

**TOWN OF SHARON**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**Year Ended June 30, 2015**

**BAUDE & ROLFE, P.C.  
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**TOWN OF SHARON**  
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**INDEPENDENT AUDITOR'S REPORT**

Board of Finance  
Town of Sharon  
Sharon, Connecticut

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, Connecticut, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Sharon, Connecticut'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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sharon, Connecticut, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof, 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.

### ***Change in Accounting Principle***

As discussed in Note 10 to the financial statements, during the fiscal year ended June 30, 2015, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the required supplementary information on page 44 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 of Sharon, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedules 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 combining and individual nonmajor fund financial statements and the schedules 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 December 8, 2015 on our consideration of the Town of Sharon, Connecticut'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 of Sharon, Connecticut's internal control over financial reporting and compliance.

*Baude & Rolfe, P.C.*

Baude & Rolfe, P.C.  
Certified Public Accountants

New London, Connecticut  
December 8, 2015

**TOWN OF SHARON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2015**

As management of the Town of Sharon, we offer readers of the Town of Sharon's financial statements this narrative overview and analysis of the financial activities of the Town of Sharon for the fiscal year ended June 30, 2015.

**Financial Highlights:**

- The assets of the Town of Sharon exceeded its liabilities at the close of the most recent fiscal year by \$15,346,823. Of this amount, \$5,373,455 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$162,332. This decrease is mainly attributable to a decrease in revenues and an increase in expenditures.
- As of the close of the current fiscal year, the Town of Sharon's governmental funds reported combined ending fund balances of \$3,922,522. \$2,523,163 is available for spending at the government's discretion (unassigned fund balance). The Town strives to maintain an adequate unassigned fund balance. Through the FYE 2016 budgetary process, the Town made a decision to provide a tax relief through the use of excess fund balances in the amount of \$50,000 in the FYE 2016 budget.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,523,163 or 22.8% of total general fund expenditures on a budgetary basis.
- The Town of Sharon's total long-term debt decreased by \$1,122,878 (13.6%) during the current fiscal year.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Sharon's finances, in a manner similar to a private-sector business. All of the resources the Town has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the Town's overall financial status.

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 assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Sharon is improving or deteriorating. It speaks to the question of whether or not, the Town, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes to the Town's tax base and the condition of the Town's infrastructure, to assess the overall health of the Town.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; uncollected taxes and earned but unused vacation leave are examples.

The governmental activities of the Town of Sharon include education, general government services, public safety, and public works, planning and development, human services and civic and cultural. Property taxes, charges for services, and state and federal grants finance most of these activities. The Town maintains one business-type activity, the Sewer and Water Commission.

The government-wide financial statements (statement of net position and statement of activities) can be found on pages 10-11 of this report.

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

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

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

The Town of Sharon maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Non-Recurring Capital Projects Fund which are considered to be major funds. In addition, there are seven Special Revenue Funds and one Capital Projects Fund. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town of Sharon adopted an annual appropriated budget for its general fund.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 12-14 of this report.

**Proprietary funds:** The Town of Sharon maintains one proprietary fund.

The proprietary fund is the Sewer and Water Commission.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The funds are combined into single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

**Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support services to the Town's constituency. The Town has a Pension Trust Fund and an Agency Fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Included in the notes is the information concerning the Town of Sharon's funding of its obligation to provide pension benefits to its employees. The notes to the financial statements can be found on pages 21-43 of this report.

**Other Information.** The combining statements referred to earlier in connection with non-major governmental funds as well as information regarding the Connecticut State Teacher's Retirement System are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found beginning on page 44 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceed liabilities by \$15,346,823 at the close of the fiscal year ended June 30, 2015.

By far the largest portion of the Town's net position is reflected in its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in 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.

	June 30, 2015 Net Position			June 30, 2014 Net Position		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>						
Current and Other Assets	\$ 4,777,894	\$ 326,986	\$ 5,104,880	\$ 5,420,813	\$ 414,793	\$ 5,835,606
Capital Assets	11,884,212	5,208,775	17,092,987	12,284,208	5,403,529	17,687,737
Noncurrent Assets	787,575	-	787,575	787,575	-	787,575
<b>TOTAL ASSETS</b>	<b>17,449,681</b>	<b>5,535,761</b>	<b>22,985,442</b>	<b>18,492,596</b>	<b>5,818,322</b>	<b>24,310,918</b>
<b>LIABILITIES</b>						
Current Liabilities	961,993	171,480	1,133,473	6,180,206	1,019,805	7,200,011
Noncurrent Liabilities	5,756,082	749,064	6,505,146	1,432,784	168,968	1,601,752
<b>TOTAL LIABILITIES</b>	<b>6,718,075</b>	<b>920,544</b>	<b>7,638,619</b>	<b>7,612,990</b>	<b>1,188,773</b>	<b>8,801,763</b>
<b>NET POSITION</b>						
Invested in Capital Assets, Net of Related Debt	5,545,137	4,288,231	9,833,368	5,080,385	4,214,756	9,295,141
Restricted for Capital Improvements	-	140,000	140,000	-	140,000	140,000
Unrestricted	5,186,469	186,986	5,373,455	5,799,221	274,793	6,074,014
<b>TOTAL NET POSITION</b>	<b>\$ 10,731,606</b>	<b>\$ 4,615,217</b>	<b>\$ 15,346,823</b>	<b>\$ 10,879,606</b>	<b>\$ 4,629,549</b>	<b>\$ 15,509,155</b>



**TOWN OF SHARON**  
**STATEMENT OF NET POSITION**  
**June 30, 2015**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,808,610	\$ 207,379	\$ 4,015,989
Investments	372,399		372,399
Receivables (Net of Uncollectible)			
Property Taxes	583,283	-	583,283
Grants Receivable	4,977	-	4,977
Accounts Receivable	7,500	119,607	127,107
Inventories	1,125	-	1,125
Other Long-Term Assets	787,575	-	787,575
Capital Assets			
Nondepreciable	284,831	135,354	420,185
Depreciable, Net of Accumulated Depreciation	11,599,381	5,073,421	16,672,802
<b>TOTAL ASSETS</b>	<b>\$ 17,449,681</b>	<b>\$ 5,535,761</b>	<b>\$ 22,985,442</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 250,991	\$ -	\$ 250,991
Security Deposits	1,000	-	1,000
Performance Bonds	102,939	-	102,939
Non-current Liabilities:			
Due within one year	582,993	171,480	754,473
Due in more than one year	5,756,082	749,064	6,505,146
<b>TOTAL LIABILITIES</b>	<b>6,694,005</b>	<b>920,544</b>	<b>7,614,549</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Advanced Property Tax Collections	24,070	-	24,070
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,545,137	4,288,231	9,833,368
Restricted Net Position	-	140,000	140,000
Unrestricted	5,186,469	186,986	5,373,455
<b>TOTAL NET POSITION</b>	<b>\$ 10,731,606</b>	<b>\$ 4,615,217</b>	<b>\$ 15,346,823</b>

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

### **Net (Expense) Revenue and Changes in Net Position**

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

**TOWN OF SHARON**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
June 30, 2015

	General Fund	Capital and Non-Recurring Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 3,030,266	\$ 688,953	\$ 89,391	\$ 3,808,610
Investments	-	-	372,399	372,399
Receivables (Net of Uncollectible)				
Property Taxes	583,283	-	-	583,283
Grants Receivable	-	-	4,977	4,977
Accounts Receivables	-	-	7,500	7,500
Inventories	-	-	1,125	1,125
Due from Other Funds	2,868	50,800	-	53,668
<b>TOTAL ASSETS</b>	<u>\$ 3,616,417</u>	<u>\$ 739,753</u>	<u>\$ 475,392</u>	<u>\$ 4,831,562</u>
<b>LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 144,233	\$ -	\$ 33,354	\$ 177,587
Due to Other Funds	53,668	-	-	53,668
Security Deposit	1,000	-	-	1,000
Performance Bonds	102,939	-	-	102,939
<b>TOTAL LIABILITIES</b>	<u>301,840</u>	<u>-</u>	<u>33,354</u>	<u>335,194</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Advance Tax Collections	24,070	-	-	24,070
Unavailable Revenue - Property Taxes	549,776	-	-	549,776
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>573,846</u>	<u>-</u>	<u>-</u>	<u>573,846</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	1,125	1,125
Restricted	-	-	139,637	139,637
Committed	209,631	739,753	301,276	1,250,660
Assigned	7,937	-	-	7,937
Unassigned	2,523,163	-	-	2,523,163
<b>TOTAL FUND BALANCES</b>	<u>2,740,731</u>	<u>739,753</u>	<u>442,038</u>	<u>3,922,522</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF OF RESOURCES AND FUND BALANCES</b>	<u>\$ 3,616,417</u>	<u>\$ 739,753</u>	<u>\$ 475,392</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	11,884,212
Other long-term assets are not available to pay for current-period expenditures and , therefore, are deferred in the funds.	1,337,351
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(6,412,479)
Net position of governmental activities	<u>\$ 10,731,606</u>

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

**TOWN OF SHARON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2015**

	General Fund	Capital and Non-Recurring Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General Property Taxes	\$ 9,632,171	\$ -	\$ -	\$ 9,632,171
Intergovernmental	645,482	-	499,875	1,145,357
Investment Income	6,802	936	15,186	22,924
Licenses, Fees and Charges	401,637	-	-	401,637
Other Revenue	49,672	-	22,649	72,321
Contributions	-	-	5,400	5,400
Sales	-	-	27,473	27,473
<b>TOTAL REVENUES</b>	<u>10,735,764</u>	<u>936</u>	<u>570,583</u>	<u>11,307,283</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,177,193	-	25,760	1,202,953
Public Safety	302,679	-	-	302,679
Public Works	1,502,501	-	466,615	1,969,116
Health Welfare	70,285	-	1,428	71,713
Parks and Recreation	203,516	-	-	203,516
Miscellaneous	134,549	-	-	134,549
Education	6,819,517	-	97,242	6,916,759
Debt Service	1,055,238	-	-	1,055,238
Capital Outlay	-	10,750	99,517	110,267
<b>TOTAL EXPENDITURES</b>	<u>11,265,478</u>	<u>10,750</u>	<u>690,562</u>	<u>11,966,790</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(529,714)	(9,814)	(119,979)	(659,507)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	10,180	220,037	20,000	250,217
Transfers Out	(240,037)	-	(10,180)	(250,217)
<b>NET OTHER FINANCING SOURCES (USES)</b>	<u>(229,857)</u>	<u>220,037</u>	<u>9,820</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(759,571)	210,223	(110,159)	(659,507)
<b>FUND BALANCES, BEGINNING</b>	<u>3,500,302</u>	<u>529,530</u>	<u>552,197</u>	<u>4,582,029</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,740,731</u>	<u>\$ 739,753</u>	<u>\$ 442,038</u>	<u>\$ 3,922,522</u>

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

**TOWN OF SHARON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2015**

Amounts reported for governmental activities in the statement of activities  
(page 11) are different because:

Net change in fund balances - total governmental funds (page 13)	\$ (659,507)
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.	(399,996)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	25,551
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	864,748
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>21,204</u>
Change in net position of governmental activities (page 11)	<u>\$ (148,000)</u>

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

**TOWN OF SHARON**  
**STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES –**  
**BUDGET TO ACTUAL – GENERAL FUND**  
**Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>			<b>Variance With Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes, Interest and Lien Fees	\$ 10,081,020	\$ 10,081,020	\$ 9,632,271	\$ (448,749)
Intergovernmental Revenue	194,834	194,834	212,967	18,133
Investment Income	7,000	7,000	6,571	(429)
Licenses, Fees and Charges	249,500	249,500	389,617	140,117
Other Revenue	41,200	41,200	42,380	1,180
<b>TOTAL REVENUES</b>	<u>10,573,554</u>	<u>10,573,554</u>	<u>10,283,806</u>	<u>(289,748)</u>
<b>EXPENDITURES</b>				
General Government	1,222,680	1,217,200	1,174,617	42,583
Public Safety	305,352	310,832	309,891	941
Public Works	1,256,774	1,590,735	1,586,509	4,226
Health Department	70,343	70,343	70,285	58
Parks and Recreation	246,943	255,341	228,516	26,825
Miscellaneous	154,458	154,458	151,886	2,572
Debt Service	817,646	1,055,248	1,055,238	10
Education	6,549,358	6,549,358	6,510,577	38,781
<b>TOTAL EXPENDITURES</b>	<u>10,623,554</u>	<u>11,203,515</u>	<u>11,087,519</u>	<u>115,996</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (50,000)</u>	<u>\$ (629,961)</u>	<u>\$ (803,713)</u>	<u>\$ (173,752)</u>

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

**TOWN OF SHARON**  
**STATEMENT OF NET POSITION – PROPRIETARY FUND**  
**June 30, 2015**

	<b>Business-Type Activities Enterprise Fund Sewer &amp; Water Commission</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 207,379
Accounts Receivable, Net of Allowance for Doubtful Accounts	<u>119,607</u>
<b>TOTAL CURRENT ASSETS</b>	326,986
<b>NONCURRENT ASSETS</b>	
Capital Assets	
Land	135,354
Utility Plant, Net of Accumulated Depreciation	<u>5,073,421</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,208,775</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,535,761</u></u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ -
Current Portion of Notes Payable	<u>171,480</u>
<b>TOTAL CURRENT LIABILITIES</b>	171,480
<b>LONG-TERM LIABILITIES</b>	
Notes Payable, Net of Current Portion	<u>749,064</u>
<b>TOTAL LIABILITIES</b>	920,544
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	4,288,231
Restricted for Capital Improvements	140,000
Unrestricted	<u>186,986</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 4,615,217</u></u>

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

**TOWN OF SHARON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –**  
**PROPRIETARY FUND**  
**Year Ended June 30, 2015**

	<b>Business-Type Activities Enterprise Fund Sewer &amp; Water Commission</b>
<b>OPERATING REVENUE</b>	
Water Sales	\$ 334,182
Sewer Services	<u>156,269</u>
<b>TOTAL OPERATING REVENUES</b>	490,451
<b>OPERATING EXPENSES</b>	
Management Services	177,625
Chemicals	6,703
Depreciation	194,754
Electric	19,066
Repairs and Maintenance	22,161
Supplies	4,252
Telephone	2,831
Fuel	9,119
Other Costs	758
Professional Services	5,000
Wages and Payroll Taxes	14,255
Insurance	14,850
Lab Fees	10,893
Sewer Bed Cleaning	14,125
Meters	<u>2,985</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>499,377</u>
<b>OPERATING INCOME (LOSS)</b>	(8,926)
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Revenue	436
Finance Charge Revenue	25,626
Bad Debt Expense	(417)
Interest Expense	<u>(31,051)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(5,406)</u>
<b>CHANGE IN NET POSITION</b>	(14,332)
<b>NET POSITION, BEGINNING</b>	<u>4,629,549</u>
<b>NET POSITION, ENDING</b>	<u><u>\$ 4,615,217</u></u>

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



**TOWN OF SHARON  
STATEMENT OF CASH FLOWS –  
PROPRIETARY FUND  
Year Ended June 30, 2015**

	<b>Business-Type Activities <u>Enterprise Fund</u> <u>Sewer &amp; Water</u> <u>Commission</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from Customers	\$ 513,990
Cash payments to Suppliers for Goods and Services	(285,368)
Cash payments to Employees and Professional Contractors for Services	<u>(19,255)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	209,367
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal Repayments	(268,229)
Interest Paid	<u>(31,051)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(299,280)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Receipts of Interest	<u>436</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>436</u>
<b>NET DECREASE IN CASH</b>	(89,477)
<b>CASH, BEGINNING OF YEAR</b>	<u>296,856</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 207,379</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Income (Loss)	\$ (8,926)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	194,754
Receipt of Other Revenue	25,626
(Increase) Decrease in Accounts Receivable	<u>(2,087)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 209,367</u></u>

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

**TOWN OF SHARON**  
**STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS**  
June 30, 2015

	<u>Pension Trust Fund</u>	<u>Agency Fund Student Activity Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 15,421
Investments	<u>1,152,860</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>1,152,860</u></u>	<u><u>15,421</u></u>
<b>LIABILITIES</b>		
Due to Student Groups	<u>-</u>	<u>15,421</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>15,421</u>
<b>NET POSITION HELD IN TRUST</b>	<u><u>\$ 1,152,860</u></u>	<u><u>\$ -</u></u>

**TOWN OF SHARON**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS**  
**Year Ended June 30, 2015**

	<u>Pension Trust Fund</u>
<b>ADDITIONS</b>	
Contributions	\$ 75,537
<b>INVESTMENT GAIN</b>	<u>20,964</u>
<b>TOTAL ADDITIONS</b>	<u>96,501</u>
<b>DEDUCTIONS</b>	
Benefits	5,000
Administration	<u>680</u>
<b>TOTAL DEDUCTIONS</b>	<u>5,680</u>
<b>CHANGE IN NET ASSETS</b>	90,821
<b>NET POSITION HELD IN TRUST</b>	
Beginning of the Year	<u>1,062,039</u>
End of Year	<u><u>\$ 1,152,860</u></u>

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

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Sharon, Connecticut (the "Town") is a municipal corporation governed by a Board of Selectman, Town Meeting, Board of Finance form of government. Under this form of government, the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes, and borrow money. The executive branch is led by an elected three-member Board of Selectman. The selectman oversee most of the activities not assigned specifically to another body. An elected Board of Education oversees the public school system. The elected Board of Finance is the budget making authority and supervises the Town's financial matters.

The accounting policies conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town's more significant accounting policies:

Financial Reporting Entity

The financial reporting entity consists of: (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the financial reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in this reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. The criterion has been considered and there are no agencies or entities which should be presented with this

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government as a whole. For the most part, the effects of interfund activity has 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 Statement of Net Position presents the financial position of the Town at the end of its fiscal year. 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, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary 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.

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 proprietary fund and fiduciary fund financial statements. Agency funds, however, have no measurement focus.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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.

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.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The Capital and Non-Recurring Fund: it accounts for the resources to purchase and construct town projects.

The Town reports one major proprietary fund:

Sewer and Water Commission Enterprise Fund: is used to account for the operations of the Sewer and Water Commission, which oversees the water and sewer services.

Additionally, the Town reports the following fund types:

*Pension Trust Fund:* it is used to account for the activities of the Town's pension plan, which accumulates resources for pension benefit payments to qualified employees.

*Agency Fund:* it accounts for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise fund and various other functions of government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenance, provision for doubtful accounts, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents

For purposes of reporting cash flows, all savings, checking, money market accounts and certificates of deposit with an original maturity of less than 90 days are considered to be cash equivalents.

Investments

Investments are recorded at fair value.

Inventories and Prepaid Items

All inventories are valued at cost or market using the first-in/first-out (FIFO) method. Inventories of donated commodities are stated at fair market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances"

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and enterprise fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

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

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

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Building Improvements	20
Public Domain Infrastructure	50
System Infrastructure	30
Machinery and Equipment	5-20

Capital outlay is considered an expenditure in the governmental fund financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period or periods 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.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period or periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports advance property tax collections in the government-wide statement of net position and in the governmental funds balance sheet. Advance property tax collections represent taxes inherently associated with a future period. This amount is recognized during the period with which the revenue is associated. Also, for governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The government funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources (revenue) in the period in which the amounts become available.

Compensated Absences

Employees are paid by a prescribed formula for absences due to sickness or vacation. Sickness and vacation pay expenses to be paid in future periods are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for amounts expected to be paid with available resources.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Equity

Equity in the government-wide financial statements is defined as “net position” and is classified in the following categories:

Net Investment in Capital Assets– This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Net position is restricted because it is externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component consists of net position that does not meet the definition of “reserved” or “net investment in capital assets.”

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts reported as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which resources are considered applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance – These represents amounts cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance – These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – This represents amounts constrained, prior to year-end, for a specific purpose by a government using the highest level of decision-making authority (Town of Sharon, Town Meeting).

Assigned Fund Balance – Amounts constrained for the intent to be used for a specific purpose by the Board of Finance.

Unassigned Fund Balance – Includes residual positive fund balance within the General Fund which has not been classified within the other abovementioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, the Town considers that committed amounts would be reduced first, followed by assigned amounts, and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

The Town has not adopted a minimum fund balance policy.



**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property Taxes

Property taxes are assessed on property values as of October 1. Real estate and personal property taxes are billed in the following July and are due quarterly installments, July 1, October 1, January 1, and April 1. Motor vehicle taxes are billed July 1 and are due in a single payment on July 1. Liens are effective on the assessment date and are continued by filing on July 1, following the due date.

Property taxes that have been levied and are due on or before year-end are recognized as revenue if they have been collected within sixty days after year-end. Property taxes receivable not collected within sixty days after year-end are reflected as deferred revenue. An allowance based on historical collection experience is provided for uncollectible taxes.

Accounting Estimates

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

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds, and net position – governmental activities as reported in the government-wide statement of 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 \$6,412,479 difference are as follows:

Bonds Payable	\$ 6,339,075
Accrued Interest Payable	<u>73,404</u>
Net Adjustment to Reduce Fund Balance - Total Governmental Funds to Arrive at Net Position Governmental Activities	<u><u>\$ 6,412,479</u></u>

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS(CONTINUED)**

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

The governmental fund 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 \$399,996 difference are as follows:

Capital Outlay	\$ 10,750
Depreciation Expense	<u>(410,746)</u>
Net Adjustment to Decrease Net Changes in Fund Balances - total Governmental Funds to arrive at changes in Net Position of Governmental Activities	<u>\$ (399,996)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) 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 issuance costs, 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 \$864,748 difference are as follows:

Net Adjustment to Increase Net Changes in Fund Balances - total Governmental Funds to arrive at Changes in Net Position of Governmental Activities	<u>\$ 864,748</u>
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**3. BUDGETS AND BUDGETARY ACCOUNTING**

The Town adheres to the following procedures in establishing the budgetary data reflected in the General Fund financial statements. All Town departments submit estimated budgets to the Board of Selectmen who then present the estimated budgets to the Board of Finance for the ensuing fiscal year. By state statute, the Board of Finance holds hearings to review and revise the budget.

- The citizens of the Town vote on the recommended budget.
- The Board of Finance sets the tax rate for the fiscal year.
- All budget transfers must be approved by the Board of Finance.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- Except for encumbrance accounting, the budget is prepared on the modified accrual basis of accounting.

All unencumbered appropriations of the General Fund lapse at year end.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**3. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)**

**Additional Appropriations**

Departments seeking additional appropriations or appropriation transfers between budgetary line items must make a written request to the Board of Finance through the Board of Selectmen. An additional appropriation to a budgetary line item requires approval at a Town meeting if it exceeds \$20,000 or is a second request by the asking board or department. An additional appropriation of \$20,000 or higher must be voted on by the citizens of the Town. Additional appropriations for the year ended June 30, 2015 amounted to \$579,961.

**Legal Level of Control**

No officer of the Town shall expend or enter into any contract by which the Town shall become liable for any sum which, with any contract then in force, shall exceed the appropriation for the department, except in case of necessity connected with the repair of highways, bridges, sidewalks, and water and sewer systems and the care of the Town poor, and then not more than \$1,000.

Formal budgetary integration of these budgets is employed as a management control device in the General Fund. Formal budgetary integration is not employed in other funds because budgetary control is alternately achieved by constraints imposed by the project authorization or grant awards related to these funds.

All encumbered appropriations lapse at year-end except for those in the Capital Projects Fund. Appropriations for these funds are continued until completion of the applicable projects, which often last more than one fiscal year but cannot exceed five (5) years.

The Town's budgeting system requires accounting for certain transactions to be on a basis other than accounting principles generally accepted in the United States of America (GAAP basis). The major differences between the budget and GAAP basis are as follows:

- Taxes collected 60 days subsequent to June 30 are recognized as revenue for GAAP purposes during the current year compared to recognition in the year received for budgetary purposes.
- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order is issued and, accordingly, encumbrances outstanding at year-end are reflected in budgetary reports as expenditures in the current years whereas they are shown as a reservation of fund balances on a GAAP basis of accounting.
- State of Connecticut payments on-behalf of the Town teachers for the State teacher retirement system are reported for GAAP purposes only.
- For budgetary purposes, the Town does not recognize payroll expenditures and certain lawsuit expenditures which had been incurred but had not yet been paid out at June 30. Such amounts were recorded for GAAP purposes.
- An allowance for uncollectible property taxes is reported for GAAP purposes only.

As explained above, the Town's budgetary fund structure accounts for certain transactions differently from that utilized in the financial statements in conformity with GAAP. A reconciliation of these differences at June 30, 2015 follows:

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**3. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)**

	<b>General Fund</b>	
	<b>Revenues and Transfers</b>	<b>Expenditures and Transfers</b>
Non-GAAP budgetary basis, Page 15	\$ 10,283,806	11,087,519
Encumbrances		
June 30, 2014	-	1,800
June 30, 2015	-	(7,937)
Activity of Certain Special Revenue Funds consolidated into the General Fund	34,723	36,830
Elimination of Transfers to/from Special Revenue Funds now consolidated into the General Fund	-	(40,212)
Allowance for Doubtful Accounts	(100)	-
Unliquidated Prior Year Encumbrances	-	-
State on-behalf payments for teacher retirement	427,515	427,515
GAAP basis, Page 13	<u>\$ 10,745,944</u>	<u>\$ 11,505,515</u>

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits can be made in a "qualified public depository" as defined by statute, or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit in an "out of state bank", as defined by statutes, which is not a "qualified public depository".

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (1) obligations of the United States and its agencies; (2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Provisions of the statutes cover specific municipal funds with particular investment authority. The provisions of the statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at June 30, 2015:

Deposits:	
Deposits	\$ 4,031,110
Certificates of Deposit	75,183
Total deposits	<u>4,106,293</u>
 Petty Cash	 300
 Less: Certificates of Deposit Classified as Investments	 <u>(75,183)</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 4,031,410</u></u>

Deposits

At June 30, 2015 the carrying amount of the Town deposits was \$4,106,293 and the bank balance was \$4,365,406.

*Custodial Credit Risk* – Custodial credit risk is the risk that in event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a policy for custodial credit risk. Of the June 30, 2015 bank balance, \$587,368 was covered by Federal Depository Insurance. Section 36a-333 of the Connecticut General Statutes requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio. As of June 30, 2015, \$3,778,038 was not covered by Federal Depository Insurance; however, all bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the town or by its agent in the Town's name.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2015, the Town held no cash equivalents.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

Investments

Investments as of June 30, 2015 in all funds are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted-Average Maturity (Years)</u>
Interest Bearing Investments:		
Certificates of Deposit*	\$ 75,183	1.50
Corporate Bonds & Notes	16,434	2.12
Other Investments:		
Non-major Governmental Funds:		
Common Stock	226,294	
Foreign Equities	23,850	
Exchange Traded Funds:		
Fixed Income Indices	30,638	
Pension Trust Fund	<u>1,152,860</u>	
Total	<u>\$ 1,525,259</u>	
Portfolio weighted average maturity for interest bearing investments		1.81

\*Subject to coverage by Federal Depository Insurance and collateralization as described under "Deposits" above.

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

*Credit Risk – Investments* – As indicated above, State Statutes limit the investment options of cities and towns. The Town has no investment policy that would further limit its investment choices. The following table provides a summary of the Town's investments (excluding US government guaranteed obligations) as rated by a nationally recognized statistical rating organization.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

	<u>Standard &amp; Poor's</u>
Nonmajor Governmental Funds:	
Common Stock:	
Abbott Labs	A++
American Express	A++
Apple, Inc.	A++
Automatic Data Processing	A++
Berkshire Hathway Inc. Cl B	A++
Caterpillar, Inc	A+
Danaher Corp.	A
Deere & Co	A++
Ecolab, Inc.	A
Exxon Mobil Corp.	A++
FMC Corp.	A
General Electric Co.	B++
Google, Inc.	A++
Johnson & Johnson	A++
JPMorgan Chase & Co.	A
Lowes Cos Inc.	A+
Marsh & McLennan Cos Inc	A
McCormick & Co., Inc	A+
McDonalds Corp.	A++
Microsoft Corp.	A++
Mondelez International	A
Nielsen, N.V.	B++
Nike, Inc.	A++
Novartis, AG	A++
PepsiCo, Inc.	A++
Proctor & Gamble	A++
Schlumberger, LTD	A++
Stanley B&D	A
TE Connectivity, Ltd.	A
Thermo Fisher Corp	A
United Technologies Corp	A++
US Bancorp Del	A
Walt Disney Company	A++
Walgreens Boots Alliance, Inc.	A+
Whole Foods Market, Inc.	A+
Corporate Bonds & Notes:	
Johnson & Johnson	AAA
ETF Fixed Income Indices	
Vanguard Short-Term Bond	Not Rated
Pension Trust:	
Annuities (American Express)	Not Rated

*Custodial Credit Risk* – Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Town or that sells investments to or buys them for the Town), the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2015, the Town did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Town's name.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**5. RECEIVABLES**

Receivables at June 30, 2015 including the applicable allowances for collection losses, are as follows:

	<u>General Fund</u>	<u>Non-Major and Other Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property Taxes	\$ 613,983	\$ -	\$ -	\$ 613,983
Grants Receivable	-	4,977	-	4,977
Accounts Receivable	-	7,500	149,509	157,009
	<u>613,983</u>	<u>12,477</u>	<u>149,509</u>	<u>775,969</u>
Total Gross Receivables				
Allowance for Collection Losses	<u>30,700</u>	<u>-</u>	<u>29,902</u>	<u>60,602</u>
Total Net Receivables	<u>\$ 583,283</u>	<u>\$ 12,477</u>	<u>\$ 119,607</u>	<u>\$ 715,367</u>

**6. INTERFUND RECEIVABLES / PAYABLES AND TRANSFERS**

Interfund Receivables and Payables at June 30, 2015 were as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 2,868	\$ 53,668
Capital Non-Recurring Fund	<u>50,800</u>	<u>-</u>
Total	<u>\$ 53,668</u>	<u>\$ 53,668</u>

All interfund balances result from the time lag between dates payments occur between funds for various activities.

Interfund transfers during the year ended June 30, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 10,180	\$ 240,037
Capital Non-Recurring Fund	220,037	-
Non-Major Governmental Funds	<u>20,000</u>	<u>10,180</u>
Total	<u>\$ 250,217</u>	<u>\$ 250,217</u>

Transfers are used to account for unrestricted revenues collected mainly in the General Fund to finance various programs accounted for in other funds in accordance with budget authorizations.



**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**7. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets, not being depreciated	\$ -	\$ -	\$ -	\$ -
Land	274,081	-	-	274,081
Construction in Progress	-	10,750	-	10,750
Total Capital Assets, not being depreciated	<u>274,081</u>	<u>10,750</u>	<u>-</u>	<u>284,831</u>
<b>Capital Assets, being depreciated:</b>				
Building and Improvements	9,412,005	-	-	9,412,005
Machinery and Equipment	2,426,225	-	-	2,426,225
Infrastructure	7,382,824	-	-	7,382,824
Total Capital Assets being depreciated	<u>19,221,054</u>	<u>-</u>	<u>-</u>	<u>19,221,054</u>
<b>Less Accumulated Depreciation for:</b>				
Building and Improvements	4,894,300	157,647	-	5,051,947
Machinery and Equipment	1,805,088	105,443	-	1,910,531
Infrastructure	511,539	147,656	-	659,195
Total Accumulated Depreciation	<u>7,210,927</u>	<u>410,746</u>	<u>-</u>	<u>7,621,673</u>
Total Capital Assets, being depreciated, net	<u>12,010,127</u>	<u>(410,746)</u>	<u>-</u>	<u>11,599,381</u>
Governmental activities capital assets, net	<u>\$ 12,284,208</u>	<u>\$ (399,996)</u>	<u>\$ -</u>	<u>\$ 11,884,212</u>
<b>Business-Type Activities:</b>				
Capital Assets, not being depreciated	\$ -	\$ -	\$ -	\$ -
Land	135,354	-	-	135,354
Construction in Progress	-	-	-	-
Total Capital Assets, not being depreciated	<u>135,354</u>	<u>-</u>	<u>-</u>	<u>135,354</u>
<b>Capital Assets, being depreciated:</b>				
Building and Improvements	6,568,569	-	-	6,568,569
Machinery and Equipment	1,245,399	-	-	1,245,399
Total Capital Assets being depreciated	<u>7,813,968</u>	<u>-</u>	<u>-</u>	<u>7,813,968</u>
<b>Less Accumulated Depreciation for:</b>				
Building and Improvements	2,242,176	191,276	-	2,433,452
Machinery and Equipment	303,617	3,478	-	307,095
Total Accumulated Depreciation	<u>2,545,793</u>	<u>194,754</u>	<u>-</u>	<u>2,740,547</u>
Total Capital Assets, being depreciated, net	<u>5,268,175</u>	<u>(194,754)</u>	<u>-</u>	<u>5,073,421</u>
Business-Type activities capital assets, net	<u>\$ 5,403,529</u>	<u>\$ (194,754)</u>	<u>\$ -</u>	<u>\$ 5,208,775</u>

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**7. CAPITAL ASSETS (CONTINUED)**

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

Governmental Activities:	
General Government Services	\$ 52,317
Public Works, including depreciation of general infrastructure assets	250,555
Education	<u>107,874</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 410,746</u>
Business-Type Activities:	
Sewer and Water Commission	<u>\$ 194,754</u>

**8. GENERAL LONG-TERM DEBT**

Changes in General Long-Term Debt are summarized below:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Bonds and Debt Payable, July 1, 2014	\$ 7,082,642	\$ 1,188,773	\$ 8,271,415
Additions	-	-	-
Deductions	<u>(854,649)</u>	<u>(268,229)</u>	<u>(1,122,878)</u>
Bonds and Debt Payable, June 30, 2015	6,227,993	920,544	7,148,537
Premium	149,620	-	149,620
Deferred Charges	<u>(38,538)</u>	<u>-</u>	<u>(38,538)</u>
Total Bonds/Debt and Related Liabilities June 30, 2015	<u>\$ 6,339,075</u>	<u>\$ 920,544</u>	<u>\$ 7,259,619</u>

The amortization of bond premiums for the year ended June 30, 2015 amounted to \$13,602, and the amortization of deferred charges amounted to \$3,503 for the year then ended.

The annual principal requirements to amortize all outstanding debt are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
2016	582,993	171,480	754,473
2017	530,000	163,129	693,129
2018	530,000	100,969	630,969
2019	530,000	103,756	633,756
2020	530,000	106,605	636,605
2021-2042	3,525,000	274,605	3,799,605
	<u>\$ 6,227,993</u>	<u>\$ 920,544</u>	<u>\$ 7,148,537</u>

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**8. GENERAL LONG-TERM DEBT (CONTINUED)**

Bonds and Debt payable at June 30, 2015 are comprised of the following obligations:

Bonds payable dated 08-2013 to 08-2026 payable at various annual installments, including interest at rates from 3.00% to 3.35%, final payment due 08-2026 - General Fund.	\$ 6,175,000
Note payable dated 8-2011 to Salisbury Bank and Trust Company, payable \$54,577.97 per year, including interest at 2.95%, final payment due 08-2015 - General Fund.	52,993
Note payable dated 10-2010 to Salisbury Bank and Trust Company, payable \$930 a month, including interest at the 4.25% final payment due 10-2040 – Enterprise Fund.	171,167
Note payable dated 12-1999 to State of Connecticut Clear Water Fund, payable \$6,568 a month, including interest at 2.77%, final payment due 05-2017 – Enterprise Fund.	140,752
Note payable dated 12-2000 to State of Connecticut Drinking Water Fund, payable \$1,110 a month, including interest at 2.60%, final payment due 06-2020 – Enterprise Fund.	62,378
Note Payable dated 06/01 to State of Connecticut Clean Water Fund, payable \$5,503 a month, including interest at 2.77%, final payment due 12-2020 – Enterprise Fund.	336,506
Note Payable dated 06-2004 to State of Connecticut Drinking Water Fund, payable \$2,275 a month, including interest at 2.40% after first payment of \$27,166 in December 2004, final payment due 12-2023 –Enterprise Fund.	<u>209,741</u>
<b>TOTAL BONDS AND NOTES PAYABLE</b>	<b><u>\$ 7,148,537</u></b>

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**8. GENERAL LONG-TERM DEBT (CONTINUED)**

The approximate annual requirements to amortize all bonds and notes payable at June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	754,473	207,792	962,265
2017	693,129	185,536	878,665
2018	630,969	166,098	797,067
2019	633,757	147,410	781,167
2020	636,605	128,661	765,266
2021	587,883	110,224	698,107
2022	530,958	93,759	624,717
2023	531,807	77,910	609,717
2024	518,945	62,121	581,066
2025	505,642	46,398	552,040
2026	505,889	30,150	536,039
2027	506,148	13,391	519,539
2028	6,405	4,759	11,164
2029	6,700	4,464	11,164
2030	6,994	4,170	11,164
2031	7,302	3,863	11,165
2032	7,613	3,552	11,165
2033	7,957	3,207	11,164
2034	8,307	2,857	11,164
2035	8,672	2,492	11,164
2036	9,048	2,117	11,165
2037	9,451	1,714	11,165
2038	9,866	1,298	11,164
2039	10,300	864	11,164
2040	10,752	413	11,165
2041	2,965	120	3,085
	<u>\$ 7,148,537</u>	<u>\$ 1,305,340</u>	<u>\$ 8,453,877</u>

Of the above amounts, the Enterprise Fund is responsible for principal payments amounting to \$920,444 and interest payments amounting to \$167,987. The balance will be paid via General Fund appropriations.

The town's indebtedness does not exceed the legal debt limitations as established by Connecticut general statutes as reflected in the supplementary schedule. The total overall statutory debt limit for the town is equal to seven times annual receipts from taxation or \$67,549,293.

Sharon is a member of the Regional School District #1. The Town of Sharon's share of the school district's indebtedness as of June 30, 2015 was \$794,659. These are general obligations of Regional School District #1 and its member towns.

**9. DEFICIT FUND BALANCES**

As of June 30, 2015, no funds of the Town of Sharon reported deficit fund balances.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**10. PENSION PLANS**

**Town Employees' Defined Contribution Plan**

Substantially all town and non-certified Board of Education employees are eligible to participate in a defined contribution pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. To be eligible to participate in the plan, the employee must be at least twenty one years of age and complete one year of service. Employees who work less than one thousand hours per annum are not eligible to participate. The town contributes seven percent of base compensation. Plan assets are held in investment accounts through the Plan Administrator. Vesting is immediate. Employer contributions of \$75,537 amount to 7% of covered payroll \$1,079,100 which is of 33% of total town payroll \$3,223,522. A summary of changes in plan assets for the year ended June 30, 2015 is presented below:

Balance, July 1, 2014	\$ 1,062,039
Contributions:	
Town	75,537
Investment Earnings (Loss)	20,964
Expenses:	
Distributions	(5,000)
Administrative	(680)
	<hr/>
Balance, June 30, 2015	<u>\$ 1,152,860</u>

**Connecticut State Teachers' Retirement System**

Description of System

Teachers within the Town's school system participate in a retirement system administered by the Connecticut State Teachers' Retirement Board. This Connecticut State Teachers' Retirement System (the "System") is a cost sharing multiple employer defined benefit pension system with a special funding situation.

The System is considered a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106 or by calling (860) 702-3480.

The System is administered under the provisions of Chapter 167a of the Connecticut General Statutes (CGS). Participation in the System 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 System 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 System (TIAA-CREF).

Summary of Significant Accounting Policies

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the System, information about System's fiduciary net position and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**10. PENSION PLANS (CONTINUED)**

Benefits Provided

The benefits provided to participants by the System are as follows:

**Normal Benefit:** A member at age 60 with 20 years of Credited Service in Connecticut, or 35 years of Credited Service including at least 25 years of service in Connecticut is eligible for vested benefits of 2% of average annual salary times years of credited service (maximum benefit is 75% of average annual salary.)

**Prorated Benefit:** A member who completes 10 years of Connecticut public school service is eligible for a vested benefit commencing at age 60. The benefit is 2% less 0.1% for each year less than 20 years of average annual salary times years of credited service.

**Minimum Benefit:** Effective January 1, 1999, Public Act 98-251 provides a minimum monthly retirement benefit of \$1,200 to teachers who retire under the Normal Benefit provisions and who have completed at least 25 years of full time Connecticut service at retirement.

Contribution Requirements

The pension contributions made by the State to the System are determined on an actuarial reserve basis as described in CGS Sections 10-1831 and 10-183z.

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 2014/2015 school year, \$122,337 mandatory contributions were deducted from the salaries of teachers who were participants of the System during that school year. The estimated covered payroll for the Town is \$1,693,960. The Town had 24 active participants in the System at June 30, 2015.

Actuarial Assumptions

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following key actuarial assumptions:

Inflation	3.00 Percent
Salary increases, including inflation	3.75-7.00 Percent
Long-term investment rate of return, net of pension investment expense, including inflation	8.50 Percent

Mortality rates were based on the RP-2000 Combined Mortality Table RP-2000 projected 19 years using scale AA, with a two-year setback for males and females for the period after service retirement and for dependent beneficiaries. The Scale AA projection to 2019 of the RP-2000 mortality rates with two-year setbacks continues to provide a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience. The post-retirement mortality rates are multiplied by 75% for death in active service. The post-retirement mortality rates are set forward ten years for the period after disability retirement.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**10. PENSION PLANS (CONTINUED)**

The long-term expected rate of return on pension investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	7.3%
Developed non-U.S. equities	18.0%	7.5%
Emerging markets (non-U.S.)	9.0%	8.6%
Core fixed income	7.0%	1.7%
Inflation linked bond fund	3.0%	1.3%
Emerging market bond	5.0%	4.8%
High yield bonds	5.0%	3.7%
Real estate	7.0%	5.9%
Private equity	11.0%	10.9%
Alternative investments	8.0%	0.7%
Liquidity fund	<u>6.0%</u>	0.4%
TOTAL	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.50 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that State contributions will be made at the actuarially determined rates in future years. Based on those assumptions, the pension's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability of the System, calculated using the discount rate of 8.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50 percent) or 1-percentage-point higher (9.50 percent) than the current rate.

	<u>1% Decrease (7.50%)</u>	<u>Current Discount Rate (8.50%)</u>	<u>1% Increase (9.50%)</u>
Sensitivity of the proportionate Share of the net pension liability	\$ 5,468,094	\$ 4,284,847	\$ 3,279,087

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**10. PENSION PLANS (CONTINUED)**

Pension Liabilities, Pension Expense, and Deferred Inflows/Outflows of Resources

The State makes all contributions to the System on behalf of employees of the participating districts. Therefore, participating employers are considered to be in a special funding situation as defined by Governmental Accounting Standards Board No. 68 and the State is treated as a non-employer contributing entity in the System. Since the districts do not contribute directly to the System, there is no net pension liability or deferred inflows or outflows to report in the financial statements of the Town. The portion of the net pension liability that was associated with the Town was \$4,284,847 and 100% of the collective net pension liability is allocated to the State.

June 30, 2014 is the actuarial valuation date upon which the total pension liability is based. There were no changes in assumptions or benefits that affected the measurement of the total pension liability since the prior measurement date.

The Town recognized the total pension expense associated with the Town as well as revenue in an amount equal to the non-employer contributing entities' total proportionate share of the collective pension expense associated with the Town. For the fiscal year ended June 30, 2015, the Town recognized \$427,515 as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

**11. LITIGATION**

Legal counsel indicates that there are no material or substantial claims against the town nor is there pending litigation which would be finally determined so as to result in a final judgment against the town which would materially adversely affect its financial position.

**12. SUPPLEMENTAL DISCLOSURE FOR THE STATEMENT OF CASH FLOWS**

During the year ended June 30, 2015, the Town of Sharon Sewer and Water Commission paid interest expense in the amount of \$31,051. There were no non-cash investing or financing activities for the year ended June 30, 2015.

**13. RISK MANAGEMENT**

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town maintains insurance coverage and manages risk through employee education and prevention programs. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The Town is currently not involved in any litigation matters. In the estimation of the Town's management and legal counsel, there are not any matters outstanding that will materially affect the financial condition of the Town. During the past three years, there were no deductibles paid by the Town and there have been no reductions in insurance coverage.

**14. RESTRICTED NET ASSETS**

At June 30, 2015, the Board of Commissioners of the Sewer and Water Commission has restricted \$140,000 of retained earnings for capital improvements. The following is a summary of these designations:

Capital Improvements	\$ <u>140,000</u>
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**15. SUBSEQUENT EVENT EVALUATION BY MANAGEMENT**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 8, 2015.



**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**16. ADOPTION OF ACCOUNTING STANDARDS**

The Town adopted GASB Statement No. 67, Financial Reporting for Pension Plans, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions during the current fiscal year for the Connecticut State Teachers' Retirement System. The adoption of these statements had no effect on the recording of amounts in the Town's financial statements. However, the statements did require significant additional footnote disclosures regarding the System.

**TOWN OF SHARON**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**17. GOVERNMENTAL FUNDS – FUND BALANCES**

In Fiscal Year 2011, the Town adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which establishes accounting and financial reporting standards for governmental funds. It establishes criteria for classifying fund balances into specifically defined classification and clarifies definitions for governmental fund types. Fund balances for governmental funds are reported in classifications that compromise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following is a table of fund balance categories and classifications at June 30, 2015 for the Town's governmental funds:

	<u>General</u>	<u>Capital and Non-Recurring Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Inventory	\$ -	\$ -	\$ 1,125	\$ 1,125
<b>Restricted</b>				
General Government	-	-	21,689	21,689
Public Works	-	-	9,835	9,835
Education	-	-	8,429	8,429
Health Department	-	-	99,684	99,684
<b>Total Restricted</b>	-	-	139,637	139,637
<b>Committed</b>				
General Government	96,659	-	301,276	397,935
Public Works	76,796	-	-	76,796
Parks and Recreation	36,176	-	-	36,176
Capital Outlay	-	739,753	-	739,753
<b>Total Committed</b>	209,631	739,753	301,276	1,250,660
<b>Assigned</b>				
General Government	5,600	-	-	5,600
Parks and Recreation	2,337	-	-	2,337
<b>Total Assigned</b>	7,937	-	-	7,937
<b>Unassigned</b>				
General Government	2,523,163	-	-	2,523,163
<b>Total Unassigned</b>	2,523,163	-	-	2,523,163
<b>Total Fund Balance</b>	<u>\$ 2,740,731</u>	<u>\$ 739,753</u>	<u>\$ 442,038</u>	<u>\$ 3,922,522</u>

**TOWN OF SHARON**  
**CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM**  
**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2015</u>
Town's proportion of the net pension liability	0.042251%
Town's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the Town	<u>4,284,847</u>
Total	<u>\$ 4,284,847</u>
Town's covered-employee payroll	<u>\$ 1,693,960</u>
Town's proportionate share of the net pension liability as a percentage of its covered payroll	<u>0.00%</u>
System fiduciary net position as a percentage of the total pension liability	<u>61.51%</u>

**Notes to Connecticut State Teachers' Retirement System**

Changes of Assumptions

In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2010.

Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date. The following actuarial methods and assumptions were used to determine the most recent contributions reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Single equivalent amortization period	22.4 years
Asset valuation method	4-year smoothed market
Inflation	3.00 percent
Salary increase	3.75-7.00 percent, including inflation
Investment rate of return	8.50 percent, net of investment related expense

**TOWN OF SHARON  
GENERAL FUND  
BALANCE SHEET  
June 30, 2015**

**ASSETS**

Cash	\$ 3,030,266
Property Taxes Receivable	613,983
Due From Other Funds	<u>2,868</u>

**TOTAL ASSETS**

\$ 3,647,117

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts Payable	\$ 112,786
Accrued Liabilities	31,447
Advance Tax Collections	24,070
Deferred Property Taxes	549,776
Due To Other Funds	53,668
Performance Bonds Payable	102,939
Security Deposit	<u>1,000</u>

**TOTAL LIABILITIES**

875,686

**FUND BALANCE**

Committed	209,631
Assigned	7,937
Unassigned	<u>2,553,863</u>

**TOTAL FUND BALANCE**

2,771,431

**TOTAL LIABILITIES AND FUND BALANCE**

\$ 3,647,117