

TOWN OF SHERMAN, CONNECTICUT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2016

Sandra E. Welwood, LLC
Certified Public Accountants

TOWN OF SHERMAN, CONNECTICUT

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Sandra E. Welwood, LLC

sewonlake@aol.com
Website: www.sewelwoodcpa.com
(203) 730-0509 / Fax: (203) 730-0509

Certified Public Accountants
46 Main Street
Danbury, CT 06810

INDEPENDENT AUDITORS' 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, 2016, 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.

Auditors' 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, 2016, 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 3-12 and the required supplementary information on pages 41-43 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 26, 2016, 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 26, 2016

TOWN OF SHERMAN, CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2016

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, 2016. 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 \$17,583,201 (net position). This is an increase of \$977,459 (up 5.9%) from the prior fiscal year.
- Government-wide revenues were \$15,591,055 (down 9.8%) and expenses were \$14,613,596 (up 0.8%). On a government-wide basis, revenues exceeded expenses by \$977,459.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,766,836, an increase of \$551,958 or 17.2% from the prior fiscal year. This represents the combined balances in the General, Happy Acres Farm Restricted, Capital and Nonrecurring, Dog, Land Acquisition, and other smaller funds.
- In the General Fund, revenues exceeded expenditures and transfers by \$301,030. The total General Fund balance of \$2,227,249 as of June 30, 2016, compares to a balance of \$1,926,219 in the prior year, an increase of \$301,030 or 15.6%.
- At the end of the current fiscal year, the unassigned General Fund balance was \$2,216,499. This represents 14.5% of total General Fund revenues in the current fiscal year, up 1.7 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, Happy Acres Restricted, 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 \$17,583,201 at June 30, 2016. This was an increase of \$977,459 or 5.9% from the prior year.

	<u>Net Position</u>		
	<u>2016</u>	<u>2015</u>	<u>Total % Change</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,775,903	\$ 3,302,076	14.3%
Receivables	76,734	148,880	(48.5)%
Inventory	61,000	54,000	13.0%
Prepaid expenses	13,411	14,188	(5.5)%
Capital assets, not being depreciated	2,851,200	2,851,200	0.0%
Capital assets, net of accumulated depreciation	<u>18,653,027</u>	<u>19,055,955</u>	(2.1)%
Total assets	<u>25,431,275</u>	<u>25,426,299</u>	0.0%
<u>Liabilities</u>			
Accounts payable and other liabilities	91,871	181,246	(49.3)%
Accrued interest payable	88,479	97,309	(9.1)%
Unearned revenue	-	22,410	(100.0)%
Non-current liabilities:			
Due within one year	837,400	837,400	0.0%
Due in more than one year	<u>6,830,324</u>	<u>7,682,192</u>	(11.1)%
Total liabilities	<u>7,848,074</u>	<u>8,820,557</u>	(11.0)%
<u>Net Position</u>			
Net investment in capital assets	13,915,748	13,489,846	3.2%
Restricted for enabling legislation	10,750	10,750	0.0%
Unrestricted	<u>3,656,703</u>	<u>3,105,146</u>	17.8%
Total net position	<u>\$ 17,583,201</u>	<u>\$ 16,605,742</u>	5.9%

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

By far, the largest portion of the Town's net position reflects its net investment in capital assets of \$13,915,748 (79% of the total) for assets such as 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 \$3,656,703 (21% of the total) may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities increased the Town's net position by \$977,459. Key elements of the increase are as follows:

<u>Changes in Net Position</u>			
	<u>2016</u>	<u>2015</u>	<u>Total % Change</u>
Revenues:			
Property taxes	\$ 13,643,176	\$ 13,357,096	2.1%
Charges for services	386,241	367,180	5.2%
Operating grants and contributions	1,357,920	1,408,353	(3.6)%
Capital grants and contributions	15,375	176,155	(91.3)%
Hapanowich Farm bequest	-	1,750,847	(100.0)%
Unrestricted grants and contributions	174,272	224,456	(22.4)%
Investment earnings	<u>14,071</u>	<u>6,343</u>	121.8%
Total revenues	<u>15,591,055</u>	<u>17,290,430</u>	(9.8)%
Expenses:			
General, cultural, and recreation	1,626,686	1,536,644	5.9%
Public safety	1,284,691	997,603	28.8%
Public works	1,149,977	1,213,043	(5.2)%
Health and welfare	139,736	134,601	3.8%
Education	10,070,055	10,220,029	(1.5)%
Other	96,561	142,173	(32.1)%
Interest on long-term debt	<u>245,890</u>	<u>254,842</u>	(3.5)%
Total expenses	<u>14,613,596</u>	<u>14,498,935</u>	0.8%
Increase in net position	<u>\$ 977,459</u>	<u>\$ 2,791,495</u>	(65.0)%

Revenues decreased by \$1,699,375 (-9.8%) due entirely to the one-time Hapanowich Farm bequest received in the prior fiscal year. Approximately 88% of the Town's revenues came from property taxes, followed by 9% 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 \$286,080 (2.1%) over the prior year and resulted from an increase in the taxable grand list of \$7,010,421 (1.0%), an increase in the mil rate from 19.84 to 20.04 mils (1.0%), a tax collection rate of 99.70%, and supplemental taxes for motor vehicles and new construction.
- Operating grants and contributions for governmental activities decreased by \$50,433 (-3.6%) primarily due to a reduction in education grants from the State of Connecticut.
- Capital grants for governmental activities decreased by \$160,780 (-91.3%). In the current fiscal year, the Town began work on a public works wash station and received funding from the State of Connecticut through a STEAP grant.
- Investment earnings increased by \$7,728 (121.8%) due to increases in account balances with continued low interest rates.

Expenses increased \$114,661 (0.8%) from the prior fiscal year. Approximately 69% of the Town's expenses relate to education, followed by 11% for general, cultural and recreation, with 20% for other expenditures.

Major expense factors included:

- Increased spending on public safety of \$287,088 (up 28.8%), general, cultural and recreation of \$90,042 (up 5.9%), and health and welfare of \$5,135 (up 3.8%) from the prior year.
- Decreased spending on education of \$149,974 (down 1.5%), public works of \$63,066 (down 5.2%), interest on long-term debt of \$8,952 (down 3.5%), and all other spending of \$45,612 (down 32.1%) 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 \$3,766,836, an increase of \$551,958 (17.2%) from the prior year:

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

<u>Ending Fund Balance as of:</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$ 2,227,249	\$ 1,926,219	\$ 301,030
Happy Acres Restricted	779,658	556,787	222,871
Capital and Nonrecurring	560,250	607,286	(47,036)
Happy Acres Operations	53,847	18,912	34,935
Land Acquisition	43,709	27,391	16,318
Revaluation Fund	51,649	28,287	23,362
Other Funds	<u>50,474</u>	<u>49,996</u>	<u>478</u>
Total	<u>\$ 3,766,836</u>	<u>\$ 3,214,878</u>	<u>\$ 551,958</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 \$2,216,499. 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 14.5% of total General Fund revenues in the current fiscal year. This is above the Town's target of 10% and is an improvement from the prior year of 1.7%.

The Town's General Fund balance (including unspendable and restricted) increased by \$301,030 (15.6%) during the current fiscal year. The Town had planned for a balanced budget, and these key factors contributed to the increase in fund balance:

- General Fund revenues were better than budget by \$172,644 (or 1.2%) due to a high tax collection rate and a higher tax base due to an improved economy. Tax revenues including supplemental tax bills, collections of past due taxes, interest and liens were better than budget by \$155,657 (or 1.2%). All other revenues were higher than budget by \$16,987 (or 1.9%).
- General Fund expenditures were better than final budget by \$519,030 due to Board of Education spending being better than budget by \$403,763, and Town spending being better than budget by \$115,267.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Revenues were better than budget by \$172,644:

- Additional tax receipts of \$155,657 including current year taxes (\$79,984), unpaid from prior year taxes (\$57,897), and interest and fees (\$17,776).
- Investment earnings were better than budget by \$5,599.
- Higher licenses and permits of \$6,621.
- Higher fees and service charges of \$29,750 due to conveyance taxes of \$30,423.
- Parks & Recreation income was on budget in total, although Camps and Swim lessons were lower than expected.
- Education grants in the General Fund were below budget by \$56,412 due to reductions in education assistance from the State of Connecticut (\$44,132) and preschool tuition (\$12,280).

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

- Intergovernmental was \$27,255 higher than budget primarily due to a grant from the State of Connecticut for High Speed Rural Road speed enforcement of \$21,336 which was not budgeted.
- Other miscellaneous revenues were better than budget by \$4,174 and includes sale of surplus public works equipment (\$2,150).

Expenditures were lower than final budgeted appropriations by \$519,030:

- General Government was better than budget by \$20,431 driven by Counsel and Court costs of \$17,461, Registrars \$2,824, Town Clerk \$1,166, other smaller departmental spending improvements totaling \$4,590, and offset by the Building department (\$5,610).
- Building and Grounds was \$643 better than budget.
- Public Safety was \$14,210 better than budget due to police protection of \$20,095, Candlewood Lake Authority of \$4,614, offset by Emergency Services Facility operating of (\$7,609) and public safety supplies of (\$3,855).
- Public Works was \$41,003 better than budget due to contracted services of \$21,265, winter maintenance of \$16,760, and other spending improvements netting \$2,978.
- Health and Welfare was \$5,264 better than budget due to sanitarian salaries and visiting nurse.
- Insurance was \$34,175 better than budget due to lower liability, auto, and property insurance of \$18,961, as well as expenses associated with workers compensation of \$6,178, payroll taxes of \$5,410, and pension related expenses.
- Parks and Recreation was over budget by \$7,273 including supplies and maintenance (\$3,601) and part-time help (\$3,429).
- Other miscellaneous spending including the Housing commission, Senior center, Parade committee and other line items was better than budget by \$6,314 on a combined basis.
- Education spending in the General Fund was \$403,763 (4.3%) better than final budget due to operations and maintenance \$113,500, fiscal services \$108,637, high school tuition \$47,735, improvement of instruction \$23,027, exceptional/special education \$21,601, and other educational line items totaling \$89,263.

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
	2016	2015	Variance	
Revenues:				
Property taxes	\$ 13,674,668	\$ 13,371,415	\$ 303,253	2.3%
Licenses and permits	130,121	108,026	22,095	20.5%
Intergovernmental	1,216,580	1,251,577	(34,997)	(2.8)%
Charges for services	218,400	201,607	16,793	8.3%
Investment earnings	10,599	5,052	5,547	109.8%
Miscellaneous	19,264	40,136	(20,872)	(52.0)%
Total revenues	<u>15,269,632</u>	<u>14,977,813</u>	<u>291,819</u>	1.9%
Expenditures:				
General, cultural, and recreation	1,287,700	1,272,661	15,039	1.2%
Public safety	666,997	610,084	56,913	9.3%
Public works	1,054,764	1,101,934	(47,170)	(4.3)%
Health and welfare	139,736	134,601	5,135	3.8%
Education	9,589,213	9,615,620	(26,407)	(0.3)%
Other	83,916	77,651	6,265	8.1%
Debt service – principal	820,000	825,000	(5,000)	(0.6)%
Debt service – interest	254,720	281,095	(26,375)	(9.4)%
Total expenditures	<u>13,897,046</u>	<u>13,918,646</u>	<u>(21,600)</u>	(0.2)%
Excess of revenues over expenditures	<u>1,372,586</u>	<u>1,059,167</u>	<u>313,419</u>	29.6%
Transfers out	<u>(1,071,556)</u>	<u>(598,256)</u>	<u>(473,300)</u>	79.1%
Net transfers	<u>(1,071,556)</u>	<u>(598,256)</u>	<u>(473,300)</u>	79.1%
Net change in fund balance	301,030	460,911	(159,881)	(34.7)%
Fund balance – beginning	<u>1,926,219</u>	<u>1,465,308</u>	<u>460,911</u>	31.5%
Fund balance – ending	<u>\$ 2,227,249</u>	<u>\$ 1,926,219</u>	<u>\$ 301,030</u>	15.6%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of June 30, 2016, amounted to \$21,504,227 (net of accumulated depreciation) compared to \$21,907,155 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 \$402,928 (-1.8%) from the prior fiscal year and reflects an increase in capital assets of \$459,346, offset by accumulated depreciation of \$862,274.

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 \$897,254 (up 94%). The Town made significant investments in equipment for the Sherman Volunteer Fire department including a new rescue pumper, new ambulance, and improved radio communications. Capital spending also includes new boilers at the Sherman School, construction costs for a public works wash station funded by the State of Connecticut through a STEAP grant, dock replacements, a Toro Infield Pro for athletic field and beach maintenance, as well as other smaller projects.

<u>Capital Assets at Year-End (Net of Accumulated Depreciation)</u>			
	<u>2016</u>	<u>2015</u>	<u>Total % Change</u>
Land	\$ 2,851,200	\$ 2,851,200	0.0%
Buildings and improvements	14,088,327	14,361,398	(1.9)%
Furniture, fixtures, vehicles, and equipment	485,644	461,653	5.2%
Infrastructure	<u>4,079,056</u>	<u>4,232,904</u>	(3.6)%
Total (net of accumulated depreciation)	<u>\$ 21,504,227</u>	<u>\$ 21,907,155</u>	(1.8)%

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 \$7,500,000 in bonds outstanding compared to \$8,320,000 last year – a decrease of \$820,000 (-9.9%). These general obligation bonds have 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 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 \$84.7 million, which is significantly higher than the Town's current outstanding general obligation debt.

Other obligations of the Town include compensated absences of \$167,724. A promissory note payable associated with the purchase of Happy Acres Farm was bequeathed to the Town as part of the Anthony V. Hapanowich Trust. The Town will continue to make annual payments into the Happy Acres Farm Restricted fund until the note is fully paid. However, since the Town now owns this promissory note, the long-term obligation has been eliminated in the financial statements. 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

	<u>2016</u>	<u>2015</u>	<u>Total % Change</u>
General obligation bonds	\$ 7,500,000	\$ 8,320,000	(9.9)%
Employee compensated absences	<u>167,724</u>	<u>199,592</u>	(16.0)%
	<u>\$ 7,667,724</u>	<u>\$ 8,519,592</u>	(10.0)%

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 11.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town's elected officials considered many factors when setting the fiscal year 2017 budget and property tax rates. One of those factors is the economy. As of June 2016, unemployment in the Town stood at 4.6% versus 3.9% a year ago. Although somewhat worse year-to-year, this rate compares favorably with the State's unemployment rate of 5.9%.

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.

While the Town's spending is also relatively stable year-to-year, Sherman faces increasing economic burdens from reduced municipal educational aid from the State of Connecticut as well as unfunded mandates.

All of these factors were considered while preparing the Town's General Fund budget for the 2017 fiscal year. With an increase in the grand list of 0.5% and an increase in the mil rate of 1.4%, property tax revenues are expected to increase 2.0% year-to-year. While revenues from sources other than property taxes are expected to be down 14.1% year-to-year (\$140,092), the Town's budget is balanced and expenditures including education are projected to increase by less than one percent (0.9%) year-to-year.

If the 2016-2017 budget estimates are realized, the Town's budgetary General Fund balance as of June 30, 2017, is expected to be \$2,216,499, or the same amount as of June 30, 2016.

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, 2016

Assets

Cash and cash equivalents	\$ 3,775,903
Receivables, net of allowances:	
Property taxes	72,615
Other receivables	4,119
Inventory	61,000
Net pension asset	13,411
Noncurrent assets:	
Capital assets, not being depreciated	2,851,200
Capital assets, net of accumulated depreciation	<u>18,653,027</u>
Total assets	<u>25,431,275</u>

Liabilities

Accounts payable	88,871
Accrued interest	88,479
Deposits	3,000
Noncurrent liabilities:	
Due within one year	837,400
Due in more than one year	<u>6,830,324</u>
Total liabilities	<u>7,848,074</u>

Net Position

Net investment in capital assets	13,915,748
Restricted for enabling legislation	10,750
Unrestricted	<u>3,656,703</u>
Total net position	<u>\$ 17,583,201</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, 2016**

	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	\$ (1,164,345)	\$ 258,598	\$ 3,000	\$ -	\$ (902,747)
Public safety	(1,284,691)	-	-	-	(1,284,691)
Public works	(1,149,977)	-	219,990	-	(929,987)
Health and welfare	(139,736)	-	-	-	(139,736)
Culture and recreation	(462,341)	89,923	-	15,375	(357,043)
Education	(10,070,055)	37,720	1,134,930	-	(8,897,405)
Other	(96,561)	-	-	-	(96,561)
Interest on long-term debt	(245,890)	-	-	-	(245,890)
Total governmental activities	\$ (14,613,596)	\$ 386,241	\$ 1,357,920	\$ 15,375	(12,854,060)
General Revenues:					
Property taxes, interest, and lien fees					13,643,176
Grants and contributions not restricted to specific programs					79,554
Miscellaneous					94,718
Unrestricted investment earnings					14,071
Total general revenues					13,831,519
Change in net position					977,459
Net position, beginning of year					16,605,742
Net position, end of year					\$ 17,583,201

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

TOWN OF SHERMAN, CONNECTICUT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Happy Acres Farm Restricted	Capital and Nonrecurring	Other Funds	Total Governmental Funds
<u>Assets</u>					
Cash and cash equivalents	\$ 2,297,388	\$ 718,658	\$ 560,250	\$ 199,607	\$ 3,775,903
Receivables:					
Property taxes	72,615	-	-	-	72,615
Intergovernmental	1,547	-	-	2,572	4,119
Inventory	-	61,000	-	-	61,000
Total assets	\$ 2,371,550	\$ 779,658	\$ 560,250	\$ 202,179	\$ 3,913,637
<u>Liabilities:</u>					
Accounts payable	\$ 86,371	\$ -	\$ -	\$ -	\$ 86,371
Other liabilities	-	-	-	2,500	2,500
Deposits	3,000	-	-	-	3,000
Total liabilities	89,371	-	-	2,500	91,871
<u>Deferred Inflows of Resources</u>					
Unavailable revenue - taxes	54,930	-	-	-	54,930
<u>Fund Balances:</u>					
Unspendable	-	61,000	-	-	61,000
Restricted	10,750	718,658	-	-	729,408
Assigned	-	-	560,250	199,679	759,929
Unassigned	2,216,499	-	-	-	2,216,499
Total fund balances	2,227,249	779,658	560,250	199,679	3,766,836
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,371,550	\$ 779,658	\$ 560,250	\$ 202,179	

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.	21,504,227
Property taxes and other receivables that are not available to pay for current period expenditures are deferred, or not recognized in the funds.	68,341
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(7,756,203)
Net position	\$ 17,583,201

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

TOWN OF SHERMAN, CONNECTICUT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Happy Acres Farm Restricted	Capital and Nonrecurring	Other Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 13,674,668	\$ -	\$ -	\$ -	\$ 13,674,668
Licenses and permits	130,121	-	-	-	130,121
Intergovernmental	1,216,580	-	15,375	239,350	1,471,305
Charges for services	218,400	-	-	-	218,400
Investment earnings	10,599	1,509	1,568	395	14,071
Miscellaneous	19,264	17,407	9,975	67,336	113,982
Total revenues	15,269,632	18,916	26,918	307,081	15,622,547
Expenditures:					
Current:					
General government	900,331	-	-	6,249	906,580
Public safety	666,997	-	-	-	666,997
Public works	1,054,764	-	-	-	1,054,764
Health and welfare	139,736	-	-	-	139,736
Culture and recreation	387,369	-	-	-	387,369
Education	9,589,213	-	-	236,350	9,825,563
Other	83,916	-	-	12,645	96,561
Debt service	1,074,720	-	-	-	1,074,720
Capital outlay	-	21,045	897,254	-	918,299
Total expenditures	13,897,046	21,045	897,254	255,244	15,070,589
Excess of revenues over (under) expenditures	1,372,586	(2,129)	(870,336)	51,837	551,958
Other Financing Sources (Uses):					
Transfers in	-	225,000	823,300	23,256	1,071,556
Transfers out	(1,071,556)	-	-	-	(1,071,556)
Net change in fund balances	301,030	222,871	(47,036)	75,093	551,958
Fund balances, beginning of year	1,926,219	556,787	607,286	124,586	3,214,878
Fund balances, end of year	\$ 2,227,249	\$ 779,658	\$ 560,250	\$ 199,679	\$ 3,766,836

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, 2016**

Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds \$ 551,958

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. Depreciation expense exceeded capital outlays in the current period as follows:

Depreciation expense	(862,274)
Capital outlay	459,346
	<u>(402,928)</u>

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	820,000
	<u>820,000</u>

Some revenues and expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as revenues and expenditures in governmental funds:

Revenues:	
Taxes, interest, and liens	(31,492)
Expenses:	
Accrued interest	8,830
Pension obligation (net pension asset)	(777)
Compensated absences	31,868
	<u>8,429</u>

Change in net position \$ 977,459

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

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Revenues:				
Property taxes	\$ 13,519,011	\$ 13,519,011	\$ 13,674,668	\$ 155,657
Licenses and permits	123,500	123,500	130,121	6,621
Intergovernmental	550,867	550,867	521,710	(29,157)
Charges for services	188,650	188,650	218,400	29,750
Investment earnings	5,000	5,000	10,599	5,599
Miscellaneous	15,090	15,090	19,264	4,174
Total revenues	<u>14,402,118</u>	<u>14,402,118</u>	<u>14,574,762</u>	<u>172,644</u>
Expenditures:				
Current:				
General government	683,383	684,383	663,952	20,431
Buildings and grounds	147,159	147,159	146,516	643
Public safety	587,550	583,716	569,506	14,210
Public works	888,280	888,280	847,277	41,003
Health and welfare	114,466	114,466	109,202	5,264
Insurance	644,851	644,851	610,676	34,175
Other	738,103	1,165,937	1,166,896	(959)
Education	9,298,106	9,298,106	8,894,343	403,763
Debt service	1,300,220	1,300,220	1,299,720	500
Total expenditures	<u>14,402,118</u>	<u>14,827,118</u>	<u>14,308,088</u>	<u>519,030</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (425,000)</u>	266,674	<u>\$ 691,674</u>
Fund balance, beginning of year			<u>1,926,219</u>	
Fund balance, end of year			<u>\$ 2,192,893</u>	

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

TOWN OF SHERMAN, CONNECTICUT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Defined Benefit Trust Fund	Defined Contribution Trust Fund	Agency Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 10,066	\$ 82,708	\$ 53,835
Investments at fair value	943,822	1,379,189	-
Total assets	953,888	1,461,897	53,835
<u>Liabilities</u>			
Due to school groups	-	-	53,835
Total liabilities	-	-	53,835
Net position held in trust for pension benefits	\$ 953,888	\$ 1,461,897	\$ -

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

TOWN OF SHERMAN, CONNECTICUT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Defined Benefit Trust Fund</u>	<u>Defined Contribution Trust Fund</u>
Additions:		
Employee contributions	\$ -	\$ 137,826
Employer contributions	<u>67,000</u>	<u>28,198</u>
	<u>67,000</u>	<u>166,024</u>
Investment income:		
Interest and dividends	48,610	(279)
Net increase (decrease) in fair value of investments	(45,352)	(23,281)
Investment fees and expenses	<u>(9,935)</u>	<u>(1,787)</u>
	<u>(6,677)</u>	<u>(25,347)</u>
Total additions	<u>60,323</u>	<u>140,677</u>
Deductions:		
Benefits and other deductions	<u>47,227</u>	<u>23,150</u>
Total deductions	<u>47,227</u>	<u>23,150</u>
Change in net position	13,096	117,527
Net position, beginning of year	<u>940,792</u>	<u>1,344,370</u>
Net position, end of year	<u><u>\$ 953,888</u></u>	<u><u>\$ 1,461,897</u></u>

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

TOWN OF SHERMAN, CONNECTICUT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 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:

Pension Trust Funds - are used to account for resources legally held in trust for retirement benefits.

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 **Happy Acres Farm Restricted Fund** accounts for the preservation and maintenance of the real estate and improvements conveyed to the Town known as Happy Acres Farm.

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

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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.

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, 2016.

Inventory

Inventory represents the livestock owned by the Town at Happy Acres Farm and is reported at estimated historical cost.

Net Pension Asset

Net pension asset represents the cumulative difference between annual pension cost and the Town's contributions to the Defined Benefit Pension Plan and is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 68. The net pension asset is recorded as an asset in the government-wide financial statements.

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.

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15 - 40
Furniture, fixtures, vehicles, and equipment	10 - 40
Infrastructure	40

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).

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 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 represents external restrictions imposed by creditors, grantors, contributors, 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.

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.

Interfund Activities

Interfund transfers

Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and other financing sources in the funds receiving transfers.

Interfund reimbursements

Interfund reimbursements represent repayments from the funds responsible for particular expenditures, or expenses, to the funds that initially paid for them.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred inflows/outflows, including disclosures of contingent liabilities and reported revenues, expenses, and expenditures during the fiscal year. Accordingly, actual results could differ from those estimates.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is frequently employed by governmental units as an extension of formal budgetary integration in the governmental funds. The Town has adopted a policy that provides for the encumbering of General Fund appropriations in extenuating circumstances. The Town has recorded \$34,356 of encumbrances as of fiscal year end June 30, 2016.

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

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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 (GAAP basis) is as follows:

	<u>Fund balance</u> <u>beginning</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing</u> <u>sources (uses)</u>	<u>Fund balance</u> <u>ending</u>
GAAP basis	\$ 1,926,219	\$ 15,269,632	\$ (13,897,046)	\$ (1,071,556)	\$ 2,227,249
Reclassifications	-	-	(1,071,556)	1,071,556	-
Encumbrances at June 30, 2016	-	-	(34,356)	-	(34,356)
Teachers' retirement system on behalf payments not recognized in budgetary basis	-	(694,870)	694,870	-	-
Budgetary basis	<u>\$ 1,926,219</u>	<u>\$ 14,574,762</u>	<u>\$ (14,308,088)</u>	<u>\$ -</u>	<u>\$ 2,192,893</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 obligations, 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	\$ 88,479
General obligation bonds payable	7,500,000
Compensated absences	<u>167,724</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position	<u>\$ 7,756,203</u>

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

Note 4 - Deposits and Investments

A reconciliation of the Town's cash and cash equivalents as of June 30, 2016, is as follows:

Government-wide Statement of Net Position:	
Cash and cash equivalents	<u>\$ 3,775,903</u>
Statement of Fiduciary Net Position:	
Cash and cash equivalents – Agency Funds	53,835
Cash and cash equivalents – Pension Trust Funds	<u>92,774</u>
	<u>146,609</u>
	<u>\$ 3,922,512</u>

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, 2016, \$3,683,631 of the Town's bank balance of \$4,026,405 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 3,251,909
Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Town's name	<u>431,722</u>
	<u>\$ 3,683,631</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.

As of June 30, 2016, the Pension Trust Funds' investments consisted of the following:

<u>Pension Trust Funds</u>	
Mutual Funds:	
Defined Benefit Trust Fund	<u>\$ 943,822</u>
Defined Contribution Trust Fund	<u>\$ 1,379,189</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
June 30, 2016 (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 from the General Fund is presented below:

Transfers to:		
Capital and Nonrecurring	\$	823,300
Revaluation		23,256
Happy Acres Farm Restricted		<u>225,000</u>
Total interfund transfers	\$	<u>1,071,556</u>

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

Note 6 - Capital Assets

	<u>Balance at</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 2,851,200	\$ -	\$ -	\$ 2,851,200
Total capital assets not being depreciated	<u>2,851,200</u>	<u>-</u>	<u>-</u>	<u>2,851,200</u>
Capital assets being depreciated:				
Buildings and improvements	22,562,561	392,379	-	22,954,940
Furniture, fixtures, vehicles, and equipment	2,929,742	61,507	-	2,991,249
Infrastructure	<u>9,377,165</u>	<u>5,460</u>	<u>-</u>	<u>9,382,625</u>
Total capital assets being depreciated	<u>34,869,468</u>	<u>459,346</u>	<u>-</u>	<u>35,328,814</u>
Less accumulated depreciation:				
Buildings and improvements	8,201,163	665,450	-	8,866,613
Furniture, fixtures, vehicles, and equipment	2,468,089	37,516	-	2,505,605
Infrastructure	<u>5,144,261</u>	<u>159,308</u>	<u>-</u>	<u>5,303,569</u>
Total accumulated depreciation	<u>15,813,513</u>	<u>862,274</u>	<u>-</u>	<u>16,675,787</u>
Capital assets being depreciated, net of depreciation	<u>19,055,955</u>	<u>(402,928)</u>	<u>-</u>	<u>18,653,027</u>
Total governmental activities	<u>\$ 21,907,155</u>	<u>\$ (402,928)</u>	<u>\$ -</u>	<u>\$ 21,504,227</u>

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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

General governmental	\$ 250,613
Education	255,115
Public safety	176,127
Public works	105,447
Culture and recreation	<u>74,972</u>
Total depreciation expense	<u>\$ 862,274</u>

Note 7 - Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2016, 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	\$ 8,320,000	\$ -	\$ 820,000	\$ 7,500,000	\$ 820,000
Other long-term obligations:					
Compensated absences	<u>199,592</u>	<u>-</u>	<u>31,868</u>	<u>167,724</u>	<u>17,400</u>
Total long-term obligations	<u>\$ 8,519,592</u>	<u>\$ -</u>	<u>\$ 851,868</u>	<u>\$ 7,667,724</u>	<u>\$ 837,400</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, 2016, 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 ranging from March 2004 to July 2020.	\$ 1,575,000
Refunding of Bond Anticipation Note with an interest rate ranging from 2.0% to 3.5% due serially from August 2011 through 2029.	5,225,000
Library renovations with 2% interest rate due serially from March 2014 through 2023.	<u>700,000</u>
	<u>\$ 7,500,000</u>

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

Debt Service Requirement

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 820,000	\$ 226,470
2018	820,000	196,595
2019	820,000	168,103
2020	815,000	142,043
2021	425,000	123,663
2022-2029	<u>3,800,000</u>	<u>533,200</u>
Total	<u>\$ 7,500,000</u>	<u>\$ 1,390,074</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, 2016.

Unissued Bond Authorization

Authorizations of general obligation bonds that remained unissued as of June 30, 2016, are summarized below:

	<u>Date Authorized</u>	<u>Authorized and Unissued July 1, 2016</u>
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
June 30, 2016 (continued)

Note 9 – Governmental Fund Balances

As of June 30, 2016, governmental fund balances are composed of the following:

	<u>General Fund</u>	<u>Happy Acres Farm Restricted</u>	<u>Capital and Nonrecurring</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:					
Inventory	\$ -	\$ 61,000	\$ -	\$ -	\$ 61,000
	<u>-</u>	<u>61,000</u>	<u>-</u>	<u>-</u>	<u>61,000</u>
Restricted:					
Happy Acres Farm	-	718,658	-	-	718,658
General government	<u>10,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,750</u>
	<u>10,750</u>	<u>718,658</u>	<u>-</u>	<u>-</u>	<u>729,408</u>
Assigned:					
Land acquisition	-	-	-	43,709	43,709
Capital projects	-	-	560,250	-	560,250
Happy Acres Farm	-	-	-	53,847	53,847
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,123</u>	<u>102,123</u>
	<u>-</u>	<u>-</u>	<u>560,250</u>	<u>199,679</u>	<u>759,929</u>
Unassigned	<u>2,216,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,216,499</u>
	<u>\$ 2,227,249</u>	<u>\$ 779,658</u>	<u>\$ 560,250</u>	<u>\$ 199,679</u>	<u>\$ 3,766,836</u>

Note 10 - 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 11 - 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, 2016. The following information is based on the latest available report, which is as of July 1, 2016.

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.

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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, 2016, membership consisted of:

Active participants	12
Terminated vested participants	8
Retired	<u>12</u>
Total	<u>32</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 5 months a year and 20 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 22. Employees covered by the State Teacher's Retirement System are excluded from this Plan.

Normal retirement date is 62 with 20 years of credited service or 65. 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 40 years. The Plan contains a provision for early retirement at age 55 and after 10 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.

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

The Town has no set policy in regard to the allocation of invested assets, which is established by the plan's investment advisors. Administrative costs of the plan are financed through investment earnings.

For the year ended June 30, 2016, the annual money-weighted rate of return on plan investments, net of pension plan investment expenses, was -0.70%. 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 \$67,000 for the year ended June 30, 2016.

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

Net Pension Liability (Asset)

The components of the net pension liability (asset) of the Town at June 30, 2016, were as follows:

Total pension liability	\$	940,477
Plan fiduciary net position		<u>953,888</u>
Net pension liability (asset)	\$	<u>(13,411)</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016. The following actuarial assumptions were applied to all periods included in the measurement:

Salary increases – n/a

Discount rate – valuation date – 6%

Investment rate of return – 6%

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%

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016, was 6%. The discount rate is based on the long-term rate of return on investments.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the plan, calculated using the discount rate of 6%, as well as what the Town's net pension liability (asset) for the plan would be if it were calculated using a discount rate that is 1-percentage-point lower (5%) or 1-percentage-point higher (7%) than the current rate:

	1% Decrease <u>(5%)</u>	Current Discount Rate <u>(6%)</u>	1% Increase <u>(7%)</u>
Net pension liability (asset)	\$ <u>88,351</u>	\$ <u>(13,411)</u>	\$ <u>(99,843)</u>

Change in Assumptions

Effective with the July 1, 2015, valuation, the assumption regarding the discount rate was increased from 4% to 6%.

Town Employees' Defined Contribution Plan

Beginning July 1, 2005, the Town offered a defined contribution plan to employees with over 1,000 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, 2016, the Town paid \$28,198 into the plan. The plan is included in the Town's financial statements as the Defined Contribution Trust Fund. At June 30, 2016, the net position, which is available for benefits, was \$1,461,897. At June 30, 2016, there were 28 participants entitled to benefits covered under the plan.

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.

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.)

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

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 2015/2016 school year, \$219,336 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 \$3,025,599. The Town had 38 active participants in the System at June 30, 2016.

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.

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:

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Mutual Equity	25.0%	7.3%
Developed Markets ISF	20.0%	7.5%
Emerging Markets ISF	9.0%	8.6%
Core Fixed Income	13.0%	1.7%
Emerging Market Debt	4.0%	4.8%
High Yield	2.0%	3.7%
Inflation Linked Bonds	6.0%	1.3%
Liquidity Fund	6.0%	0.7%
Real Estate	5.0%	5.9%
Private Investments	10.0%	10.9%

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 system's proportionate share of the net pension liability related to the Town	\$ 11,493,261	\$ 9,113,816	\$ 7,091,270

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 \$9,113,816 and 100% of the collective net pension liability is allocated to the State.

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

June 30, 2014, is the actuarial valuation date upon which the total pension liability is based. The total pension liability is determined as of June 30, 2015, using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the System's total pension liability as of June 30, 2015, which is the 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, 2016, the Town recognized \$694,870 as the amount expended by the State on behalf of the Town to meet the State's funding requirements.

Note 12 - 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 13 - 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. The activity related to the farm operations is reported in the Happy Acres Operations special revenue fund. Cell tower revenues, and revenues and expenses from farm activities, are reflected in this special revenue fund.

To facilitate the running of the farm, in December 2014, the Town entered into a five-year lease agreement with a farm management company. The company will operate the farm, maintain the buildings, equipment, and land in addition to caring for the livestock. Rental revenue received by the Town will be \$15,936 per year. The lease terms are such that the Town or the lessee may terminate the lease within the first two years with a six-month written notice. In addition, the lessee may extend the lease terms for two additional five-year terms.

Mr. Hapanowich bequeathed a portion of his estate to the Town to be used as a restricted endowment fund. The purpose of this fund shall be the preservation and maintenance of the real estate and improvements of Happy Acres Farm.

During the year ended June 30, 2015, the Hapanowich estate trustee distributed the funds to the Town. In connection with this distribution, the annual payments of \$225,000 due through 2021 related to the debt owed to Mr. Hapanowich expired as debt and became a required annual contribution to the newly formed Happy Acres Farm Restricted Fund. This restricted fund is for the preservation and maintenance of Happy Acres Farm.

Note 14 - Recently Issued Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

GASB Statement No. 77, Tax Abatement Disclosures. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. This standard narrows the scope and applicability of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting specific criteria; establishes new guidance for these employers, including separate requirements for recognition and measurement of pension expense or expenditures and liabilities, note disclosures and required supplementary information (RSI). The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants. This standard establishes new criteria to continue amortization cost accounting for certain external investment pools in light of recent changes to money market fund criteria. The portfolio quality and monthly shadow pricing requirements of this Statement are effective for periods beginning after December 15, 2015.

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No.14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial

Town of Sherman, Connecticut
Notes to Financial Statements
June 30, 2016 (continued)

statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Note 15 - Fair Value Measurements

The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”) and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuation based on unadjusted quoted prices in active markets for identical assets the Town has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.
- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Town’s own assumptions about assumptions that market participants might use.

The Town’s investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2016.

**REQUIRED SUPPLEMENTARY
INFORMATION
(UNAUDITED)**

TOWN OF SHERMAN, CONNECTICUT

**DEFINED BENEFIT PENSION PLAN
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ -	\$ -	\$ 79,142
Interest	54,061	53,279	3,395
Change in assumptions	-	(232,836)	-
Difference between expected and actual results	7,039	4,583	(5,838)
Benefit payments	<u>(47,227)</u>	<u>(41,976)</u>	<u>(41,977)</u>
Net change in total pension liability	13,873	(216,950)	34,722
Total pension liability - beginning	<u>926,604</u>	<u>1,143,554</u>	<u>1,108,832</u>
Total pension liability - ending	<u>\$ 940,477</u>	<u>\$ 926,604</u>	<u>\$ 1,143,554</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 67,000	\$ 67,000	\$ 58,130
Net investment income	3,257	20,082	118,795
Benefit payments	(47,227)	(41,976)	(41,977)
Administrative expenses	<u>(9,934)</u>	<u>(9,826)</u>	<u>(8,988)</u>
Net change in plan fiduciary net position	13,096	35,280	125,960
Plan fiduciary net position - beginning	<u>940,792</u>	<u>905,512</u>	<u>779,552</u>
Plan fiduciary net position - ending	<u>\$ 953,888</u>	<u>\$ 940,792</u>	<u>\$ 905,512</u>
Net pension liability (asset) - ending	<u>\$ (13,411)</u>	<u>\$ (14,188)</u>	<u>\$ 238,042</u>
 Plan fiduciary net position as a percent of the total pension liability (asset)	<u>101.43%</u>	<u>101.53%</u>	<u>79.18%</u>

Change in Assumptions

Effective with the July 1, 2015 valuation, the assumption regarding the discount rate was increased from 4% to 6%.

See accompanying Independent Auditors' Report.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 18,716	\$ 7,876	\$ 59,783	\$ 47,535	\$ 42,357	\$ 43,249	\$ 42,548	\$ 18,613	\$ 29,256	\$ 29,256
Contribution in relation to the actuarially determined contribution	<u>67,000</u>	<u>67,000</u>	<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>
Contribution deficiency (excess)	<u>\$ (48,284)</u>	<u>\$ (59,124)</u>	<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>

Notes to schedule

Valuation Date	7/1/2016	7/1/2015	7/1/2014
Actuarial Cost Method	Unit Credit	Unit Credit	Unit Credit
Amortization Period	NA	NA	NA
Remaining Amortization Period	NA	NA	NA
Asset Valuation Method	FMV	FMV	FMV
Actuarial Assumptions:			
Investment Rate of Return	6%	6%	4%
Projected Salary Increases	0%	0%	0%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual money-weighted rate of return, net of investment expense	-0.70%	1.12%	13.94%	9.79%	-1.97%	20.11%	11.70%	-22.24%	-2.93%

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

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

	2016	2015
Town's proportion of the net pension liability	0.00%	0.00%
Town's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town	9,113,816	8,423,896
Total	\$ 9,113,816	\$ 8,423,896
Town's covered-employee payroll	\$ 3,025,599	\$ 3,143,586
Town's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%
System fiduciary net position as a percentage of the total pension liability	59.50%	61.51%

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

See accompanying Independent Auditors' Report.

**SUPPLEMENTAL
STATEMENTS AND SCHEDULES**

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF REVENUES
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2016**

	<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	\$ 13,386,011	\$ 13,386,011	\$ 13,465,995	\$ 79,984
Property taxes - prior years	80,000	80,000	137,897	57,897
Interest and lien fees	53,000	53,000	70,776	17,776
	<u>13,519,011</u>	<u>13,519,011</u>	<u>13,674,668</u>	<u>155,657</u>
Investment earnings:				
Interest and dividends	5,000	5,000	10,599	5,599
Licenses and permits:				
Building fees	89,000	89,000	87,912	(1,088)
Planning and zoning	13,000	13,000	14,323	1,323
Health department permits	10,500	10,500	14,350	3,850
Inland wetlands	7,500	7,500	5,370	(2,130)
Other	3,500	3,500	8,166	4,666
	<u>123,500</u>	<u>123,500</u>	<u>130,121</u>	<u>6,621</u>
Fees and service charges:				
Conveyance taxes	66,000	66,000	96,423	30,423
Town clerk recording fees	23,500	23,500	24,715	1,215
Copy machine, regulations, and dog fund	7,250	7,250	5,515	(1,735)
Town clerk LOCIP	2,000	2,000	1,824	(176)
Beach, parks and recreation	89,900	89,900	89,923	23
	<u>188,650</u>	<u>188,650</u>	<u>218,400</u>	<u>29,750</u>
Education grants:				
Education assistance	244,569	244,569	200,997	(43,572)
Education transportation	3,273	3,273	2,713	(560)
Tuition (preschool only)	50,000	50,000	37,720	(12,280)
	<u>297,842</u>	<u>297,842</u>	<u>241,430</u>	<u>(56,412)</u>
Intergovernmental:				
State PILOT program	14	14	-	(14)
Elderly and vet tax relief	20,930	20,930	24,011	3,081
Miscellaneous BOE	-	-	113	113
Town aid roads	204,907	204,907	205,240	333
Federal land	770	770	834	64
Mashantucket Pequot	9,654	9,654	10,481	827
ConnDOT grant	14,750	14,750	14,750	-
Other	2,000	2,000	24,851	22,851
	<u>253,025</u>	<u>253,025</u>	<u>280,280</u>	<u>27,255</u>
Miscellaneous:				
CL&P, telephone, and other	15,090	15,090	19,264	4,174
Total revenues	<u>\$ 14,402,118</u>	<u>\$ 14,402,118</u>	<u>\$ 14,574,762</u>	<u>\$ 172,644</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
General Government:				
Board of Selectmen	\$ 143,243	\$ 143,243	\$ 142,832	\$ 411
Treasurer	14,523	14,523	14,473	50
Tax Collector	48,235	48,235	48,098	137
Town Clerk	102,957	102,957	101,791	1,166
Assessors	93,565	93,565	92,946	619
Assessment appeals	505	505	233	272
Building department	90,359	90,359	95,969	(5,610)
Planning and zoning	94,417	94,417	93,586	831
Zoning Board of Appeals	1,970	1,970	2,140	(170)
Inland wetlands commission	12,659	12,659	11,732	927
Counsel and court costs	36,000	36,000	18,539	17,461
Registrars	24,358	24,358	21,534	2,824
H.V.C.E.O.	4,164	4,164	4,164	-
Consultants	3,950	3,950	4,133	(183)
Other general government	12,478	13,478	11,782	1,696
	<u>683,383</u>	<u>684,383</u>	<u>663,952</u>	<u>20,431</u>
Building & Grounds:				
Mallory town hall	66,327	66,327	59,677	6,650
Facilities	80,832	80,832	86,839	(6,007)
	<u>147,159</u>	<u>147,159</u>	<u>146,516</u>	<u>643</u>
Public Safety:				
Public safety	281,310	277,476	260,925	16,551
Fire protection	120,240	120,240	120,050	190
ESF operating	66,070	66,070	73,679	(7,609)
Candlewood Lake Authority	80,000	80,000	75,386	4,614
Animal control	16,067	16,067	16,067	-
Collections and recycling	23,863	23,863	23,399	464
	<u>587,550</u>	<u>583,716</u>	<u>569,506</u>	<u>14,210</u>
Public Works	<u>888,280</u>	<u>888,280</u>	<u>847,277</u>	<u>41,003</u>
Health and Welfare:				
Health department	56,013	56,013	52,807	3,206
Health and welfare	58,453	58,453	56,395	2,058
	<u>114,466</u>	<u>114,466</u>	<u>109,202</u>	<u>5,264</u>
Insurance:				
Post-employment defined benefit	70,000	70,000	69,400	600
Workers' compensation	67,250	67,250	61,072	6,178
Payroll taxes	85,250	85,250	79,840	5,410
Post-employment defined contribution	23,725	23,725	22,097	1,628
Life and medical	297,408	297,408	296,611	797
Liability, auto, and property	94,537	94,537	75,576	18,961
Other compensated absences	6,681	6,681	6,080	601
	<u>644,851</u>	<u>644,851</u>	<u>610,676</u>	<u>34,175</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES (CONTINUED)
(BUDGET AND ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2016**

	<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	\$ 398,300	\$ 823,300	\$ 823,300	\$ -
Land trust	620	620	-	620
Library	145,000	145,000	145,000	-
Parks and recreation	107,408	107,408	114,681	(7,273)
Parade committee	2,000	2,000	1,876	124
Probate court	2,551	2,551	2,251	300
Senior center	67,134	68,634	64,815	3,819
Historic district	700	700	268	432
Cemetery flags	100	100	25	75
Tree warden	7,890	7,890	7,890	-
Conservation commission	1,900	1,900	1,266	634
Housing commission	500	1,834	1,757	77
Miscellaneous	4,000	4,000	3,767	233
	<u>738,103</u>	<u>1,165,937</u>	<u>1,166,896</u>	<u>(959)</u>
Education:				
Regular education	63,117	93,385	88,302	5,083
Primary	1,061,120	980,587	980,732	(145)
Art	115,504	120,297	120,297	-
Music	103,955	110,494	110,492	2
Physical education	92,629	92,599	92,599	-
Science	99,235	100,413	100,413	-
Math	184,130	162,187	162,101	86
Social studies	74,342	81,891	81,891	-
Language arts	244,586	269,598	252,214	17,384
Other regular programs	477,582	368,563	366,354	2,209
Exceptional/special education	1,261,670	1,233,691	1,212,090	21,601
Adult education	3,700	3,561	3,561	-
Medical services	50,489	52,757	45,047	7,710
Improvements of instructions	116,420	151,027	128,000	23,027
Educational media services	193,409	238,710	233,821	4,889
Board of Education	40,850	43,025	23,547	19,478
Administrative services	55,250	68,445	68,445	-
Office of the Principal	257,489	305,095	298,686	6,409
Fiscal services	1,061,952	1,051,098	942,461	108,637
Operations and maintenance	585,953	669,588	556,088	113,500
Pupil transportation	172,214	172,464	166,464	6,000
Health education	35,059	36,349	36,381	(32)
Student activities	50,761	55,728	54,383	1,345
Tuition out of district	78,000	66,030	47,185	18,845
High school tuition	2,818,690	2,770,524	2,722,789	47,735
	<u>9,298,106</u>	<u>9,298,106</u>	<u>8,894,343</u>	<u>403,763</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

GENERAL FUND
 SCHEDULE OF EXPENDITURES (CONTINUED)
 (BUDGET AND ACTUAL)
 FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Debt Service:				
Principal	\$ 1,045,000	\$ 1,045,000	\$ 1,045,000	\$ -
Interest	254,720	254,720	254,720	-
Continuing disclosure	500	500	-	500
	<u>1,300,220</u>	<u>1,300,220</u>	<u>1,299,720</u>	<u>500</u>
Total expenditures	<u>\$ 14,402,118</u>	<u>\$ 14,827,118</u>	<u>\$ 14,308,088</u>	<u>\$ 519,030</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2016

	Special Revenue Funds				Capital Project Funds		Total Other Funds
	Dog Fund	Education Grants	Document Preservation	Happy Acres Operations	Revaluation Reserve Fund	Land Acquisition	
Assets							
Cash and cash equivalents	\$ 49,687	\$ -	\$ 787	\$ 53,775	\$ 51,649	\$ 43,709	\$ 199,607
Other receivables	-	-	-	2,572	-	-	2,572
Total assets	<u>\$ 49,687</u>	<u>\$ -</u>	<u>\$ 787</u>	<u>\$ 56,347</u>	<u>\$ 51,649</u>	<u>\$ 43,709</u>	<u>\$ 202,179</u>
Liabilities and Fund Balances							
Liabilities:							
Other payables	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ 2,500
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
Fund Balances:							
Assigned	49,687	-	787	53,847	51,649	43,709	199,679
Total fund balances	<u>49,687</u>	<u>-</u>	<u>787</u>	<u>53,847</u>	<u>51,649</u>	<u>43,709</u>	<u>199,679</u>
Total liabilities and fund balances	<u>\$ 49,687</u>	<u>\$ -</u>	<u>\$ 787</u>	<u>\$ 56,347</u>	<u>\$ 51,649</u>	<u>\$ 43,709</u>	<u>\$ 202,179</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Funds				Capital Project Funds		Total Other Funds
	Dog Fund	Education Grants	Document Preservation	Happy Acres Operations	Revaluation Reserve Fund	Land Acquisition	
Revenues:							
Intergovernmental	\$ -	\$ 236,350	\$ 3,000	\$ -	\$ -	\$ -	\$ 239,350
Investment earnings	118	-	-	103	106	68	395
Miscellaneous	3,009	-	600	47,477	-	16,250	67,336
Total revenues	<u>3,127</u>	<u>236,350</u>	<u>3,600</u>	<u>47,580</u>	<u>106</u>	<u>16,318</u>	<u>307,081</u>
Expenditures:							
Current:							
General government	2,361	-	3,888	-	-	-	6,249
Education	-	236,350	-	-	-	-	236,350
Other	-	-	-	12,645	-	-	12,645
Capital outlay	-	-	-	-	-	-	-
Total expenditures	<u>2,361</u>	<u>236,350</u>	<u>3,888</u>	<u>12,645</u>	<u>-</u>	<u>-</u>	<u>255,244</u>
Excess of revenues over (under) expenditures	766	-	(288)	34,935	106	16,318	51,837
Other Financing Sources:							
Transfers in (out)	-	-	-	-	23,256	-	23,256
Net change in fund balances	766	-	(288)	34,935	23,362	16,318	75,093
Fund balances, beginning of year	<u>48,921</u>	<u>-</u>	<u>1,075</u>	<u>18,912</u>	<u>28,287</u>	<u>27,391</u>	<u>124,586</u>
Fund balances, end of year	<u>\$ 49,687</u>	<u>\$ -</u>	<u>\$ 787</u>	<u>\$ 53,847</u>	<u>\$ 51,649</u>	<u>\$ 43,709</u>	<u>\$ 199,679</u>

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT
STATEMENT OF DEBT LIMITATION
CONNECTICUT GENERAL STATUTES SECTION 7.374(b)
FOR THE YEAR ENDED JUNE 30, 2016

Total tax collection including interest and lien fees for the year ended June 30, 2016	\$ 13,668,521
Reimbursement for revenue loss on: Tax relief for elderly (CGS 12-129d)	<u>22,467</u>
Base	<u><u>\$ 13,690,988</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	\$ 30,804,723	\$	\$	\$	\$
4 1/2 times base		61,609,446			
3 3/4 times base			51,341,205		
3 1/4 times base				44,495,711	
3 times base					41,072,964
Total debt limitation	<u>30,804,723</u>	<u>61,609,446</u>	<u>51,341,205</u>	<u>44,495,711</u>	<u>41,072,964</u>
Indebtedness:					
Bonds payable	5,925,000	1,575,000	-	-	-
Bonds authorized and unissued	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total indebtedness	<u>6,175,000</u>	<u>1,575,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of outstanding and authorized debt	<u><u>\$ 24,629,723</u></u>	<u><u>\$ 60,034,446</u></u>	<u><u>\$ 51,341,205</u></u>	<u><u>\$ 44,495,711</u></u>	<u><u>\$ 41,072,964</u></u>

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation.

See accompanying Independent Auditors' Report.

TOWN OF SHERMAN, CONNECTICUT

**REPORT OF THE TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2016**

Grand List October 1,	Taxes Receivable July 1, 2015	Lawful Corrections		Suspense Transfers	Adjusted Taxes Receivable	Collections			Taxes Receivable June 30, 2016
		Additions	Deductions			Taxes	Interest and Lien Fees	Total	
2014	\$ 13,540,137	\$ 38,432	\$ 26,291	\$ (1,364)	\$ 13,550,914	\$ 13,511,521	\$ 32,737	\$ 13,544,258	\$ 39,393
2013	74,556	487	1,206	(1,351)	72,486	48,089	11,456	59,545	24,397
2012	30,403	50	50	(1,568)	28,835	20,642	9,579	30,221	8,193
2011	14,084	48	48	(1,944)	12,140	11,707	6,837	18,544	433
2010	11,266	-	-	(1,944)	9,322	9,123	3,332	12,455	199
2009	3,137	-	-	(1,418)	1,719	1,719	1,779	3,498	-
	<u>\$ 13,673,583</u>	<u>\$ 39,017</u>	<u>\$ 27,595</u>	<u>\$ (9,589)</u>	<u>\$ 13,675,416</u>	<u>\$ 13,602,801</u>	<u>\$ 65,720</u>	<u>\$ 13,668,521</u>	<u>\$ 72,615</u>

See accompanying Independent Auditors' Report.