

TOWN OF SHERMAN, CONNECTICUT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014

Sandra E. Welwood, LLC
Certified Public Accountants

TOWN OF SHERMAN, CONNECTICUT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Sherman, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sherman, Connecticut (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3-13 and the required supplementary information on pages 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The General Fund budgetary comparison detail schedules, combining and individual nonmajor fund financial statements, statement of debt limitation, and the report of the tax collector are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The General Fund budgetary comparison detail schedules, combining and individual nonmajor fund financial statements, statement of debt limitation, and the report of the tax collector are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the General Fund budgetary comparison detail schedules, combining and individual nonmajor fund financial statements, statement of debt limitation, and the report of the tax collector are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Sandra E. Welwood, LLC

Danbury, Connecticut
September 4, 2014

TOWN OF SHERMAN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2014

As management of the Town of Sherman, Connecticut (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here along with additional information furnished in the Town's basic financial statements that follow this section.

The Town's discussion and analysis is designed to:

1. Provide an overview of the Town's financial activity.
2. Assist the reader in focusing on significant financial issues.
3. Identify any material deviations from the financial plan (approved budget).
4. Identify changes in the Town's financial position, as well as its ability to address challenges in future years.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, the assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$13,814,247 (net position). This is an increase of \$589,412 or up 4.5% from the prior fiscal year.
- Government-wide revenues were \$15,084,618 (up 4.0%) and expenses were \$14,495,206 (down 0.3%). On a government-wide basis, revenues exceeded expenses by \$589,412.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,156,227, an increase of \$76,289 or 3.7% from the prior fiscal year. This represents the combined balances in the General, Bonded Projects, Capital and Nonrecurring, Special Projects, Dog Fund, Land Acquisition Fund, and other smaller funds.
- In the General Fund, revenues exceeded expenditures and transfers by \$272,064. The total General Fund balance of \$1,465,308 as of June 30, 2014 compares to a balance of \$1,193,244 in the prior year, an increase of \$272,064 or 23%.
- At the end of the current fiscal year, the unassigned General Fund balance was \$1,454,427. This represents 9.9% of total General Fund revenues in the current fiscal year, up 1.4 points from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector businesses. All of the resources which the Town has at its disposal are shown, including major assets such as buildings and infrastructure. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. One can think of the Town's net position – the difference between assets and liabilities – as one way to measure the Town's financial health or financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements present the functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, public safety, public works, health and welfare, culture and recreation, and education.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. The Town, like other state and local governments, uses fund accounting to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the Town are divided into two categories: governmental and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the 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 Town's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Bonded Projects, and Capital and Nonrecurring funds. Data from other governmental funds are combined into a single aggregated presentation as Other Funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the authorized budget in the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. All of the Town’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. The Town excludes these activities from the Town’s other financial statements because the Town cannot use these funds to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time the change in net position may be a useful indicator of the Town’s financial position. The Town’s combined assets exceeded its combined liabilities by \$13,814,247 at June 30, 2014. This was an increase of \$589,412 or 4.5% from the prior year.

	<u>Net Position</u>		
	<u>2014</u>	<u>Restated 2013</u>	<u>Total % Change</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 2,392,440	\$ 2,179,231	9.8%
Investments	2,773	33,179	(91.6)%
Receivables	142,155	146,377	(2.9)%
Prepaid expenses	131	131	0.0%
Capital assets, not being depreciated	2,851,200	8,504,162	(66.5)%
Capital assets, net of accumulated depreciation	<u>19,781,396</u>	<u>14,690,352</u>	34.7%
Total assets	<u>25,170,095</u>	<u>25,553,432</u>	(1.5)%
<u>Liabilities</u>			
Accounts payable and other liabilities	253,163	164,678	53.7%
Accrued interest payable	123,562	133,172	(7.2)%
Unearned revenue	27,368	24,200	13.1%
Non-current liabilities:			
Due within one year	1,111,922	1,062,120	4.7%
Due in more than one year	<u>9,839,833</u>	<u>10,944,427</u>	(10.1)%
Total liabilities	<u>11,355,848</u>	<u>12,328,597</u>	(7.9)%
<u>Net Position</u>			
Net investment in capital assets	11,944,698	11,512,168	3.8%
Restricted for enabling legislation	10,750	10,750	0.0%
Unrestricted	<u>1,858,799</u>	<u>1,701,917</u>	9.2%
Total net position	<u>\$ 13,814,247</u>	<u>\$ 13,224,835</u>	4.5%

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

By far, the largest portion of the Town's net position \$11,944,698 (86%) reflects its net investment in capital assets (e.g. land, buildings, furniture, fixtures, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that 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 cannot be used to liquidate these liabilities.

The unrestricted net position of \$1,858,799 (13%) may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities increased the Town's net position by \$589,412. Key elements of the increase are as follows:

<u>Changes in Net Position</u>			
	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
Revenues:			
Property taxes	\$ 12,933,953	\$ 12,257,390	5.5%
Charges for services	400,820	427,122	(6.2)%
Operating grants and contributions	1,553,607	1,389,960	11.8%
Capital grants and contributions	69,533	253,946	(72.6)%
Unrestricted grants and contributions	119,959	153,997	(22.1)%
Investment earnings	<u>6,746</u>	<u>18,339</u>	(63.2)%
Total revenues	<u>15,084,618</u>	<u>14,500,754</u>	4.0%
Expenses:			
General, cultural and recreation	1,817,102	2,553,640	(28.8)%
Public safety	755,746	577,527	30.9%
Public works	1,337,243	1,118,997	19.5%
Health and welfare	156,796	165,543	(5.3)%
Education	10,043,251	9,675,577	3.8%
Other	43,568	84,179	(48.2)%
Interest on long-term debt	<u>341,500</u>	<u>359,730</u>	(5.1)%
Total expenses	<u>14,495,206</u>	<u>14,535,193</u>	(0.3)%
Increase (decrease) in net position	<u>\$ 589,412</u>	<u>\$ (34,439)</u>	nm

Revenues increased by \$583,864 (4.0%). Approximately 86% of the Town's revenues came from property taxes, followed by 10% from operating grants and contributions, and 4% from all other revenue sources.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Major revenue factors included:

- Property tax revenues increased \$676,563 (5.5%) over the prior year and resulted from an increase in the taxable grand list of \$7,811,743 (up 1.0%), an increase in the mil rate from 16.1 to 16.845 mils (up 4.6%), a tax collection rate of 99.4%, and supplemental taxes for motor vehicles and new construction.
- Operating grants and contributions for governmental activities increased by \$163,647 (11.8%) due to grants and contributions received for Town Aid Roads and Education programs.
- Capital grants for governmental activities decreased by \$184,413 (72.6%). Grants received in the prior fiscal year such as STEAP grants for the renovation of Farm Road and the Sherman Library Barn, and final reimbursement for the School Roof were not repeated in the current fiscal year.
- Investment earnings decreased by \$11,593 (63.2%) due to reduced cash balances in the Bonded Projects account as the Emergency Services Facility and Library projects reached completion and the funds were paid out.

Expenses decreased \$39,987 (0.3%) from the prior fiscal year. Over 69% of the Town's expenses relate to education, followed by 13% for general, cultural and recreation, and 18% for other expenditures.

Major expense factors included:

- Increased spending on education of \$367,674 (up 3.8%), public works of \$218,246 (up 19.5%), and public safety of \$178,219 (up 30.9%) from the prior year.
- Decreased spending on general, cultural and recreation of \$736,538 (down 28.8%), interest on long-term debt of \$18,230 (down 5.1%), and other spending down \$49,358 (down 19.8%) from the prior year.

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

Governmental Funds The focus of the Town'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, unassigned 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, the Town's governmental funds reported combined ending fund balances of \$2,156,227, an increase of \$76,289 (4%) from the prior year:

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

<u>Ending Fund Balance as of:</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
General Fund	\$ 1,465,308	\$ 1,193,244	\$ 272,064
Bonded Projects	89,951	431,229	(341,278)
Capital and Nonrecurring	476,106	340,846	135,260
Happy Acres	39,413	-	39,413
Land Acquisition	27,358	27,320	38
Revaluation Fund	6,636	37,088	(30,452)
Other Funds	<u>51,455</u>	<u>50,211</u>	<u>1,244</u>
Total	<u>\$ 2,156,227</u>	<u>\$ 2,079,938</u>	<u>\$ 76,289</u>

The General Fund is the operating fund of the Town. At the end of the current fiscal year, the unassigned General Fund balance was \$1,454,427. As a measure of the General Fund's liquidity, it is useful to compare unassigned fund balance to total fund revenues. Unassigned General Fund balance represents 9.9% of total General Fund revenues in the current fiscal year. This is on the Town's target of 10% and is an improvement from the prior year of 1.4%.

The Town's General Fund balance (including unspendable and restricted) increased by \$272,064 (22.8%) during the current fiscal year. The Town had planned for an increase of \$50,000, and these key factors contributed to the increase in fund balance:

- General Fund revenues were better than budget by \$200,303 due to a high tax collection rate and an improving economy. Tax revenues including supplemental tax bills, collections of past due taxes, interest and liens were better than budget by \$85,093. There were also higher than planned revenues in almost every other revenue category, many of which are related to the real estate market.
- General Fund expenditures were better than budget by \$21,761 due to the Board of Education spending being better than budget by \$93,999, offset by Town spending being worse than budget by \$72,238.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the final amended budgets and actual results can be briefly summarized as follows:

Revenues exceeded appropriations by \$200,303:

- Additional tax receipts of \$85,093 including current year and back taxes, interest and fees.
- Lower licenses and permits of \$9,168 due primarily to Building fees (\$8,410) and Health department permits (\$3,450) offset by Inland Wetlands \$2,510.
- Higher Fees and service charges of \$30,659 due primarily to conveyance taxes of \$29,855.
- Parks & Recreation income was balanced with higher Beach, parks and recreation \$6,026 offset by lower SPARK revenues of (\$5,316).
- Education grants in the General Fund were higher than budgeted by \$29,709 attributed to increases in preschool tuition receipts.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

- Governmental grants for FEMA disaster reimbursements of \$31,870 were not budgeted. Similarly, reinstatement of the Mashantucket Pequot grant (\$8,184) and distribution of final balances in the State Revenue sharing fund (\$16,781) were not known at budget time.
- Other miscellaneous revenues were better than budget by \$2,293.

Expenditures were lower than appropriations by \$21,761:

- General Government was worse than budget by \$30,331 driven by Counsel and Court costs of \$33,387.
- Building and Grounds was \$1,003 worse than budget driven by building maintenance.
- Public Safety was \$33,619 worse than budget due to operating expenses for the new Emergency Services Facility which were mostly unknown and under-budgeted.
- Public Works was \$87,799 worse than budget due to road maintenance (\$53,648), winter maintenance (\$14,475), town gas and oil (\$13,313). An overage in part-time help (\$12,370) was offset by an improvement in public works contracted labor of \$20,481.
- Health and Welfare was \$4,435 better than budget due to sanitarian salaries.
- Insurance was \$71,828 better than budget due to lower liability, auto, property, life and medical insurance, as well as expenses associated with workers compensation and payroll taxes.
- Parks & Recreation was better than budget by \$8,457.
- Senior Center spending was over budget by \$8,003 which reflects a change in the compensation of the Senior Activities Coordinator which was not budgeted.
- Education spending in the General Fund was \$93,999 better than budget due primarily to improvements in out of district tuition.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

A comparative year-to-year analysis of the General Fund is shown below:

	General Fund			Total % Change
	2014	2013	Variance	
Revenues:				
Property taxes	\$ 12,923,314	\$ 12,249,304	\$ 674,010	5.5%
Licenses and permits	119,862	160,592	(40,730)	(25.4)%
Intergovernmental	1,382,841	1,168,586	214,255	18.3%
Charges for services	229,759	266,530	(36,771)	(13.8)%
Investment earnings	5,636	5,374	262	4.9%
Other	16,333	34,158	(17,825)	(52.2)%
Total revenues	<u>14,677,745</u>	<u>13,884,544</u>	<u>793,201</u>	5.7%
Expenditures:				
General, cultural and recreation	1,285,109	1,288,833	(3,724)	(0.3)%
Public safety	577,853	524,880	52,973	10.1%
Public works	1,100,825	945,824	155,001	16.4%
Health and welfare	128,348	113,223	15,125	13.4%
Education	9,540,965	9,169,574	371,391	4.1%
Other	75,571	71,932	3,639	5.1%
Debt service – principal	1,030,000	930,000	100,000	10.8%
Debt service – interest	305,945	307,645	(1,700)	(0.6)%
Total expenditures	<u>14,044,616</u>	<u>13,351,911</u>	<u>692,705</u>	5.2%
Excess of revenues over expenditures	<u>633,129</u>	<u>532,633</u>	<u>100,496</u>	18.9%
Transfers out	<u>(361,065)</u>	<u>(215,049)</u>	<u>(146,016)</u>	67.9%
Net transfers	<u>(361,065)</u>	<u>(215,049)</u>	<u>(146,016)</u>	67.9%
Net change in fund balance	272,064	317,584	(45,520)	(14.3)%
Fund balance – beginning	<u>1,193,244</u>	<u>875,660</u>	<u>317,584</u>	36.3%
Fund balance – ending	<u>\$ 1,465,308</u>	<u>\$ 1,193,244</u>	<u>\$ 272,064</u>	22.8%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of June 30, 2014 amounted to \$22,632,596 (net of accumulated depreciation) compared to \$23,194,514 in the prior fiscal year. This investment in capital assets includes land, buildings and system improvements, machinery, equipment, park facilities, roads, and bridges and is down \$561,918 (2.4%) from the prior fiscal year and reflects the increase in buildings and improvements and a reduction in construction in progress for the Emergency Services Facility, offset by depreciation.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

The Town made significant investments in capital spending during the year:

- Spending associated with capital projects funded by the Town's Capital and Nonrecurring fund was \$237,772 (down 15%). The Town made significant investments in a new truck and mower, security at the Sherman School, refurbishment of the playhouse windows, continuing expenses for the communications study, and other smaller projects.
- Capital outlay of \$341,542 funded by the Town's Bonded Projects fund for expansion of the Sherman Library (\$301,095) and an expanded Emergency Services Facility (\$40,447).

Capital Assets at Year-End (Net of Accumulated Depreciation)

	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
Land	\$ 2,851,200	\$ 2,851,200	0.0%
Buildings and improvements	14,776,929	10,362,238	42.6%
Furniture, fixtures, vehicles and equipment	612,391	478,938	27.9%
Infrastructure	4,392,076	3,849,176	14.1%
Construction in progress	<u>-</u>	<u>5,652,962</u>	(100.0)%
Total (net of accumulated depreciation)	<u>\$ 22,632,596</u>	<u>\$ 23,194,514</u>	(2.4)%

Additional information on the Town's capital assets may be found in Note 6 – Capital Assets.

Long-Term Obligations

At the end of the current fiscal year, the Town had \$9,145,000 in bonds outstanding versus \$9,950,000 last year – a decrease of \$805,000 (8.1%). These are bonds with interest rates ranging from 2% to 5% and varying expiration dates to July 2029.

All debt is backed by the good faith and credit of the Town. The Town's was most recently rated "Aa2" by Moody's Investor Service for general obligation debt. Such ratings reflect only the views of such agencies and could be subject to change.

State statutes limit the amount of general obligation debt a governmental entity may issue. The Town's current debt limitation for General and School debt is \$87.3 million, which is significantly higher than the Town's current outstanding general obligation debt.

Other obligations of the Town include a promissory note payable associated with the purchase of Happy Acres Farm, liabilities for compensated absences and a net pension obligation. Additional information on the Town's long-term liabilities can be found in Note 7.

Town of Sherman, Connecticut
Management's Discussion and Analysis (Unaudited) (continued)

Outstanding Obligations at Year-End			
	2014	Restated 2013	Total % Change
General obligation bonds	\$ 9,145,000	\$ 9,950,000	(8.1)%
Promissory note payable	1,575,000	1,800,000	(12.5)%
Discount on promissory note payable	(155,664)	(200,826)	(22.5)%
Net pension obligation	238,042	329,280	(27.7)%
Employee compensated absences	149,377	128,093	16,6%
	<u>\$ 10,951,755</u>	<u>\$ 12,006,547</u>	(8.8)%

Pension Plans

The Town closed its Defined Benefit Pension Plan to new employees and froze participants' monthly pension calculations as of June 30, 2005 (i.e., no additional benefits will accrue under the plan for the subsequent periods). The Town established a Defined Contribution Pension Plan for its employees on July 1, 2005. Under this plan, employees could contribute a portion of their pay to the plan, and the Town matches 100% of the employees' contribution up to 3% of gross pay.

Additional information on the Town's employee retirement plans can be found in Note 10.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected officials considered many factors when setting the fiscal year 2015 budget and property tax rates. One of those factors is the economy. As of June 2014, unemployment in the Town stood at 4.3% versus 6.5% a year ago. Better year-to-year, this rate also compares favorably with the State's unemployment rate of 6.5%.

With an overwhelming reliance on property taxes, the Town's income stream is relatively stable, even during a recession. However, this lack of diversity represents a long-term problem for Connecticut municipalities as those most vulnerable to a specific tax rebel against its increase.

The Town is facing increasing economic burdens from municipal expenditures associated with education, rising fuel and energy costs, and repairs to the Town's infrastructure.

All of these factors were considered while preparing the Town's General Fund budget for the 2015 fiscal year. With a decrease in the grand list of 12.5% after revaluation and an increase in the mil rate of 17.8%, property tax revenues are expected to increase 3.1% year-to-year. Including revenue from sources other than property taxes, the Town's budget is better than balanced by \$50,000 and expenditures including education are also projected to increase by 3.1% year-to-year.

If the 2014-2015 budget estimates are realized, the Town's budgetary General Fund balance as of June 30, 2015 is expected to be \$1,515,308, an increase of \$50,000 from June 30, 2014.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the First Selectman's Office, P.O. Box 39, Sherman, CT 06784.

TOWN OF SHERMAN, CONNECTICUT

STATEMENT OF NET POSITION

JUNE 30, 2014

Assets

Cash and cash equivalents	\$ 2,392,440
Investments	2,773
Receivables, net of allowances:	
Property taxes	135,875
Other receivables	6,280
Prepaid expenses	131
Noncurrent assets:	
Capital assets, not being depreciated	2,851,200
Capital assets, net of accumulated depreciation	<u>19,781,396</u>
Total assets	<u>25,170,095</u>

Liabilities

Accounts payable	241,570
Accrued interest	123,562
Unearned revenue	27,368
Deposits	11,593
Noncurrent liabilities:	
Due within one year	1,111,922
Due in more than one year	<u>9,839,833</u>
Total liabilities	<u>11,355,848</u>

Net Position

Net investment in capital assets	11,944,698
Restricted for enabling legislation	10,750
Unrestricted	<u>1,858,799</u>
Total net position	<u>\$ 13,814,247</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ (1,075,948)	\$ 237,413	\$ 4,000	\$ 15,075	\$ (819,460)
Public safety	(755,746)	-	-	-	(755,746)
Public works	(1,337,243)	-	251,276	1,458	(1,084,509)
Health and welfare	(156,796)	-	-	-	(156,796)
Culture and recreation	(741,154)	112,210	-	-	(628,944)
Education	(10,043,251)	51,197	1,298,331	53,000	(8,640,723)
Other	(43,568)	-	-	-	(43,568)
Interest on long-term debt	(341,500)	-	-	-	(341,500)
Total governmental activities	\$ (14,495,206)	\$ 400,820	\$ 1,553,607	\$ 69,533	(12,471,246)
General Revenues:					
Property taxes, interest, and lien fees					12,933,953
Grants and contributions not restricted to specific programs					64,381
Miscellaneous revenues					55,578
Unrestricted investment earnings					6,746
Total general revenues					13,060,658
Change in net position					589,412
Net position, beginning of year - as reported					13,494,332
Adjustment - Note 13					(269,497)
Net position, beginning of year - as restated					13,224,835
Net position, end of year					\$ 13,814,247

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>	<u>Bonded Projects</u>	<u>Capital and Nonrecurring</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 1,628,201	\$ 89,951	\$ 549,426	\$ 124,862	\$ 2,392,440
Investments	2,773	-	-	-	2,773
Receivables:					
Property taxes	135,875	-	-	-	135,875
Intergovernmental	4,472	-	-	1,808	6,280
Due from other funds	1,808	-	-	-	1,808
Prepaid expenses	131	-	-	-	131
Total assets	<u>\$ 1,773,260</u>	<u>\$ 89,951</u>	<u>\$ 549,426</u>	<u>\$ 126,670</u>	<u>\$ 2,539,307</u>
Liabilities:					
Accounts payable	\$ 168,250	\$ -	\$ -	\$ -	\$ 168,250
Unearned revenue	27,368	-	-	-	27,368
Due to General Fund	-	-	-	1,808	1,808
Due to State of Connecticut	-	-	73,320	-	73,320
Deposits	11,593	-	-	-	11,593
Total liabilities	<u>207,211</u>	<u>-</u>	<u>73,320</u>	<u>1,808</u>	<u>282,339</u>
Deferred Inflows of Resources					
Unavailable revenue - taxes	100,741	-	-	-	100,741
Fund Balances:					
Unspendable	131	-	-	-	131
Restricted	10,750	-	-	-	10,750
Assigned	-	89,951	476,106	124,862	690,919
Unassigned	1,454,427	-	-	-	1,454,427
Total fund balances	<u>1,465,308</u>	<u>89,951</u>	<u>476,106</u>	<u>124,862</u>	<u>2,156,227</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,773,260</u>	<u>\$ 89,951</u>	<u>\$ 549,426</u>	<u>\$ 126,670</u>	

Amounts reported in the Statement of Net Position are different because:

Capital assets used are not financial resources and, therefore, are not reported in the funds	22,632,596
Property taxes and other receivables that are not available to pay for current period expenditures are deferred, or not recognized in the funds	100,741
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(11,075,317)</u>
Net position	<u>\$ 13,814,247</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>Bonded Projects</u>	<u>Capital and Nonrecurring</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 12,923,314	\$ -	\$ -	\$ -	\$ 12,923,314
Licenses and permits	119,862	-	-	-	119,862
Intergovernmental	1,382,841	-	69,533	270,010	1,722,384
Charges for services	229,759	-	-	-	229,759
Investment earnings	5,636	264	705	141	6,746
Miscellaneous	16,333	-	3,235	52,343	71,911
Total revenues	<u>14,677,745</u>	<u>264</u>	<u>73,473</u>	<u>322,494</u>	<u>15,073,976</u>
Expenditures:					
Current:					
General government	912,405	-	-	48,512	960,917
Public safety	577,853	-	-	-	577,853
Public works	1,100,825	-	-	-	1,100,825
Health and welfare	128,348	-	-	-	128,348
Culture and recreation	372,704	-	-	-	372,704
Education	9,540,965	-	-	266,010	9,806,975
Other	75,571	-	-	59,235	134,806
Debt service	1,335,945	-	-	-	1,335,945
Capital outlay	-	341,542	237,772	-	579,314
Total expenditures	<u>14,044,616</u>	<u>341,542</u>	<u>237,772</u>	<u>373,757</u>	<u>14,997,687</u>
Excess of revenues over (under) expenditures	633,129	(341,278)	(164,299)	(51,263)	76,289
Other Financing Sources (Uses):					
Transfers in	-	-	350,000	61,506	411,506
Transfers out	(361,065)	-	(50,441)	-	(411,506)
Net change in fund balances	272,064	(341,278)	135,260	10,243	76,289
Fund balances, beginning of year	<u>1,193,244</u>	<u>431,229</u>	<u>340,846</u>	<u>114,619</u>	<u>2,079,938</u>
Fund balances, end of year	<u>\$ 1,465,308</u>	<u>\$ 89,951</u>	<u>\$ 476,106</u>	<u>\$ 124,862</u>	<u>\$ 2,156,227</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ 76,289
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(561,918)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	10,639
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in the treatment of long-term debt and related items.	984,837
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>79,565</u>
Change in net position	<u><u>\$ 589,412</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 12,838,221	\$ 12,838,221	\$ 12,923,314	\$ 85,093
Licenses and permits	129,030	129,030	119,862	(9,168)
Intergovernmental	509,847	509,847	600,137	90,290
Charges for services	199,100	199,100	229,759	30,659
Investment earnings	4,500	4,500	5,636	1,136
Miscellaneous	14,040	14,040	16,333	2,293
Total revenues	<u>13,694,738</u>	<u>13,694,738</u>	<u>13,895,041</u>	<u>200,303</u>
Expenditures:				
Current:				
General government	636,250	636,250	666,581	(30,331)
Buildings and grounds	161,660	161,660	162,663	(1,003)
Public safety	450,965	450,965	484,584	(33,619)
Public works	781,656	781,656	869,455	(87,799)
Health and welfare	103,571	103,571	99,136	4,435
Insurance	656,059	656,059	584,231	71,828
Other	666,372	666,372	662,121	4,251
Education	8,852,260	8,852,260	8,758,261	93,999
Debt service	1,335,945	1,335,945	1,335,945	-
Total expenditures	<u>13,644,738</u>	<u>13,644,738</u>	<u>13,622,977</u>	<u>21,761</u>
Net change in fund balance	<u>\$ 50,000</u>	<u>\$ 50,000</u>	272,064	<u>\$ 222,064</u>
Fund balance, beginning of year			<u>1,193,244</u>	
Fund balance, end of year			<u>\$ 1,465,308</u>	

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Defined Benefit Trust Fund	Defined Contribution Trust Fund	Agency Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 13,893	\$ 64,647	\$ 52,582
Investments at fair value	891,619	1,143,813	-
Total assets	905,512	1,208,460	52,582
<u>Liabilities</u>			
Due to school groups and others	-	-	52,582
Total liabilities	-	-	52,582
Net position held in trust for pension benefits	\$ 905,512	\$ 1,208,460	\$ -

The notes to the financial statements are an integral part of this statement.

TOWN OF SHERMAN, CONNECTICUT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Defined Benefit Trust Fund	Defined Contribution Trust Fund
Additions:		
Employee contributions	\$ -	\$ 114,218
Employer contributions	58,130	29,594
	58,130	143,812
Investment income (loss):		
Interest and dividends	32,551	-
Net increase in fair value of investments	86,244	136,034
Investment fees and expenses	(8,988)	-
	109,807	136,034
Total additions	167,937	279,846
Deductions:		
Benefits and other deductions	41,977	49,589
Total deductions	41,977	49,589
Change in net position	125,960	230,257
Net position, beginning of year	779,552	978,203
Net position, end of year	\$ 905,512	\$ 1,208,460

The notes to the financial statements are an integral part of this statement.

**TOWN OF SHERMAN, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Town of Sherman, Connecticut (the “Town”) was established in 1802 under the provisions of the Home Rule Law of the State of Connecticut. It operates under a Board of Selectmen form of government.

The Town provides a full range of services including public safety, roads, sanitation, social services, culture and recreation, education, planning, zoning and general administrative services to its residents.

The basic financial statements of the reporting entity include only the funds of the Town (the primary government) as no component units exist based on operational or financial relationships with the Town.

Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town has no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The various funds included in the financial statements are described below:

Governmental Funds

General Fund - the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for services, and interest income.

Special Revenue Funds - account for revenues derived from specific sources (other than major capital projects) that are restricted, committed, or assigned for specific activities.

Capital Project Funds - account for all financial resources used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

Private - Purpose Trust Funds are used to account for resources legally held in trust for the benefit of individuals, private organizations or other governments.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, when levied for, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the Town or specifically identified.

The Town reports the following major governmental funds:

The **General Fund** is the general operating fund of the Town government. All unrestricted resources, except those required to be accounted for in another fund, are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt and capital improvement costs of the Town, which were not paid through a special fund.

The **Bonded Projects Fund** is used to account for proceeds of bond anticipation notes and general obligation bonds used for authorized bonded projects such as acquisition and construction of capital facilities.

The **Capital and Nonrecurring Fund** accounts for smaller, short term capital projects that are funded through capital grants or General Fund transfers.

Additionally, the Town reports the following funds:

The **Pension Trust Funds** account for activities of the Town's defined benefit plan and defined contribution plan, which accumulate resources for pension benefit payments to qualified employees.

The **Agency Funds** account for monies held as a custodian for outside groups and agencies.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Cash and cash equivalents

The Town considers cash on hand, deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables and payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (current portion of interfund loans) or “advances to/from other funds” (noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Trade account allowance for uncollectible accounts is estimated based on the inherent risk associated with the accounts. No allowance for uncollectible accounts was considered necessary at June 30, 2014.

Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	50
Building improvements	20
Infrastructure	15 - 50
Machinery and equipment	5 - 20
Licensed vehicles	5 - 8
Computer equipment	5

Compensated Absences

Under the terms of employment, Town and Board of Education employees are granted vacation and sick time in varying amounts based on length of service. Certain employees may also carry over a limited number of unused vacation and sick days to subsequent years based on the terms of an employment or union contract. In the event of termination, employees are reimbursed for accumulated sick days. The Town recognizes a liability for the vested portion, as well as the unvested portion to the extent expected to be paid, as compensated absences in the government-wide financial statements. Expenditures for compensated absences are recognized in the governmental funds financial statements in the current year to the extent they have matured (i.e., due to retirement).

Unearned Revenue

In the government-wide and fund financial statements, this liability represents resources that have been received but not yet earned.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has no items that qualify for reporting in this category.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town only has one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity and Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted - This category presents external restrictions imposed by creditors, grantors, contributors and laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category represents the net position of the Town which is not restricted for any project or other purpose.

Governmental Accounting Standards Board Statement #54 (GASB 54) defines the different types of fund balances that the Town must use for its governmental funds. GASB 54 requires the fund balances to be properly reported within one of the following categories for financial reporting purposes.

Nonspendable – fund balance amounts associated with inventories, prepaids, and long-term receivables and payables.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Restricted – fund balance amounts that can be spent only for the specific purposes stipulated by external source providers or enabling legislation.

Committed – fund balance amounts that can be used only for specific purposes determined by a formal action of the Town’s highest level of decision-making authority.

Assigned – fund balance amounts intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed fund balances.

Unassigned – fund balance amounts remaining for the General Fund that are spendable.

Generally, the Town’s committed fund balance reporting is required when funds have been committed at a Town Meeting and the Town’s assigned fund balance reporting is required when funds have been assigned by the Town’s Board of Selectmen. The Town’s policy is to apply expenditures against the applicable fund balances in the following order: nonspendable, restricted, committed, assigned, and unassigned.

Note 2 – Budgets and Budgetary Accounting

The Town adheres to the following procedures in establishing the budgetary data included in the General Fund financial statements.

- a. In January, all departments are asked to submit their budget requests to the First Selectman.
- b. During January and February, the First Selectman compiles these budget requests into a draft budget.
- c. In March, the Board of Selectmen, acting as the Board of Finance, holds hearings at which entities formally present their budget requests and rationale for same. Following the hearings, the Board of Selectmen meet in a workshop to finalize the budget.
- d. At the March Board of Selectmen’s meeting, the Board of Selectmen, acting as the Board of Finance, approves the budget and schedules a Town Meeting at which the budget will be presented (usually in early May). The Town Meeting is held then adjourned to a referendum vote on the budgets (Town and Education budgets are voted on separately).
- e. By recommendation from the First Selectman, and certification of the Treasurer, the Board of Selectmen may transfer appropriations from one department to another. Within any one department, appropriation may be transferred without the Board of Selectmen’s approval. Other than capital and nonrecurring items, unencumbered appropriations lapse at year end.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund. Only the General Fund is required to be budgeted.
- g. The legal level of control is at the department level.
- h. Encumbrances are recognized as a valid and proper charge against a budget issued appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reflected in budgetary reports as expenditures of the current year. Other than those that are not capital or nonrecurring, if an appropriation is not encumbered, it lapses at year-end and may not be used by the department.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

- i. Classifications of certain revenues and expenditures under accounting principles generally accepted in the United States of America differ from classifications utilized for budgetary purposes.

General Fund

A reconciliation of General Fund amounts presented on a budgetary basis to amounts presented in accordance with accounting principles generally accepted in the United States of America is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary Basis	\$ 13,895,041	\$ 13,622,977
Recorded as other financial uses through interfund transfers	-	(361,065)
State Teachers' Retirement on-behalf payments, not recognized for budgetary purposes	<u>782,704</u>	<u>782,704</u>
GAAP Basis	<u>\$ 14,677,745</u>	<u>\$ 14,044,616</u>

Special Revenue Funds

The Town does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various Special Revenue Funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets carry over until completion of the grants.

Capital Project Funds

Legal authorization for expenditures of the Capital Project Funds is provided by the related bond ordinances and/or intergovernmental grant agreements. Capital appropriations do not lapse until completion of the applicable projects.

Note 3 - Reconciliation of Government - Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds Balance Sheet and the government-wide Statement of Net Position

The governmental funds Balance Sheet includes a reconciliation between fund balance - total governmental funds and net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Accrued interest	\$ 123,562
General obligation bonds payable	9,145,000
Promissory note payable	1,575,000
Discount on promissory note payable	(155,664)
Net pension obligation	238,042
Compensated absences	<u>149,377</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position	<u>\$ 11,075,317</u>

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Explanation of certain differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$ 409,353
Depreciation expense	<u>(971,271)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position	<u>\$ (561,918)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.” The details of this difference are as follows:

Principal repayments of general obligation bonds	\$ 1,030,000
Net change in other long-term liabilities	<u>(45,163)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position	<u>\$ 984,837</u>

Note 4 - Deposits and Investments

A reconciliation of the Town's cash and cash equivalents as of June 30, 2014 is as follows:

Government-wide Statement of Net Position:	
Cash and cash equivalents	<u>\$ 2,392,440</u>
Statement of Fiduciary Net Position:	
Cash and cash equivalents – Agency Funds	52,582
Cash and cash equivalents – Pension Trust Funds	<u>78,540</u>
	<u>131,122</u>
	<u>\$ 2,523,562</u>

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Town will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$2,551,625 of the Town's bank balance of \$3,236,519 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 2,473,085
Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Town's name	<u>78,540</u>
	<u>\$ 2,551,625</u>

All of the Town's deposits were in qualified public institutions as defined by Connecticut general statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

As of June 30, 2014, the Town's investments consisted of the following:

<u>Investments (except Pension Trust Funds)</u>	
Other investments:	
Short term investment fund	\$ <u>2,773</u>
Total	<u>\$ 2,773</u>

In accordance with GASB Statement No. 40 *Deposit and Investment Risk Disclosures*, the Town has separately disclosed its Pension Trust Fund investments, as these investments have greater risk exposures than the Town's investments.

As of June 30, 2014, the Pension Trust Fund investments consisted of the following:

<u>Pension Trust Funds</u>	
Mutual Funds:	
Defined Benefit Trust Fund	\$ <u>891,619</u>
Defined Contribution Trust Fund	<u>\$ 1,143,813</u>

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.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Credit Risk

State law limits investments to the obligations of the United States of America, including the joint and several obligations of the Federal Home Mortgage Corporation, Federal National Mortgage Association, the Government National Mortgage Association, the Federal Savings and Loan Insurance Corporation, obligations of the United States Postal Service, all the federal home loan banks, all federal land banks, all the federal intermediate credit banks, the Central Bank of Cooperatives, the Tennessee Valley Authority, or any other Agency of the United States Government.

Note 5 – Interfund Transfers

A summary of interfund transfers is presented below:

	Transfers from:	
	<u>General Fund</u>	<u>Capital and Nonrecurring</u>
Transfers to:		
Capital and Nonrecurring	\$ 350,000	\$ -
Revaluation	11,065	-
Happy Acres	<u>-</u>	<u>50,441</u>
Total interfund transfers	<u>\$ 361,065</u>	<u>\$ 50,441</u>

The transfers from the General Fund were to fund capital projects.

Note 6 - Capital Assets

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 2,851,200	\$ -	\$ -	\$ 2,851,200
Construction in progress	5,652,962	92,936	(5,745,898)	-
Total capital assets not being depreciated	<u>8,504,162</u>	<u>92,936</u>	<u>(5,745,898)</u>	<u>2,851,200</u>
Capital assets being depreciated:				
Buildings and improvements	17,282,957	5,049,154	-	22,332,111
Furniture, fixtures, vehicles and equipment	2,748,567	293,087	(94,250)	2,947,404
Infrastructure	8,657,091	720,074	-	9,377,165
Total capital assets being depreciated	<u>28,688,615</u>	<u>6,062,315</u>	<u>(94,250)</u>	<u>34,656,680</u>
Less accumulated depreciation:				
Buildings and improvements	6,920,719	634,463	-	7,555,182
Furniture, fixtures, vehicles and equipment	2,269,629	159,634	(94,250)	2,335,013
Infrastructure	4,807,915	177,174	-	4,985,089
Total accumulated depreciation	<u>13,998,263</u>	<u>971,271</u>	<u>(94,250)</u>	<u>14,875,284</u>
Capital assets being depreciated, net of depreciation	<u>14,690,352</u>	<u>5,091,044</u>	<u>-</u>	<u>19,781,396</u>
Total governmental activities	<u>\$ 23,194,514</u>	<u>\$ 5,183,980</u>	<u>\$ (5,745,898)</u>	<u>\$ 22,632,596</u>

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Depreciation expense was charged to functions of the primary government as follows:

General governmental	\$ 249,973
Education	230,451
Public safety	177,893
Public works	217,151
Health and welfare	28,448
Culture and recreation	<u>67,355</u>
 Total depreciation expense	 <u>\$ 971,271</u>

Note 7 - Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term debt:					
General obligation bonds	\$ 9,950,000	\$ -	\$ 805,000	\$ 9,145,000	\$ 825,000
Promissory note payable	1,800,000	-	225,000	1,575,000	225,000
Discount on promissory note	(200,826)	-	(45,163)	(155,664)	(39,768)
Other long-term obligations:					
Net pension obligation	329,280	-	91,238	238,042	84,190
Compensated absences	<u>128,093</u>	<u>21,284</u>	<u>-</u>	<u>149,377</u>	<u>17,500</u>
Total long-term obligations	<u>\$ 12,006,547</u>	<u>\$ 21,284</u>	<u>\$ 1,076,075</u>	<u>\$ 10,951,755</u>	<u>\$ 1,111,922</u>

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the good faith and credit of the government. These bonds generally are issued as 15 year or 20 year serial bonds with equal amounts of principal maturing each year.

As of June 30, 2014, the outstanding general obligation bonded indebtedness of the Town was as follows:

Refunding serial school bonds with interest rates Ranging from 3% to 5% and varying expiration Dates range from March 2004 to July 2020.	\$ 2,370,000
Refunding of Bond Anticipation Note with an interest rate ranging from 2.0% to 3.5% due serially from August 2011 through 2029.	5,875,000
Library renovations with 2% interest rate due serially from March 2014 through 2023.	<u>900,000</u>
	<u>\$ 9,145,000</u>

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Promissory Note Payable

The Town purchased land and buildings known as Happy Acres Farm for \$2,900,000 during 2011. The purchase was paid with \$650,000 of cash and a promissory note payable in the amount of \$2,250,000. The promissory note is payable in ten equal annual installments of \$225,000 beginning February 2012 at a zero interest rate. Therefore, a discount on the promissory note of \$330,704 was recorded to reflect the estimated market interest rate of 3.0%, which is amortized over the life of the note. The unamortized discount was \$155,664 at year end June 30, 2014.

Debt Service Requirement

Annual debt service requirements to maturity for the general obligation bonds and promissory note payable are as follows:

Year Ended June 30	General Obligation Bonds		Promissory Note Payable
	Principal	Interest	
2015	\$ 825,000	\$ 281,095	\$ 225,000
2016	820,000	254,720	225,000
2017	820,000	226,470	225,000
2018	820,000	196,595	225,000
2019	820,000	168,103	225,000
2020-2029	<u>5,040,000</u>	<u>798,906</u>	<u>450,000</u>
Total	<u>\$ 9,145,000</u>	<u>\$ 1,925,889</u>	<u>\$ 1,575,000</u>

Statutory Debt Limitation

Connecticut General Statutes Section 7-374(b) provides that authorized debt of the Town shall not exceed seven times base receipts, as defined in the Statute. Further, the Statute limits the amount of debt that may be authorized by the town for general purposes, schools, sewers, urban renewal and pension deficit. The Town did not exceed any of the statutory debt limitations at June 30, 2014.

Unissued Bond Authorization

Authorizations of general obligation bonds that remained unissued as of June 30, 2014 are summarized below:

	Date Authorized	Authorized and Unissued July 1, 2014
Open space acquisition	06/09/07	\$ <u>250,000</u>
Total bond authorizations, unissued		\$ <u>250,000</u>

Note 8 – Restricted Fund Balance

Enabling Legislation

The Board of Selectmen reserved \$10,750 of the General Fund surplus to be used for payments on the long-term compensated absences.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Note 9 – Commitments and Contingencies

Litigation Liabilities

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

Note 10 – Employee Retirement Plans

Town Employees Defined Benefit Plan

Actuarial reports for the Town's Pension Plan (the "Plan") are required to be prepared annually. The latest actuarial report for the Plan was prepared as of July 1, 2014. The following information is based on the latest available report, which is as of July 1, 2014.

Plan Description

The Town contributes to the Plan. The Plan is considered to be part of the Town's financial reporting entity and is included in the financial report as the Defined Benefit Trust Fund and does not issue a stand-alone financial statement. Plan benefit and contribution requirements are established by the Plan, which may be amended by the Town.

Effective June 30, 2005, the Plan was closed to new employees and participant's monthly pensions were frozen (i.e. no additional benefits will accrue under the Plan for the subsequent periods).

Based on the actuarial valuation report dated July 1, 2014, membership consisted of:

Active participants	13
Terminated vested participants	8
Retired	<u>11</u>
Total	<u><u>32</u></u>

Benefit Provisions

The Plan is contributory and covers substantially all regular employed permanent employees of the Town employed as of June 30, 2005. Prior to June 30, 2005, employees contributed 3% of earnings. Beginning July 1, 2005, employees are not required to contribute to the Plan. The only elected or appointed officials covered are those paid a salary by the Town, working more than five months a year and twenty hours per week. In order to be eligible for the Plan, the employee must complete one full year of service and attain a minimum age of twenty-two. Employees covered by the State Teacher's Retirement System are excluded from this Plan.

Normal retirement date is sixty-two with twenty years of credited service or sixty-five. The annual benefit is 1.6% of 1986-87 earnings for years of service through June 30, 1987 plus 1.6% of earnings for each year of participation since July 1, 1987, for a maximum of forty years. The Plan contains a provision for early retirement at age fifty-five and after ten years of credited service at reduced benefits. The Plan also contains provisions for disability retirement and spouse's benefits. There is no provision for increases in benefits after retirement.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Contributions are recorded as paid by the employer, and the benefits are recorded as payments are due.

Investments

For the year ended June 30, 2014, the annual money-weighted rate of return on plan investments, net of pension plan investment expenses, was 12.9%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for changing amounts actually invested.

Investments are valued at fair market value using quoted market prices.

Contributions

The Town's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate the assets needed to pay benefits when due. Certain costs for administering the Plan are paid by the earnings in the Pension Trust Fund. The actual contribution was \$58,130 for the year ended June 30, 2014.

Net Pension Liability

The components of the net pension liability of the Town at June 30, 2014 were as follows:

Total pension liability	\$	1,143,554
Plan fiduciary net position		<u>905,512</u>
Net pension liability	\$	<u>238,042</u>

Actuarial Assumption

Mortality rates were based on the RP-2000 Unisex mortality tables.

The long-term expected rate of return on plan investments as determined using IRC 430(h) Funding Segment Rates as of the month of the Valuation Date are as follows:

Years 0-5	Segment rate 1	1.14%
Years 6-20	Segment rate 2	4.04%
Years over 20	Segment rate 3	5.11%

Town Employees Defined Contribution Plan

Beginning July 1, 2005, the Town offered a defined contribution plan to the employees with over 1,000 of employment hours. Under the plan, employees may contribute a portion of their pay to the plan and the Town has agreed to match 100%, up to 3% of the gross pay, of the employee's contribution. In the fiscal year ended June 30, 2014, the Town paid \$29,594 into the plan. The plan is included in the Town's financial statements as the Defined Contribution Trust Fund. At June 30, 2014, the net position, which is available for benefits, was \$1,208,460.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Teachers' Retirement System

Teachers within the Town's school system participate in a retirement plan administered by the Connecticut State Teacher's Retirement Board.

Covered Employees

The Teachers' Retirement System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the plan is restricted to certified staff employed in the public schools of Connecticut and members of the professional staff of the State Department of Education or the board of Governors of Higher Education and their constituent units. Participation in the plan is mandatory for certified personnel of local boards of education who are employed for an average of at least one-half of a school day. Members of the professional staff of the State Department of Education or the Board of Governors of Higher Education and their constituent units may elect to participate in this system, the State Employees' Retirement System, or the Alternate Retirement Plan (TIAA-CREF).

Vesting Requirements

A member who completes 10 years of Connecticut public school service is eligible for a vested benefit commencing at age 60.

Pension Contribution Requirements

The pension contributions made by the State to the plan are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z. For the fiscal year ended June 30, 2014, approximately \$782,704 was expended by the State on behalf of the Town to meet the State's funding requirements. The results of the State's actuarial valuation did not contain information, which would show the development of the State's actuarial cost by local districts. The State's appropriation represented 24.79% of the total estimated payroll.

Participants are required to contribute 7.25% of their annual salary rate to the system as required by CGS Section 10-183b (7). For the 2013/2014 school year, \$228,907 mandatory contributions were deducted from the salaries of teachers who were participants of the plan during that school year. The estimated covered payroll for the Town is \$3,157,338.

Note 11 – Risk Management

The Town is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster and public official liabilities. The Town obtains commercial insurance for these risks and claims have not exceeded commercial coverage.

Note 12 –Happy Acres Farm

The Town purchased Happy Acres Farm from Anthony Hapanowich in 2011 and gave Mr. Hapanowich a life estate to the property. Mr. Hapanowich passed away on August 28, 2013, and the Town took over operations of the farm in February 2014 from the estate's trustee. To provide visibility to the financial activity related to the farm operations, the financial statements reflect the establishment of the Happy Acres special revenue fund. Cell tower revenues, which had been accumulated and previously reported in the Capital and Non-recurring Fund, were transferred into this new Happy Acres fund. Revenues and expenses from farm activities are also reflected in this special revenue fund.

Town of Sherman, Connecticut
Notes to Financial Statements (continued)

Mr. Hapanowich bequeathed a portion of his estate to the Town to be used as a restricted endowment fund. The purpose of this endowment fund shall be the preservation and maintenance of the real estate and improvements of Happy Acres Farm. As of September 30, 2014, the trustee has not yet distributed these funds to the Town.

Note 13 - Adjustment

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans - An amendment of GASB Statement No. 25*, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures* (GASB 67), as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. The provisions in GASB 67 are effective for financial statements for periods beginning after June 15, 2013. The Town adopted the provisions of GASB 67 as of July 1, 2013, which resulted in the reduction of the government-wide net position in the amount of \$269,497.

Note 14 - Recently Issued Accounting Standards

The GASB has issued new accounting standards that will become effective in future years. Management is currently evaluating the effect implementation of the following standards will have on its financial statements.

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, which replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 will require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 will also enhance accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014 and early adoption is permitted.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to a variety of transactions such as mergers, acquisitions, and transfers of operations. This statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

**REQUIRED SUPPLEMENTARY
INFORMATION**

TOWN OF SHERMAN, CONNECTICUT

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2014

Total Pension Liability

Service Cost	\$	79,142
Interest		3,395
Difference between expected and actual results		(5,838)
Benefit payments		<u>(41,977)</u>
Net change in total pension liability		34,722
Total pension liability - beginning		<u>1,108,832</u>
Total pension liability - ending	\$	<u><u>1,143,554</u></u>

Plan Fiduciary Net Position

Contributions - employer	\$	58,130
Net investment income		118,795
Benefit payments		(41,977)
Administrative expenses		<u>(8,988)</u>
Net change in plan fiduciary net position		125,960
Plan fiduciary net position - beginning		<u>779,552</u>
Plan fiduciary net position - ending	\$	<u><u>905,512</u></u>
Net pension liability - ending	\$	<u><u>238,042</u></u>
Plan fiduciary net position as a percent of the total pension liability		<u><u>79.18%</u></u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIUBTIONS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 59,783	\$ 47,535	\$ 42,357	\$ 43,249	\$ 42,548	\$ 18,613	\$ 29,256	\$ 29,256	\$ 19,872	\$ 55,311
Contribution in relation to the actuarially determined contribution	<u>58,130</u>	<u>49,038</u>	<u>35,062</u>	<u>27,500</u>	<u>22,500</u>	<u>25,000</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>41,800</u>
Contribution deficiency (excess)	<u>\$ 1,653</u>	<u>\$ (1,503)</u>	<u>\$ 7,295</u>	<u>\$ 15,749</u>	<u>\$ 20,048</u>	<u>\$ (6,387)</u>	<u>\$ 9,256</u>	<u>\$ 29,256</u>	<u>\$ 19,872</u>	<u>\$ 13,511</u>

Notes to schedule

Valuation Date	July 1, 2014
Actuarial Cost Method	Unit Credit
Amortization Period	Not Required
Remaining Amortization Period	Not Applicable
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.00%
Projected Salary Increases	0.00%

See accompanying Independent Auditor's Report.

**SUPPLEMENTAL
STATEMENTS AND SCHEDULES**

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF REVENUES
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Property taxes - current year	\$ 12,743,221	\$ 12,743,221	\$ 12,791,142	\$ 47,921
Property taxes - prior years	65,000	65,000	78,662	13,662
Interest and lien fees	30,000	30,000	53,510	23,510
	<u>12,838,221</u>	<u>12,838,221</u>	<u>12,923,314</u>	<u>85,093</u>
Investment income:				
Interest and dividends	4,500	4,500	5,636	1,136
Licenses and permits:				
Building fees	95,000	95,000	86,590	(8,410)
Planning and zoning	13,900	13,900	13,542	(358)
Health department permits	12,000	12,000	8,550	(3,450)
Inland wetlands	5,000	5,000	7,510	2,510
Other	3,130	3,130	3,670	540
	<u>129,030</u>	<u>129,030</u>	<u>119,862</u>	<u>(9,168)</u>
Fees and service charges:				
Conveyance taxes	55,000	55,000	84,855	29,855
Town clerk recording fees	23,000	23,000	23,342	342
Copy machine, regulations, and dog fund	7,300	7,300	7,264	(36)
Town clerk LoCIP	2,300	2,300	2,088	(212)
Beach, parks and recreation	86,500	86,500	92,526	6,026
Parks & recreation - SPARK	25,000	25,000	19,684	(5,316)
	<u>199,100</u>	<u>199,100</u>	<u>229,759</u>	<u>30,659</u>
Education grants:				
Education assistance	244,605	244,605	246,314	1,709
Education transportation	-	-	3,303	3,303
Tuition (preschool only)	26,500	26,500	51,197	24,697
	<u>271,105</u>	<u>271,105</u>	<u>300,814</u>	<u>29,709</u>
Intergovernmental:				
State PILOT program	-	-	12	12
Elderly and vet tax relief	20,740	20,740	20,749	9
Town aid roads	204,201	204,201	204,655	454
Federal land	738	738	770	32
Mashantucket Pequot	-	-	8,184	8,184
ConnDOT grant	11,063	11,063	14,750	3,687
CT FEMA grant	-	-	31,870	31,870
Other	2,000	2,000	18,333	16,333
	<u>238,742</u>	<u>238,742</u>	<u>299,323</u>	<u>60,581</u>
Miscellaneous:				
CL&P, telephone, and other	14,040	14,040	16,333	2,293
Total revenues	<u>\$ 13,694,738</u>	<u>\$ 13,694,738</u>	<u>\$ 13,895,041</u>	<u>\$ 200,303</u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
General Government:				
Board of Selectmen	\$ 134,315	\$ 134,315	\$ 140,202	\$ (5,887)
Treasurer	13,961	13,961	13,960	1
Tax collector	45,194	45,194	44,252	942
Town clerk	98,074	98,074	97,168	906
Assessors	81,736	81,736	80,654	1,082
Assessment appeals	725	725	278	447
Building department	85,945	85,945	89,725	(3,780)
Planning and zoning	90,478	90,478	86,353	4,125
Zoning Board of Appeals	1,970	1,970	1,388	582
Inland wetlands commission	11,644	11,644	11,736	(92)
Counsel and court costs	32,500	32,500	65,887	(33,387)
Registrars	25,606	25,606	21,157	4,449
H.V.C.E.O.	4,164	4,164	4,164	-
Consultants	1,200	1,200	1,200	-
Other general government	8,738	8,738	8,457	281
	<u>636,250</u>	<u>636,250</u>	<u>666,581</u>	<u>(30,331)</u>
Building & Grounds:				
Mallory town hall	61,379	61,379	56,995	4,384
Facilities	100,281	100,281	105,668	(5,387)
	<u>161,660</u>	<u>161,660</u>	<u>162,663</u>	<u>(1,003)</u>
Public Safety:				
Public safety	198,271	198,271	200,817	(2,546)
Fire protection	112,100	112,100	110,965	1,135
ESF operating	40,000	40,000	74,059	(34,059)
Candlewood Lake Authority	60,514	60,514	60,514	-
Animal control	16,070	16,070	16,070	-
Collections and recycling	24,010	24,010	22,159	1,851
	<u>450,965</u>	<u>450,965</u>	<u>484,584</u>	<u>(33,619)</u>
Public Works	<u>781,656</u>	<u>781,656</u>	<u>869,455</u>	<u>(87,799)</u>
Health and Welfare:				
Health department	52,705	52,705	47,123	5,582
Health and welfare	50,866	50,866	52,013	(1,147)
	<u>103,571</u>	<u>103,571</u>	<u>99,136</u>	<u>4,435</u>
Insurance:				
Post-employment defined benefit	66,546	66,546	60,530	6,016
Workers' compensation	65,750	65,750	59,001	6,749
Payroll taxes	82,400	82,400	80,461	1,939
Post-employment defined contribution	24,000	24,000	21,572	2,428
Life and medical	316,340	316,340	282,720	33,620
Liability, auto, and property	94,537	94,537	73,580	20,957
Other compensated absences	6,486	6,486	6,367	119
	<u>656,059</u>	<u>656,059</u>	<u>584,231</u>	<u>71,828</u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES (CONTINUED)
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Other:				
Capital reserve	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Land trust	620	620	95	525
Library	110,000	110,000	110,000	-
Parks and recreation	135,008	135,008	126,551	8,457
Parade committee	1,500	1,500	1,656	(156)
Probate court	2,410	2,410	2,332	78
Senior center	50,394	50,394	58,397	(8,003)
Historic district	700	700	274	426
Cemetery flags	100	100	39	61
Tree warden	7,890	7,890	6,450	1,440
Conservation commission	1,250	1,250	956	294
Housing commission	2,500	2,500	1,329	1,171
Miscellaneous	4,000	4,000	4,042	(42)
	<u>666,372</u>	<u>666,372</u>	<u>662,121</u>	<u>4,251</u>
Education:				
Regular education	52,119	74,047	82,376	(8,329)
Primary	942,988	955,536	947,627	7,909
Art	109,259	109,833	110,607	(774)
Music	101,774	101,774	101,744	30
Physical education	88,338	88,338	88,338	-
Science	111,062	123,639	123,662	(23)
Math	220,505	206,831	206,868	(37)
Social studies	85,131	111,856	111,856	-
Language arts	270,199	246,557	252,607	(6,050)
Other regular programs	397,412	407,306	310,780	96,526
Exceptional/special education	1,232,404	1,233,501	1,207,415	26,086
Adult education	3,700	3,561	3,561	-
Medical services	43,463	46,033	45,967	66
Improvements of instructions	46,500	47,500	51,191	(3,691)
Educational media services	223,725	278,747	278,129	618
Board of Education	31,950	29,525	26,217	3,308
Administrative services	54,250	54,455	66,754	(12,299)
Office of the Principal	321,407	323,369	325,132	(1,763)
Fiscal services	1,118,984	1,023,275	885,093	138,182
Operations and maintenance	539,480	568,021	638,089	(70,068)
Pupil transportation	481,381	488,370	481,505	6,865
Health education	43,600	27,770	26,555	1,215
Student activities	17,400	32,153	35,558	(3,405)
Tuition out of district	253,393	235,321	112,157	123,164
High school tuition	2,301,836	2,274,942	2,238,473	36,469
Education grants	(240,000)	(240,000)	-	(240,000)
	<u>8,852,260</u>	<u>8,852,260</u>	<u>8,758,261</u>	<u>93,999</u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES (CONTINUED)
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt Service:				
Principal	\$ 1,030,000	\$ 1,030,000	\$ 1,030,000	\$ -
Interest	305,445	305,445	305,445	-
Continuing disclosure	500	500	500	-
	<u>1,335,945</u>	<u>1,335,945</u>	<u>1,335,945</u>	<u>-</u>
 Total expenditures	 <u>\$ 13,644,738</u>	 <u>\$ 13,644,738</u>	 <u>\$ 13,622,977</u>	 <u>\$ 21,761</u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Special Revenue Funds</u>				<u>Capital Project Funds</u>		Total Other Funds
	<u>Dog Fund</u>	<u>Education Grants</u>	<u>Document Preservation</u>	<u>Happy Acres</u>	<u>Revaluation Reserve Fund</u>	<u>Land Acquisition</u>	
<u>Assets</u>							
Cash and cash equivalents	\$ 47,996	\$ -	\$ 3,459	\$ 39,413	\$ 6,636	\$ 27,358	\$ 124,862
Grant receivable	-	1,808					1,808
Total assets	\$ 47,996	\$ 1,808	\$ 3,459	\$ 39,413	\$ 6,636	\$ 27,358	\$ 126,670
<u>Fund Balances</u>							
Liabilities:							
Due to General Fund	\$ -	\$ 1,808	\$ -	\$ -	\$ -	\$ -	\$ 1,808
Total liabilities	-	1,808	-	-	-	-	1,808
Fund Balances:							
Assigned	47,996	-	3,459	39,413	6,636	27,358	124,862
Total fund balances	47,996	-	3,459	39,413	6,636	27,358	124,862
Total fund balances	\$ 47,996	\$ 1,808	\$ 3,459	\$ 39,413	\$ 6,636	\$ 27,358	\$ 126,670

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Special Revenue Funds</u>				<u>Capital Project Funds</u>		Total Other Funds
	Dog Fund	Education Grants	Document Preservation	Happy Acres	Revaluation Reserve Fund	Land Acquisition	
Revenues:							
Intergovernmental	\$ -	\$ 266,010	\$ 4,000	\$ -	\$ -	\$ -	\$ 270,010
Investment earnings	67	-	2	-	34	38	141
Donations and other	3,414	-	722	48,207	-	-	52,343
Total revenues	<u>3,481</u>	<u>266,010</u>	<u>4,724</u>	<u>48,207</u>	<u>34</u>	<u>38</u>	<u>322,494</u>
Expenditures:							
Current:							
General government	2,176	-	4,785	-	41,551	-	48,512
Education	-	266,010	-	-	-	-	266,010
Other	-	-	-	59,235	-	-	59,235
Total expenditures	<u>2,176</u>	<u>266,010</u>	<u>4,785</u>	<u>59,235</u>	<u>41,551</u>	<u>-</u>	<u>373,757</u>
Excess of revenues over (under) expenditures	1,305	-	(61)	(11,028)	(41,517)	38	(51,263)
Other Financing Sources:							
Transfers in	-	-	-	50,441	11,065	-	61,506
Net change in fund balances	1,305	-	(61)	39,413	(30,452)	38	10,243
Fund balances, beginning of year	46,691	-	3,520	-	37,088	27,320	114,619
Fund balances, end of year	<u>\$ 47,996</u>	<u>\$ -</u>	<u>\$ 3,459</u>	<u>\$ 39,413</u>	<u>\$ 6,636</u>	<u>\$ 27,358</u>	<u>\$ 124,862</u>

See accompanying Independent Auditor's Report.

TOWN OF SHERMAN, CONNECTICUT
STATEMENT OF DEBT LIMITATION
CONNECTICUT GENERAL STATUTES SECTION 7.374(B)
FOR THE YEAR ENDED JUNE 30, 2014

Total tax collection including interest and lien fees for the year ended June 30, 2014	\$ 12,912,719
Reimbursement for revenue loss on: Tax relief for elderly (CGS 12-129d)	<u>19,241</u>
Base	<u><u>\$ 12,931,960</u></u>

	<u>General</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit</u>
Debt Limitation:					
2 1/4 times base	\$ 29,096,910	\$	\$	\$	\$
4 1/2 times base		58,193,820			
3 3/4 times base			48,494,850		
3 1/4 times base				42,028,870	
3 times base					38,795,880
Total debt limitation	<u>29,096,910</u>	<u>58,193,820</u>	<u>48,494,850</u>	<u>42,028,870</u>	<u>38,795,880</u>
Indebtedness:					
Bonds payable	6,775,000	2,370,000			
Open space promissory note	1,575,000				
Bonds authorized and unissued	<u>250,000</u>				
Total indebtedness	<u>8,600,000</u>	<u>2,370,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding and authorized debt	<u><u>\$ 20,496,910</u></u>	<u><u>\$ 55,823,820</u></u>	<u><u>\$ 48,494,850</u></u>	<u><u>\$ 42,028,870</u></u>	<u><u>\$ 38,795,880</u></u>

TOWN OF SHERMAN, CONNECTICUT

**REPORT OF THE TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2014**

Grand List October 1,	Taxes Receivable July 1, 2013	Lawful Corrections		Suspense Transfers	Adjusted Taxes Receivable	Collections			Taxes Receivable June 30, 2014
		Additions	Deductions			Taxes	Interest and Lien Fees	Total	
2012	\$ 12,867,318	\$ 45,467	\$ 32,940	\$ (1,364)	\$ 12,878,481	\$ 12,788,379	\$ 35,229	\$ 12,823,608	\$ 90,102
2011	88,201	358	743	(1,080)	86,736	58,055	11,250	69,305	28,681
2010	26,405			(1,484)	24,921	12,169	6,377	18,546	12,752
2009	5,742			(731)	5,011	902	358	1,260	4,109
2008	231				231			-	231
	<u>\$ 12,987,897</u>	<u>\$ 45,825</u>	<u>\$ 33,683</u>	<u>\$ (4,659)</u>	<u>\$ 12,995,380</u>	<u>\$ 12,859,505</u>	<u>\$ 53,214</u>	<u>\$ 12,912,719</u>	<u>\$ 135,875</u>

See accompanying Independent Auditor's Report.