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Town of Sterling, Connecticut

**Financial Statements
Internal Control Reports
and Compliance Reports**

For the Year Ended June 30, 2011

**Town of Sterling, Connecticut
Financial Statements
For the Year Ended June 30, 2011**

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Marien + Company LLC

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

Independent Auditors' Report

Board of Finance
Town of Sterling, Connecticut
Oneco, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Connecticut as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sterling, Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Connecticut as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

As described in Note 1, the Town has implemented authoritative accounting pronouncements promulgated by the Governmental Accounting Standards Board (GASB) *Statement 54, Fund Balance Reporting, Governmental Fund Type Definitions* and *Statement 59, Financial Instruments Omnibus*.

Independent Auditors' Report (Continued)

In accordance with Government Auditing Standards, we have also issued our report dated February 08, 2012 on our consideration of the Town of Sterling, Connecticut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sterling, Connecticut's basic financial statements. The combining and individual fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maier + Company

February 08, 2012

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

This Annual Financial Report incorporates the financial reporting requirements of the Government Accounting Standards Board (GASB) Statement 34. GASB Statement 34 requires that we, as managers of the Town of Sterling, must now focus on our most important, or "major" funds, including the general fund.

Our hope is to provide you, the reader, with an objective and readable analysis of our financial performance for the year. Taken together, the following statements should enable you to assess whether Sterling's financial position has improved or deteriorated as a result of the year's operations. The annual report includes government-wide financial statements that present consolidated information on the government as a whole. It reports all revenues and all costs of providing services each year, not just those received or paid in the current fiscal year (or shortly thereafter).

In summary, the government-wide financial statements will help you:

- ❖ Assess the finances of Sterling in its entirety, including the year's operating results;
- ❖ Determine whether our overall financial position improved or deteriorated;
- ❖ Evaluate whether our current-year revenues were sufficient to pay for current-year services;
- ❖ See the costs of providing you the services you have requested of us;
- ❖ See how we finance the programs you have asked for – through user fees and other program revenues versus general tax revenues;
- ❖ Understand the extent to which your government has invested in capital assets, including roads, bridges, schools, parks, and other infrastructure assets;
- ❖ Make better comparisons between governments.

Financial Highlights

- The combined net assets (governmental activities and business activities – proprietary funds) of the Town of Sterling exceeded its liabilities at the close of the current fiscal year by \$27,064,478 (net assets). Of this amount, \$1,413,166 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total combined net assets decreased by \$1,462,712 due primarily to a \$242,667 reduction in education compensated absences and a reduction in public works capital grants reflecting an unusual donation of new roads by developers in FY 2010 in the amount of \$732,000.
- The Town's governmental funds reported a combined ending total fund balance of \$3,238,324, up \$71,599 over last year.

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

- At the end of the 2010 - 11 fiscal year, unassigned fund balance for the general fund was \$2,197,007, or 20.1% of total general fund revenues of \$10,945,632.
- Our outstanding indebtedness fell by \$315,000 (2.9%) resulting from payment of scheduled principal amortization on our existing bonds.

Overview of the Financial Statements

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

- ***Government-Wide Financial Statements*** are designed to provide readers with a broad overview of the Town of Sterling's finances in a manner similar to private-sector business.
 - They include a *statement of net assets* which presents information on all of the Town's assets and liabilities with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Sterling is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). The statement of activities is prepared using the economic resources measurement focus and the accrual basis of accounting. These statements report all assets, liabilities, revenues, expenses, and gains and losses of the government. Both of the government-wide financial statements distinguish functions of the Town of Sterling that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Sterling include general government, public works, public safety, health welfare and sanitation, culture and recreation, education, and interest on long-term debt. Our business-type activities include the water fund (Sterling Municipal Water Company) and the Water Pollution Control Authority fund.

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

- ***Fund Financial Statements*** are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sterling, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
- *Governmental fund* financial statements include financial data for the general fund, special revenue funds, capital projects, and permanent funds and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. *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 expendable resources*, as well as on *balances of expendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* in the fund financial statements with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Town of Sterling maintains twenty individual governmental funds; four major funds, eleven special revenue funds, four capital projects funds, and one permanent fund (cemetery). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the capital and nonrecurring fund, the elementary school construction fund, the industrial park fund, and the educational grants fund, all of which are considered to be major funds. Data from the eleven governmental revenue funds and the four capital funds are combined into two aggregated presentations along with comparable information for the permanent fund which is presented separately. Individual fund data for each of these non-major governmental funds is provided in the form of combining *statements* elsewhere in this report. The Town of Sterling adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

- *Proprietary fund.* The Town of Sterling maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements, only in more detail. We use one enterprise fund to account for our water services and another for our water pollution control services.
 - *Fiduciary fund* financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.
- Notes to the Financial Statements provide information essential to full understanding of the data provided in the government-wide and fund financial statements.
 - Required Supplementary Information (RSI) includes a budgetary comparison schedule for the general fund to demonstrate whether resources were obtained and used in accordance with the legally adopted budget.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions.

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In case of the Town of Sterling, combined assets exceeded liabilities by \$27,064,478 at the close of the most recent fiscal year.

A portion of the Town's net assets, \$25,406,671 (93.9%), reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, water and sewer lines, etc.) less any related debt used to acquire those assets that is still outstanding. We use these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 4,155,133	\$ 4,159,077	\$ 129,581	\$ 145,183	\$ 4,284,714	\$ 4,304,260
Capital assets	34,821,699	35,612,255	994,972	1,038,685	35,816,671	36,650,940
Total assets	38,976,832	39,771,332	1,124,553	1,183,868	40,101,385	40,955,200
Non-current Liabilities	11,870,741	11,771,907	--	9,180	11,870,741	11,781,087
Other liabilities	948,390	496,688	217,776	150,235	1,166,166	646,923
Total liabilities	12,819,131	12,268,595	217,776	159,415	13,036,907	12,428,010
Net assets:						
Invested in capital assets, net of related debt	24,411,699	24,887,255	994,972	1,029,505	25,406,671	25,916,760
Restricted						
Nonexpendable	4,130	4,130	--	--	4,130	4,130
Expendable	240,511	308,497	--	--	240,511	308,497
Unrestricted	1,501,361	2,302,855	(88,195)	(5,052)	1,413,166	2,297,803
Total net assets	\$ 26,157,701	\$ 27,502,737	\$ 906,777	\$ 1,024,453	\$ 27,064,478	\$ 28,527,190

The Town of Sterling's restricted net assets total \$244,641, \$4,130 as nonexpendable, and \$240,511 as expendable. These are resources that are subject to external restrictions on how they may be used. The expendable \$240,511 represents State of Connecticut grants for Town Aid Roads (\$141,291) and Small Cities (\$99,220). The remaining \$4,130 represents a portion of the reserved fund balance in the cemetery fund. The remaining balance of unrestricted net assets, \$1,413,166, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town of Sterling reported positive balances in all three categories of net assets, both for government as a whole, as well as for its separate governmental and business-type activities.

Between FY 2010 and 2011, our total governmental net assets declined by \$1,462,712. Long-term debt decreased by \$315,000 (an increase in net assets) because the Town paid

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

off a scheduled principal amortization on its outstanding bonds. Education expenses were down \$283,972 as previously mentioned but public works capital grants were \$732,000 less than last year due to a large developer land donation in 2010 not repeated in 2011. An increase in post employment benefits of \$1,355,113 contributed the most to most of the net asset decline.

Table 2 shows the various factors that caused our net assets to decrease.

General government operating grants are down \$74,624 reflecting an energy efficiency grant paid in 2010 and not repeated in 2011. Losses on disposal of capital equipment fell respective to 2010 as last year we eliminated portable classrooms that were not fully depreciated when we fully opened the new school.

**Table 2
Change in Net Assets**

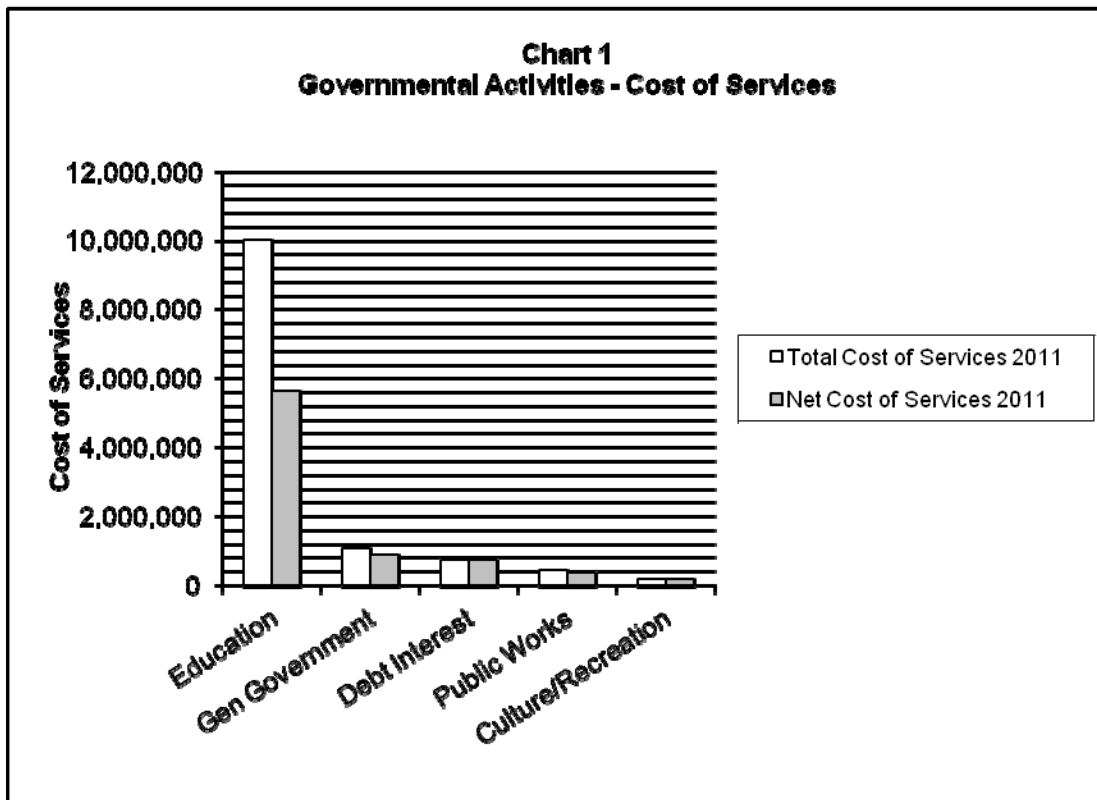
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 272,496	\$ 307,702	\$ 212,699	\$ 230,792	\$ 485,195	\$ 538,494
Operating grants and contributions	4,301,473	4,396,560	--	--	4,301,473	4,396,560
Capital grants and contributions	100,946	832,665	--	--	100,946	832,665
General revenues:						
Property taxes	6,539,796	6,450,094	--	--	6,539,796	6,450,094
Grants and contributions	47,321	49,881	--	--	47,321	49,881
Interest and investment earnings	8,808	15,057	27	34	8,835	15,057
Gain (loss) on disposal of equipment	(32,853)	(187,504)	--	--	(32,853)	(187,504)
Other general revenues	7,059	7,754	--	--	7,059	7,754
Total revenues	11,245,046	11,872,209	212,726	230,826	11,457,772	12,103,035
Program expenses						
General government	1,054,575	1,056,599	--	--	1,054,575	1,056,599
Public works	438,619	468,703	--	--	438,619	468,703
Public safety	111,943	109,134	--	--	111,943	109,134
Health, welfare and sanitation	96,330	99,777	--	--	96,330	99,777
Culture and recreation	174,422	153,515	--	--	174,422	153,515
Education	9,998,284	10,282,256	--	--	9,998,284	10,282,256
Interest on long-term debt	715,909	425,800	--	--	715,909	425,800
Water and water pollution	-	--	330,402	333,437	330,402	333,437
Total expenses	12,590,082	12,595,784	330,402	333,437	12,920,484	12,929,221
Increase (decrease) in net assets	\$ (1,345,036)	\$ (723,575)	\$ (117,676)	\$ (102,611)	\$ (1,462,712)	\$ (826,186)

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Governmental Activities

The Town's total primary government net assets fell by \$1,462,712 from the previous year. As previously discussed, this drop was largely a result of other post employment benefits increases. The decrease for governmental activities amounted to \$1,345,036 and water and sewer operations contributed a further drop in net assets of \$117,676. The significant changes from the prior fiscal year are laid out above.

Chart 1 presents the expenses of five of the Town's seven governmental activities as well as each function's net expenses (total expenses less revenues generated by the activities). The Net Cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.



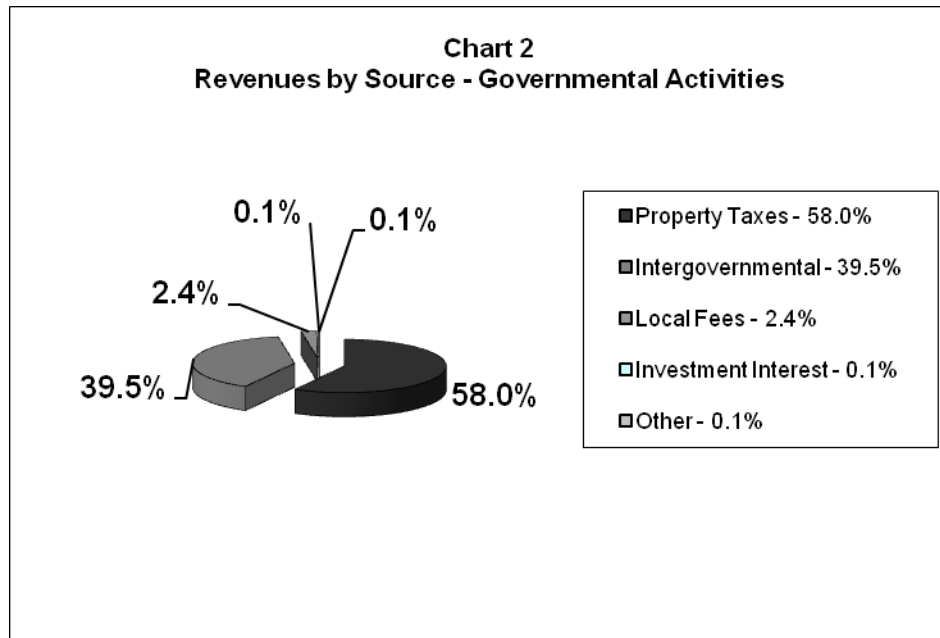
**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

**Table 3
Governmental Activities**

	Total Cost of Services			Net Cost of Services		
	2011	2010	Incr.	2011	2010	Incr.
General government	\$ 1,054,575	\$ 1,056,599	-0.2%	\$ 875,814	\$ 286,536	205.7%
Public works	438,619	468,703	-6.4%	340,522	(382,331)	-189.1%
Public safety	111,943	109,134	2.6%	104,450	99,993	4.5%
Health, welfare and sanitation	96,330	99,777	-3.5%	95,986	94,964	1.1%
Culture and recreation	174,422	153,515	13.6%	155,187	133,756	16.0%
Education	9,998,284	10,282,256	-2.8%	5,627,299	6,400,139	-12.1%
Interest on long-term debt	715,909	425,800	68.1%	715,909	425,800	68.1%
Totals	\$ 12,590,082	\$ 12,595,784	0.0%	\$ 7,915,167	\$ 7,058,857	12.1%

Our governmental activities expenses were on a par on a gross basis with the prior year as noted above. Increased interest expense reflects the issuance of \$6,000,000 of school bonds and payment of outstanding notes retired by the bonds.

Chart 2 presents the revenues reported in the statement of activities.



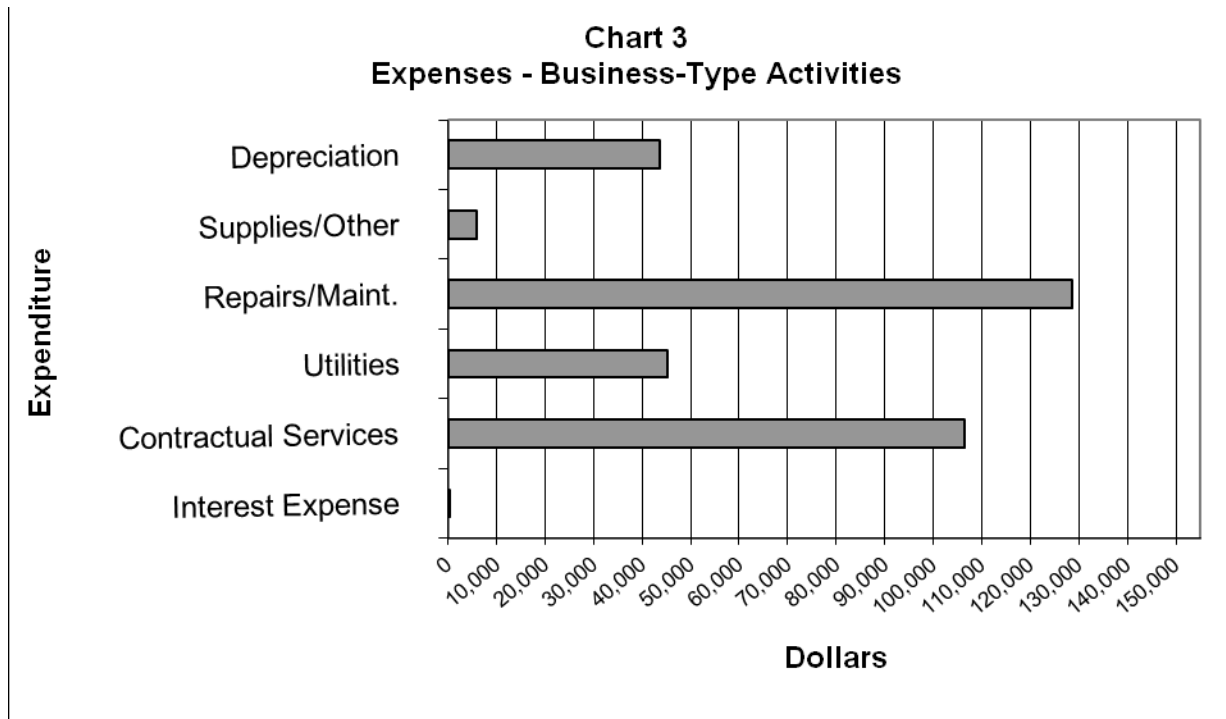
**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Business-type activities

The net assets of the Town's business-type activities decreased by \$117,676 during the current fiscal year. Virtually all our business-type revenues were derived from charges for services with water and sewer user fees amounting to \$212,699.

Both the water fund and the water pollution (sewer) fund lost net assets in the 2011 fiscal year, the water fund \$61,315 and the water pollution fund \$56,361, for a total decline in net assets of \$117,676 as previously noted. The net cash flow from both operations were positive with water adding \$12,010 and sewer \$44,170. The fundamental reason for the net asset decline, as has been the case for many years, was insufficient revenues to pay for expenses.

In fiscal year 2011, expenses for water services increased modestly in line with inflation and the added costs of doing business while water pollution expenses fell about \$10 thousand mostly due to reduced contractual services. Revenues for water service declined about \$15 thousand while sewer revenues improved slightly.



**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Financial Analysis of the Government's Funds

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

Governmental funds. As of the end of the current fiscal year, the Town of Sterling's governmental funds reported combined ending fund balances of \$3,238,324, an increase of \$71,599 in comparison with the prior year. Over 59.9% of the fund balance, \$1,941,029, constitutes *unassigned fund balance* that is available for spending at the Town's discretion. The remainder of the fund balance, \$1,297,295 is categorized into four segments reflecting the degree to which these funds have been committed. *Nonspendable* fund balance of \$361,788 cannot be spent because of its form (a capital asset, for example) or it must be maintained intact. *Restricted* fund balance of \$379,198 is restricted due to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. *Committed* fund balance of \$67,139 represents funds limited at the highest level of decision making in the Town and may not be removed except for formal action at the same level. *Assigned* fund balance of \$489,170 is limited by its intended use established at the highest level of decision making where the intended use is designated for that purpose by such official or officials making such designation. See Note 8.B. Fund Balances of Notes to the Financial Statements for a more detailed analysis of each of the various fund balance components.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned general fund balance was \$2,197,007 while total general fund balance was \$2,209,154. The Town's general fund balance increased by \$197,914 during the current fiscal year despite transfers out of \$351,248 to various capital accounts (\$171,528) and other governmental funds (\$179,730). The general fund experienced an operating surplus for the year of \$549,152 before transfers out.

The capital nonrecurring fund, the second of the Town's four major funds, is used to account for and to fund capital projects that may have a more than one year horizon. Appropriations into this account do not lapse at the end of the fiscal year and may be continued until the project is completed. The general fund contributed \$146,528 to this fund in FY 2011. Investment income and local revenues added another \$730. The fund expended \$155,731. Most of this is the result of the purchase of school buses for \$131,108. The details of the capital nonrecurring fund can be found in Schedule 2.

The industrial park fund tracks activities in our prime commercial asset. Fees and charges in the amount of \$26,951 were realized in FY 2011, and a general fund contribution of \$25,000 helped to cover the fund's \$38,685 administrative expenditures. As a result, fund balance in this fund closed out the year with a positive balance of

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

\$52,463.

The fourth major fund, educational grants, records the receipt and disbursement of various state and federal grants and revenues committed to the Board of Education and, depending on the timing of how these monies are received and expended, the fund may post a modest positive or negative balance at any given time. For FY 2011, the fund recorded receipts and investment income of \$448,982 and disbursements of \$472,604 for a negative operating balance at year end of \$23,622 which drew the previously positive fund balance of \$13,330 down to a negative \$10,292 at the close of the year.

General Fund Budgetary Highlights – Over the course of the year, the Board of Finance can revise the Town budget with additional appropriations and budget transfers. Additional appropriations increase the total budget. The Board of Finance is allowed by State Statute to make one additional appropriation up to \$20,000 per line item or department. A second additional appropriation, or an appropriation over \$20,000, requires a Town Meeting. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. State Statutes allow these transfers to be made by the Board of Finance without a Town Meeting. Below is a brief summary of the final budget and actual results for the General Fund:

**Table 4
General Fund - Budget Summary**

	Final		
	Budget	Actual	Variance
Revenues			
Property Taxes	\$ 6,478,273	\$ 7,041,725	\$ 563,452
Intergovernmental	3,531,279	3,440,118	(91,161)
Local Revenue	120,809	79,658	(41,151)
Total Revenues	<u>10,130,361</u>	<u>10,561,501</u>	<u>431,140</u>
Expenditures			
General Government	2,705,842	2,678,432	27,410
Education	7,652,584	7,619,457	33,127
Total Expenditures	<u>10,358,426</u>	<u>10,297,889</u>	<u>60,537</u>
Increase (Decrease) in Fund Balance	<u>\$ (228,065)</u>	<u>\$ 263,612</u>	<u>\$ 491,677</u>

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

The original approved revenue budget of \$10,130,361 remained unchanged. The final expenditure budget for the town included additional appropriations and transfers in the net amount of \$228,065 more than the original budget to be paid from additional general revenues. Numerous transfers between accounts helped to bring this figure down as shown below. Of the additional appropriations, \$163,489 were made for the Town and \$64,577 for the Board of Education. Significant increases, decreases, or transfers are noted below.

- ❖ \$17,851 added to Tax Collector refund/rebate account;
- ❖ \$10,000 reduced from the heat account;
- ❖ \$14,083 added to legal services;
- ❖ \$16,687 removed from insurance and bonds;
- ❖ \$11,000 removed from planning commission subdivision expenses;
- ❖ \$25,227 added to road resurfacing;
- ❖ \$32,966 removed from town aid highway maintenance;
- ❖ \$54,991 increase to snow removal account;
- ❖ \$14,245 supplemental to economic development operations;
- ❖ \$11,000 reduction in building and property management supervisor wages;
- ❖ \$51,528 addition for buses.

The fiscal year 2011 original budget anticipated no drawdown of general fund balance as did the revised final budget. Actual operations generated a positive revenue budget variance in the amount of \$431,140 driven almost entirely by tax collections \$563,452 higher than budgeted. A positive expenditure budget variance of \$60,537 was shared almost equally between the Town and the Board of Education leaving the overall budget variance at a positive \$491,677.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets, before depreciation, as of June 30, 2011 amounted to \$42,889,512, representing a net increase of \$216,881. The major capital asset events during the current fiscal year were as noted below:

- ❖ Our largest single addition to capital assets in fiscal year 2011 was \$102,698, representing completed work on the Gibson Hill Road Bridge.
- ❖ We made improvements to our various buildings of \$40,041;

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

❖ We purchased new vehicles for \$62,000 and bought other assorted equipment totaling \$20,005.

Additional information on Town's capital assets can be found in Note 5 – Capital Assets, of this report.

Long-term debt. As of June 30, 2011, the Town of Sterling had \$10,410,000 of long-term bonded debt outstanding. All of this debt is backed by the full faith and credit of the Town. All bonded indebtedness is for schools.

Table 5
Principal Amount of Indebtedness

<u>Loans and Bonds</u>				
<u>Purpose</u>	<u>Rate (%)</u>	<u>Original Issue</u>	<u>Debt Outstanding</u>	<u>Year of Maturity</u>
School	3.00 – 4.15	\$ 6,000,000	\$ 6,000,000	2029
School	4.00	6,000,000	4,410,000	2025
Total Loans and Bonds		\$12,000,000	\$10,410,000	

The Town's general obligation debt decreased by \$315,000. We made payments of scheduled principal amortization on our existing general fund bonded debt.

Our outstanding long-term bonded debt carries a "A1" rating from Moody's Investors Service, Inc.

State statutes limit the amount of general obligation debt a governmental entity may issue to 7 times its tax collections plus interest and lien fees. For June 30, 2011, the maximum amount of borrowing permitted under the formula would be \$48,917,967. With tax supported borrowings of \$10,410,000, the Town's outstanding general obligation debt is \$38,507,967 below the maximum debt limitation (see Note 7.C. - Debt Limitations Under Connecticut State Statutes, of this report).

Additional information on Sterling's long-term debt can be found in Note 7 Long-Term Debt, of this report.

Economic Factors and Next Year's Budget

- The unemployment rate for the Town of Sterling was 9.8% as of June 30, 2011, up 0.1% from last year. This figure is above the state's average unemployment rate of 9.1% and slightly above the national average rate of 9.3% (not seasonally adjusted) for the same period.

Overall, the FY 2011-2012 Selectman's budget rose (for the first time in four years) by

**Town of Sterling, Connecticut
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

slightly more than \$115 thousand from \$2.654 million to \$2.769 million. The Board of Education budget increased modestly by \$66 thousand from \$7.588 million to \$7.654 million. In total, our FY 2012 budget grew by \$181 thousand (1.8%). We contemplate drawing down no general fund balance to help balance the budget

Requests for Information

This financial report is designed to provide a general overview of the Town of Sterling's finances for all those with an interest in the government's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the First Selectman, Town of Sterling Town Hall, 1114 Plainfield Pike, PO Box 157, Oneco, CT 06373.

Town of Sterling, Connecticut
Statement of Net Assets
June 30, 2011

Exhibit 1

	Governmental Activities	Business- Type Activities	Total Government
Assets			
Cash and cash equivalents	\$ 3,157,605	\$ 87,597	\$ 3,245,202
Receivables, net of allowance for collection losses	516,030	41,984	558,014
Inventory	201,249	-	201,249
Restricted assets	65,249	-	65,249
Due from business activities	215,000	-	215,000
Capital assets:			
Not being depreciated	3,456,540	-	3,456,540
Net of accumulated depreciation	31,365,159	994,972	32,360,131
Total assets	38,976,832	1,124,553	40,101,385
Liabilities			
Accounts payable	377,757	2,776	380,533
Accrued wages and benefits	107,368	-	107,368
Due to performance bonds	65,249	-	65,249
Deferred revenue	292,084	-	292,084
Due to governmental activities	-	215,000	215,000
Accrued interest	105,932	-	105,932
Noncurrent liabilities:			
Due within one year	575,563	-	575,563
Due in more than one year	11,295,178	-	11,295,178
Total liabilities	12,819,131	217,776	13,036,907
Net assets			
Invested in capital assets, net of related debt	24,411,699	994,972	25,406,671
Restricted net assets:			
Nonexpendable	4,130	-	4,130
Expendable	240,511	-	240,511
Unrestricted net assets	1,501,361	(88,195)	1,413,166
Total net assets	\$ 26,157,701	\$ 906,777	\$ 27,064,478

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

**Town of Sterling, Connecticut
Statement of Activities
For the Year Ended June 30, 2011**

	Charges For			Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Services	Operating	Capital	Government Activities	Business-Type Activities	Total	
Functions/Programs								
Governmental activities:								
General government	\$ (1,054,575)	\$ 161,345	\$ 14,567	\$ 2,849	\$ (875,814)	\$ -	\$ (875,814)	
Public works	(438,619)	-	-	98,097	(340,522)	-	(340,522)	
Public safety	(111,943)	4,493	3,000	-	(104,450)	-	(104,450)	
Health, welfare and sanitation	(96,330)	-	344	-	(95,986)	-	(95,986)	
Culture and recreation	(174,422)	14,123	5,112	-	(155,187)	-	(155,187)	
Education	(9,998,284)	92,535	4,278,450	-	(5,627,299)	-	(5,627,299)	
Interest on long-term debt	(715,909)	-	-	-	(715,909)	-	(715,909)	
Total governmental activities	(12,590,082)	272,496	4,301,473	100,946	(7,915,167)	-	(7,915,167)	
Business-type activities:								
Water	(180,641)	119,315	-	-	-	(61,326)	(61,326)	
Water Pollution	(149,761)	93,384	-	-	-	(56,377)	(56,377)	
Total business-type activities	(330,402)	212,699	-	-	-	(117,703)	(117,703)	
Total government	\$ (12,920,484)	\$ 485,195	\$ 4,301,473	\$ 100,946	(7,915,167)	(117,703)	(8,032,870)	
General revenues:								
Property taxes, payments in lieu of taxes, interest and liens					6,539,796	-	6,539,796	
Grants and contributions					47,321	-	47,321	
Interest and investment earnings					8,808	27	8,835	
Gain (loss) on disposal of equipment					(32,853)	-	(32,853)	
Miscellaneous					7,059	-	7,059	
Total general revenues					6,570,131	27	6,570,158	
Changes in net assets					(1,345,036)	(117,676)	(1,462,712)	
Net assets, beginning of the year					27,502,737	1,024,453	28,527,190	
Net assets, end of the year					\$ 26,157,701	\$ 906,777	\$ 27,064,478	

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

Town of Sterling, Connecticut
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Nonrecurring Fund	Industrial Park	Educational Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,691,639	\$ 80,569	\$ 96,708	\$ 563,953	\$ 724,736	\$ 3,157,605
Receivables	292,872	-	12,765	26,447	183,946	516,030
Inventory	-	-	201,249	-	-	201,249
Restricted assets	65,249	-	-	-	-	65,249
Due from other funds	964,612	-	-	-	192,003	1,156,615
Total assets	3,014,372	80,569	310,722	590,400	1,100,685	5,096,748
Liabilities and fund balance						
Liabilities						
Accounts payable	298,607	-	194	533	78,423	377,757
Accrued expenses	107,368	-	-	-	-	107,368
Due to others	65,249	-	-	-	-	65,249
Deferred revenue	141,991	-	-	207,609	16,835	366,435
Due to other funds	192,003	77,433	258,065	392,550	21,564	941,615
Total liabilities	805,218	77,433	258,259	600,692	116,822	1,858,424
Fund balance						
Nonspendable	-	-	214,014	-	147,774	361,788
Restricted	11,614	-	-	-	367,584	379,198
Committed	-	67,139	-	-	-	67,139
Assigned	533	-	-	-	488,637	489,170
Unassigned	2,197,007	(64,003)	(161,551)	(10,292)	(20,132)	1,941,029
Total fund balance	2,209,154	3,136	52,463	(10,292)	983,863	3,238,324
Total liabilities and fund balance	\$ 3,014,372	\$ 80,569	\$ 310,722	\$ 590,400	\$ 1,100,685	

Reconciliation of net assets to fund balances - total governmental funds:

Less: Long-term liabilities not due and payable in current period:

Bonds, notes, capital leases payable and unamortized premiums on bond costs	(10,410,000)
Compensated absences and special termination benefits	(105,628)
Other post-employment benefits	(1,355,113)
Accrued interest payable	(105,932)

Plus:

Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	34,821,699
Other long-term assets not available to pay for current period expenditures, recorded as deferred revenue in the funds	74,351

Net assets reported on the government-wide financial statements (Exhibit 1)**\$ 26,157,701**

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

Town of Sterling, Connecticut
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Capital Nonrecurring Fund	Industrial Park	Educational Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes, interest and lien fees	\$ 7,041,725	\$ -	\$ -	\$ -	\$ -	\$ 7,041,725
Intergovernmental revenues	3,829,785	-	-	448,632	190,927	4,469,344
Local revenues	67,441	540	26,951	-	185,268	280,200
Investment income	6,681	190	5	350	1,582	8,808
	<u>10,945,632</u>	<u>730</u>	<u>26,956</u>	<u>448,982</u>	<u>377,777</u>	<u>11,800,077</u>
Expenditures						
Current expenditures:						
General government	976,609	-	38,685	-	102,601	1,117,895
Public works	451,481	-	-	-	179,426	630,907
Public safety	97,107	-	-	-	14,303	111,410
Health, welfare and sanitation	96,330	-	-	-	-	96,330
Culture and recreation	25,515	-	-	-	130,472	155,987
Education	8,033,070	-	-	472,604	180,594	8,686,268
Debt service	716,368	-	-	-	-	716,368
Capital outlay	-	155,731	-	-	61,282	217,013
	<u>10,396,480</u>	<u>155,731</u>	<u>38,685</u>	<u>472,604</u>	<u>668,678</u>	<u>11,732,178</u>
Excess (deficiency) of revenues over expenditures	<u>549,152</u>	<u>(155,001)</u>	<u>(11,729)</u>	<u>(23,622)</u>	<u>(290,901)</u>	<u>67,899</u>
Other financing sources (uses)						
Proceeds from sale of capital assets	-	-	-	-	3,700	3,700
Operating transfers in	10	146,528	25,000	-	179,720	351,258
Operating transfers out	(351,248)	-	-	-	(10)	(351,258)
	<u>(351,238)</u>	<u>146,528</u>	<u>25,000</u>	<u>-</u>	<u>183,410</u>	<u>3,700</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	197,914	(8,473)	13,271	(23,622)	(107,491)	71,599
Fund balance, beginning of the year	2,011,240	11,609	39,192	13,330	1,091,354	3,166,725
Fund balance, end of the year	<u>\$ 2,209,154</u>	<u>\$ 3,136</u>	<u>\$ 52,463</u>	<u>\$ (10,292)</u>	<u>\$ 983,863</u>	<u>\$ 3,238,324</u>

Reconciliation of the statement of revenues, expenditures and changes in fund balances (above) to the statement of activities (Exhibit 2)

Net change in fund balances - total governmental funds (above)	\$ 71,599
Transactions involving the treatment of capital outlays:	
Plus: Capital outlays treated as expenditures here, but capitalized on Exhibit 2	343,468
Less: Depreciation and amortization expense recorded in Exhibit 2, but not considered in the fund statements	(1,097,471)
Net effects of various transactions involving fixed assets:	
Plus: Gain or (Loss) on disposal of fixed assets not reported in this statement	(25,103)
Less: Gross proceeds from the disposal of fixed assets not included in Exhibit 2	(11,450)
Transactions involving the treatment of long-term debt:	
Less: Long-term debt issued or incurred:	
General obligation bonds principal repayments	315,000
Changes in other items not requiring the use of current financial resources:	
Compensated absences benefits payable	(413,834)
Accrued interest payable	459
Revenue in the Statement of Activities (Exhibit 2) that had different timing due to being available	
Taxes, interest and lien fees	(501,929)
Cafeteria	7,162
LOCIP reimbursement	2,849
Other deferred revenue	(35,786)
Changes in net assets of governmental activities (Exhibit 2)	<u>\$ (1,345,036)</u>

Town of Sterling, Connecticut
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Water Fund	Water Pollution Fund	Total Proprietary Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 13,307	\$ 74,290	\$ 87,597
Receivables, net of allowance for collection losses	19,271	22,713	41,984
Due from other funds	-	50,100	50,100
	<u>32,578</u>	<u>147,103</u>	<u>179,681</u>
Other assets			
Capital assets:			
Net of accumulated depreciation	148,884	846,088	994,972
	<u>148,884</u>	<u>846,088</u>	<u>994,972</u>
Total assets	<u>181,462</u>	<u>993,191</u>	<u>1,174,653</u>
Liabilities			
Current liabilities			
Accounts payable	-	2,776	2,776
Due to other funds	133,900	131,200	265,100
	<u>133,900</u>	<u>133,976</u>	<u>267,876</u>
Total liabilities	<u>133,900</u>	<u>133,976</u>	<u>267,876</u>
Net assets			
Invested in capital assets, net of related debt	148,884	846,088	994,972
Unrestricted net assets	(101,322)	13,127	(88,195)
	<u>(101,322)</u>	<u>13,127</u>	<u>(88,195)</u>
Total net assets	<u>\$ 47,562</u>	<u>\$ 859,215</u>	<u>\$ 906,777</u>

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

Town of Sterling, Connecticut
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Water Fund	Water Pollution Fund	Total Proprietary Funds
Operating revenues:			
Charges for services	\$ 119,315	\$ 93,384	\$ 212,699
Total operating revenues	119,315	93,384	212,699
Operating expenses:			
Contractual services	-	106,519	106,519
Utilities	40,552	4,758	45,310
Repairs and maintenance	128,532	122	128,654
Other supplies and expenses	4,644	1,262	5,906
Depreciation	6,913	36,800	43,713
Total operating expenses	180,641	149,461	330,102
Operating income (loss)	(61,326)	(56,077)	(117,403)
Nonoperating revenues (expenses)			
Interest and investment revenue	11	16	27
Interest expense	-	(300)	(300)
Nonoperating revenues (expenses)	11	(284)	(273)
Loss before contributions and transfers	(61,315)	(56,361)	(117,676)
Change in net assets	(61,315)	(56,361)	(117,676)
Total net assets, beginning of the year	108,877	915,576	1,024,453
Total net assets, end of the year	\$ 47,562	\$ 859,215	\$ 906,777

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

Town of Sterling, Connecticut
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Water Fund	Water Pollution Fund	Total Proprietary Funds
Cash flows from operating activities:			
Receipts from customers	\$ 143,829	\$ 140,652	\$ 284,481
Payments to suppliers	(175,830)	(110,018)	(285,848)
Internal activity	44,000	23,000	67,000
Net cash provided by operating activities	11,999	53,634	65,633
Cash flows from capital and related financing activities:			
Principal paid on capital debt	-	(9,180)	(9,180)
Interest paid on capital debt	-	(300)	(300)
Net cash used by capital and related financing activities	-	(9,480)	(9,480)
Cash flows from investing activities:			
Interest and dividends	11	16	27
Net cash provided by investing activities	11	16	27
Net increase (decrease) in cash and cash equivalents	12,010	44,170	56,180
Cash and cash equivalents - beginning of the year	1,297	30,120	31,417
Cash and cash equivalents - end of the year	\$ 13,307	\$ 74,290	\$ 87,597
Reconciliation of operating loss to net cash provided by operating activities			
Operating income (loss)	\$ (61,326)	\$ (56,077)	\$ (117,403)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	6,913	36,800	43,713
Change in assets and liabilities:			
Receivables	24,514	47,268	71,782
Accounts payable	(2,102)	2,643	541
Interfund borrowings	44,000	23,000	67,000
Net cash provided by operating activities	\$ 11,999	\$ 53,634	\$ 65,633

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

Town of Sterling, Connecticut
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 33,204
Total assets	<u>33,204</u>
Liabilities	
Due to others	<u>33,204</u>
Total liabilities	<u>33,204</u>
Net Assets	<u><u>\$ -</u></u>

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

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The Town of Sterling, Connecticut (the Town) is a municipal corporation governed by a selectmen–town meeting form of government. Under this form of government the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes, and borrow money. The administrative branch is led by an elected three-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education oversees the public school system. An elected board of finance is the budget making authority and supervises the Town’s financial matters.

A. Reporting entity

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The criterion provided by the Government Accounting Standards Board has been considered and there are no agencies or entities which should be presented with this government.

B. Government-wide and fund financial statements

The *government-wide financial statements* (Exhibits 1 and 2) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial 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. Exceptions to this general rule are charges between the government’s water and water pollution function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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*.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Separate *fund financial statements* are provided for governmental funds, proprietary funds and fiduciary funds (Exhibits 3 through 8). *Governmental activities*, activities which normally are supported by taxes and intergovernmental revenues, are reported in the governmental funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. *Fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the governments own programs.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement focus, accounting basis, 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.

Property taxes, liens, 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. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

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

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

- The *Capital Nonrecurring Fund* is used to accumulate funds for significant purchases.
- The *Industrial Park Fund* has purchased an area of land for commercial development. The land is held as inventory for sale for economic development.
- The *Education Grants Fund* accounts for Federal and State education grant revenues and expenditures.

The Town reports the following major proprietary funds:

- The *Water Fund* (Sterling Municipal Water Company) accounts for the collection of water use charges used to fund the water operations.
- The *Water Pollution Fund* accounts for certain revenues and expenditures for the sewer system which is available to some of the residents.

Additionally, the Town reports the following fiduciary fund types:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict, the guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

D. Assets, liabilities, and net assets

1) Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town are generally reported at fair value. Nonparticipating, interest-earning investment contracts are generally reported at cost plus accrued earnings.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes. In general for most of the funds, this includes deposits in allowable banks, obligations of the United States of America and obligations of any State or political subdivision, which is tax exempt. Certain Fiduciary Funds are allowed more flexibility in investing.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Interest Rate Risk – Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. 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 changing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

2) Receivables

Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under State Statute, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of fifteen years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance is calculated using a two tier formula based on prior experience and current knowledge.

3) Activity between funds

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

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

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

4) Inventories and prepaid items

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

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

5) Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

Assets	Years	Capitalization Threshold
Land	N/A	\$ 5,000
Buildings and improvements	50	\$ 5,000
Heavy equipment/Vehicles	10	\$ 5,000
Equipment	5	\$ 5,000
Infrastructure:		
Bridges	40	\$ 5,000
Roads, Drainage, Sidewalks	20	\$ 5,000
Sewer systems	50	\$ 5,000

6) Compensated absences

It is the Town's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

7) Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt 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.

8) Fund equity

Fund equity for government-wide statements (Exhibits 1 and 2) is called Net Assets and is displayed in three components:

Invested in Capital Assets, Net of Related Debt – this consists of capital assets, including *restricted* capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – these are reported when constraints placed on net asset use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – is the residual classification of Net Assets. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Town's policy is to use its restricted resources first.

Fund equity for governmental funds (Exhibits 3 and 4) is called Fund Balance and is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Town's policy is to use its restricted resources first. This will be followed by committed, assigned and unassigned resources in that order.

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Restricted Fund Balance – includes amounts that have constraints placed on the use of resources. These constraints must be either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action at a Town Meeting, and cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned Fund Balance – are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed through a formal action of the Board of Finance.

Unassigned Fund Balance - unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

E. Estimates

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

F. Subsequent Events

Subsequent events have been evaluated through the date of this report, February 08, 2012. This date represents the date that the financial statements were available to be issued.

G. Changes in Financial Statements

New Statements Implemented - The Town implemented Governmental Accounting Standards Board (GASB):

- Statement 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* – This statement provides clearer fund balance classifications that can be more consistently applied. This resulted in no adjustment to beginning equity.
- Statement 59 – *Financial Instruments Omnibus* – This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This resulted in no adjustments to beginning equity.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Residual Equity Transfer – The Town closed the Elementary School Construction Fund and made a residual equity transfer as of the beginning of the year. This moved the deficit Fund Balance in the Elementary School Construction Fund of \$125,378 and to the General Fund. This change is reflected in the beginning equity in the General Fund.

Note 2 - Budgeting

A. Budget basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions:

- **Teacher's Retirement** - The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer government recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Cash Basis Payroll** – Payroll for the general government is budgeted based on when it is expected to be paid. On the statements prepared under Generally Accepted Accounting Principles, payroll is charged to the fiscal year in which it is earned.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.
- **Plainfield Assessment**- Payments made to Plainfield for the purposes of building and maintaining Plainfield High School to accommodate enrollment from the Town are budgeted based on when they are paid.

B. Budget calendar

The Boards of Selectmen and Education submit requests for appropriations to the Board of Finance. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations of the next fiscal year.

The Board of Finance holds a public hearing, at which itemized estimates of the expenditures of the Town for the next fiscal year are presented. At this time, individuals are able to recommend any appropriations which they desire the Board of Finance to consider. The Board of Finance then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the annual meeting. The Board of Finance prepares the proposed budget.

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on this budget. After the Annual Town Meeting, the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the department level except expenditures for education, which are, by State Statutes, appropriated as one department.

The governing body may amend the annual budget subject to the requirements of the Connecticut General Statutes. The Board of Finance may make a one-time additional appropriation up to \$20,000 to any appropriations. A Town meeting must be called to make appropriations over \$20,000 or additional changes to a previously adjusted appropriation. During the year, there was \$228,066 of additional appropriations made.

Note 3 – Deposits and Investments

A. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at year end:

Governmental Funds	\$ 3,157,605
Proprietary Funds	87,597
Agency Funds	33,204
Restricted Assets	65,249
Total Cash and Cash Equivalents	<u><u>\$ 3,343,655</u></u>

B. Custodial Credit Risk on Deposits

As of June 30, 2011, the bank balance of the Town's deposits with financial institutions was:

Deposits	\$ 1,650,574
Plus: External Investment Pools treated as cash and cash equivalents	1,693,081
Total Cash and Cash Equivalents	<u><u>\$ 3,343,655</u></u>

The bank balance of the deposits was exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 500,313
Collateralized with securities held by the pledging institution's trust In the Town's name	<u>1,554,694</u>
Total Deposits	<u><u>\$ 2,055,007</u></u>

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

C. External Investment Pools Treated as Cash and Cash Equivalents

The pooled investment funds' risk category cannot be determined since the Town does not own identifiable securities but invests as a shareholder of the investment pool. The pool, Short-Term Investment Fund (STIF), is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes (CGS). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Security and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use the amortized cost to report net assets. The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools.

Note 4 - Receivables and Deferred Revenue

A. Receivables

Receivables as of yearend for the Town's individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Industrial Park	Education Grants	Other Governmental Funds	Total
Current receivables:					
Taxes *	\$ 259,369	\$ -	\$ -	\$ -	\$ 259,369
Interest and fees on taxes *	72,454	-	-	-	72,454
Intergovernmental	8,116	-	26,447	9,673	44,236
Other	-	12,765	-	174,273	187,038
Total receivables	339,939	12,765	26,447	183,946	563,097
Less: Allowance for uncollectible	(47,068)	-	-	-	(47,068)
Net current receivables	\$ 292,871	\$ 12,765	\$ 26,447	\$ 183,946	\$ 516,029

Receivables in the proprietary type funds are from charges for services to customers as follows:

	Water Fund	Water Pollution Fund
Sewer Usage Fees	\$ -	\$ 18,348
Sewer Assessment*	-	4,365
Water Usage Fees	19,271	-
	\$ 19,271	\$ 22,713

* Indicates a portion is long-term

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

B. Deferred revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent net property taxes, interest and liens receivable	\$ 57,516	\$ -
Reimbursements not received in 60 days	16,835	-
Taxes collected in advance of billings		84,475
Grant drawdowns prior to meeting all eligibility requirements	-	207,609
Total deferred/unearned revenue for governmental funds	\$ 74,351	\$ 292,084

C. Notes receivable

The notes receivable (long-term) in the Special Revenue Funds consist of the following:

<u>Small Cities Funds</u> - The balance represents the year end balances due to the Town of Sterling for repayment of economic development notes issued to Sterling businesses to spur economic growth.	\$38,536
<u>Incubator Fund</u> - The balance represents the year end balances due to the Town of Sterling for repayment of additional economic development notes issued to Sterling businesses to spur economic growth.	9,194
<u>Radon Fund</u> - The balance represents the year end balances due to the Town of Sterling for repayment of notes issued under a Federal grant to residential homeowners for radon removal equipment. These notes are non-interest bearing liens on the real estate and are to be paid back when the property is sold.	98,013
<u>Industrial Park</u> - The balance represents the year end balance due to the Town of Sterling for repayment of a note issued to Sterling businesses to spur economic growth.	12,765
Total Notes Receivable	\$158,508

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

D. Operating Lease as Lessor

The Town is a lessor in several operating leases:

	Industrial Park	Community Center	Old Library	Total
Cost	\$ 199,360	\$ 574,390	\$ 136,580	\$ 910,330
Accumulated Depreciation	(163,351)	(268,288)	(121,448)	(553,087)
Carrying Value	\$ 36,009	\$ 306,102	\$ 15,132	\$ 357,243
Minimum Future Rentals:				
2012	\$ 25,763	\$ 19,800	\$ 10,800	\$ 56,363
2013	\$ 21,637	\$ 11,550	\$ 3,600	\$ 36,787
2014	\$ 13,200	\$ -	\$ -	\$ 13,200
2015	\$ 13,200	\$ -	\$ -	\$ 13,200
2016	\$ 12,100	\$ -	\$ -	\$ 12,100

Note 5 - Capital Assets

A. Governmental funds

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,438,362	\$ -	\$ -	\$ 3,438,362
Construction in progress	102,698	18,178	(102,698)	18,178
	<u>3,541,060</u>	<u>18,178</u>	<u>(102,698)</u>	<u>3,456,540</u>
Capital assets being depreciated:				
Buildings and improvements	33,588,933	40,041	-	33,628,974
Heavy equipment	128,872	-	-	128,872
Vehicles	1,106,430	62,000	(112,587)	1,055,843
Other equipment	154,888	20,005	(14,000)	160,893
Intangible assets	2,860,708	-	-	2,860,708
Infrastructure	1,291,740	305,942	-	1,597,682
	<u>39,131,571</u>	<u>427,988</u>	<u>(126,587)</u>	<u>39,432,972</u>
Less: Accumulated deprec./amort.	(7,060,376)	(1,097,471)	90,034	(8,067,813)
	<u>32,071,195</u>	<u>(669,483)</u>	<u>(36,553)</u>	<u>31,365,159</u>
Net capital assets	<u>\$ 35,612,255</u>	<u>\$ (651,305)</u>	<u>\$ (139,251)</u>	<u>\$ 34,821,699</u>

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Depreciation and amortization expense was charged as follows:

	Depreciation	Amortization
General government	\$ 87,148	\$ -
Public works	92,961	-
Public safety	745	-
Culture and recreation	18,435	-
Education	755,158	143,024
Total expense - governmental activities	<u>\$ 954,447</u>	<u>\$ 143,024</u>

B. Proprietary funds

The following is a summary of the changes in the Proprietary Funds fixed assets for the year:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Water department plant	\$ 536,675	\$ -	\$ -	\$ 536,675
Water pollution plant	1,619,204	-	-	1,619,204
Total fixed assets	2,155,879	-	-	2,155,879
Less: accumulated depreciation	(1,117,194)	(43,713)	-	(1,160,907)
Net capital assets	<u>\$ 1,038,685</u>	<u>\$ (43,713)</u>	<u>\$ -</u>	<u>\$ 994,972</u>

Depreciation expense was charged as follows:

Water department	\$ 6,913
Water pollution	36,800
Total depreciation expense - business-type activities	<u>\$ 43,713</u>

Note 6 - Interfund Activities

A. Interfund transfers

Interfund transfers are used primarily to reclassify General Fund revenues to other funds:

	Transfers in to:				Total
	General Fund	Capital Nonrecurring	Industrial Park	Other Governmental	
Transfers out of:					
General Fund	\$ -	\$ 146,528	\$ 25,000	\$ 179,720	\$ 351,248
Other Governmental Funds	10	-	-	-	10
Total transfers out	<u>\$ 10</u>	<u>\$ 146,528</u>	<u>\$ 25,000</u>	<u>\$ 179,720</u>	<u>\$ 351,258</u>

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

B. Advance to/from other funds

There are no long-term loan agreements on the interfund balances.

C. Due to/from other funds

The following are temporary borrowings between funds. These are either expected to be paid off within one year or have no agreed payment terms:

Receivable Fund	Payable Fund	Amount
General Fund	Education Grants	\$ 392,550
General Fund	Industrial Park Fund	258,065
General Fund	Capital Nonrecurring Fund	77,433
General Fund	Other Governmental Funds	21,564
General Fund	Water Fund	83,800
General Fund	Water Pollution Fund	131,200
Other Governmental Funds	General Fund	192,003
Water Pollution Fund	Water Fund	50,100
		<u>\$ 1,206,715</u>

Note 7 – Long-Term Debt

A. Changes in long-term liabilities - governmental activities

Long-term liability activity for the governmental activities was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds:					
School	\$ 4,725,000	\$ -	\$ (315,000)	\$ 4,410,000	\$ 315,000
School	6,000,000	-	-	6,000,000	250,000
Total bonds payable	10,725,000	-	(315,000)	10,410,000	565,000
Net OPEB Obligation	698,611	656,502	-	1,355,113	-
Compensated Absences	348,296	-	(242,668)	105,628	10,563
	<u>\$ 11,771,907</u>	<u>\$ 656,502</u>	<u>\$ (557,668)</u>	<u>\$ 11,870,741</u>	<u>\$ 575,563</u>

B. General obligation bonds – governmental activities

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 full faith and credit of the Town. These bonds generally are issued as 20 year serial bonds with equal amounts of principal maturing each year. Payments on these bonds have been made out of the General Fund and are all charged to expenditures. General obligation bonds currently outstanding are as follows:

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

Purpose	Original Amount	Matures in Year Ending	Interest Rates	Amount
Education	\$ 6,000,000	2029	3-4.15%	\$ 6,000,000
Education/Well	\$ 6,000,000	2025	4.00%	4,410,000
				\$ 10,410,000

Annual debt service requirements to maturity for the governmental fund's general obligation bonds are as shown in the following schedule:

Year Ending	Principal	Interest	Year Ending	Principal	Interest
2012	\$ 565,000	\$ 390,342	2021	645,000	201,113
2013	575,000	371,424	2022	655,000	177,127
2014	580,000	352,205	2023	670,000	152,130
2015	590,000	333,768	2024	680,000	125,015
2016	595,000	311,930	2025	695,000	97,343
2017	605,000	291,717	2026	395,000	68,912
2018	610,000	271,205	2027	415,000	53,112
2019	620,000	248,753	2028	430,000	36,305
2020	635,000	223,952	2029	450,000	18,675
				\$ 10,410,000	\$ 3,725,028

C. Debt limitations under Connecticut State Statutes

Connecticut General Statutes Section 7-374 sets limits on the debt, as defined by the statutes, which can be incurred by the Town and other governmental agencies within the Town. The limitations for the Town of Sterling, Connecticut are as follows:

Total tax collections (including interest and lien fees) for the year	\$ 6,964,982
Reimbursements for revenue loss on tax relief for the elderly (C.G.S. 12-129d)	23,299
Debt limitation base	\$ 6,988,281

Debt limitation:	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
2 1/4 times base	\$ 15,723,632	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	31,447,265	-	-	-
3 3/4 times base	-	-	26,206,054	-	-
3 1/4 times base	-	-	-	22,711,913	-
3 times base	-	-	-	-	20,964,843
	15,723,632	31,447,265	26,206,054	22,711,913	20,964,843
Indebtedness:					
Bonds/notes payable	155,000	10,255,000	-	-	-
Debt limitation in excess of debt outstanding and authorized	\$ 15,568,632	\$ 21,192,265	\$ 26,206,054	\$ 22,711,913	\$ 20,964,843

In no case shall total indebtedness exceed seven times annual receipts from taxation \$ 48,917,967

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

D. Changes in long-term liabilities - business-type activities

The 5% Sewer Bond for \$257,000 dated March 11, 1983 with the U.S. Department of Agriculture Farmers' Home Administration matured on March 11, 2011. Long term liability activity for the business-type activities for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Sewer Bonds	\$ 9,180	\$ -	\$ (9,180)	\$ -	\$ -

Note 8 - Equity

A. Restricted Net Assets

Restrictions on Net Assets at year end are summarized as follows:

	Nonexpendable	Expendable
Cemetery Trust Principal	\$ 4,130	\$ -
Town Aid Road Grant	-	141,291
Small Cities Grant	-	99,220
	<u>\$ 4,130</u>	<u>\$ 240,511</u>

B. Fund Balances

Nonspendable Fund Balance is summarized as follows:

	Industrial Park Fund	Other Governmental Funds
Not in spendable form:		
Inventory	\$ 201,249	\$ -
Long-term receivables	12,765	143,644
Required to be maintained intact:		
Cemetery Trust Principal	-	4,130
	<u>\$ 214,014</u>	<u>\$ 147,774</u>

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

Restricted Fund Balance is summarized as follows:

	General Fund	Other Governmental Funds
Town Clerk Record Preservation	\$ 11,614	\$ -
Highways	-	141,291
Economic Development	-	62,784
Open Space	-	55,904
Radon Remediation	-	107,605
	<u>\$ 11,614</u>	<u>\$ 367,584</u>

Committed Fund Balance is summarized as follows:

	Capital Nonrecurring Fund
Capital Projects	<u>\$ 67,139</u>

Assigned Fund Balance is summarized as follows:

	General Fund	Other Governmental Funds
Previous commitments	\$ 533	\$ -
Capital Projects	-	259,245
Capital Projects - Education	-	117,039
Economic Development	-	43,119
Town operations	-	42,379
Education	-	24,922
Citizen Assistance	-	1,625
Miscellaneous	-	308
	<u>\$ 533</u>	<u>\$ 488,637</u>

Deficit Fund Balances

The Capital Project Fund, Buses Project had a deficit fund balance of \$18,396 and the School Improvements Project had a deficit fund balance of 45,607 for a total deficit of 64,003 which has been classified as unassigned fund balance per GASB 54. This is expected to turn around in the next fiscal year. The Educational Grants fund had a deficit fund balance of \$10,292 and the LOCIP Fund had a deficit fund balance \$20,132. These are expected to turn around in the next fiscal year.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 9 - Employee Retirement Systems and Pension Plans

A. Teachers' Retirement System

Teachers and certain other certified personnel in the Town are eligible to participate in the State of Connecticut Teachers' Retirement System, a multiple employer public employees retirement system described in the Connecticut General Statutes, Chapter 167a. The system has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. A member who is eligible to receive a normal retirement benefit has (1) reached the age of sixty and has accumulated twenty years of credited service in the public schools of Connecticut or, (2) attained any age and accumulated thirty-five years of credited service, at least twenty-five years of which are service in the public schools of Connecticut. The financial report may be obtained through the State Teacher's Retirement Board.

The normal retirement benefit is two percent times the number of years of credited service multiplied by their average annual salary received during the three years of highest salary. In no event will such benefit exceed seventy-five percent of the average annual salary, or be less than \$3,600. Benefits are fully vested after ten years of service.

The funding of the system is provided by required member contributions (seven percent of their annual salary) and by amounts appropriated by the State of Connecticut General Assembly. For the year ended June 30, 2011, the State contributed \$389,667 into the pension plan on behalf of the Town of Sterling, Connecticut. This was recorded on the GAAP statements as revenue and expenditures in the General Fund. The Town's total payroll for all employees for the fiscal year ending June 30, 2011 was \$4,151,053, of which \$2,451,924 was covered under this pension plan.

B. Simplified Employee Pension - General Government

Hourly and salaried full-time employees of the Town, who earn more than \$6,000 per year, including Industrial Development employees, are covered under a Simplified Employee Pension which can be changed as allowed under the IRS codes. This is a defined contribution plan as described by section 408(k) of the Internal Revenue Code. An employee who is eligible to participate (1) is over age 21 and, (2) has at least one year of service with the Town. Employer contributions are not required but when made will be (1) based on up to \$150,000 of compensation, (2) made in an amount that is the same percentage of compensation for each employee and, (3) is limited to the smaller of \$30,000 or 15% of compensation.

A contribution equal to 5% of the wages for each eligible employee, totaling \$16,100 in the aggregate was deposited into their accounts. The total wages for all Town employees was \$4,151,053 and the total wages for covered employees was \$340,917. The administrator of the plan is American Funds and Affiliated Companies.

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

Note 10 – Other Post Employment Benefits (OPEB)

A. Plan Description

The Sterling Public Schools Other Post Employment Benefit Program is a single-employer defined benefit plan administered by the Town of Sterling, Connecticut in accordance with various collective bargaining agreements. The plan does not issue a separate financial statement.

Eligibility	Teachers and Certified Administrators - A Teacher or Certified Administrator retiring under the Connecticut State Teachers Retirement System shall be eligible to receive health benefits for self and spouse.
Cost Sharing	All retirees pay 100% of the premiums less the amount paid to the Town by the Teachers' Retirement Board.
Plan of Coverage	Various medical, dental and pharmaceutical plans depending on whether retirement is prior to age 65 or after 65.

B. Actuarial Assumptions and Methods

The government has elected to use the alternative approach to calculate OPEB related benefits. This allows financial statement preparers to use certain simplifying assumptions to project benefits without the use of an actuary. The significant assumptions to apply this method were developed by the Board of Education with the use of a outside vendor.

Latest Actuarial Date	June 30, 2010
Actuarial Cost Method	Entry Age
Discount Rate	4.50%
Payroll Growth Rate	1.50%
Medical Inflation	Initial rate of 9% grading down to an ultimate inflation rate of 4.7% in 2019 and later.
Amortization Method	Level percentage of projected payroll
Remaining amortization	30 years, closed
Mortality	RP2000 Mortality Table for Males and Females projected 10 years
Turnover	Standard turnover assumptions – GASB 45 paragraph 35b
Retirement	Average retirement age of 59
Future Retiree Coverage	100% are assumed to elect coverage at retirement
Future Dependent Coverage	Male 50%; Female 30% with female spouses assumed to be 3 years younger than males.

C. Schedule of Funding Progress

There is no requirement for funding and the plan has not been funded. The Town has not yet established a formal funding plan or a trust at this time.

Below is a schedule of funding progress. (Data in the table below is only presented since the year of transition.)

**Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
6/30/2010	\$ -	\$ 8,496,513	\$ 8,496,513	0.00%	\$ 2,494,502	341%

D. Schedule of Employer Contributions

The schedule of employer contributions is as follows. (Data in the table below is only presented since the year of transition):

Year Ended June 30	Annual Required Contributions	Actual Contributions Made	Percentage Contributed
2011	\$ 709,090	\$ 48,587	6.85%
2010	\$ 698,611	\$ -	0.00%

E. Annual Required Contribution (ARC)

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces:

Past Service Cost (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting on July 1, 2009. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the Unfunded Accrued Liability and added to the Annual Required Contribution.

Normal Cost is the present value of the portion of the projected benefit attributable to the current year (the cost of benefits earned each year should be accrued in that year), plus

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

F. Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Town's net OPEB obligation (asset):

Annual required contribution (ARC)	\$ 709,090
Interest on net OPEB obligation	31,438
Adjustment to annual required contribution	<u>(35,439)</u>
Annual OPEB cost	705,089
Age Adjusted Contributions made	<u>(48,587)</u>
Increase (decrease) in net OPEB obligation	656,502
Net OPEB obligation (asset), beginning of year	698,611
Net OPEB obligation (asset), end of year	<u><u>\$ 1,355,113</u></u>

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

G. Other Disclosures

The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Note 11 - Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement provides limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

Note 12 - Contingent Liabilities

A. Grants

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

B. School Building Grants

Section 10-283(a)(3)(A) of the Connecticut General Statutes states that if the Town abandons, sells, leases, demolishes or otherwise redirects the use of a school building project authorized on or after July 1, 1996, paid partially with State funding, to other than a public school, will owe a portion of the State funding back to the State.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

For projects with a cost over of two million dollars or over, the contingency will be amortized over twenty years. For smaller projects, the contingency will be amortized over ten years.

C. Various lawsuits

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 13 - Joint Ventures

A. Voluntown/Sterling Transfer Station

The Towns of Sterling and Voluntown have an agreement to operate the Voluntown/Sterling Transfer Station to dispose of recyclable waste and the municipal solid waste of both towns. The Transfer Station's Board of Commissioners has oversight responsibility over the entity. The commission is composed of two members from each town and the First Selectman of each town on an alternating basis. The transfer station operations are funded on a per capita basis. All capital purchases are shared equally. Copies of the financial statements of the Voluntown/Sterling Transfer Station can be obtained through the Board of Commissioners of the Transfer Station.

B. Plainfield High School

The Towns of Sterling and Plainfield have entered into a 20-year cooperative agreement administered by a cooperative committee, under the Connecticut General Statutes Section 10-158a, for the purposes of building and maintaining Plainfield High School to accommodate enrollment from both Towns.

The Town of Sterling paid a portion of the building costs. This is included in intangible assets and is being amortized over the life of the agreement. Sterling will also pay a base assessment per pupil each year. This will be adjusted in arrears to the actual cost.

Town of Sterling, Connecticut
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 14 – GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 60 – *Accounting and Financial Reporting for Service Concession Arrangements*. This statement provides guidance for governments that are either transferors or operators of service concession arrangements. A service concession arrangement is one in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant considerations, and the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement 61 – *The Financial Reporting Entity: Omnibus* – This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units, and clarifies the reporting of equity interests in legally separate organizations. This statement is effective for periods beginning after June 15, 2012.
- GASB Statement 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This statement incorporates certain authoritative literature into the GASB codification. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows Of Resources and Net Position* – This statement provides guidance for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. This statement is effective for periods beginning after December 15, 2011.
- GASB Statement 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* – This statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or its credit support provider. This statement is effective for periods beginning after June 15, 2011.

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Revenues					
Property Taxes					
Taxes	\$ 6,398,273	\$ -	\$ 6,398,273	\$ 6,945,589	\$ 547,316
Interest, Liens and Motor Vehicle Fees	80,000	-	80,000	96,136	16,136
	<u>6,478,273</u>	<u>-</u>	<u>6,478,273</u>	<u>7,041,725</u>	<u>563,452</u>
Intergovernmental - Education					
Education Cost Sharing	3,166,394	-	3,166,394	2,716,373	(450,021)
ARRA Funds	-	-	-	361,900	361,900
Transportation	81,891	-	81,891	79,892	(1,999)
Special Education: Excess Cost	54,179	-	54,179	166,207	112,028
Adult Education	11,027	-	11,027	10,450	(577)
Other	1,000	-	1,000	1,169	169
	<u>3,314,491</u>	<u>-</u>	<u>3,314,491</u>	<u>3,335,991</u>	<u>21,500</u>
Intergovernmental - Town					
Payments in Lieu of Taxes:					
Telecommunications	15,000	-	15,000	10,211	(4,789)
Manufacturers and Motor Vehicles	34,620	-	34,620	19,506	(15,114)
Elderly and Disabled Homeowners	23,864	-	23,864	23,299	(565)
Totally Disabled	560	-	560	590	30
State Property	-	-	-	7,492	7,492
Veterans Tax Relief	960	-	960	977	17
Town Aid Highway	97,915	-	97,915	-	(97,915)
Pequot Funds	28,714	-	28,714	29,518	804
Distressed Municipalities	5,500	-	5,500	-	(5,500)
Emergency Mgmt Grant	1	-	1	-	(1)
Homeland Security Grant	1,500	-	1,500	3,000	1,500
Boat Grant	70	-	70	100	30
Federal Highway Safety Grant	600	-	600	-	(600)
Other	7,484	-	7,484	9,090	1,606
Welfare Reimbursement	-	-	-	344	344
	<u>216,788</u>	<u>-</u>	<u>216,788</u>	<u>104,127</u>	<u>(112,661)</u>
Total Intergovernmental	<u>3,531,279</u>	<u>-</u>	<u>3,531,279</u>	<u>3,440,118</u>	<u>(91,161)</u>
Local Revenues					
Selectmen's Clerk:					
Inspections Fees/Subdivisions	1,500	-	1,500	4,437	2,937
Building Permit Fees	15,000	-	15,000	17,170	2,170
Subdivision Fees	5,000	-	5,000	-	(5,000)
Wetlands Inspection Fees	1,000	-	1,000	387	(613)
Pistol Permit Fees	600	-	600	1,910	1,310
Notary Fees	600	-	600	435	(165)
Land Use Fees	500	-	500	438	(62)
Excavation Permits	250	-	250	1,152	902
Electric and Heating Permits	350	-	350	305	(45)
Aircraft Registration	270	-	270	450	180
Blasting and Demolition	110	-	110	135	25
Miscellaneous	100	-	100	2,079	1,979
Driveway Permits	-	-	-	75	75
Fax Use/Copies	-	-	-	409	409
Permit to Sell	-	-	-	200	200
PA: 92-235	-	-	-	24	24

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Town Clerk:					
Conveyance Taxes	25,000	-	25,000	11,737	(13,263)
Recording	20,000	-	20,000	15,830	(4,170)
Copies	4,500	-	4,500	5,433	933
LOCIP	3,000	-	3,000	1,637	(1,363)
Miscellaneous	5,000	-	5,000	634	(4,366)
Historic Preservation	1,000	-	1,000	654	(346)
Record Preservation	3,750	-	3,750	654	(3,096)
Dog Licenses	450	-	450	415	(35)
Marriage Licenses	150	-	150	110	(40)
Sport Licenses	125	-	125	115	(10)
Other:					
Cell Tower Lease	3,000	-	3,000	-	(3,000)
Recreation Fees	9,004	-	9,004	-	(9,004)
Insurance Reimbursements	10,500	-	10,500	5,505	(4,995)
Interest	10,000	-	10,000	6,681	(3,319)
Returned Check Fees	-	-	-	25	25
Other	-	-	-	609	609
Miscellaneous - Reimbursement	-	-	-	3	3
Public Improvement Bond	50	-	50	-	(50)
Transfers In	-	-	-	10	10
Total Local Revenues	120,809	-	120,809	79,658	(41,151)
Total Revenues	10,130,361	-	10,130,361	10,561,501	431,140
Expenditures					
Board of Selectmen					
First Selectman Salary	43,285	190	43,475	42,643	832
Selectman Salary	4,328	-	4,328	4,328	-
Selectman Salary	4,328	-	4,328	4,328	-
Supplies and Periodicals	250	-	250	135	115
Mileage Town Business	7,000	257	7,257	7,257	-
Administrative Assistant Salary	35,669	177	35,846	35,140	706
	94,860	624	95,484	93,831	1,653
Elections					
Wages	7,000	-	7,000	5,726	1,274
Conferences and Dues	7,000	(1,000)	6,000	5,597	403
Voting Machines	1	-	1	-	1
	14,001	(1,000)	13,001	11,323	1,678
Board of Finance					
Supplies	50	-	50	-	50
Treasurer					
Treasurer Salary	35,669	177	35,846	35,140	706
Supplies and Expenses	325	-	325	-	325
Computer Services	1	-	1	-	1
Bonding and Debt Fees	1	-	1	-	1
Education	200	-	200	-	200
Unclaimed Property	500	-	500	40	460
	36,696	177	36,873	35,180	1,693
Tax Anticipation Loans					
Principal	1	-	1	-	1
Interest	1	-	1	-	1
Bank Fees	1	-	1	-	1
	3	-	3	-	3

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Tax Collector					
Tax Collector Salary	35,669	177	35,846	35,140	706
Assistant Tax Collector Salary	28,535	142	28,677	28,112	565
Refunds	1,000	17,851	18,851	18,815	36
Supplies and Expenses	500	(450)	50	-	50
Computer Services	6,425	(200)	6,225	6,175	50
Delinquent Motor Vehicles	700	-	700	687	13
Foreclosure and Tax Sales	1	-	1	-	1
Tax Attorney	1	-	1	-	1
	72,831	17,520	90,351	88,929	1,422
Assessor					
Assessor Salary	35,669	177	35,846	35,140	706
Assistant Assessor Salary	10,000	(300)	9,700	6,356	3,344
Supplies and Expenses	500	(400)	100	53	47
Pricing Guides	500	(145)	355	350	5
Computer Software	10,020	380	10,400	10,400	-
Computer Supplies and Services	1	-	1	-	1
Seminars and Conferences	700	-	700	631	69
Mapping Updates and Supplies	7,500	195	7,695	7,695	-
	64,890	(93)	64,797	60,625	4,172
Board of Assessment Appeals					
Salaries	900	-	900	900	-
Supplies	25	-	25	-	25
	925	-	925	900	25
Town Clerk					
Salary	35,669	177	35,846	35,140	706
Assistant Town Clerk Salary	14,000	1,495	15,495	12,664	2,831
Supplies	500	(450)	50	72	(22) *
Vital Statistics	400	323	723	723	-
Microfilming	2,000	(400)	1,600	1,537	63
Examination of Records	750	-	750	750	-
Computer Maintenance/Supplies	1,000	609	1,609	1,609	-
Historic Preservation	1,000	-	1,000	-	1,000
Record Preservation	7,000	-	7,000	3,000	4,000
LOCIP	-	-	-	5,250	(5,250) *
	62,319	1,754	64,073	60,745	3,328
Auditor					
Audit	27,721	-	27,721	27,721	-
Bookkeeping	4,000	(2,000)	2,000	1,626	374
Other Audit Costs	11,500	(2,700)	8,800	8,748	52
	43,221	(4,700)	38,521	38,095	426
Welfare					
Welfare Director	50	-	50	-	50
Probate Court					
Expenses	4,000	(1,700)	2,300	2,040	260

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Town Hall Expenses					
Lights	20,000	1,958	21,958	22,042	(84) *
Telephone	12,000	(2,000)	10,000	9,604	396
Janitor	5,200	-	5,200	6,729	(1,529) *
Heat	60,000	(10,000)	50,000	48,105	1,895
Supplies	10,000	2,612	12,612	12,631	(19) *
Maintenance	5,000	2,093	7,093	7,093	-
Office Equipment Purchase/Repair	6,000	4,014	10,014	10,787	(773) *
Office Equipment Lease	6,300	(1,000)	5,300	5,410	(110) *
Clerical Assist Wages	4,300	2,251	6,551	6,260	291
	<u>128,800</u>	<u>(72)</u>	<u>128,728</u>	<u>128,661</u>	<u>67</u>
Town Counsel					
Legal Services	20,000	14,083	34,083	36,393	(2,310) *
	<u>20,000</u>	<u>14,083</u>	<u>34,083</u>	<u>36,393</u>	<u>(2,310)</u>
Stationary/Printing/Postage					
Postage	5,000	4,716	9,716	9,716	-
Printing	10,000	(500)	9,500	9,396	104
Stationary	1,000	897	1,897	1,899	(2) *
	<u>16,000</u>	<u>5,113</u>	<u>21,113</u>	<u>21,011</u>	<u>102</u>
Insurance and Bonds					
Workers Compensation	14,500	288	14,788	14,788	-
Fire/Liability Package	23,500	(6,800)	16,700	16,506	194
Public Official/Emp. Liability	9,000	(2,500)	6,500	6,477	23
Vehicle Insurance	7,000	(5,400)	1,600	1,538	62
Bonds	2,500	(2,400)	100	46	54
Dog Fund	660	125	785	785	-
	<u>57,160</u>	<u>(16,687)</u>	<u>40,473</u>	<u>40,140</u>	<u>333</u>
Community Programs					
N.E. District Dept. of Health	14,565	90	14,655	14,655	-
Healthnet Home Care	5,000	-	5,000	6,250	(1,250) *
QV Senior Citizens	1,000	-	1,000	-	1,000
QV Youth Services	1,991	-	1,991	-	1,991
TVCCA	1,078	-	1,078	1,078	-
United Services	2,169	-	2,169	-	2,169
Eastern CT Conservation	500	-	500	-	500
Community Kitchens	1,000	-	1,000	-	1,000
Sexual Assault Crisis Center	900	-	900	900	-
Substance Abuse Council	465	-	465	465	-
Access Agency	500	-	500	500	-
	<u>29,168</u>	<u>90</u>	<u>29,258</u>	<u>23,848</u>	<u>5,410</u>
Sanitation Control					
V/S Transfer Station	65,872	-	65,872	65,835	37
Town Memberships					
CT Conference of Municipalities	2,000	-	2,000	1,861	139
Council of Small Towns	725	-	725	725	-
NE Council of Governments	3,539	22	3,561	3,561	-
	<u>6,264</u>	<u>22</u>	<u>6,286</u>	<u>6,147</u>	<u>139</u>

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Planning Commission					
Supplies	1	-	1	-	1
Subdivision Expenses	12,000	(11,000)	1,000	940	60
Legal/Engineering Expenses	5,000	-	5,000	5,362	(362) *
Expenditures from POD Grant	-	-	-	20,000	(20,000) *
Inspection Fees Returned	-	-	-	5,000	(5,000) *
Town Planner Retainer	10,000	-	10,000	9,951	49
	<u>27,001</u>	<u>(11,000)</u>	<u>16,001</u>	<u>41,253</u>	<u>(25,252)</u>
Highways					
Wages	125,000	(11,900)	113,100	111,647	1,453
Contracted Services	10,000	-	10,000	9,713	287
Bridges and Repairs	5,000	(4,900)	100	-	100
Equipment and Repairs	5,000	(1,400)	3,600	3,480	120
Road Resurfacing	125,000	25,227	150,227	150,227	-
Engineering Services	12,500	6,270	18,770	18,770	-
Town Aid Highway Maintenance	77,915	(32,966)	44,949	-	44,949
Town Aid Highway Equipment Fund	20,000	-	20,000	-	20,000
	<u>380,415</u>	<u>(19,669)</u>	<u>360,746</u>	<u>293,837</u>	<u>66,909</u>
Snow Removal					
Wages	31,000	27,436	58,436	58,436	-
Contracted Services	15,000	24,306	39,306	39,306	-
Equipment Maintenance	5,000	480	5,480	5,480	-
Materials	35,000	2,769	37,769	37,769	-
	<u>86,000</u>	<u>54,991</u>	<u>140,991</u>	<u>140,991</u>	<u>-</u>
Public Safety					
Street Lights	10,000	2,777	12,777	12,777	-
Fire Marshal Salary	3,000	-	3,000	3,000	-
Assistant Fire Marshal Salary	1,000	-	1,000	-	1,000
Supplies/Training	500	-	500	-	500
Homeland Security	500	-	500	19	481
Resident State Trooper	82,339	(6,000)	76,339	76,231	108
JAG Local Pass-through	-	-	-	1,406	(1,406) *
HS State Grant Expenses	-	-	-	212	(212) *
Paramedic Intercept	2,000	1,462	3,462	3,462	-
	<u>99,339</u>	<u>(1,761)</u>	<u>97,578</u>	<u>97,107</u>	<u>471</u>
Building Enforcement					
Building Official Wages	19,000	-	19,000	18,774	226
Office Assistant	1	137	138	-	138
Training	250	-	250	-	250
Emergency Fund	250	-	250	-	250
Supplies	200	-	200	-	200
Land Use Officer	5,000	2,931	7,931	7,508	423
	<u>24,701</u>	<u>3,068</u>	<u>27,769</u>	<u>26,282</u>	<u>1,487</u>
Cemeteries					
Care of Soldiers Graves	540	-	540	476	64
Cemetery Fund	1,000	-	1,000	346	654
Memorial Day Parade	1,000	-	1,000	925	75
	<u>2,540</u>	<u>-</u>	<u>2,540</u>	<u>1,747</u>	<u>793</u>
Animal Control					
NECCOG ACO	11,175	-	11,175	11,175	-
Dog Damage	1	-	1	-	1
Other	1	-	1	-	1
	<u>11,177</u>	<u>-</u>	<u>11,177</u>	<u>11,175</u>	<u>2</u>
Economic Development					
Operations	30,384	14,245	44,629	50,458	(5,829) *

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Building and Property Management					
Supervisor Wages	15,288	(11,000)	4,288	-	4,288
Library Contribution					
Operational Costs	77,968	-	77,968	77,968	-
Employee Benefits					
Blue Cross/Blue Shield	156,105	5,119	161,224	172,969	(11,745) *
FICA/Medicare	47,000	(3,000)	44,000	40,437	3,563
Retirement Contribution	14,500	1,600	16,100	16,100	-
Longevity Benefit	1	1,499	1,500	1,500	-
	217,606	5,218	222,824	231,006	(8,182)
Inland Wetlands Commission					
Professional Services	3,000	(2,000)	1,000	352	648
Supplies	100	-	100	836	(736) *
Site Visits	-	-	-	-	-
Wetlands Agent Wages	7,000	(1,000)	6,000	5,648	352
	10,100	(3,000)	7,100	6,836	264
Miscellaneous					
Conservation District	-	-	-	500	(500) *
RPJ Community Center					
Lights	7,200	1,290	8,490	8,490	-
Telephone	650	30	680	680	-
Heat	1	-	1	-	1
Janitor	3,000	-	3,000	3,000	-
Supplies	2,000	775	2,775	2,775	-
Site Managers Meals Program	6,800	1,125	7,925	7,925	-
	19,651	3,220	22,871	22,870	1
School Loans					
Notes - Interest	1	-	1	-	1
2005 Bonds	501,165	-	501,165	501,165	-
2009 Bonds	215,203	-	215,203	215,203	-
	716,369	-	716,369	716,368	1
Sterling Family Day					
Contribution	1	-	1	-	1
Town Garage					
Lights	2,200	-	2,200	2,009	191
Heat	6,000	3,733	9,733	9,733	-
Telephone	500	104	604	604	-
Supplies	500	279	779	779	-
Maintenance	500	1,852	2,352	2,352	-
	9,700	5,968	15,668	15,477	191
Historic District Commission					
Expenses	1	-	1	-	1
Capital Accounts					
Land Acquisition	1	-	1	-	1
Buses	75,000	51,528	126,528	126,528	-
Revaluation	10,000	-	10,000	10,000	-
Revere Site Development	1	-	1	-	1
Facilities Maintenance	10,000	-	10,000	10,000	-
Energy Efficiency Grant Expense	-	-	-	26,642	(26,642) *
	95,002	51,528	146,530	173,170	(26,640)

(continued)

Town of Sterling, Connecticut
Schedule of Revenues and Expenditures
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Non Appropriation	-	57,450	57,450	56,578	872
Unemployment Compensation	2,000	(900)	1,100	1,106	(6) *
Town Reports	1	-	1	-	1
Total General Government	2,542,354	163,489	2,705,843	2,678,432	27,411
Board of Education	7,588,007	64,577	7,652,584	7,619,457	33,127
Total Expenditures	10,130,361	228,066	10,358,427	10,297,889	60,538
Revenues over (under) Expenditures (Budgetary Basis)	\$ -	\$ (228,066)	\$ (228,066)	\$ 263,612	\$ 491,678

Adjustments to Generally Accepted Accounting Principles (GAAP):

On Behalf Revenues from Teachers Retirement Netted in Budget	389,667
On Behalf Expenditures from Teachers Retirement Netted in Budget	(389,667)
Adjustment for Accrued Payroll in the General Government	(8,625)
Change in Reconciliation Figures with the Town of Plainfield for the High School	49,068
Change in Board of Education Encumbrances	(73,014)

Transfer to Equipment Fund:

Transfer of the Board of Education surplus to the Equipment Fund	<u>(33,127)</u>
--	-----------------

**Excess (Deficiency) of Revenues and Other Financing Sources over
Expenditures and Other Financing (Uses) - GAAP Basis**

\$ 304,055

Notes to Required Supplementary Information: A formal, legally approved, annual budget is adopted for the General Fund. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: 1. The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf; 2. The budget allows for encumbrances; 3. The general government payroll is recorded on a cash basis, and 4. Payment to Plainfield for the high school is done on a cash basis.

* These appropriations are over expended by the amount indicated in the variance.

**Town of Sterling, Connecticut
Fund Descriptions**

Special Revenue Funds:

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Capital Project Funds:

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary and trust funds.

Permanent Funds:

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Town of Sterling, Connecticut
Combining Balance Sheet
Other Governmental Funds
June 30, 2011

	Special Revenue Funds	Capital Project Funds	Permanent Fund Cemetery Fund	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 318,709	\$ 401,589	\$ 4,438	\$ 724,736
Receivables	174,273	9,673	-	183,946
Due from other funds	158,876	33,127	-	192,003
Total assets	\$ 651,858	\$ 444,389	\$ 4,438	\$ 1,100,685
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 21,423	\$ 57,000	\$ -	\$ 78,423
Deferred revenue	7,162	9,673	-	16,835
Due to other funds	-	21,564	-	21,564
Total liabilities	28,585	88,237	-	116,822
Fund balance				
Nonspendable	143,644	-	4,130	147,774
Restricted	367,584	-	-	367,584
Committed	-	-	-	-
Assigned	112,045	376,284	308	488,637
Unassigned	-	(20,132)	-	(20,132)
Total fund balance	623,273	356,152	4,438	983,863
Total liabilities and fund balance	\$ 651,858	\$ 444,389	\$ 4,438	\$ 1,100,685

Town of Sterling, Connecticut
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds	Capital Project Funds	Permanent Fund Cemetery Fund	Total Other Governmental Funds
Revenues				
Intergovernmental revenues	\$ 190,927	\$ -	\$ -	\$ 190,927
Local revenues	184,930	338	-	185,268
Investment income	971	605	6	1,582
	<u>376,828</u>	<u>943</u>	<u>6</u>	<u>377,777</u>
Expenditures				
Current expenditures:				
General government	102,601	-	-	102,601
Public works	179,426	-	-	179,426
Public safety	14,303	-	-	14,303
Culture and recreation	130,472	-	-	130,472
Education	180,594	-	-	180,594
Capital outlay	-	61,282	-	61,282
	<u>607,396</u>	<u>61,282</u>	<u>-</u>	<u>668,678</u>
Excess (deficiency) of revenues over expenditures	<u>(230,568)</u>	<u>(60,339)</u>	<u>6</u>	<u>(290,901)</u>
Other financing sources and (uses)				
Proceeds from sale of capital assets	-	3,700	-	3,700
Operating transfers in	146,593	33,127	-	179,720
Operating transfers out	-	-	(10)	(10)
	<u>146,593</u>	<u>36,827</u>	<u>(10)</u>	<u>183,410</u>
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	<u>(83,975)</u>	<u>(23,512)</u>	<u>(4)</u>	<u>(107,491)</u>
Fund balance, beginning of the year	<u>707,248</u>	<u>379,664</u>	<u>4,442</u>	<u>1,091,354</u>
Fund balance, end of the year	<u>\$ 623,273</u>	<u>\$ 356,152</u>	<u>\$ 4,438</u>	<u>\$ 983,863</u>

See Accountants' Report

Town of Sterling, Connecticut
 Combining Balance Sheet
 Other Governmental Funds - Special Revenue Funds
 June 30, 2011

	Funds for Town Operations				Education			Funds for Town Development				Citizen Assistance		
	Dog Fund	Town Aid Highway	Library Fund	Recreation Fund	Cafeteria Fund	Small Cities Fund	Incubator Fund	Rental Properties	Open Space Fund	Radon Fund	Emergency Fund	Total		
Assets														
Cash and cash equivalents	\$ 5,688	\$ -	\$ 13,805	\$ 14,908	\$ 6,290	\$ 62,184	\$ 7,240	\$ 27,537	\$ 70,506	\$ 108,926	\$ 1,625	\$ 318,709		
Receivables	2,736	-	-	-	25,794	38,536	9,194	-	-	98,013	-	174,273		
Due from other funds	-	141,291	-	17,585	-	-	-	-	-	-	-	158,876		
Total assets	\$ 8,424	\$ 141,291	\$ 13,805	\$ 32,493	\$ 32,084	\$ 100,720	\$ 16,434	\$ 27,537	\$ 70,506	\$ 206,939	\$ 1,625	\$ 651,858		
Liabilities and fund balance														
Liabilities														
Accounts payable	\$ 2,748	\$ -	\$ 7,348	\$ 2,247	\$ -	\$ 1,500	\$ 4,260	\$ 2,000	\$ -	\$ 1,320	\$ -	\$ 21,423		
Deferred revenue	-	-	-	-	7,162	-	-	-	-	-	-	7,162		
Total liabilities	2,748	-	7,348	2,247	7,162	1,500	4,260	2,000	-	1,320	-	28,585		
Fund balance														
Nonspendable	-	-	-	-	-	36,436	9,194	-	-	98,014	-	143,644		
Restricted	-	141,291	-	-	-	62,784	-	-	55,904	107,605	-	367,584		
Committed	-	-	-	-	-	-	-	-	-	-	-	-		
Assigned	5,676	-	6,457	30,246	24,922	-	2,980	25,537	14,602	-	1,625	112,045		
Total fund balance	5,676	141,291	6,457	30,246	24,922	99,220	12,174	25,537	70,506	205,619	1,625	623,273		
Total liabilities and fund balance	\$ 8,424	\$ 141,291	\$ 13,805	\$ 32,493	\$ 32,084	\$ 100,720	\$ 16,434	\$ 27,537	\$ 70,506	\$ 206,939	\$ 1,625	\$ 651,858		

Town of Sterling, Connecticut
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Other Governmental Funds - Special Revenue Funds
 For the Year Ended June 30, 2011

	Funds for Town Operations				Education			Funds for Town Development				Citizen Assistance		
	Dog Fund	Town Aid Highway	Library Fund	Recreation Fund	Cafeteria Fund	Small Cities Fund	Incubator Fund	Rental Properties	Open Space Fund	Radon Fund	Emergency Fund	Total		
Revenues														
Intergovernmental revenues	\$ -	\$ 98,097	\$ 1,432	\$ -	\$ 91,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,927		
Local revenues	4,493	-	155	17,648	92,535	24,700	34,174	10,800	-	425	-	184,930		
Investment income	8	-	22	9	-	286	403	-	88	153	2	971		
	4,501	98,097	1,609	17,657	183,933	24,986	34,577	10,800	88	578	2	376,828		
Expenditures														
Current expenditures:														
General government	-	-	-	-	-	11,643	82,422	3,308	-	4,948	280	102,601		
Public works	-	179,426	-	-	-	-	-	-	-	-	-	179,426		
Public safety	14,303	-	-	-	-	-	-	-	-	-	-	14,303		
Culture and recreation	-	-	82,614	47,858	-	-	-	-	-	-	-	130,472		
Education	-	-	-	-	180,594	-	-	-	-	-	-	180,594		
	14,303	179,426	82,614	47,858	180,594	11,643	82,422	3,308	-	4,948	280	607,396		
Excess (deficiency) of revenues over expenditures	(9,802)	(81,329)	(81,005)	(30,201)	3,339	13,343	(47,845)	7,492	88	(4,370)	(278)	(230,568)		
Other financing sources and (uses)														
Operating transfers in	11,175	-	77,968	57,450	-	-	-	-	-	-	-	146,593		
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-		
	11,175	-	77,968	57,450	-	-	-	-	-	-	-	146,593		
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	1,373	(81,329)	(3,037)	27,249	3,339	13,343	(47,845)	7,492	88	(4,370)	(278)	(83,975)		
Fund balance, beginning of the year	4,303	222,620	9,494	2,997	21,583	85,877	60,019	18,045	70,418	209,989	1,903	707,248		
Fund balance, end of the year	\$ 5,676	\$ 141,291	\$ 6,457	\$ 30,246	\$ 24,922	\$ 99,220	\$ 12,174	\$ 25,537	\$ 70,506	\$ 205,619	\$ 1,625	\$ 623,273		

See Accountants' Report

Town of Sterling, Connecticut
Combining Balance Sheet
Other Governmental Funds - Capital Project Funds
June 30, 2011

	Land Acquisition Fund	Revere Site Development Fund	Equipment Fund	LOCIP Fund	Total
Assets					
Cash and cash equivalents	\$ 164,777	\$ 25,267	\$ 211,545	\$ -	\$ 401,589
Receivables	-	-	-	9,673	9,673
Due from other funds	-	-	33,127	-	33,127
Total assets	\$ 164,777	\$ 25,267	\$ 244,672	\$ 9,673	\$ 444,389
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 57,000	\$ -	\$ 57,000
Deferred revenue	-	-	-	9,673	9,673
Due to other funds	-	-	1,432	20,132	21,564
Total liabilities	-	-	58,432	29,805	88,237
Fund balance					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	164,777	25,267	186,240	-	376,284
Unassigned	-	-	-	(20,132)	(20,132)
Total fund balance	164,777	25,267	186,240	(20,132)	356,152
Total liabilities and fund balance	\$ 164,777	\$ 25,267	\$ 244,672	\$ 9,673	\$ 444,389

Town of Sterling, Connecticut
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds - Capital Project Funds
For the Year Ended June 30, 2011

	Land Acquisition Fund	Revere Site Development Fund	Equipment Fund	LOCIP Fund	Total
Revenues					
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Local revenues	-	-	338	-	338
Investment income	384	31	190	-	605
	384	31	528	-	943
Expenditures					
Capital outlay	-	-	58,432	2,850	61,282
	-	-	58,432	2,850	61,282
Excess (deficiency) of revenues over expenditures	384	31	(57,904)	(2,850)	(60,339)
Other financing sources and (uses)					
Sale of Equipment	-	-	3,700	-	3,700
Operating transfers in	-	-	33,127	-	33,127
Operating transfers out	-	-	-	-	-
	-	-	36,827	-	36,827
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	384	31	(21,077)	(2,850)	(23,512)
Fund balance, beginning of the year	164,393	25,236	207,317	(17,282)	379,664
Fund balance, end of the year	\$ 164,777	\$ 25,267	\$ 186,240	\$ (20,132)	\$ 356,152

Town of Sterling, Connecticut
Combining Statement of Changes in Assets and Liabilities
Fiduciary Funds - Agency Funds
For the Year Ended June 30, 2011

	Balance Beginning		Additions		Deductions		Balance Ending
Student Activity Fund							
Assets							
Cash	\$ 21,187	\$	59,236	\$	(50,496)	\$	29,927
Total assets	\$ 21,187	\$	59,236	\$	(50,496)	\$	29,927
Liabilities							
Due to students	\$ 21,187	\$	59,236	\$	(50,496)	\$	29,927
Total liabilities	\$ 21,187	\$	59,236	\$	(50,496)	\$	29,927
N. Hopkins Memorial Fund							
Assets							
Cash	\$ 3,691	\$	1,617	\$	(2,031)	\$	3,277
Total assets	\$ 3,691	\$	1,617	\$	(2,031)	\$	3,277
Liabilities							
Due to others	\$ 3,691	\$	1,617	\$	(2,031)	\$	3,277
Total liabilities	\$ 3,691	\$	1,617	\$	(2,031)	\$	3,277
Combined total							
Assets							
Cash	\$ 24,878	\$	60,853	\$	(52,527)	\$	33,204
Total assets	\$ 24,878	\$	60,853	\$	(52,527)	\$	33,204
Liabilities							
Due to students/others	\$ 24,878	\$	60,853	\$	(52,527)	\$	33,204
Total liabilities	\$ 24,878	\$	60,853	\$	(52,527)	\$	33,204

**Town of Sterling, Connecticut
Report of the Property Tax Collector
For the Year Ended June 30, 2011**

Grand List	Beginning Receivable Balance	Current Year Levy	Lawful Corrections		Net Taxes Collectible	Collections During The Year		Total	Transfer To Suspense	Ending Receivable Balance
			Additions	Deductions		Interest	Liens			
2009		\$ 6,493,121	\$ 6,901	\$ 13,952	\$ 6,486,070	\$ 46,089	\$ 1,589	\$ 6,441,951	\$ 305	\$ 91,492
2008	298,056	-	639	1,383	297,312	46,437	1,969	262,625	38,860	44,233
2007	163,000	-	64	619	162,445	37,323	1,226	145,484	37,385	18,125
2006	52,684	-	41	958	51,767	18,932	534	52,756	13,224	5,253
2005	22,526	-	262	262	22,526	9,017	336	26,706	99	5,074
2004	9,134	-	-	-	9,134	5,488	192	11,745	882	2,187
2003	4,455	-	-	-	4,455	2,188	120	4,964	85	1,714
2002	3,133	-	-	-	3,133	1,083	48	2,731	74	1,459
2001	1,320	-	-	-	1,320	504	24	862	84	902
2000	967	-	-	-	967	251	24	423	-	819
1999	1,108	-	-	-	1,108	248	24	400	-	980
1998	1,108	-	-	-	1,108	271	24	423	-	980
1997	1,017	-	-	-	1,017	288	24	12,488	-	892
1996	1,242	-	-	-	1,242	337	24	498	-	1,105
1995	1,153	-	-	-	1,153	337	24	488	-	1,026
1994	1,124	-	-	-	1,124	-	-	-	-	1,124
	\$ 562,027	\$ 6,493,121	\$ 7,907	\$ 17,174	\$ 7,045,881	\$ 168,793	\$ 6,182	\$ 6,964,981	\$ 90,998	\$ 177,365

**Town of Sterling, Connecticut
Statement of Changes in Fund Balance
Capital Nonrecurring Fund
For the Year Ended June 30, 2011**

	Beginning Balance	Budget Additions	Additional Appropriation	Additions (Revenues Posted)	Reductions (Expenditures Posted)	Ending Balance	Eliminating Deficit Balances per GASB 54	Reported Fund Balance
Committed fund balance:								
Facilities management	\$ 25,060	\$ 10,000	\$ -	\$ 59	\$ (9,220)	\$ 25,899	\$ -	\$ 25,899
Revaluation	41,148	10,000	-	95	(10,346)	40,897	-	40,897
Sterling municipal building renovation	4,856	-	-	544	(5,057)	343	-	343
Buses	(13,848)	75,000	51,528	32	(131,108)	(18,396)	18,396	-
School improvements	(45,607)	-	-	-	-	(45,607)	45,607	-
Unassigned Fund Balance	11,609	95,000	51,528	730	(155,731)	3,136	64,003	67,139
	-	-	-	-	-	-	(64,003)	(64,003)
Total fund balance	\$ 11,609	\$ 95,000	\$ 51,528	\$ 730	\$ (155,731)	\$ 3,136	\$ -	\$ 3,136

Town of Sterling, Connecticut
 Statement of Changes in Fund Balance
 Equipment Fund
 For the Year Ended June 30, 2011

	Beginning Balance	Transfers In	Additions (Revenues Posted)	Reductions (Expenditures Posted)	Ending Balance
\$	83,875	\$ 33,127	\$ 37	\$ -	\$ 117,039
	123,442	-	4,191	(58,432)	69,201
\$	207,317	\$ 33,127	\$ 4,228	\$ (58,432)	\$ 186,240

Assigned for:
 Sterling Community School Capital Improvement Fund
 Town Equipment Fund
 Total fund balance

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Finance
Town of Sterling, Connecticut
Oneco, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Connecticut as of and for the year ended June 30, 2011 and have issued our report thereon dated February 08, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Sterling, Connecticut's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sterling, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Sterling, Connecticut's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Government Auditing Standards Report (Continued)

Compliance and Other Matters

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

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

Marien + Company

February 08, 2012

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the State Single Audit Act, and on The Schedule of Expenditures Of State Financial Assistance

Board of Finance
Town of Sterling, Connecticut
Oneco, Connecticut

Compliance

We have audited the Town of Sterling, Connecticut's compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of the Town of Sterling, Connecticut's major state programs for the year ended June 30, 2011. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Town of Sterling, Connecticut's management. Our responsibility is to express an opinion on the Town of Sterling, Connecticut's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Sterling, Connecticut's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Sterling, Connecticut's compliance with those requirements.

In our opinion, the Town of Sterling, Connecticut complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2011.

State Single Audit Report (Continued)

Internal Control over Compliance

Management of the Town of Sterling, Connecticut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Town of Sterling, Connecticut's internal control over compliance with requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Sterling, Connecticut's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, in a timely manner.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Connecticut as of and for the year ended June 30, 2011, and have issued our report thereon dated February 08, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sterling, Connecticut's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

State Single Audit Report (Continued)

This report is intended solely for the information and use of the management, Board of Finance, others within the entity, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marien + Company

February 08, 2012

Town of Sterling, Connecticut
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

State Program Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
State Aid to Public Libraries	11000-CSL66051-17003	\$ 1,337
Connecticard	11000-CSL66051-17010	95
Historic Documents Preservation Grants	12060-CSL66094-35150	3,000
Department of Environmental Protection		
Boating Temp Receivable	12060-DEP44434-34907	100
Department of Transportation		
Town Aid Roads - Municipal	12052-DOT57131-43455	26,159
Town Aid Roads - STO	13033-DOT57131-43459	153,267
Judicial Department		
Distributions to Towns	34001-JUD95162-40001	490
Office of Policy and Management		
Property Tax Relief for Disability Exemption	11000-OPM20600-17011	590
Property Tax Relief for Elderly and Totally Disabled (CB)	11000-OPM20600-17018	23,299
Property Tax Relief for Veterans	11000-OPM20600-17024	977
PILOT for Manufacturing and Commercial Vehicles	11000-OPM20600-17031	19,506
Office of the State Comptroller		
PILOT on State Owned Property	11000-OSC15910-17004	7,492
Department of Education		
Child Nutrition Program (School Lunch State Match)	11000-SDE64370-16211	2,124
Health Foods Initiative	11000-SDE64370-16212	4,629
Adult Education	11000-SDE64370-17030	10,450
School Breakfast	11000-SDE64370-17046	13,448
Magnet Schools	11000-SDE64370-17057	2,600
Total State Financial Assistance before Exempt Programs		269,563
EXEMPT PROGRAMS		
Department of Education:		
Education Cost Sharing	11000-SDE64370-17041	2,716,373
Public School Transportation	11000-SDE64370-17027	79,892
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	166,207
Office of the State Comptroller		
Grants to Towns	12009-OSC15910-17005	29,518
Total exempt programs		2,991,990
Total State Financial Assistance		\$ 3,261,553

See Accountants' Report

Town of Sterling, Connecticut
Notes to the Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Sterling, Connecticut through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including: education, general government, public works, and public safety.

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sterling, Connecticut conform to Generally Accepted Accounting Principles as applicable to governmental entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

A. Basis of Accounting

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, when applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 government 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.

Certain revenues 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

**Town of Sterling, Connecticut
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

I. Summary of Audit Results

A. Financial Statements:

Type of auditors' report issued: Unqualified
 Internal control over financial reporting:
 • Material weakness(es) identified? Yes No
 • Significant deficiency(ies) identified? Yes None reported
 Noncompliance material to the financial statements noted? Yes No

B. State Financial Assistance:

Internal control over major programs:
 • Material weakness(es) identified? Yes No
 • Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? Yes No

The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Department of Transportation:		
Town Aid Road – Municipal	12060-DOT57131-43455	\$26,159
Town Aid Road – STO	13033-DOT57131-43459	\$153,267
Dollar threshold used to distinguish between type A and type B programs:		<u>\$100,000</u>

II. Financial Statement Findings:

No findings or questioned cost are reported.

III. State Financial Assistance Findings And Questioned Costs

No findings or questioned cost are reported relating to State financial assistance programs.

**Town of Sterling, Connecticut
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011**

MW-08-2 – Entity Level Controls

Condition: Internal controls are a coordinated set of policies and procedures that management uses to achieve their objectives and meet their fundamental responsibilities for effectiveness, efficiency, compliance and financial reporting. The literature recognizes five sections of internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report) in Internal Control – Integrated Framework.

The Town of Sterling, Connecticut does not have a framework established to deal with each of the interrelated entity level controls over and above the specific control policies and procedures that have been developed.

Current Status: The finding has been corrected.

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Financial Assistance

Board of Finance
Town of Sterling, Connecticut
Oneco, Connecticut

Compliance

We have audited the Town of Sterling, Connecticut's compliance of the with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Town of Sterling, Connecticut's major federal programs for the year ended June 30, 2011. The Town of Sterling, Connecticut's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the Town of Sterling, Connecticut's management. Our responsibility is to express an opinion on the Town of Sterling, Connecticut's compliance based on our audit.

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

In our opinion, the Town of Sterling, Connecticut complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of the Town of Sterling, Connecticut is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Town of Sterling, Connecticut's internal control over compliance to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Sterling, Connecticut's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses in the internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Financial Assistance

We have audited the financial statements of the governmental activities and the business-type activities each major fund, and the aggregate remaining fund information of the Town of Sterling, Connecticut, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 08, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sterling, Connecticut's basic financial statements. The accompanying Schedule of Expenditures of Federal Financial Assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Marion + Company

February 08, 2012

Town of Sterling, Connecticut
Schedule of Expenditures of Federal Financial Assistance
For the Year Ended June 30, 2011

Federal grantor/ Pass-Through grantor program title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
Department of Education:			
Received Directly:			
Rural Education Achievement Program (REAP)	84.358	Not Applicable	\$ 17,000
Passed through the State of Connecticut:			
Title I - Current	84.010	12060-SDE64370-20679	63,753
Title I - Carryover	84.010	12060-SDE64370-20679	29
Title I - ARRA- Carryover	84.389	12060-SDE64370-29010	5,082
			<u>68,864</u>
Title II - Part A, Improving Teacher Quality - Current	84.367	12060-SDE64370-20858	1,625
Title II - Part A, Improving Teacher Quality - Carryover	84.367	12060-SDE64370-20858	1,505
			<u>3,130</u>
Title II - Part D, Technology - Current	84.318	12060-SDE64370-20826	5,167
Title II - Part D, Technology - Carryover	84.318	12060-SDE64370-20826	3,140
			<u>8,307</u>
IDEA, Part B, Section 611, Handicapped - Current	84.027	12060-SDE64370-20977	95,945
IDEA, Part B, Section 611, Handicapped - Carryover	84.027	12060-SDE64370-20977	1,918
IDEA, Part B, Section 611, Handicapped - ARRA	84.391	12060-SDE64370-29011	14,093
IDEA, Part B, Section 611, Handicapped - ARRA- Carryover	84.391	12060-SDE64370-29011	17,894
			<u>129,850</u>
IDEA, Part B, Section 619, Preschool - Current	84.173	12060-SDE64370-20983	3,357
IDEA, Part B, Section 619, Preschool - Carryover	84.173	12060-SDE64370-20983	431
IDEA, Part B, Section 619, Preschool - ARRA	84.392	12060-SDE64370-29012	4,274
			<u>8,062</u>
Title IV - Safe and Drug Free Schools - Carryover	84.186	12060-SDE64370-20873	1,440
Education Jobs Fund	84.410	12060-SDE64370-22405	32,471
American Recovery and Reinvestment Act, SFSF: Education	84.394	12060-SDE64370-29054	361,900
Total Department of Education			<u>631,024</u>
Department of Agriculture:			
Passed through the State of Connecticut:			
National School Lunch	10.555	12060-SDE64370-20560	61,364
National School Breakfast	10.553	12060-SDE64370-20508	22,791
Total Department of Agriculture			<u>84,155</u>
Department of Homeland Security:			
Passed through the State of Connecticut:			
Emergency Management Performance Grant	97.042	12060-EHS99660-21881	3,000
Total Department of Homeland Security			<u>3,000</u>
Total Federal Financial Assistance			<u>\$ 718,179</u>

Town of Sterling, Connecticut
Notes to the Schedule of Expenditures of Federal Financial Assistance
For the Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sterling, Connecticut conform to Generally Accepted Accounting Principles as applicable to governmental entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

A. Basis of Accounting

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, when applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 government 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.

Certain revenues 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Financial Assistance includes the federal grant activity of the Town of Sterling, Connecticut and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Town of Sterling, Connecticut
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

I. Summary of Audit Results

A. Financial Statements:

Type of auditors' report issued: Unqualified
Internal control over financial reporting:
• Material weakness(es) identified? Yes No
• Significant deficiency(ies) identified? Yes None reported
Noncompliance material to the financial statements noted? Yes No

B. Federal Financial Assistance:

Internal control over major programs:
• Material weakness(es) identified? Yes No
• Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

The following schedule reflects the major programs included in the audit:

CFDA #: 84.394 Name: American Recovery and Reinvestment Act, SFSF

Threshold used for distinguishing between Type A and Type B programs: \$300,000
Qualified as a low risk auditee: Yes No

II. Financial Statement Findings:

No findings or questioned cost are reported

III. Federal Financial Assistance Findings And Questioned Costs

No findings or questioned cost are reported relating to Federal financial assistance programs.