325,499 net of accumulated depreciation at June 30, 2006. Included are land, building and improvements, motor vehicles, furniture and equipment, and infrastructure.

**TOWN OF HOPKINTON'S CAPITAL ASSETS AT YEAR END
NET OF ACCUMULATED DEPRECIATION**

	Governmental		Business-type		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 334,085	\$ 334,085	\$ 15,385	\$ 15,385	\$ 349,470	\$ 349,470
Buildings and improvements	2,177,056	2,242,681	226,539	235,056	2,403,595	2,477,737
Motor vehicles	284,864	376,568			284,864	376,568
Furniture and equipment	200,082	252,835	390,092	400,494	590,174	653,329
Infrastructure	697,396	737,293			697,396	737,293
Total	\$ 3,693,483	\$ 3,943,462	\$ 632,016	\$650,935	\$ 4,325,499	\$ 4,594,397

The Town of Hopkinton Debt Administration

At the end of the current fiscal year, the Town of Hopkinton General Government had a total bonded debt of \$1,423,970.

**TOWN OF HOPKINTON'S OUTSTANDING DEBT AT YEAR END
BONDS, NOTES AND CAPITALIZED LEASES PAYABLE**

	Governmental <u>Activities 2006</u>	Business-type <u>Activities 2006</u>	<u>Total</u>
General obligation bonds Payable	\$ 1,423,970		\$ 1,423,970
Capital leases payable	48,787		48,787
Notes payable		84,262	84,262
Totals	\$ 1,472,757	\$ 84,262	\$ 1,557,019

The State of Rhode Island imposes a limit of 3 percent of the fair market value of all taxable town property on the general obligation debt that a municipality can issue. The Town of Hopkinton's limit is \$22,573,355 at year-end. The Town's outstanding general obligation debt subject to the limit is \$1,423,970 at year-end, which is \$21,149,385 under the State imposed limitation.

Subsequent Fiscal Year 2006-2007 Budget and Tax Rates

The Town of Hopkinton's total general fund budget for fiscal year 2007 is \$22,250,394, which reflects an increase of \$927,685 over the fiscal 2006 budget. In the Town's 2007 budget, \$16,738,899, or 75.2% is allocated for educational purposes and \$5,511,495, or 24.8% is budgeted for other purposes.

Of the \$16,738,899 budgeted for educational purposes, the State of Rhode Island is budgeted for fiscal year 2007 to contribute \$5,680,469 to the Town's education expense and the Town is budgeted to contribute \$11,058,430.

The Town's tax rate for fiscal year 2006 was \$18.64 per thousand for real estate and tangible personal property, \$21.18 per hundred for motor vehicles and \$6.22 per hundred for retail inventory. Of the total taxes collected, 25.0% was allocated for general government and 75.0% was allocated for education.

Request for Information

The financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the tax dollars received. If you have any questions about this report or need additional financial information, please contact the Finance Director, Hopkinton Thayer House, 482 Main Street, Hopkinton, RI 02833.

TOWN OF HOPKINTON, RHODE ISLAND

Statement of Net Assets

June 30, 2006

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Land Trust</i>
<i>Assets</i>				
<i>Current assets:</i>				
Cash and cash equivalents	\$3,059,360	\$ 48,212	\$3,107,572	\$ 276,253
Investments	1,055,680	-	1,055,680	-
Receivables:				
Property taxes, net of allowance for uncollectible accounts	765,125	-	765,125	-
Accounts receivable, user fees -net	-	19,492	19,492	-
Due from federal and state government	117,459	-	117,459	-
Other	29,707	-	29,707	-
Due from primary government	-	-	-	4,066
Internal balances	125,475	(125,475)	-	-
Other assets	11,637	7,000	18,637	-
<i>Total current assets</i>	<u>5,164,443</u>	<u>(50,771)</u>	<u>5,113,672</u>	<u>280,319</u>
<i>Noncurrent assets:</i>				
Land and land rights	334,085	15,385	349,470	1,141,900
Depreciable buildings, equipment and infrastructure, ne	3,359,398	616,631	3,976,029	28,875
Other assets	-	32,513	32,513	-
<i>Total noncurrent assets</i>	<u>3,693,483</u>	<u>664,529</u>	<u>4,358,012</u>	<u>1,170,775</u>
<i>Total assets</i>	<u>8,857,926</u>	<u>613,758</u>	<u>9,471,684</u>	<u>1,451,094</u>
<i>Liabilities</i>				
<i>Current liabilities:</i>				
Accounts payable and accrued expenses	232,549	6,411	238,960	-
Due to component unit	4,066	-	4,066	-
Deferred revenue	17,938	-	17,938	-
Long-term debt -due within one year	138,325	-	138,325	-
<i>Total current liabilities</i>	<u>392,878</u>	<u>6,411</u>	<u>399,289</u>	<u>-</u>
<i>Noncurrent liabilities</i>				
Long-term debt -due in more than one year	1,491,581	-	1,491,581	-
<i>Total noncurrent liabilities</i>	<u>1,491,581</u>	<u>-</u>	<u>1,491,581</u>	<u>-</u>
<i>Total liabilities</i>	<u>1,884,459</u>	<u>6,411</u>	<u>1,890,870</u>	<u>-</u>
<i>Net Assets:</i>				
Invested in capital assets, net of related debt	2,830,689	590,803	3,421,492	1,170,775
Restricted for:				
Capital projects	531,666	-	531,666	-
Permanent fund:				
Expendable	8,276	-	8,276	-
Nonexpendable	11,337	-	11,337	-
Other purposes	300,419	-	300,419	-
Unrestricted	3,291,080	16,544	3,307,624	280,319
<i>Total net assets</i>	<u>\$ 6,973,467</u>	<u>\$ 607,347</u>	<u>\$ 7,580,814</u>	<u>\$ 1,451,094</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND
Statement of Activities
For the fiscal year ended June 30, 2006

<i>Functions/Programs</i>	<i>Expenses</i>	<i>Program Revenues</i>			<i>Net (Expense) Revenue and Changes in Net Assets</i>			<i>Component Unit</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	<i>Primary Government</i>			
					<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
<i>Primary government:</i>								
<i>Governmental Activities:</i>								
General government	\$ 1,499,380	\$ 757,910	\$ 63,517	\$ -	\$ (677,953)	\$ -	\$ (677,953)	\$ -
Public safety	2,201,936	89,611	60,113	-	(2,052,212)	-	(2,052,212)	-
Public works	1,105,437	35,397	-	-	(1,070,040)	-	(1,070,040)	-
Recreation	183,473	79,919	-	-	(103,554)	-	(103,554)	-
Public and social services	276,774	7,267	182,439	-	(87,068)	-	(87,068)	-
Education	16,076,294	-	5,480,469	-	(10,595,825)	-	(10,595,825)	-
Debt service, interest	62,485	-	-	-	(62,485)	-	(62,485)	-
<i>Total governmental activities</i>	<u>21,405,779</u>	<u>970,104</u>	<u>5,786,538</u>	<u>-</u>	<u>(14,649,137)</u>	<u>-</u>	<u>(14,649,137)</u>	<u>-</u>
<i>Business-Type Activities:</i>								
Water supply	23,814	26,468	-	-	-	2,654	2,654	-
Thayer house	11,318	11,808	-	-	-	490	490	-
<i>Total business-type activities</i>	<u>35,132</u>	<u>38,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,144</u>	<u>3,144</u>	<u>-</u>
<i>Total primary government</i>	<u>\$21,440,911</u>	<u>\$1,008,380</u>	<u>\$5,786,538</u>	<u>\$ -</u>	<u>(14,649,137)</u>	<u>3,144</u>	<u>(14,645,993)</u>	<u>-</u>
<i>Component Unit:</i>								
Land trust	\$ 1,650	\$ 504	\$ -	\$ 9,066	-	-	-	7,920
<i>General Revenues:</i>								
Property taxes					14,145,251	-	14,145,251	-
State aid and grants not restricted for a specific purpose					1,037,859	-	1,037,859	-
Investment earnings					74,974	1,531	76,505	10,977
Miscellaneous					853	-	853	-
<i>Total general revenues</i>					<u>15,258,937</u>	<u>1,531</u>	<u>15,260,468</u>	<u>10,977</u>
<i>Change in net assets</i>								
					609,800	4,675	614,475	18,897
<i>Net assets - beginning of year</i>					<u>6,363,667</u>	<u>602,672</u>	<u>6,966,339</u>	<u>1,432,197</u>
<i>Net assets - end of year</i>					<u>\$ 6,973,467</u>	<u>\$ 607,347</u>	<u>\$ 7,580,814</u>	<u>\$ 1,451,094</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND

*Balance Sheet
Governmental Funds
June 30, 2006*

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Assets</i>			
Cash	\$ 2,832,071	\$ 227,289	\$ 3,059,360
Investments	119,716	935,964	1,055,680
Receivables:			
Property taxes, net of allowance for doubtful accounts of \$135,000	765,125	-	765,125
Due from federal and state government	110,140	7,319	117,459
Other	6,822	22,885	29,707
Due from other funds	17,535	121,569	139,104
Tax title property	11,637	-	11,637
Advance to enterprise funds	125,475	-	125,475
 <i>Total assets</i>	 <u>\$ 3,988,521</u>	 <u>\$ 1,315,026</u>	 <u>\$ 5,303,547</u>
 <i>Liabilities and Fund Balances</i>			
<i>Liabilities</i>			
Accounts payable and accrued expenditures	\$ 212,090	\$ 9,000	\$ 221,090
Due to other funds	121,569	17,535	139,104
Due to component unit	4,066	-	4,066
Deferred revenue	467,714	16,852	484,566
 <i>Total liabilities</i>	 <u>805,439</u>	 <u>43,387</u>	 <u>848,826</u>
 <i>Fund balances</i>			
Reserved for:			
Long-term advance to enterprise fund	125,475	-	125,475
Tax title property	11,637	-	11,637
Perpetual care	-	2,400	2,400
Tercentennial	-	8,937	8,937
Encumbrances	33,976	-	33,976
Unreserved, reported in:			
General fund	3,011,994	-	3,011,994
Special revenue funds	-	631,984	631,984
Capital projects funds	-	620,042	620,042
Permanent fund	-	8,276	8,276
 <i>Total fund balances</i>	 <u>3,183,082</u>	 <u>1,271,639</u>	 <u>4,454,721</u>
 <i>Total liabilities and fund balances</i>	 <u>\$ 3,988,521</u>	 <u>\$ 1,315,026</u>	 <u>\$ 5,303,547</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

<i>Total Fund Balances - Total Governmental Funds</i>	\$ 4,454,721
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	3,693,483
Delinquent taxes are recognized as revenue in the period for which levied in the Government-Wide Financial Statements, but are reported as deferred revenue (a liability) in Governmental Fund Financial Statements.	449,776
Other accounts receivable and revenues are not available to pay for current period expenditures and, therefore, are deferred in the Governmental Funds financial statements.	16,852
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(11,459)
Long-term liabilities (including bonds payable, compensated absences and leases) are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet.	<u>(1,629,906)</u>
<i>Net Assets of Governmental Activities</i>	<u>\$ 6,973,467</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Revenues:</i>			
Property taxes	\$13,924,722	\$ -	\$13,924,722
Federal and state grants and aid	6,554,587	266,455	6,821,042
Charges for services	971,828	85,955	1,057,783
Private grants and contributions	-	3,966	3,966
Interest on investments	40,775	34,199	74,974
<i>Total revenues</i>	<u>21,491,912</u>	<u>390,575</u>	<u>21,882,487</u>
<i>Expenditures:</i>			
<i>Current:</i>			
General government	1,425,780	62,260	1,488,040
Public safety	2,106,271	66,190	2,172,461
Public works	988,571	500	989,071
Recreation	157,197	-	157,197
Public and social services	151,075	125,699	276,774
Education	16,076,294	-	16,076,294
<i>Debt service:</i>			
Principal	97,466	-	97,466
Interest	63,980	-	63,980
<i>Total expenditures</i>	<u>21,066,634</u>	<u>254,649</u>	<u>21,321,283</u>
<i>Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)</i>	<u>425,278</u>	<u>135,926</u>	<u>561,204</u>
<i>Other financing sources (uses):</i>			
Capital lease proceeds	25,980	-	25,980
Transfers in from other funds	120,234	265,383	385,617
Transfers out to other funds	(265,383)	(120,234)	(385,617)
<i>Total other financing sources (uses)</i>	<u>(119,169)</u>	<u>145,149</u>	<u>25,980</u>
<i>Net change in fund balances</i>	306,109	281,075	587,184
<i>Fund balances, beginning of year</i>	2,876,973	990,564	3,867,537
<i>Fund balances, end of year</i>	<u>\$ 3,183,082</u>	<u>\$ 1,271,639</u>	<u>\$ 4,454,721</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND
*Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in the Fund Balances to Government-Wide Statement of Activities
For the Year Ended June 30, 2006*

<i>Net Changes in Fund Balances - Total Governmental Funds</i>	\$587,184
 <i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>	
Governmental Fund Financial Statements report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	27,308
Depreciation expense and loss on disposal on capital assets is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, depreciation expense and loss on disposal is not reported as an expenditure in the Governmental Fund Financial Statements.	(277,287)
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but do not require the use of current financial resources. Therefore, compensated absences are not reported as expenditures in Governmental Fund Financial Statements. The following amount represents the change in long-term compensated absences from the prior year.	(8,046)
Capital lease proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets.	(25,980)
Repayment of bond and lease principal is an expenditure in the Governmental Fund Financial Statements, but the payments reduce long-term liabilities in the Government-Wide Statement of Net Assets.	172,034
Accrued interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in the Governmental Fund Financial Statements. The following amount represents the change in accrued interest expense from the prior year.	1,495
Revenues in the Statement of Activities that are not available in Governmental Funds are not reported as revenue in the Governmental Fund Financial Statements.	<u>133,092</u>
 <i>Change in Net Assets of Governmental Activities</i>	 <u><u>\$609,800</u></u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND

Statement of Net Assets

Proprietary Funds

June 30, 2006

	<i>Business -type activities</i>		<u>Total</u>
	<i>Enterprise Funds</i>		
	<u>Water Supply</u>	<u>Thayer House</u>	
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 39,319	\$ 8,893	\$ 48,212
Accounts receivable, user fees - net	19,492	-	19,492
Current portion of prepaid expenses	7,000	-	7,000
<i>Total current assets</i>	65,811	8,893	74,704
<i>Noncurrent assets</i>			
Nondepreciable capital assets	-	15,385	15,385
Depreciable capital assets - net	390,093	226,538	616,631
Prepaid expenses, net of current portion	32,513	-	32,513
<i>Total noncurrent assets</i>	422,606	241,923	664,529
<i>Total assets</i>	\$ 488,417	\$ 250,816	\$ 739,233
 <i>Liabilities</i>			
<i>Current liabilities</i>			
Accounts payable and accrued expenses	\$ 6,411	\$ -	\$ 6,411
Current portion of advance from general fund	-	8,420	8,420
<i>Total current liabilities</i>	6,411	8,420	14,831
<i>Noncurrent liabilities</i>			
Advance from general fund, net of current portion	84,262	32,793	117,055
<i>Total noncurrent liabilities</i>	84,262	32,793	117,055
<i>Total liabilities</i>	90,673	41,213	131,886
 <i>Net assets</i>			
Invested in capital assets, net of related debt	390,093	200,710	590,803
Unrestricted	7,651	8,893	16,544
<i>Total net assets</i>	\$ 397,744	\$ 209,603	\$ 607,347

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<i>Business-type activities</i>		<i>Total</i>
	<i>Enterprise Funds</i>		
	<i>Water Supply</i>	<i>Thayer House</i>	
<i>Operating revenues</i>			
User fees	\$ 26,468	\$ -	\$ 26,468
Rent	-	11,808	11,808
<i>Total operating revenues</i>	26,468	11,808	38,276
 <i>Operating expenses</i>			
Water purchases	13,412	-	13,412
Repairs and maintenance	-	522	522
Depreciation	10,402	8,517	18,919
<i>Total operating expenses</i>	23,814	9,039	32,853
 <i>Operating income</i>	2,654	2,769	5,423
 <i>Nonoperating revenues (expenses)</i>			
Interest income	1,253	278	1,531
Interest expense	-	(2,279)	(2,279)
<i>Total nonoperating revenues (expenses)</i>	1,253	(2,001)	(748)
 <i>Change in net assets</i>	3,907	768	4,675
 <i>Total net assets, beginning of year</i>	393,837	208,835	602,672
 <i>Total net assets, end of year</i>	\$ 397,744	\$ 209,603	\$ 607,347

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	<i>Business-type activities</i>		<u>Total</u>
	<i>Enterprise Funds</i>		
	<u>Water Supply</u>	<u>Thayer House</u>	
<i>Cash flows from operating activities</i>			
User fees	\$ 25,321	\$ -	\$ 25,321
Cash received from tenant	-	11,808	11,808
Cash paid to suppliers	(7,143)	(522)	(7,665)
<i>Net cash provided by operating activities</i>	<u>18,178</u>	<u>11,286</u>	<u>29,464</u>
 <i>Cash flows from capital and related financing activities</i>			
Principal paid on advance from general fund	-	(8,656)	(8,656)
Interest paid on advance from general fund	-	(2,491)	(2,491)
<i>Net cash used for capital and related financing activities</i>	<u>-</u>	<u>(11,147)</u>	<u>(11,147)</u>
 <i>Cash flows from investing activities</i>			
Interest received	1,253	278	1,531
<i>Net cash provided by investing activities</i>	<u>1,253</u>	<u>278</u>	<u>1,531</u>
 <i>Net increase in cash and cash equivalents</i>	19,431	417	19,848
 <i>Cash and cash equivalents, beginning of year</i>	<u>19,888</u>	<u>8,476</u>	<u>28,364</u>
 <i>Cash and cash equivalents, end of year</i>	<u>\$ 39,319</u>	<u>\$ 8,893</u>	<u>\$ 48,212</u>

(Continued)

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND

Statement of Cash Flows (Continued)

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	<i>Business-type activities</i>		<i>Total</i>
	<i>Enterprise Funds</i>		
	<i>Water Supply</i>	<i>Thayer House</i>	
<i>Reconciliation of operating income to net cash provided by operating activities:</i>			
Operating income	\$ 2,654	\$ 2,769	\$ 5,423
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>			
Depreciation	10,402	8,517	18,919
Changes in assets and liabilities:			
Decrease in accounts receivable, other	(1,147)	-	(1,147)
Decrease in prepaid expenses	7,000	-	7,000
Decrease in accounts payable and accrued expenses	(731)	-	(731)
<i>Net cash provided by operating activities</i>	<u>\$ 18,178</u>	<u>\$ 11,286</u>	<u>\$ 29,464</u>

The accompanying notes are an integral part of the basic financial statements.

TOWN OF HOPKINTON, RHODE ISLAND

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	<i>Agency Funds</i>
<i>Assets</i>	
Cash and cash equivalents	\$30,320
<i>Total assets</i>	<u>\$30,320</u>
<i>Liabilities</i>	
Deposits held in custody for others	\$30,320
<i>Total liabilities</i>	<u>\$30,320</u>

The accompanying notes are an integral part of the basic financial statements

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

The financial statements of the Town of Hopkinton, Rhode Island, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the Town's financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Town of Hopkinton was incorporated in 1757 and operates under a Home Rule Charter adopted in November 2002. The Charter provides for a Town Council-Town Manager form of government. All legislative powers of the Town, except such powers as reserved by state law or vested in the Financial Town Meeting by the Charter and by-laws enacted by the Town Council, are vested in the Town Council by the Charter, including the ordering of any tax, making of appropriations and transacting any other business pertaining to the financial affairs of the Town.

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting entity, the Town applied the criteria prescribed by GASB Statement No. 14, as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Through the application of GASB Statements Nos. 14 and 39 criteria, the Hopkinton Land Trust (the Trust) has been discretely presented as a component unit of the Town in the government-wide financial statements.

The Trust was established in fiscal year 2000 by the Hopkinton Town Council pursuant to special State legislation enacted by the General Assembly in the same year. The Trust was established as a body politic and corporate and a public instrumentality. It has the authority to acquire, hold and manage real property and interests therein, including development rights situated in the Town of Hopkinton, with the exception of property acquired for public historical preservation purposes. The Trust may hold property or development rights solely as open space or for agricultural uses, water purposes, public access or prevention of accelerated residential or commercial development. Trustees are appointed by the Town Council and the Trust can impose a financial burden upon the Town in the form of financial support and financing of operating deficits. The Trust holds economic resources (land and land rights) entirely for the direct benefit of the Town. The Trust does not issue separate financial statements.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Town's government-wide financial statements include a statement of net assets and statement of activities. The statements present summaries of governmental and business-type activities accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

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

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Governmental resources are allocated to and accounted for in individual funds to demonstrate legal compliance and to aid management by segregating transactions related to specific Town functions or activities. Funds are organized into three major categories: governmental, proprietary and fiduciary. Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide Financial Statements. Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. Fiduciary Fund Financial Statements include a Statement of Net Assets and Changes in Net Assets. An emphasis is placed on major funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

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

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

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

Governmental Funds:

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specific purposes. The Town has no major special revenue funds for the year ended June 30, 2006.

Capital Project Funds – Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The Town has no major capital projects funds for the fiscal year ended June 30, 2006.

Permanent Funds – Permanent funds account for assets held by the Town where the principal portion must remain intact, but the earnings may be used to achieve the objectives of the fund. The Town had no major permanent funds for the fiscal year ended June 30, 2006.

Proprietary Funds:

Proprietary funds are used to account for business-type 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.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

Enterprise funds are used to finance and account for the acquisition, operation, and maintenance of the Town's facilities and services that are supported primarily by user charges. For the year ended June 30, 2006, the Town had two proprietary funds, the Thayer House Fund and the Water Supply Fund, both major funds.

The Thayer House is a historic building that accommodates the Town Finance and Planning Departments as well as the U.S. Postal Service. The Water Supply Fund accounts for the purchase of water from the Town of Richmond, which it sells to Town users.

Fiduciary Funds:

Fiduciary funds are used to report assets held by the Town in a trustee or agency capacity and, therefore, cannot be used to support the Town's own programs. For the year ended June 30, 2006, the Town had one agency fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the Town's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities are all included in the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Revenues are recognized when they are susceptible to accrual. Susceptibility occurs when revenues are both measurable and available to finance expenditures of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days). Expenditures, including capital outlays, are recognized when a liability has been incurred, except for those involving debt service and other long-term obligations that are recognized when paid.

Those revenues susceptible to accrual are property taxes and intergovernmental revenues. Fines, licenses and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash and thus are recognized when received.

Proprietary funds are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net assets. The statement of revenues, expenses and changes in net assets present increases (revenues) and decreases (expenses) in total net assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town applies to the Business-Type Activities and Enterprise Fund all applicable GASB pronouncements (including all NCGA Statements in Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

Fiduciary funds are reported using the “economic resources” measurement focus and the accrual basis of accounting. Agency funds are purely custodial and do not involve measurement of results of operations.

D. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Town considers cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition to be cash equivalents.

E. INVESTMENTS

The Town reports investments at fair value.

F. PROPERTY TAXES

Property taxes are levied at the Annual Financial Town Meeting held in June at (a) one hundred percent of the full and fair value of real and tangible personal property owned within the Town the previous December 31; and, (b) the value, as determined by the Rhode Island Vehicle Valuation Commission, of vehicles registered within the Town the previous calendar year, prorated for the actual number of days registered. Taxes levied in June are payable in quarterly installments by September 15, December 15, March 15 and June 15. Failure to make payments by March 10 will result in a lien on the taxpayer's property.

Rhode Island general laws restrict the Town's ability to increase either its total tax levy or its tax rates more than 5.5% over those of the preceding year.

G. INTERFUND TRANSACTIONS

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total column.

Transactions between funds are fully presented within the fund financial statements with no elimination made between or within funds.

Reimbursements are accounted for as expenditures in the reimbursing fund and reductions to expenditures in the reimbursed fund. All other interfund transactions in the fund financial statements are reported as “transfers in” or “transfers out” on the statement of revenues, expenditures/expenses and changes in fund balances or net assets.

Interfund receivables and payables are classified as “due from other funds” or “due to other funds” on the fund financial statements.

H. CAPITAL ASSETS

Government-Wide Financial Statements:

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

TOWN OF HOPKINTON, RHODE ISLAND

Notes to Financial Statements

June 30, 2006

Capitalized fixed assets are defined by the Town as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of one year.

As of July 1, 2002, the date of initial adoption of GASB Statement No. 34, only certain of the Town's infrastructure assets were capitalized and reported within the financial statements. Under the provisions of GASB Statement No. 34, the Town has until fiscal 2007 to record all of its infrastructure assets, defined generally as fixed assets that are immovable and of value only to the government unit, including roads, bridges, sidewalks and street lighting.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Buildings and improvements	10-150
Motor vehicles	5-10
Machinery and equipment	10-20
Office furniture and equipment	5-10
Infrastructure (principally roads)	20
Water system	50

Fund Financial Statements:

Capital assets used in governmental fund operations are accounted for as expenditures.

I. COMPENSATED ABSENCES

Under the terms of various contracts and agreements, Town employees are granted vacation and sick leave in varying amounts based on length of services.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability is calculated at the rate of pay in effect at June 30, 2006.

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

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (bonds payable and capital leases) and compensated absences are reported as liabilities in the statement of net assets.

In the governmental fund financial statements, long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

K. DEFERRED REVENUE

In the Governmental Fund Financial Statements deferred revenue represents 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, and billed in August to be payable on September 15th (with provisions to be paid quarterly), plus delinquent balances less property tax amounts due as of the balance sheet date and received sixty days thereafter.

L. FUND EQUITY

Government-Wide Financial Statements:

The Government-Wide financial statements utilize a net asset presentation. Net assets are segregated into the following three components:

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

Restricted – represents balances limited to uses specified either externally by creditors, grantors, contributors, laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

Unrestricted – represents the residual component of net assets that does not meet the definition of “restricted” or “investment in capital assets, net of related debt”.

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. Reserve represent those portion of fund equity not appropriated for expenditures or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

M. USE OF ESTIMATES

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. LEGAL DEBT MARGIN

The Town’s legal debt margin as set forth by State Statute is limited to three percent of total taxable assessed value which approximates \$22,573,355. As of June 30, 2006 the Town’s debt subject to the legal debt margin is \$1,423,970 and the Town is under the debt limit by \$21,149,385. The debt subject to the debt limitation is based on the type of debt that is issued.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

NOTE 3 - CASH DEPOSITS

DEPOSITS - are in three financial institutions and are carried at cost. The carrying amount of deposits is separately displayed on the balance sheet of the Fund Financial Statement and Statement of Net Assets as "Cash and Cash Equivalents".

	<u>Carrying Amount</u>
Total Deposits	\$3,023,908
Add: Petty cash and cash on hand	38,163
Add: Investments classified as cash equivalents	352,074
Total Cash and Cash Equivalents	3,414,145
Reported in the Financial Statements	\$3,414,145

CUSTODIAL CREDIT RISK – custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$2,673,845 of the Town’s bank balance of \$3,034,635 was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>
Insured (Federal depository insurance funds)	\$ 360,791
Uninsured and uncollateralized	2,673,845
Total	\$3,034,636

Under Rhode Island general laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. At June 30, 2006, the Town's uncollateralized deposits with institutions were \$2,673,845. These deposits are held by institutions that meet the minimum capital standards prescribed by the federal regulators.

NOTE 4 - INVESTMENTS

The Town invests in two types of investments which are stated at fair value. The Finance Director has control over the type of investments made. The Town does not have a formal investment policy nor any other legally contracted agreement that limits the type of investments that may be made. As of June 30, 2006 the Town had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
MBIA RI Investment Pool	N/A	\$ 439,594
Financial Investors Trust – U.S. Government Fund	N/A	968,160
Total		1,407,754
Less: Investments classified as cash equivalents		(352,074)
Total Investments Reported in the Financial Statements		\$1,055,680

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Town does not have a formal investment policy that limits its investment choices. As of June 30, 2006 the investment in the MBIA Rhode Island Investment Pool was not rated and the Financial Investors Trust U.S. Government Fund was not rated.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

Concentration of Credit Risk – The Town places no limit on the amount the Town may invest in any one issuer.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Governmental activities:</i>				
Nondepreciable assets:				
Land	\$ 334,085	\$ ---	\$ ---	\$ 334,085
	<u>334,085</u>	<u>---</u>	<u>---</u>	<u>334,085</u>
Depreciable assets:				
Infrastructure	797,932	---	---	797,932
Buildings and improvements	3,313,774	---	---	3,313,774
Office furniture and equipment	61,238	---	---	61,238
Machinery and equipment	714,656	---	35,523	679,133
Motor vehicles	803,835	27,308	26,554	804,589
	<u>5,691,435</u>	<u>27,308</u>	<u>62,077</u>	<u>5,656,666</u>
Total Capital Assets	<u>6,025,520</u>	<u>27,308</u>	<u>62,077</u>	<u>5,990,751</u>
Less accumulated depreciation:				
Infrastructure - principally roads	(60,639)	(39,897)	---	(100,536)
Buildings and improvements	(1,071,093)	(65,625)	---	(1,136,718)
Office furniture and equipment	(16,544)	(8,593)	---	(25,137)
Machinery and equipment	(506,515)	(44,160)	35,523	(515,152)
Motor vehicles	(427,267)	(105,734)	13,276	(519,725)
	<u>(2,082,058)</u>	<u>(264,009)</u>	<u>48,799</u>	<u>(2,297,268)</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,943,462</u>	<u>\$(236,701)</u>	<u>\$13,278</u>	<u>\$ 3,693,483</u>
<i>Business-type activities:</i>				
Non-depreciable assets:				
Land	\$ 15,385	\$ ---	\$ ---	\$ 15,385
	<u>15,385</u>	<u>---</u>	<u>---</u>	<u>15,385</u>
Depreciable assets:				
Building improvements	318,690	---	---	318,690
Water lines	520,092	---	---	520,092
	<u>838,782</u>	<u>---</u>	<u>---</u>	<u>838,782</u>
Total Capital Assets	<u>854,167</u>	<u>---</u>	<u>---</u>	<u>854,167</u>
Less accumulated depreciation for:				
Building improvements	(83,634)	(8,517)	---	(92,151)
Water lines	(119,598)	(10,402)	---	(130,000)
Total Accumulated Depreciation	<u>(203,232)</u>	<u>(18,919)</u>	<u>---</u>	<u>(222,151)</u>
Business-Type Capital Assets, Net	<u>\$ 650,935</u>	<u>\$(18,919)</u>	<u>\$ ---</u>	<u>\$ 632,016</u>

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Capital asset activity for the Land Trust for The year ended June 30, 2006 is as follows:</i>				
Capital assets, not being depreciated:				
Land and land rights	1,136,900	5,000	---	1,141,900
	<u>1,136,900</u>	<u>5,000</u>	<u>---</u>	<u>1,141,900</u>
Capital assets being depreciated:				
Improvements other than buildings	33,000	---	---	33,000
Less accumulated depreciation for improvements other than buildings	(2,475)	(1,650)	---	(4,125)
	<u>30,525</u>	<u>(1,650)</u>	<u>---</u>	<u>28,875</u>
Land Trust Capital Assets, Net	<u>\$1,167,425</u>	<u>\$ 3,350</u>	<u>\$ ---</u>	<u>\$1,170,775</u>

Depreciation expense was charged as follows:

Governmental activities:	
General government	\$ 4,425
Public safety	98,487
Public works	134,821
Recreation	26,276
Total Depreciation Expense, Governmental Activities	<u>\$264,009</u>
Business-type activities:	
Water supply	\$ 10,402
Thayer house	8,517
Total Depreciation Expense, Business-Type Activities	<u>\$ 18,919</u>

NOTE 6 – LONG-TERM LIABILITIES

A. LONG-TERM LIABILITIES:

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<i>Governmental activities:</i>					
General obligation bonds payable	\$1,521,436	\$ ---	\$ 97,466	\$1,423,970	\$ 99,007
Capital leases	97,374	25,980	74,567	48,787	39,318
Accrued compensated absences	149,101	65,934	57,886	157,149	---
Governmental Activities Long-Term Liabilities	<u>\$1,767,911</u>	<u>\$91,914</u>	<u>\$229,919</u>	<u>\$1,629,906</u>	<u>\$138,325</u>

All debt of the Government Activities is general obligation debt. The payments on the bonds are paid from the General Fund. The capital leases are paid from an appropriation from the General Fund. The compensated absences are paid from the General Fund.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

B. BONDS PAYABLE

Outstanding bonds payable are as follows:

<u>Purpose</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2005</u>	<u>New Issues</u>	<u>Maturities During Year</u>	<u>Outstanding June 30, 2006</u>
Rhode Island Clean Water Finance Agency	1994	3.04%	2014	\$ 1,346,179	\$ 677,737	\$ -	\$ 67,774	\$ 609,963
Police Station Fund: Dime Savings Bank	2003	5.00%	2023	900,000	843,699	-	29,692	814,007
<i>Total governmental activities bonds payable</i>					<u>\$ 1,521,436</u>	<u>\$ -</u>	<u>\$ 97,466</u>	<u>\$ 1,423,970</u>

At June 30, 2006, annual debt service requirements to maturity for bonds payable are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 99,007	\$ 60,917	\$ 159,924
2008	100,520	57,007	157,527
2009	102,327	52,805	155,132
2010	104,120	48,615	152,735
2011	106,005	44,334	150,339
2012-2016	493,980	155,193	649,173
2017-2021	287,171	71,741	358,912
2022-2024	130,840	6,741	137,581
	<u>\$ 1,423,970</u>	<u>\$ 497,353</u>	<u>\$ 1,921,323</u>

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

C. CAPITAL LEASE OBLIGATIONS

The Town has financed the acquisition of certain equipment through lease-purchase agreements.

Capital lease obligations currently outstanding are as follows.

<i>Purpose</i>	<i>Date Issued</i>	<i>Interest Rate</i>	<i>Maturity Date</i>	<i>Authorized and Issued</i>	<i>Outstanding June 30, 2005</i>	<i>New Issues</i>	<i>Retirements During Year</i>	<i>Outstanding June 30, 2006</i>
Police vehicles	2004	3.37%	2006	\$ 76,186	\$ 16,923	\$ -	\$ 16,923	\$ -
Copier	2005	4.45%	2008	3,495	3,129	-	1,131	1,998
Public works truck	2005	3.00%	2006	21,745	10,712	-	10,712	-
Public works van	2005	4.00%	2006	15,795	7,743	-	7,743	-
Police vehicle	2004	3.30%	2006	89,767	58,867	-	28,955	29,912
Police vehicle	2005	5.20%	2007	25,980	-	25,980	9,103	16,877
<i>Total capital leases</i>					<u>\$ 97,374</u>	<u>\$ 25,980</u>	<u>\$ 74,567</u>	<u>\$ 48,787</u>

Obligation of governmental activities under capital leases at June 30, 2006 were as follows:

<i>Fiscal Year Ended June 30,</i>	<i>Lease Payment Requirements</i>
2007	\$ 41,247
2008	9,932
Total minimum lease payments	51,179
Less: Amount representing interest cost	(2,392)
Present value of minimum lease payments	<u>\$ 48,787</u>

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
 June 30, 2006

NOTE 7 - INTERFUND BALANCES

The Town reports interfund balances between many of its funds. The totals of all balances agree with the sum of interfund balances presented in the fund statements. Interfund balances at June 30, 2006 were as follows:

	<i>Due From</i>				<i>Total</i>
	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Water Supply Fund</i>	<i>Thayer House</i>	
<i>Due To:</i>					
General Fund	\$ ---	\$17,535	\$84,262	\$41,213	\$143,010
Nonmajor Governmental Funds	121,569	---	---	---	121,569
Total	\$121,569	\$17,535	\$84,262	\$41,213	\$264,579

The advance balance of \$41,213 from the General Fund to the Thayer House is being repaid in monthly installments of \$857 through December 1, 2010.

Advances from the General Fund to the Water Supply Fund consist principally of \$84,262 advanced on a long-term basis for the construction of the water distribution system. A repayment plan has not been established for this advance.

The other balances primarily result from the time lag between the dates the 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

NOTE 8 – INTERFUND TRANSFERS

	<i>Transfer From</i>		
	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
<i>Transfer To:</i>			
General Fund	\$ ---	\$ 120,234	\$ 120,234
Nonmajor Governmental Fund	265,383	---	265,383
Total	\$265,383	\$ 120,234	\$385,617

Transfers are used to move revenues from the fund that the budget requires to collect them, to the funds that the budget requires to expend them.

NOTE 9 – DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

A. ACCOUNTS RECEIVABLE

Assumptions: The Town disaggregates significant components of receivables in the financial statements. Receivable balances determined immaterial are included as other receivables. The Town expects to receive all receivables within the subsequent year. The real estate and personal property taxes include an allowance for doubtful accounts of \$135,000. The accounts receivable-user fees include an allowance for doubtful accounts of \$1,000.

TOWN OF HOPKINTON, RHODE ISLAND

Notes to Financial Statements

June 30, 2006

B. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities at June 30, 2006, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities:				
General	\$ 92,522	\$48,619	\$70,949	\$212,090
Other Governmental funds	9,000	---	---	9,000
Reconciliation of balances in fund financial statements to government wide financial statements	---	---	11,459	11,459
Total Governmental Activities	<u>\$101,522</u>	<u>\$48,619</u>	<u>\$82,408</u>	<u>\$232,549</u>
Business-type activities:				
Water Supply	\$6,411	\$ ---	\$ --	\$ 6,411
Total Business-Type Activities	<u>\$6,411</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 6,411</u>

NOTE 10 - CHARIHO REGIONAL SCHOOL DISTRICT

The Chariho Regional School District (Regional School) was created to include a regional school for the Towns of Charlestown, Richmond and Hopkinton (the Towns), which encompasses grades K-12. The Regional School is a separate legal entity from the Town. The voters of the participating Towns elect the Regional School Committee. The Regional School cannot assess and levy property taxes. Revenues are derived principally from the participating Towns of the Regional School, which contribute funds according to a financial formula based upon each Town's enrollment, and from State aid to education. Financial statements for the Regional School District are issued separately and may be obtained from the Chariho Regional School District, 455A Switch Road, Wood River Junction, RI 02894.

NOTE 11 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As a result, the Town participated in a nonprofit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and workers' compensation claims. Upon joining the Trust, the Town signed a participation agreement which outlines the rights and responsibilities of both the Trust and the Town. The agreement states that for premiums paid by the Town, the Trust will assume financial responsibility for the Town's losses up to the maximum amount of insurance purchased, minus the Town's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Settled claims resulting from these risks have not exceeded the Trust coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the year ended June 30, 2006.

NOTE 12 – LITIGATION AND CONTINGENCIES

Litigation:

The Town is a party to various claims, legal actions and complaints. It is not presently possible to determine the outcome of these cases. In the opinion of the Town's management and Town Solicitor, these matters are not anticipated to have a material financial impact on the Town.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
 June 30, 2006

Other Contingencies:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

NOTE 13 – OPERATING LEASES

The Town leases one-half of the Thayer House to the U.S. Postal Service under an operating lease expiring in 2016. Future minimum lease payments are as follows:

Year ending June 30,

2007	\$12,080
2008	12,080
2009	12,080
2010	12,080
2011	12,646
Thereafter	54,549
	<u>\$115,515</u>

NOTE 14 – PENSION PLAN

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

The Town of Hopkinton participates in the Municipal Employees' Retirement System ("System"), an agent multiple employer defined benefit plan administered by the State of Rhode Island. All Town employees participate in the System.

The payroll for employees covered by the System for the year ended June 30, 2006 was \$2,127,298 (General employees - \$1,335,212 and Police officers - \$792,086). The Town's total payroll was \$2,689,042.

Plan Description

The following eligibility and benefit provisions are established by Rhode Island General Laws, Title 45, Chapter 19, 19.1, 21, 21.1, 21.2 and 21.3 and may be amended by State Statute.

The System generally provides retirement benefits equal to 2 percent of a member's final average salary multiplied by the number years of total service up to 37.5 years to a maximum benefit of 75 percent. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses or severance pay. Such benefits are available to members at least age 58 with 10 years of service or after 30 years regardless of age. Under the 25-year service pension normal plan, police and firefighters may retire with unreduced accrued benefits at age 55 with 10 years of service or after 25 years regardless of age. The benefit accrual rate is 2 percent of final average salary per year of service. Under the 20-year service pension optional plan, police and firefighters may retire with unreduced accrued benefits at age 55 with 10 years of service or after 20 years of service with no restriction on age. This optional plan provides a benefit equal to 2.5 percent of final average salary per year of service. The maximum benefit is 75 percent of final average salary under both the normal plan and the optional plan. Early retirement is only available to police and firefighters under the normal plan. The plan also provides non-service connected disability benefits after 5 years of service, service connected disability benefits with no minimum service requirement, survivors' benefits, and certain lump sum death benefits. Employees are vested in their retirement benefits upon the completion of 10 years of service.

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
 June 30, 2006

Members employed by municipalities who elect one of the optional COLA provisions receive an increase equal to 3% of the original retirement benefit each year beginning January 1 following the member's retirement.

Contributions Required and Contributions Made

General employees are required by State Statute to contribute 6 percent of their annual earnings. The contribution rate is increased to 7 percent with the optional cost-of-living provision. Police and firefighters are required by State Statute to contribute 7 percent. The contribution rate is increased to 8 percent with the optional cost-of-living provision. The contribution rate is increased by an additional 1 percent for the 20-year service plan. The Town is required to contribute based on an actuarially computed amount and as provided by State Statute for each participating municipality. The actuarial method used is the entry age normal actuarial cost method. Under this method, the employer contribution rate is the sum of (i) the employer normal cost rate, and (ii) a rate that will amortize the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over a closed 30 year period from June 30, 1999. The annual required contribution amount, which equals annual pension cost, for the Town was determined as described above and was based on an actuarial valuation as of June 30, 2003. Significant actuarial assumptions used on the June 30, 2003 valuation include the following:

- 1) Investment return - 8.25%, compounded annually, composed of an assumed 3.0% inflation rate and a 5.25% net real rate of return
- 2) Projected salary increases - a service related component, plus a 3.0% inflation component, plus a general increase
- 3) Cost of living adjustment - 3%, not compounded
- 4) Actuarial value of assets – based on market value of assets with a five year phase-in of actual investment return in excess of (less than) expected investment income

The contribution requirement for the Town of Hopkinton for the year ended June 30, 2006 was \$288,121 which consisted of the Town's contribution of \$123,368 (General employees - \$40,991 Police officers - \$82,377) and employee contributions of \$164,753 (General employees - \$93,465, and Police officers – \$71,288). These contributions represent 5.8% and 7.7% of covered payroll respectively.

Trend Information

Trend information for the Town is presented below:

<u>GENERAL MUNICIPAL EMPLOYEES</u>			
<u>FISCAL YEAR</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
2004	\$ ---	100%	\$ 0
2005	\$ ---	100%	\$ 0
2006	\$40,991	100%	\$ 0
<u>POLICE OFFICERS</u>			
<u>FISCAL YEAR</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
2004	\$45,465	100%	\$ 0
2005	\$69,783	100%	\$ 0
2006	\$82,377	100%	\$ 0

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Financial Statements
June 30, 2006

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Rhode Island's Municipal Employees Retirement System's June 30, 2004 annual financial report, which may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 40 Fountain Street, Providence, Rhode Island.

TOWN OF HOPKINTON, RHODE ISLAND
*Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual (Budgetary Basis) - General Fund
 For the Fiscal Year Ended June 30, 2006*

	<i>Original/ Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Variance Positive (Negative)</i>
<i>Revenues</i>			
Property taxes	\$13,954,227	\$13,924,722	(\$29,505)
Federal and state grant and aid	6,429,728	6,554,587	124,859
Charges for services	793,320	971,828	178,508
Interest on investments	25,200	40,775	15,575
<i>Total revenues</i>	21,202,475	21,491,912	289,437
<i>Expenditures</i>			
<i>Current:</i>			
General government	1,473,148	1,425,780	47,368
Public safety	2,097,971	2,080,291	17,680
Public works	1,046,191	1,022,547	23,644
Recreation	158,472	157,197	1,275
Public and social services	153,159	151,075	2,084
Education	16,076,294	16,076,294	0
Debt service	172,721	161,446	11,275
<i>Total expenditures</i>	21,177,956	21,074,630	103,326
<i>Excess of revenues over expenditures before other financing sources and uses</i>	24,519	417,282	392,763
<i>Other financing sources (uses)</i>			
Transfers from other funds	120,234	120,234	0
Transfers to other funds	(144,753)	(265,383)	(120,630)
<i>Total other financing sources (uses)</i>	(24,519)	(145,149)	(120,630)
<i>Excess of revenues and other financing sources over expenditures and other financing uses, budgetary basis</i>	-	272,133	\$272,133
<i>Adjustment of budgetary basis to GAAP Basis:</i>			
Current year encumbrances recognized as budgetary expenditures		33,976	
<i>Excess of revenues and other financing sources over expenditures and other financing uses, GAAP basis</i>		306,109	
<i>Fund balance, beginning of year</i>		2,876,973	
<i>Fund balance, end of year</i>		\$3,183,082	

The accompanying notes to the required supplementary information are an integral part of this schedule.

TOWN OF HOPKINTON, RHODE ISLAND
Required Supplementary Information - Pension Plans
Schedule of Funding Progress (1)
"Unaudited"

	<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL) -Entry Age</i>	<i>Unfunded Liability/ (Funding) (Excess)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>Unfunded Liability/ (Funding Excess) as a Percentage of Covered Payroll</i>
<i>Police Employees Pension Plan:</i>							
	6/30/02	\$2,208,586	\$1,770,301	(\$438,285)	124.8%	\$625,467	(70.1%)
	6/30/03	\$2,327,323	\$2,072,837	(\$254,486)	112.3%	\$595,648	(42.7%)
	6/30/04	\$2,415,403	\$2,600,263	\$184,860	92.9%	\$629,873	29.3%
 <i>General Municipal Employees Pension Plan:</i>							
	6/30/02	\$2,577,385	\$1,803,133	(\$774,252)	142.9%	\$961,695	(80.5%)
	6/30/03	\$2,553,361	\$2,174,952	(\$378,409)	117.4%	\$934,481	(40.5%)
	6/30/04	\$2,600,709	\$2,335,973	(\$264,736)	111.3%	\$1,210,406	(21.9%)

TOWN OF HOPKINTON, RHODE ISLAND
Notes to Required Supplementary Information
 June 30, 2006

NOTE 2 - BUDGETARY DATA AND BUDGETARY COMPLIANCE

The Town has formally established budgetary accounting control for its General Fund. It is the responsibility of the Town Manager together with the Finance Board's recommendation to submit to the Town Council and make available to the general public a proposed General Fund budget for the fiscal year. The Town Council may then revise and adopt a recommended General Fund budget. A public hearing is conducted on the recommended General Fund Budget and the final recommended budget is approved by the voters and legally enacted at the Annual Financial Town Meeting. The General Fund operating budget is supported by revenue estimates and take into account the elimination of accumulated deficits and the re-appropriation of accumulated surpluses to the extent necessary. The budget approved and adopted at the Annual Financial Town Meeting shows the amount budgeted for each department, including the Regional School District, therefore, the legal level of control for the General Fund is at the departmental level. Amendments that would change the total appropriation must be approved by the voters and Town Council at a Financial Town Meeting. There were no supplemental budgetary appropriations in fiscal year 2006. Appropriations which are not expended or encumbered lapse at year end.

The General Fund budget is in conformity with the legally enacted budgetary basis, which is not in conformity with generally accepted accounting principles. The budget to actual presentations in the required supplementary information for the General Fund are reflected on the budgetary basis. The difference between the budgetary basis and the generally accepted accounting principles basis is explained below.

Explanation of Differences Between Budgetary Revenues and Other Financing Sources and Expenditures and Other Financing Uses and GAAP Revenues and Other Financing Sources and Expenditures and Other Financing Uses

	<u>General Fund</u>
<u><i>Revenues and Other Financing Sources</i></u>	
Actual amounts (budgetary basis)	\$21,612,146
Differences – budget to GAAP:	
Capital lease proceeds is a financing source for financial reporting purposes, but is not reported as a budgetary financing source.	25,980
<i>Total revenues and other financing sources as reported on the statement of revenues, expenditures and changes in fund Balances – governmental funds</i>	<u>\$21,638,126</u>
<u><i>Expenditures and Other Financing Uses</i></u>	
Actual amounts (budgetary basis)	\$21,340,013
Differences – budget to GAAP:	
Capital expenditures acquired by capital leases is reported as an expenditure for financial reporting purposes, but is not a budgetary basis expenditure.	25,980
Encumbrances for equipment ordered but not received are reported in the year order is placed for budgetary purposes, but in the year the equipment is received for financial reporting purposes.	(33,976)
<i>Total expenditures and other financing uses as reported in the statement of revenues, expenditures and changes in fund balances – governmental fund</i>	<u>\$21,332,017</u>

TOWN OF HOPKINTON, RHODE ISLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<i>Special Revenue Funds</i>	<i>Capital Project Funds</i>	<i>Permanent Funds</i>	<i>Total Nonmajor Governmental Funds</i>
ASSETS				
Cash	\$ 215,468	\$ 1,145	\$10,676	\$ 227,289
Investments	400,599	526,428	8,937	935,964
Due from federal and state government	7,319	-	-	7,319
Other receivables	22,885	-	-	22,885
Due from other funds	28,600	92,969	-	121,569
<i>Total assets</i>	<u>\$ 674,871</u>	<u>\$620,542</u>	<u>\$19,613</u>	<u>\$ 1,315,026</u>
 LIABILITIES AND FUND BALANCES				
<i>Liabilities</i>				
Accounts payable and accrued expenditures	\$ 9,000	\$ -	\$ -	\$ 9,000
Due to other funds	17,035	500	-	17,535
Deferred revenue	16,852	-	-	16,852
<i>Total liabilities</i>	<u>42,887</u>	<u>500</u>	<u>-</u>	<u>43,387</u>
<i>Fund balances</i>				
Reserved for perpetual care	-	-	2,400	2,400
Reserved for Tercentennial	-	-	8,937	8,937
Unreserved	631,984	620,042	8,276	1,260,302
<i>Total fund balances</i>	<u>631,984</u>	<u>620,042</u>	<u>19,613</u>	<u>1,271,639</u>
<i>Total liabilities and fund balances</i>	<u>\$ 674,871</u>	<u>\$620,542</u>	<u>\$19,613</u>	<u>\$ 1,315,026</u>

TOWN OF HOPKINTON, RHODE ISLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<i>Special Revenue Funds</i>	<i>Capital Project Funds</i>	<i>Permanent Funds</i>	<i>Total Nonmajor Governmental Funds</i>
<i>Revenues</i>				
Federal and state grants and aid	\$ 266,455	\$ -	\$ -	\$ 266,455
Charges for services	85,955	-	-	85,955
Private grants and contributions	3,966	-	-	3,966
Interest on investments	15,491	18,627	81	34,199
<i>Total revenues</i>	371,867	18,627	81	390,575
<i>Expenditures</i>				
<i>Current:</i>				
General government	62,260	-	-	62,260
Public safety	66,190	-	-	66,190
Public works	-	500	-	500
Public and social services	125,524	-	175	125,699
<i>Total expenditures</i>	253,974	500	175	254,649
<i>Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)</i>	117,893	18,127	(94)	135,926
<i>Other financing sources (uses)</i>				
Transfers in from other funds	43,820	213,599	7,964	265,383
Transfers out to other funds	(120,234)	-	-	(120,234)
<i>Total other financing sources (uses)</i>	(76,414)	213,599	7,964	145,149
 <i>Net change in fund balances</i>	41,479	231,726	7,870	281,075
<i>Fund balances, beginning of year</i>	590,505	388,316	11,743	990,564
<i>Fund balances, end of year</i>	\$ 631,984	\$ 620,042	\$ 19,613	\$ 1,271,639

TOWN OF HOPKINTON, RHODE ISLAND

*Tax Collector's Annual Report
For the Fiscal Year Ended June 30, 2006*

Real Estate and Personal Property Taxes

<u>Year</u>	<u>Balance July 1, 2005</u>	<u>Current year Assessment</u>	<u>Refunds</u>	<u>Abatelements/ Adjustments</u>	<u>Amount to be Collected</u>	<u>Current Year Collections</u>	<u>Balance June 30, 2006</u>
2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,708	\$ (8,708)
2005	(3,248)	14,085,895	11,301	(91,396)	14,002,552	13,289,351	713,201
2004	676,308	-	13,238	21,983	711,529	667,855	43,674
2003	27,309	-	76	(29)	27,356	6,809	20,547
2002	30,572	-	20	(71)	30,521	2,336	28,185
2001	19,455	-	-	(256)	19,199	619	18,580
2000	19,568	-	-	(93)	19,475	524	18,951
1999	18,096	-	-	(62)	18,034	916	17,118
1998	14,526	-	-	(62)	14,464	106	14,358
1997	17,808	-	-	(40)	17,768	65	17,703
1996	14,345	-	-	(33)	14,312	5	14,307
1995 and prior	<u>2,243</u>	<u>-</u>	<u>-</u>	<u>405</u>	<u>2,648</u>	<u>439</u>	<u>2,209</u>
	<u>\$ 836,982</u>	<u>\$ 14,085,895</u>	<u>\$ 24,635</u>	<u>\$ (69,654)</u>	<u>\$ 14,877,858</u>	<u>\$ 13,977,733</u>	900,125
							Allowance for Uncollectable Accounts <u>(135,000)</u>
							Net Property Tax Receivable <u>\$ 765,125</u>

Schedule of Most Recent Net Assessed Property Value by Category

<u>Description of Property</u>	<u>Valuation</u>	<u>Levy</u>
Real property	\$ 709,713,400	\$ 13,229,058
Motor vehicles	57,461,425	1,217,033
Tangible personal property	<u>20,351,220</u>	<u>358,682</u>
Total	787,526,045	14,804,773
Exemptions and tax freeze	<u>35,080,882</u>	<u>718,878</u>
Net assessed value	<u>\$ 752,445,163</u>	<u>\$ 14,085,895</u>

Reconciliation of current year property tax revenue

Current year collections	\$ 13,977,733
Property taxes collected in advance	(8,708)
Refunds	(24,635)
Revenue collected within 60 days subsequent to year ended June 30, 2006	<u>304,854</u>
	\$ 14,249,244
Property taxes collected in advance prior year	3,248
Prior year revenue received in current year	<u>(327,770)</u>
Current year real estate and personal property tax revenue	<u>\$ 13,924,722</u>



America Counts on CPAs

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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 President
and Members of the Town Council
Town of Hopkinton, Rhode Island
Hopkinton, Rhode Island

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Hopkinton, Rhode Island, as of and for the year ended June 30, 2006, which collectively comprise the Town of Hopkinton, Rhode Island's basic financial statements and have issued our report thereon dated November 2, 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 Hopkinton, Rhode Island's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 our judgment, could adversely affect the Town of Hopkinton, Rhode Island'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 Appendix I as items 06-1, 06-2 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 is a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to the management of the Town of Hopkinton, Rhode Island in a separate letter dated November 2, 2006.

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

Bacon & Company, CPAs, LLC

Warwick, Rhode Island
November 2, 2006

TOWN OF HOPKINTON, RHODE ISLAND

APPENDIX I

YEAR ENDED JUNE 30, 2006

REPORTABLE CONDITIONS

SEGREGATION OF DUTIES

06-1 Reportable Condition - The Finance Director and the Assistant to the Finance Director have job responsibilities that result in a lack of segregation of duties and as a result a weakness in internal controls. The same individual should not have custody of assets and also be responsible for initiating and recording transactions.

The Finance Director has complete responsibility for the general ledger and all financial reporting and is also responsible for signing checks, preparing and posting certain journal entries, reconciling the bank statements, making deposits, authorizing certain payment vouchers and wiring cash between accounts.

The Assistant to the Finance Director is authorized to sign checks in the Finance Director's absence and is also responsible for preparing and posting journal entries, preparing the biweekly payroll, processing and preparing all vendor checks and accepting and preparing departmental deposits.

Recommendation - We recommend that the Town review the current job responsibilities within the Finance Department and take the appropriate steps to segregate certain duties, to ensure that the same individual is not responsible for custody of assets, and initiating and recording receipts and disbursements. In addition, all journal entries prepared should be reviewed and approved by a responsible official independent from the person responsible for preparing the journal entry. We also recommend that the Town consider adding staff to the Finance Department to allow for the proper segregation of duties and to strengthen the internal controls.

06-2 Reportable Condition - The Tax Collector has job responsibilities that results in a lack of segregation of duties and as a result a weakness in internal controls. Due to staff limitations the Tax Collector is responsible for accepting and recording tax payments, reconciling the daily receipts, preparing and making the daily deposit at the bank, posting abatements and monitoring delinquent accounts. The Tax Collector has custody of assets and is also responsible for initiating and recording transactions.

Recommendation - We recommend that the Town review the current job responsibilities of the Tax Collector to attempt to segregate certain responsibilities. We suggest that internal controls could be improved by having all daily reconciliation procedures completed by two individuals. We also recommend that delinquent accounts and adjustments to the subsidiary ledger be reviewed by another individual, in addition to the Tax Collector.

PROPERTY TAX RECONCILIATION

06-3 Reportable Condition - To ensure the accurate and timely reporting of financial information, the internal control system must include the monthly reconciliation of all material financial statement accounts.

The Finance Director and Tax Collector are not performing a monthly reconciliation of the property tax receivable balances per the tax collector subsidiary system to the property tax receivable balances per the general ledger. The reconciliation was only performed at year end as part of completing the year end financial statements. The Finance Director's and Tax Collector's reconciliation at year end identified material variances that had occurred throughout the year, which were subsequently corrected as audit adjustments.

Recommendation - We recommend that the Finance Director and Tax Collector reconcile the property tax subsidiary ledger to the general ledger on a monthly basis. The monthly reconciliation of material account balances is essential to detecting and correcting any variances in a timely manner, to ensure the financial information presented is materially correct.