



Charles Heaven & Co.
Certified Public Accountants

**SHEPAUG VALLEY REGIONAL SCHOOL DISTRICT #12
TOWNS OF BRIDGEWATER, ROXBURY AND WASHINGTON**

**FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION**

JUNE 30, 2016

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
June 30, 2016**

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Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

INDEPENDENT AUDITORS' REPORT

Board of Education
Shepaug Valley Regional School District #12
Bridgewater, Roxbury and Washington, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Shepaug Valley Regional School District #12's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 42, and supplementary pension information on pages 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shepaug Valley Regional School District #12's basic financial statements. The combining and individual nonmajor fund financial statements, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2016, on our consideration of Shepaug Valley Regional School District #12's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shepaug Valley Regional School District #12's internal control over financial reporting and compliance.

December 29, 2016

**Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016**

Introduction

Our discussion and analysis of Shepaug Valley Regional School District #12 (District) financial performances provides the reader an overall narrative review of the School District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the District performance as a whole; however, readers should also review the notes to the financial statements to enhance their understanding of the District's performance. Information contained in this section is explained by the more detailed information contained elsewhere in the financial statements, notes to the financial statements and accompanying material.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999; the GASB Statement No. 37, Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001. Presentation of certain comparative information between the current and the prior year is required.

The District serves the towns of Bridgewater, Roxbury and Washington and operates three elementary schools: Burnham School located in Bridgewater, Booth Free School located in Roxbury, and Washington Primary School located in Washington Depot, Shepaug Valley School located in Washington and an Early Childhood Education Center which is a pre-school program located within the Washington Primary School building. The student population served is stratified as follows: Elementary Schools (grades PK-5) 289 students, Middle School (grades 6-8) 177 students, High School (grades 9-12) 262 students (Included are 44 non-resident students, 21 from the Town of Sherman, 10 Staff member children and 13 from other Towns) for a total of 728 students enrolled this year. Overall enrollment continues to decline with 19 fewer students over the previous year total of 747 students.

Financial Highlights

Total net position was \$2,531,149 at June 30, 2016. This was a decrease of \$210,281 or (7.7%) over the prior year net position of \$2,741,430. Assets are being accounted for in conformance with GASB 34, with capitalization of depreciable assets at a \$5,000 threshold. In addition, the District continues to do a complete physical inventory annually for all the facilities and the results are incorporated in the accompanying financial statements.

- Overall net expenditures of \$21,573,581 exceeded gross revenue of \$21,363,300 by \$210,281.
- Long-term debt obligations as of June 30, 2016 are \$3,013,709, which compares to the June 30, 2015 debt obligations of \$2,672,410, an increase of \$387,237. The increase in long-term debt obligations was a result of the District retiring debt totaling \$555,000, while increasing the vested sick leave by \$2,110 and a net increase in post-retirement benefits by \$109,566 and an increase in the pension liability after adjusting the actuarial assumed rate of return lower and a change in the mortality tables for an increase of \$830,561.
- The District's compliance with GASB 45, Post Retirement Benefit Obligations, is \$751,098 at June 30th. Although no actual cash payments will be needed for meeting the actuarial computed value of the post retirement benefit; this calculation is based upon certified teachers who retire under the State Teacher Retirement System but are able to purchase medical insurance through the District's group medical plan. All premiums are paid by the retiree with no cost to the District.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

Overview of Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the District's operations in more detail. The fund financial statements comprise the remaining statements.
 - o **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - o **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the assets, deferred outflows of resources, and liabilities, are one of the ways to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non financial factors such as changes in enrollment, changes in the property tax base, any changes in program funding by the Federal and State governments, and the condition of facilities.

The government-wide financial statements of the District include government activities. Most of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local revenue funding, along with federal and state grants, finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

The District has two kinds of funds:

- **Governmental funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the General Fund balance left at year-end that is available for distribution to the member towns to offset future property tax increases. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statement that explains the relationship (or differences) between them.
- **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others; for the District, the student body activities fund is an agency fund. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use the assets to finance its operations.

Financial Analysis of the Entity as a Whole

Net Position

The District's combined net position was \$2,531,149 at June 30, 2016.

	<u>Total Governmental Activities</u>	
	<u>Balance</u>	<u>Balance</u>
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Assets</u>		
Cash and investments	\$ 3,630,175	\$ 3,851,219
Accounts receivable	3,590	1,162
Inventories	8,827	9,680
Prepaid Expenses	---	45,938
Due from State of Connecticut	10,349	6,039
Capital Assets, Net of Accumulated Depreciation	<u>1,995,614</u>	<u>2,431,385</u>
<u>Total Assets</u>	<u>\$ 5,648,555</u>	<u>\$ 6,345,423</u>
Total Deferred Outflow of Resources	<u>\$ 888,185</u>	<u>226,889</u>
<u>Liabilities</u>		
Accounts Payable	\$ 865,137	\$ 924,611
Early Retirement and vacation payable	91,207	181,896
Deferred Revenue	35,538	51,965
Long-Term Debt	<u>3,013,709</u>	<u>2,672,410</u>
<u>Total Liabilities</u>	<u>\$ 4,005,591</u>	<u>\$ 3,830,882</u>
<u>Net Position</u>		
Invested in Capital Assets, Net		
Of Related Debt	\$ 1,995,614	\$ 2,301,385
Restricted	1,527,631	1,518,840
Unrestricted	<u>(992,096)</u>	<u>(1,078,795)</u>
<u>Total Net Position</u>	<u>\$ 2,531,149</u>	<u>\$ 2,741,430</u>

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

Changes in Net Position

The District's total revenues were \$ 24,197,579. A summary of the changes in net position follows.

Other General Fund Revenues were higher than expected by \$158,697 as follows:

- Investment income was \$237 higher than planned.
- The District tuition income was higher than budgeted by \$82,825 (more students).
- State Grants for student transportation and adult education were slightly lower than planned by approximately (\$132) due to changes in the State grant calculations after the budget was passed.
- Miscellaneous income was \$75,766 primarily as a result of unexpended prior year accounts payable.

The total cost of all programs and services was \$24,407,860.

The District's expenses are predominately related to educating and caring for students and were \$19,073,048 or 78.1 % of the total. Interest on long-term liabilities \$36,744, unallocated depreciation \$434,881 and employee benefits \$4,863,187 accounted for the remaining expenses.

The following is a summary of the changes in the net position of the District.

	<u>Changes in Net Position</u> <u>For the Year Ended</u> <u>Governmental Activities</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 459,803	\$ 406,868
Operating Grants & Contributions	2,374,476	2,190,513
General Revenues:		
Participating towns	21,204,396	21,346,558
Investment and miscellaneous Income	<u>158,904</u>	<u>152,935</u>
<u>Total Revenues</u>	<u>\$ 24,197,579</u>	<u>\$ 24,096,874</u>
<u>Program Expenses</u>		
Instruction	\$ 11,819,161	\$ 10,966,865
Instruction – Supporting Services	5,494,796	5,084,299
Employee Benefits - unallocated	4,863,187	4,964,456
Transportation	1,523,982	1,551,518
School Lunch Services	235,109	238,842
Debt Service	36,744	53,043
Depreciation – unallocated	<u>434,881</u>	<u>460,087</u>
<u>Total Expenses</u>	<u>\$ 24,407,860</u>	<u>\$ 23,319,110</u>
Change in Net Position	<u>\$ (210,281)</u>	<u>\$ 777,764</u>
Net Position –Beginning of Year	<u>\$ 2,741,430</u>	<u>\$ 1,963,666</u>
Net Position – End of Year	<u>\$ <u>2,531,149</u></u>	<u>\$ <u>2,741,430</u></u>

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

Governmental Activities

The net cost of all governmental activities this year was \$ 21,573,581.

The following is a summary of the net cost of governmental activities.

	<u>Net Cost of Services</u>	
	<u>2016</u>	<u>2015</u>
Instruction	\$ 11,403,184	\$ 10,509,473
Instruction – supporting services	5,279,965	4,914,556
Employee benefits	2,936,997	3,297,326
Transportation	1,481,647	1,508,646
School Lunch Services	163	(21,402)
Debt Service	36,744	53,043
Depreciation	434,881	460,087
<u>Total</u>	<u>\$ 21,573,581</u>	<u>\$ 20,721,729</u>

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,672,064 which compares to last year's ending fund balance of \$2,724,574. This was a decrease in the fund balance of \$52,510. This is a result of a higher fund balance in the debt service fund, capital reserve fund and other government funds offset by lower fund balances in the general fund and elementary capital repair fund.

General Fund Budgetary Expenditure Highlights

A schedule of the District's original and final budget amounts compared with actual revenues and expenses are provided in the supplemental section of the audited financial report. General fund expenditures for the fiscal year ended June 30, 2016 totaled \$21,552,186 or 99.9% of budget, and was \$9,262 less than budgeted. This was in line with estimates and compares favorably with last year. This includes the transfer to the Reserve for Capital and Non-recurring fund of \$215,615 as well as the payment to the Elementary School Repair fund of \$100,000.

Variances include the following key items

Salaries and Benefits – Salaries for both certified and non certified staff along with corresponding benefits were \$195,168 under budget, due to lower than budgeted certified staff costs. Classified personnel costs were lower than budget with staff turnover as well as a trimming of staff to match the declining enrollment. Tutoring salaries were also lower than budget. All areas of the salary budgets are being closely monitored in response to the continuing decline in enrollment. In the benefits area, this is under budget after some modifications in plan design resulting in savings from budgeted levels. This makes up the overall favorable budget to actual results.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

Instructional and Administrative Services – The year ended with these accounts being over budget by \$88,293. Higher legal fees, along with the costs associated with architect and engineering services related to school projects were the major drivers in this area.

Tuition – The District placement for out of district special education children was less than anticipated by approximately \$118,435. This was a result of a change in placement for some students along with fewer outplaced days being incurred.

Plant Operation & Maintenance – The year ended with these accounts being under spent by \$38,383. Savings were realized from consortium bids for electrical contracts as well as savings from heating fuel costs. The Elementary Repair Project which was bonded in previous years has helped to reduce repair costs in those buildings. In addition, the use of the Elementary and Capital reserve accounts have taken some of the pressure from the general operating fund.

Pupil transportation – The year ended under budget by \$117,166. This was related to a decrease in out of district placements, consolidation of in-district transportation, as well as a more favorable cost for fuel.

Transfers to other funds – The state legislature establish the ability to transfer to a capital reserve fund up to 1% of its approved appropriation. The Board of education again voted to transfer to this fund \$215,615 for future capital or non-recurring expenditures. This fund can be carried forward each year and is subject to Board of Education approval for expenditures made from it and the balance at the end of the year is \$902,130.

A summary of interfund transfers follows:

<u>Major Funds:</u>	<u>Transfers To Other Funds</u>	<u>Transfers From Other Funds</u>
General Fund	\$ ---	\$ 915,440
Debt Service Fund	599,825	---
Capital Reserve Fund	215,615	---
Capital Project-Elementary Repair Fund	100,000	---
	<u>\$ 915,440</u>	<u>\$ 915,440</u>

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

Additional Items Affecting Financial Results and Other Matters

This year, the District budget was approved at a (-.26%) decrease. The budget for personnel as well as employee benefits tracked below budget and was a major source for the funding of the transfer to the capital reserve account. Transportation costs were below budget. The District continues to realize savings from the co-operative bidding opportunities and savings were achieved in electrical procurement, heating oil and general supplies. As a result of these savings, the District undertook the continuing upgrading of the technology infrastructure by continuing the purchasing Chrome books for all students to meet the on line testing initiative by the State. Finally the District was able to undertake a renovation of the Shepaug Teacher workroom and conference areas which were not addressed since the building was built. In addition, there were upgrades to selective areas of the buildings to lower future costs by a switch to LED lighting. Again this year, the District was able to fund the capital reserve fund for \$215,615 the full 1% as allowed. The overall expenditures were below budget by \$9,262.

As previously reported, the Board leases the three elementary schools from the towns with an annual \$100,000 payment into the Capital Project-Elementary Repair Fund. The purpose of this fund is to make mutually agreed repairs to the elementary schools based upon a recommendation by a committee made up of both Town and Board of Education members. The list of recommended repairs is then presented to the Board of Education for approval, up to the amount of the funds available for the elementary schools.

Also, during the year, the District's application for the 20th Agriscience STEM academy was removed from the school construction priority list by the legislature. This was a result of the state bonding requirements; however, we received assurances that it would be resubmitted in the next legislative session beginning January 2017 (as an update, we have received confirmation that it is in fact on the new priority list).

Finally, as part of the Shepaug accreditation study with NEASC, the science lab renovation is also included on the priority list for state funding.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District contemplated the following factors that could affect its financial planning process in the future:

- The State budget continues to run a deficit, and as a result, they have reduced ECS funding to the Towns. The school transportation grant has been eliminated, and the other State support for placements has been reduced.
- The State received a court ruling directing the revisions to how the State supports education. The study began in 2015 for the funding formula of state aid to the cities and towns under the Educational Cost Sharing grants is and continuing. At this time, there is not an indication of what these possible changes may have on grants received by the Towns and the region.
- The region concluded negotiations with the certified union staff on a new three year contract and all staff into a HDHP for medical insurance and a three year wage settlement.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2016

- Health care costs continue to be reviewed for non-covered employees and the District is in compliance with the ACA as currently in place. The taxes associated with the implementation of the affordable health care plan are being passed to the District in the renewals which will add to the burden. In addition, the District is experiencing somewhat higher levels of funding for unemployment expenses as the student population declines and staff is being eliminated. Energy costs are always a concern, and the District has again participated in consortiums of both the School Districts and Towns as a strategy to stabilize costs.
- Energy contracts have been secured for both electrical, thru the end of 2020, as well as heating oil and diesel fuel contract thru August 2017.
- The board continues to study solutions to the declining enrollment along with various long range plans.

Contacting the District's Financial Management

This financial report is designated to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the business office of Shepaug Valley Regional School District #12.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 3,630,175
Accounts receivable	3,590
Inventory	8,827
Due from State of Connecticut:	10,349
Capital assets - net	1,995,614
Total Assets	5,648,555
Deferred Outflows of Resources:	
Differences between pension expected and actual experience	215
Changes of assumptions	459,937
Net difference between projected and actual earnings on pension plan investments	428,033
Total Deferred Outflows of Resources	888,185
Liabilities:	
Accounts payable	365,213
Accrued interest	11,005
Accrued payroll, payroll taxes, and benefits	488,919
Unearned revenue	35,538
Early retirement and vacation payable	91,207
Noncurrent liabilities:	
Due within one year	450,000
Due in more than one year	2,563,709
Total Liabilities	4,005,591
Net Position:	
Net investment in capital assets	1,995,614
Restricted	
Member towns	167,959
Technology - USF fund	66,623
Scholarships	289,506
Capital non-recurring expenditures	902,130
Elementary Repair Fund	89,634
Federal and State grants	4,920
Pre School	6,859
Unrestricted	(992,096)
Total Net Position	\$ 2,531,149

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Activities
Year Ended June 30, 2016

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating	Capital	
			Grants and Contributions	Grants and Contributions	
Governmental activities:					
Instructional services	\$ 11,819,161	\$ 258,167	\$ 157,810	-	\$ (11,403,184)
Support services	5,494,796	-	214,831	-	(5,279,965)
Employee Benefits - Unallocated	4,863,187	-	1,926,190	-	(2,936,997)
Transportation	1,523,982	-	42,335	-	(1,481,647)
School lunch services	235,109	201,636	33,310	-	(163)
Interest on long-term liabilities	36,744	-	-	-	(36,744)
Depreciation - Unallocated	434,881	-	-	-	(434,881)
Total school district	\$ 24,407,860	\$ 459,803	\$ 2,374,476	-	(21,573,581)

General revenues:

Participating towns:	
Town of Bridgewater	4,368,357
Town of Roxbury	7,119,534
Town of Washington	9,716,505
Unrestricted earnings on investments	2,094
Miscellaneous	156,810
Total general revenues	21,363,300
Change in net position	(210,281)
Net position - beginning	2,741,430
Net position - ending	\$ 2,531,149

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington

Balance Sheet

Governmental Funds

June 30, 2016

	Major Funds						Total Governmental Funds
	General Fund	Debt Service Fund	Capital Reserve Fund	Capital Proj. Elementary Repair Fund	Other Governmental Funds		
Assets:							
Cash and cash equivalents	\$ 2,004,451	\$ 201,652	\$ 907,441	\$ 29,688	\$ 486,943	\$	3,630,175
Accounts Receivable	3,590	---	---	---	---	---	3,590
Inventory	---	---	---	---	8,827	---	8,827
Due from other funds	89,527	---	---	59,946	21,309	---	170,782
Due from State of Connecticut	---	---	---	---	10,349	---	10,349
Total Assets	\$ 2,097,568	\$ 201,652	\$ 907,441	\$ 89,634	\$ 527,428	\$	3,823,723
Liabilities:							
Accrued payroll, payroll taxes, and benefits	\$ 483,608	\$ ---	\$ 5,311	\$ ---	\$ ---	\$	488,919
Early retirement and vacation payable	91,207	---	---	---	---	---	91,207
Account payable	365,213	---	---	---	---	---	365,213
Due to other funds	81,255	---	---	---	89,527	---	170,782
Unearned revenue	2,967	---	---	---	32,571	---	35,538
Total Liabilities	1,024,250	---	5,311	---	122,098	---	1,151,659
Fund balances:							
Nonspendable:							
Inventories	---	---	---	---	8,827	---	8,827
Restricted for:							
Member Towns	167,959	---	---	---	---	---	167,959
Technology - USF fund	---	---	---	---	66,623	---	66,623
Scholarships	---	---	---	---	289,506	---	289,506
Capital improvements	---	---	902,130	89,634	---	---	991,764
Federal and State grants	---	---	---	---	4,920	---	4,920
Pre School	---	---	---	---	6,859	---	6,859
Committed for:							
Debt service	---	201,652	---	---	---	---	201,652
School cafeteria	---	---	---	---	28,595	---	28,595
Unassigned	905,359	---	---	---	---	---	905,359
Total Fund Balances	1,073,318	201,652	902,130	89,634	405,330	---	2,672,064
Total Liabilities and Fund Balances	\$ 2,097,568	\$ 201,652	\$ 907,441	\$ 89,634	\$ 527,428	\$	3,823,723

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2016

Total fund balances for governmental funds	\$	2,672,064
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Capital assets, net of \$15,591,592 accumulated depreciation.		1,995,614
Other long-term assets and deferred outflows of resources are not available to pay for current period expenditures, and therefore, are unavailable in the funds:		
Deferred outflows related to pensions		888,185
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Accrued interest	\$	(11,005)
Bonds payable		(1,350,000)
Other post retirement benefit obligation		(751,098)
Early retirement payable and other compensated absences		(127,988)
Net pension liability		<u>(784,623)</u>
		(3,024,714)
Total net position of governmental activities	\$	<u>2,531,149</u>

The accompanying notes are in integral part of these financial statements.

Shepaug Valley Regional School District #12

Towns of Bridgewater, Roxbury and Washington

Statement of Revenue, Expenditures

and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016

	Major Funds					Capital Proj. Elementary Repair Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	Capital Reserve Fund					
Revenue:								
Participating towns	\$ 21,204,396	\$ ---	\$ ---	\$ ---				21,204,396
Federal and state revenue	1,974,827	---	---	---			399,649	2,374,476
Investment income	937	726	---	431			---	2,094
Sales of lunches, milk, etc.	---	---	---	---			201,636	201,636
Tuition	258,167	---	---	---			---	258,167
Other revenue	75,766	---	---	---			81,044	156,810
Total Revenue	23,514,093	726	---	431			682,329	24,197,579
Expenditures:								
Certified salaries	9,011,294	---	---	---			---	9,011,294
Classified salaries	3,057,276	---	---	---			258,283	3,315,559
Employee benefits	4,581,796	---	---	---			9,536	4,591,332
Instructional programs	958,167	---	---	---			269,184	1,227,351
Tuition - other schools	427,647	---	---	---			---	427,647
Administrative	1,153,525	---	---	---			---	1,153,525
Pupil transportation	1,523,982	---	---	---			---	1,523,982
Plant operation & maintenance	1,263,486	---	---	282,985			---	1,546,471
Food service	---	---	---	---			97,696	97,696
Interest	---	40,685	---	---			---	40,685
Capital outlay	657,999	---	91,023	---			10,525	759,547
Principal payments on bonds	---	555,000	---	---			---	555,000
Total Expenditures	22,635,172	595,685	91,023	282,985			645,224	24,250,089
Excess (Deficiency) of Revenues over Expenditures	878,921	(594,959)	(91,023)	(282,554)			37,105	(52,510)
Other Financing Sources (Uses):								
Operating Transfers	(915,440)	599,825	215,615	100,000			---	---
Total Other Financing Sources (Uses)	(915,440)	599,825	215,615	100,000			---	---
Net change in fund balances	(36,519)	4,866	124,592	(182,554)			37,105	(52,510)
Fund Balance - beginning of year	1,109,837	196,786	777,538	272,188			368,225	2,724,574
Fund Balance - end of year	\$ 1,073,318	\$ 201,652	\$ 902,130	\$ 89,634			\$ 405,330	\$ 2,672,064

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances-total governmental funds	\$ (52,510)
---	--------------------

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

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful life and reported as depreciation expense. This is the difference between capital outlays and depreciation in the current period.

Capital outlays	\$ 14,727	
Depreciation expense	<u>(450,498)</u>	(435,771)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities, however interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	555,000	
Interest expense - general obligation bonds	<u>3,941</u>	558,941

Some (expenses) revenues reported in the statement of activities do not provide (use) current financial resources, and therefore, are not reported in the governmental funds:

Postretirement liability	(109,566)	
Compensated absences and termination benefits	(2,110)	
Change in deferred outflows related to pensions	661,296	
Change in net pension liability	<u>(830,561)</u>	(280,941)

Change in net position of governmental activities	\$ <u>(210,281)</u>
--	----------------------------

The accompanying notes are in integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Pension Trust Fund	Agency Fund Student Activities
Assets:		
Cash and cash equivalents	\$ 121,585	\$ 110,560
Investments	<u>5,314,954</u>	<u>---</u>
Total Assets	5,436,539	110,560
 Liabilities and Net Position:		
Liabilities:		
Due to student groups	<u>---</u>	<u>110,560</u>
Total Liabilities	<u>---</u>	<u>110,560</u>
 Net Position:		
Held in trust for pension benefits	\$ <u><u>5,436,539</u></u>	\$ <u><u>---</u></u>

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Pension Trust Fund
Year ended June 30, 2016

	Fiduciary Fund Pension Trust Fund
Additions:	
Employer contributions	\$ 176,819
Investment income:	
Net depreciation in fair value of investments	(71,031)
Interest and dividends	99,345
Gross investment income	<u>28,314</u>
Less : Investment expense	23,244
Net investment income	<u>5,070</u>
Total Additions	<u>181,889</u>
Deductions:	
Pension benefits	<u>250,580</u>
Change in Net Position	<u>(68,691)</u>
Net position held in trust for pension benefits:	
Beginning of year	<u>5,505,230</u>
End of year	<u><u>\$ 5,436,539</u></u>

The accompanying notes are an integral part of these financial statements.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" - Summary of Significant Accounting Policies:

A. Basis of Presentation:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Management's Discussion & Analysis – provides introductory information on basic financial statements and an analytical overview of the district's financial activities.

Government-wide financial statements – consist of a statement of net position and a statement of activities, which are prepared on the accrual basis of accounting. These statements distinguish between governmental activities and business-type activities and exclude fiduciary (employee retirement system and agency funds). Capital assets and long-term obligations (general obligation bonds, compensated absences, etc.) are included along with current assets and liabilities.

Fund Financial statements – provide information about the district's governmental and fiduciary funds. These statements emphasize major fund activity and, depending on the fund type, utilize different basis of accounting. Governmental funds focus on sources, uses, and balances of current financial resources and often have budgetary orientation, and therefore use a modified accrual basis of accounting utilizing encumbrance accounting. Fiduciary funds focus on net position and changes in net position, and include assets held in a trustee (Pension Trust Fund) or agency (Student Activity Funds) and utilize the accrual basis of accounting.

Required supplementary information – in addition to the MD&A, budgetary comparison schedules are presented for the General Fund, which is the only fund with a legally adopted budget. The original budget for revenues and expenditures and the final adjusted budget are presented in comparison with the actual final budgetary revenues and expenditures (including encumbrances). The Pension Trust Fund presents additional schedules as required by GASB 67 and 68.

B. Reporting Entity:

The school system constitutes an on-going entity established by an act of the state legislature that designated the school board of education as the governing authority. Members of the school board of education are elected by the public and have responsibilities over all activities related to public elementary and secondary school education. The board of education receives local, state, and federal funding, and must therefore comply with various requirements of these funding source entities. However, the board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Standards, since the board of education members are elected by the public and have governing authority. Governing authority includes the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note “1” – Summary of Significant Accounting Policies (continued):

B. Reporting Entity (continued)

For financial reporting purposes, the District's financial statements include all funds and accounts over which the District exercises oversight responsibility in accordance with the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14. Oversight responsibility was determined on the basis of financial independence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public services. Based on the aforementioned criteria Shepaug Valley Regional School District #12 has no component units.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the school district as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the district. Direct expenses are those that are specifically association with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All revenues not classified as program revenues are presented as general revenues of the district.

Fund Financial Statements- Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type. A description of the various fund financial statements follows:

Governmental-Funds:

General Fund:

This fund is the general operating fund of the District and provides the accounting for budgeted revenue and expenditures applicable to the direct operation of the school system.

Special Revenue Funds:

These funds account for revenue that is restricted as to its use under specific provisions of law.

Capital Projects Fund:

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, which are not financed by Proprietary and Trust Funds.

Debt Service Fund:

The debt service fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note “1” – Summary of Significant Accounting Policies (continued):

C. Government-wide and Fund Financial Statements (continued):

Fiduciary Funds:

Trust and Agency Funds:

Account for assets held for the District in a trustee or custodial capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Pension Trust Funds:

Account for the activities of the District's single-employer public employee retirement system (PERS).

D. Measurement Focus and Basis of Accounting:

Measurement Focus:

Government-wide Statements

The government-wide statements are prepared using the economic resources measurement focus. Eliminations have been made to minimize the double counting of internal activities. This is the same approach used in the preparation of proprietary fund financial statements, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund Financial Statements

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The Fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

Revenues, Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year end.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" - Summary of Significant Accounting Policies (continued):

D. Measurement Focus and Basis of Accounting (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include contributions by member towns, grants, entitlements and donations. On an accrual basis, revenue from member towns is recognized in the fiscal year for which the amounts are due. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: contributions by member towns, investment earnings, tuition, grants and student fees.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

E. Fund Equity and Net Position – Governmental Funds:

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact, legally or contractually.
- Restricted fund balance – amounts constrained to specific purposes by external parties, constitutional provisions or enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority, the Board of Education.
- Assigned fund balance – amounts the government intends to use for a specific purpose, but are neither restricted nor committed, as authorized by the Board of Education.
- Unassigned fund balance – amounts that are available for any purpose.

F. Deposits and Investments:

The Deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be placed with any "qualified public depository" as defined by statute, which has its main place of business in the State of Connecticut.

The District's cash and cash equivalents are comprised of cash on hand, demand deposits, and all other highly liquid, short-term investments with original maturities of three months or less.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note “1” – Summary of Significant Accounting Policies (continued):

F. Deposits and Investments (continued):

The Connecticut General Statutes authorize the investment of funds in the obligations of the United States, or may be invested in any state or other tax exempt political subdivision under certain conditions. Funds may also be deposited in the State Treasurer's Short-Term Investment Funds (STIF). The provisions of the statutes, regarding the investments of municipal pension funds, do not specify permitted investments. Therefore, investments of such funds are generally controlled by the laws applicable to fiduciaries and the provisions of the applicable pension plan.

District investments are reported at fair value.

G. Inventories:

Inventories are valued at cost using the first-in/first-out (FIFO) method, except for USDA donated commodities, which are valued at market value. The cost of governmental fund type inventories, are recorded as expenditures when consumed rather than when purchased. Inventories are comprised of food products for the School Cafeteria Fund.

H. Prepayments:

Certain payments to vendors provide benefits in future accounting periods and therefore are recorded as prepayments on both government-wide and fund financial statements.

I. Capital Assets and Depreciation

General capital assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than 1 year. The District does not possess any infrastructure.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	not depreciated
Land improvements	20
Buildings & Improvements	20 – 50
Furniture and Equipment	5 – 10

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note “1” - Summary of Significant Accounting Policies (continued):

J. Deferred Outflows and Deferred Inflows of Resources

The statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period. The District reports deferred outflows of resources related to pension for the differences between expected and actual experiences, changes of assumptions, and the net difference between projected and actual earnings on plan investments.

Additionally, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period.

K. Interfund Activity

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund “due from/to other funds”. These amounts are eliminated in the statement of net position.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee’s right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining the vacation and sick leave liability is derived from Board policy, negotiated agreements, and state laws.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

M. Accrued Liabilities and Long-term Debt

All accrued liabilities and long-term debt are reported in the government-wide financial statements. For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" - Summary of Significant Accounting Policies (continued):

N. Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restricted classifications – committed and then assigned fund balances before using unassigned balances.

Note "2" - Stewardship, Compliance, and Accountability:

On or before the last Friday in December of each year all cost centers submit requests for appropriations to the Regional School Board Central Office administration so that the general fund budget may be prepared.

Before March 1, the proposed budget is presented to the finance committee for review. By the end of April the proposed budget will be reviewed and adopted by the Regional Board of Education to be presented at the annual public budget meeting.

Not less than two weeks before the annual meeting held pursuant to C.G.S. Section 10-47, the board shall hold a public district meeting to present a proposed budget for the next fiscal year. Any person may recommend the inclusion or deletion of expenditures at such time. After the public hearing, the board prepares an annual budget for the next fiscal year. At the annual meeting on the first Monday in May, the board presents a budget which includes a statement of (1) estimated receipts and expenditures for the next fiscal year, (2) estimated receipts and expenditures for the current fiscal year, (3) estimated surplus or deficit in operating funds at the end of the current year, (4) bonded or other debt, (5) estimated per pupil expenditure for the current and for the next fiscal year and (6) such other information as is necessary in the opinion of the board. Persons present and eligible to vote under C.G.S. section 7-6 may accept or reject the proposed budget. The regional board of education may, in the call to the meeting, designate that the vote on the motion to adopt a budget shall be by paper ballots at the district meeting held on the budget or by a "yes" or "no" vote on the voting machines in each of the member towns on the day following the district meetings. After budget approval, the board shall estimate the net expenses to be paid by each member town.

The budget for the general fund has substantially been prepared on the modified accrual basis. Encumbrances, commitments related to unperformed contracts for goods or services, are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reflected in the budgetary reports as expenditures in the current year. Actual expenditures in the budgetary statement include current encumbrances as described above. This method of accounting, for encumbrances, is different from that utilized in the balance sheet and statement of revenue and expenditures (GAAP basis). Encumbrances on a GAAP basis are not expenditures but are included in unassigned fund balance.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "2" - Stewardship, Compliance, and Accountability:

A reconciliation of general fund expenditures and fund balance between the accounting treatment for encumbrances as required by GAAP and legal requirements follows

	<u>General Fund</u>		
	<u>Expenditures</u>		
	<u>and Other</u>		
	<u>Revenue</u>	<u>Financing Uses</u>	<u>Fund Balance</u>
<u>Budgetary/GAAP Reporting Reconciliation:</u>			
Budgetary Statement - June 30, 2016	\$ 21,720,145	\$ 21,552,186	\$ 167,959
Encumbrances - June 30, 2015	-	971,363	-
Encumbrances - June 30, 2016	-	(905,359)	905,359
Fund balance returned to participating towns is a decrease of revenue for GAAP purposes	(138,474)	-	-
Payments made on the District's behalf as described in Note "12"	1,926,190	1,926,190	-
Revenue received, budgeted as a reduction of Expenditures - State of Connecticut Special Education Grants	<u>6,232</u>	<u>6,232</u>	<u>-</u>
Balance (GAAP) Balance Sheet and Statement of Revenue and Expenditures - June 30, 2016	<u>\$ 23,514,093</u>	<u>\$ 23,550,612</u>	<u>\$ 1,073,318</u>

Note "3" - Budgetary Compliance - Special Revenue Fund:

No formal budget is adopted.

Note "4" - Cash, Deposits and Investments:

A. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at June 30, 2016:

	<u>Governmental</u>	<u>Fiduciary</u>
	<u>Funds</u>	<u>Funds</u>
Deposits:		
Demand accounts	\$ 3,306,324	\$ 232,145
Cash equivalents:		
State short-term investment fund (STIF)	<u>323,851</u>	<u>---</u>
Total Cash and Cash Equivalents	<u>\$ 3,630,175</u>	<u>\$ 232,145</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "4" – Cash, Deposits and Investments (continued):

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016 the carrying amount of the District's deposits was \$3,538,469 and the bank balance was \$4,395,513. Of the District's bank balance, \$3,895,513 was exposed to custodial credit risk; as follows:

Uninsured and uncollateralized	\$ 3,518,120
Uninsured and collateralized held by pledging	
Bank's trust department not in the District's name	<u>377,393</u>
Total amount subject to custodial credit risk	<u>\$ 3,895,513</u>

C. Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2016, the District's cash equivalents amounted to \$323,851. The following table provides a summary of the District's cash equivalents as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	<u>Standard and Poor's</u>
State of Connecticut Short-Term Investment Fund (STIF)	AAAm

D. Investments

At June 30, 2016, the District's investments consisted of the following:

<u>Types of Investments</u>	<u>Fair Value</u>	<u>Average Credit Rating</u>	<u>Investment Maturity</u>
Fiduciary Funds			
Mutual funds	<u>\$ 5,314,954</u>	N/A	N/A

- Ratings by Standard & Poor's are provided where applicable to indicate the associated credit risk. N/A indicates not applicable.
- Interest rate risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- Credit risk - The District has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations or any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "4" – Cash, Deposits and Investments (continued):

E. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair values of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investments that are classified in Level 1 are measured on a recurring basis, using market quotations for investments that have quoted prices in active markets. Investments that are classified in Level 2 are measured using matrix pricing techniques using various pricing vendors. Matrix pricing is used to value securities based on their relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

As of June 30, 2016, the District's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The District does not hold any investments on June 30, 2016 whose fair value was determined using Level 2 or Level 3 inputs.

Note "5" – Receivables and Due from State of Connecticut:

Receivables and amounts due from State of Connecticut at June 30, 2016 consisted of various fees, interest and intergovernmental grants and entitlements. All receivables are considered collectible in full based on prior years' experience and the stable condition of State programs.

Note "6" - Interfund Accounts:

At June 30, 2016 the amounts due to and from other funds were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	State and Federal Grants Restricted Fund	\$ 74,588
General Fund	School Cafeteria Fund	14,939
Capital Project Elementary		
Repair Fund General Fund	General Fund	59,946
Pre School Restricted Fund	General Fund	21,309
<u>Total</u>		<u>\$ 170,782</u>

Note "7" - Interfund Transfers:

At June 30, 2016, interfund transfers consisted of the following. These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Transfers from the General Fund to:	
Debt Service Fund	\$ 599,825
Capital Project - Elementary Repair Fund	100,000
Capital Reserve Fund	<u>215,615</u>
Total General Fund	<u>\$ 915,440</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "8" - Operating Deficiencies and Fund Deficits:

At June 30, 2016 the following individual funds had deficiencies of revenue over expenditures and/or fund deficits for the year then ended.

	<u>Operating Deficiency</u>	<u>Fund Deficits</u>
<u>General Fund</u>	\$ <u>36,519</u>	\$ <u>---</u>
<u>Capital Project Elementary Repair Fund</u>	\$ <u>182,554</u>	\$ <u>---</u>
<u>School Cafeteria Fund</u>	\$ <u>163</u>	\$ <u>---</u>

Note "9" - Capital Assets:

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Governmental activities				
Capital assets, not being depreciated				
Land and Land improvements	\$ 152,512	\$ ---	\$ ---	\$ 152,512
Capital assets, being depreciated:				
Buildings and improvements	12,200,592	---	---	12,200,592
Leasehold improvements	3,577,381	---	---	3,577,381
Furniture and equipment	<u>1,641,994</u>	<u>14,727</u>	<u>---</u>	<u>1,656,721</u>
Total capital assets, being depreciated	17,419,967	14,727	---	17,434,694
Accumulated depreciation for:				
Buildings and improvements	(10,153,368)	(237,034)	---	(10,390,402)
Leasehold improvements	(3,577,381)	---	---	(3,577,381)
Furniture and equipment	<u>(1,410,345)</u>	<u>(213,464)</u>	<u>---</u>	<u>(1,623,809)</u>
Total accumulated depreciation	<u>(15,141,094)</u>	<u>(450,498)</u>	<u>---</u>	<u>(15,591,592)</u>
Total capital assets, being depreciated, net	<u>2,278,873</u>	<u>(435,771)</u>	<u>---</u>	<u>1,843,102</u>
Governmental activities capital assets, net	<u>\$ 2,431,385</u>	<u>\$ (435,771)</u>	<u>\$ ---</u>	<u>\$ 1,995,614</u>

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Unallocated	\$ 434,881
Supporting services:	
District administration	7,017
Operation and maintenance of facilities	<u>8,600</u>
Total depreciation expense, governmental activities	<u>\$ 450,498</u>

Shepaug Valley Regional School District #12
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Notes to Financial Statements

Note "10" - Long-Term Debt:

The following is a summary of activity for the year ended June 30, 2016.

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts Due</u> <u>in One Year</u>
<u>General Obligation Bond of 2000</u>					
Payable in annual installment of \$130,000 in 2016. Bond bears interest @ 5.125%.	\$ 130,000	\$ ---	\$ 130,000	\$ ---	\$ ---
<u>General Obligation Loan of 2012</u>					
Payable in annual installments of \$450,000 in 2017 to 2019. Loan bears interest @ 2.15%.	1,775,000	---	425,000	1,350,000	450,000
<u>Compensated Absences & Other Leave Benefits</u>					
Vested or accumulated severance and sick leave.	125,878	20,235	18,125	127,988	---
<u>Other Post Retirement Benefit Obligation</u>	641,532	109,566	---	751,098	---
<u>Net Pension Liability</u>	<u>(45,938)</u>	<u>1,064,005</u>	<u>233,444</u>	<u>784,623</u>	<u>---</u>
<u>Totals</u>	<u>\$ 2,626,472</u>	<u>\$ 1,193,806</u>	<u>\$ 806,569</u>	<u>\$ 3,013,709</u>	<u>\$ 450,000</u>

The following is a summary of the District's aggregate debt service requirements:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 450,000	\$ 24,564	\$ 474,564
2018	450,000	14,674	464,674
2019	450,000	4,864	454,864
	<u>\$ 1,350,000</u>	<u>\$ 44,102</u>	<u>\$ 1,394,102</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan

A. General Information about the Pension Plan

Shepaug Valley Regional School District #12 is the administrator of a single-employer public employee retirement system (PERS) established and administered by the Board of Education for its non-certified employees. The PERS is considered to be part of the District's reporting entity and is included in the District's financial reports as a pension trust fund. The plan does not issue stand-alone financial statements. The membership of the plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	37
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	<u>67</u>
Total	<u>112</u>

The District provides all Employee retirement benefits through a single employer, noncontributory, defined benefit plan. Under the plan, all regular full-time and regular part-time nonprofessional employees who have completed 2 years of service and have attained the age of 25 are covered. All covered employees vest after 10 years of service. The retirement benefit is 1.25% of final average compensation multiplied by the employee's years of credited service. Employee's may retire and receive their benefit after attaining the age of 65. The plan also provides reduced benefits for early retirement at age 55 and completion of 10 years of credited service. Covered employees do not and are not required to contribute anything to the PERS. There were no major plan changes for the July 1, 2016 actuarial valuation.

B. Authority and Funding Policy:

The Board of Education has established the benefit provisions and contribution to the plan. The Board is also authorized to make changes to the plan provisions through the budgetary process.

The District's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate the assets to pay benefits when due.

C. Summary of Significant Accounting Policies

Basis of Accounting: PERS financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: All assets are valued at fair value. Fair value, provided by the custodian, is a market quotation as of year-end. Funds are invested in fixed income and equity securities through a trust agreement with the custodian, Wells Fargo. Investment income is recognized as earned.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued)

D. Investments:

Investment Policy: The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Education Finance Committee by a majority vote of its members. It is the policy of the Board of Education to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The policy emphasizes long-term capital appreciation investments with some consideration for current income. Investments are primarily in equity securities and other asset classes, with growth as the primary objective. Fixed income securities are utilized for risk management. The following was the asset allocation policy as of June 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Equities	60%
Fixed Income	37%
Cash	3%

The following investments represent 5 percent or more of plan net assets:

Vanguard 500 Index Fund Admiral Shares	\$ 693,486	12.76%
Federated Total Return Bond Fund Institutional Shares # 328	\$ 499,380	9.19%
Dodge & Cox Income Fd Com #147	\$ 497,451	9.15%
Wells Fargo Advantage Core Bond Fund Class Inst #944	\$ 492,143	9.05%
Metropolitan West Total Return Bond Fund Class I #512	\$ 488,826	8.99%
Northern Mid Cap Index Fund	\$ 479,736	8.82%

Rate of Return: For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.09%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of the District

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

Total pension liability	\$ 6,221,162
Plan fiduciary net position	<u>5,436,539</u>
Net pension liability	<u>\$ 784,623</u>

Plan fiduciary net position as a percentage of the total pension liability 87.39 %

F. Actuarial Assumptions

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

Inflation:	2.20%
Salary Increases:	3.50%
Investment Rate of Return:	6.75%, net of pension plan investment expense

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued):

F. Actuarial Assumptions (continued):

Mortality rates were based on the RP-2000 Table projected to valuation date using Scale AA.

During 2016, several actuarial assumptions changed as a result of an experience study for the District for the 10-year period ended June 30, 2016. The discount rate decreased from 7.00% to 6.75%, the investment rate of return decreased from 7.00% to 6.75%, salary increases decreased from 4.00% to 3.50%, inflation decreased from 4.00% to 2.20%, the amortization period changed from 15 years to 30 years from 7/1/1997, and the mortality table changed from the 1951 Group Annuity Mortality Table projected to 1970 (male rates for males, and male rates set back 5 years for females) to RP-2000 Table projected to valuation date using Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	5.70%
Fixed income	0.63%
Cash	0.00%

G. Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The projections of cash flows used to determine the discount rate assumed that the District contribution will be made at actuarially determined contribution rates. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 6.75%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	<u>1% Decrease 5.75%</u>	<u>Current Discount Rate 6.75%</u>	<u>1% Increase 7.75%</u>
Total Pension Liability	\$ 6,866,099	\$ 6,221,162	\$ 5,665,324
Plan Fiduciary Net Position	\$ 5,436,539	\$ 5,436,539	\$ 5,436,539
Net Pension Liability	\$ 1,429,560	\$ 784,623	\$ 228,785

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued):

I. Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances as of June 30, 2015	\$ 5,459,292	\$ 5,505,230	\$ (45,938)
Changes for the Year:			
Service cost	147,816	---	147,816
Interest on total pension liability	373,380	---	373,380
Differences between expected and actual experience	(51,555)	---	(51,555)
Changes of assumptions	542,809	---	542,809
Employer contributions	---	176,819	(176,819)
Net investment income	---	5,070	(5,070)
Benefit payments	(250,580)	(250,580)	---
Net changes	<u>761,870</u>	<u>(68,691)</u>	<u>830,561</u>
Balances as of June 30, 2016	\$ <u>6,221,162</u>	\$ <u>5,436,539</u>	\$ <u>784,623</u>

J. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the District recognized pension expense of \$346,084. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 215	\$ ---
Changes of assumptions	459,937	
Net difference between projected and actual earnings of plan investments	<u>428,033</u>	<u>---</u>
	<u>\$ 888,185</u>	<u>\$ ---</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	\$ 201,484
2018	201,484
2019	201,484
2020	157,881
2021	83,575
Thereafter	<u>42,277</u>
	<u>\$ 888,185</u>

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "12" - State of Connecticut Teachers' Retirement System

A. General Information about the Pension Plan

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiemployer defined benefit pension plan administered by the Teachers' Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Teachers Retirement System have been determined on the same basis as they are reported by the Connecticut Teachers Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

C. Benefit Provision

The plan provides retirement, disability, and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement: Retirement benefits for the employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary). In addition, amounts derived from the accumulation of 1% contributions made prior to July 1, 1989 and voluntary contributions are payable.

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

D. Contributions

State of Connecticut: Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, is expected to finance the costs of the benefits earned by employees during that year, with any additional amounts to finance unfunded accrued liability.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System (continued):

D. Contributions (continued):

Employer (School District): School district employers are not required to make contributions to the plan.

Employees: Effective July 1, 1992, each teacher is required to contribute 6% of salary for the pension benefit.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 the District reports no amounts for its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources, due to the statutory requirement that the State of Connecticut pay 100 percent of the required contribution.

The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ ---
State's proportionate share of the net pension liability associated with the District	<u>24,039,750</u>
Total	<u>\$ 24,039,750</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of June 30, 2014. At June 30, 2016, the District has no proportionate share of the net pension liability.

For the year ended June 30, 2016, the District recognized pension expense and revenue of \$1,926,190 for on-behalf amounts for the benefits provided by the State.

F. Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table RP-2000 projected 19 years using scale AA, with a two year setback for males and females for the period after service retirement and for dependent beneficiaries.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System (continued):

F. Actuarial Assumptions (continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010.

Future cost-of-living increases for members who retire on or after September 1, 1992 are assumed to be an annual cost-of-living adjustment of 2%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2015 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Core fixed income	7.0%	1.3%
Inflation linked bond fund	3.0%	1.0%
Emerging market bond	5.0%	3.7%
High yield bonds	5.0%	3.9%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Cash	6.0%	0.4%
Total	<u>100.0%</u>	

G. Discount Rate

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

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The District's proportionate share of the net pension liability is \$0, and therefore, the change in the discount rate would only impact the amount recorded by the State.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "12" - State of Connecticut Teachers' Retirement System (continued):

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial statements available at www.ct.gov.

J. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the District has no obligation to contribute to the plan.

Note "13" – Risk Management and Unpaid Claims Liabilities:

The District is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage for all risks of loss, including workers' compensation insurance. Additionally, employee health coverage is purchased from a commercial carrier.

Note "14" - Commitments and Contingencies:

Litigation: It is the opinion of the school district officials that there are no material or substantial claims against the district, which will be finally determined so as to result in a judgment or judgments against the district, which would materially affect its financial position.

Grant Programs: The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Note "15" – Post Retirement Benefits

A. Plan Description

The District provides post-retirement benefits for certain employees for current and future health and life insurance benefit expenses through a single-employer defined benefit plan. A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. Annual updates are prepared for the intervening years. The latest actuarial valuation was made July 1, 2014. The post-retirement plan does not issue stand-alone financial reports.

The contribution requirements of plan members and the district are established and may be amended by the District. The District determines the required contribution using the Projected Unit Credit Method.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "15" – Post Retirement Benefits (continued):

A. Plan Description (continued):

Membership in the plan consisted of the following at July 1, 2014:

Retirees and beneficiaries receiving benefits	21
Active plan members	<u>156</u>
Total	<u>177</u>

B. Basis of Accounting

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 the District recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demand on the District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

C. Funding Policy

The District has not established a trust fund to irrevocably segregate assets to fund the liability associated with post-employment benefits in accordance with GASB guidelines. Although a trust fund may not be established in the future to exclusively control the funding and reporting of post-employment benefits, the District anticipates a commitment to fund normal costs as well as long-term approach for the amortization of the actuarial accrued liability. The goal is to absorb, within the budgetary process, the annual OPEB cost of benefits and segregating the needed resources.

D. Annual OPEB Cost and OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or past service cost) over a period not to exceed thirty years.

Normal cost (current service cost)	\$ 45,804
Amortization of UAAL (for past service)	<u>63,762</u>
Annual required contribution	\$109,566
Increase in net OPEB liability	\$ 109,566
Net OPEB obligation, beginning of year	<u>641,532</u>
Net OPEB obligation, end of year	<u>\$ 751,098</u>

The actuarial accrued liability as of July 1, 2015 is estimated to be \$1,102,581. The District's contributions represent payments made for premiums for insured individuals.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "15" – Post Retirement Benefits (continued)

D. Annual OPEB Cost and OPEB Obligation (continued)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>AAL</u>	<u>Under</u> <u>Funded</u> <u>AAL</u>	<u>Funded</u> <u>AAL</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>Over (Under)</u> <u>Funded AAL as</u> <u>a Percentage</u> <u>of Covered</u> <u>Payroll</u>
7/1/15	\$ ---	\$ 1,102,581	\$ 1,102,581	0.0%	\$ N/A	N/A
7/1/14	\$ ---	\$ 1,016,132	\$ 1,016,132	0.0%	\$ N/A	N/A
7/1/13	\$ ---	\$ 934,702	\$ 934,702	0.0%	\$ N/A	N/A

The District's three year trend information on its annual OPEB cost, employer contribution, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB</u> <u>Cost (AOC)</u>	<u>Employer</u> <u>Contributions</u>	<u>Percentage of</u> <u>AOC Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/16	\$ 109,566	\$ ---	N/A	\$ 751,098
6/30/15	\$ 102,805	\$ ---	N/A	\$ 641,532
6/30/14	\$ 96,402	\$ ---	N/A	\$ 538,727

Actuarial valuations of an ongoing plan involve estimates of the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

E. Actuarial Assumptions:

The information presented was determined as part of the actuarial valuation. Additional information as of the last actuarial valuations follows:

Valuation Date:	July 1, 2014
Actuarial Cost Method:	Projected Unit Credit
Asset Valuation Method:	N/A, not funded
Amortization Method:	Level Dollar (closed period)
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount rate	4.00%
Mortality	1994 GAR
Medical Inflation rate	8.00%

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "16" – Subsequent Events:

In connection with the preparation of the financial statements of Shepaug Valley Regional School District #12, subsequent events were evaluated through December 29, 2016, which is the date the financial statements were available to be issued.

Note "17" - Implementation of Current GASB Pronouncements

In fiscal year 2016, the District adopted two new statements of financial accounting standard issued by the Governmental Accounting Standards Board (GASB). The new statements include: Statement No. 72, *Fair Value Measurement and Application* and Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

Note "18" - Implementation of Future GASB Pronouncements

The GASB has issued several pronouncements that have effective dates that may impact the June 30, 2017 financial statements. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements:

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

Statement No. 77, *Tax Abatement Disclosures.*

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*

Statement No. 79, *Certain External Investment Pools and Pool Participants.*

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*

Statement No. 82, *Pension Issues - an amendment of GASB Statements No 67, No. 68, and No. 73.*

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement Of Revenue, Expenditures And Changes In Fund Balances
Budget and Actual (NON-GAAP BUDGETARY BASIS)
General Fund
Year Ended June 30, 2016

	Original and Final Budget	Actual	Variance Over (Under)
Revenue:			
Participating towns :			
Town of Bridgewater	\$ 4,398,766	\$ 4,398,766	\$ ---
Town of Roxbury	7,164,801	7,164,801	---
Town of Washington	9,779,303	9,779,303	---
State of Connecticut:			
Transportation grant	42,467	42,335	(132)
Adult education grant	69	70	1
Investment income	700	937	237
Tuition income	175,342	258,167	82,825
Miscellaneous income	---	75,766	75,766
Total Revenue	21,561,448	21,720,145	158,697
Expenditures:			
Current			
Certified salaries	9,017,594	9,016,633	961
Classified salaries	3,167,305	3,057,276	110,029
Employee benefits	2,962,341	2,878,163	84,178
Instructional programs	934,881	973,310	(38,429)
Tuition - other schools	542,500	424,065	118,435
Administrative services	764,980	814,844	(49,864)
Pupil transportation	1,641,148	1,523,982	117,166
Plant operation & maintenance	1,162,618	1,124,235	38,383
Capital outlay	668,256	824,238	(155,982)
Total Expenditures	20,861,623	20,636,746	224,877
Expenditures Transferred from Budget:			
Debt Service Fund	599,825	599,825	---
Reserve Fund for Capital and Non-recurring expenditures	---	215,615	(215,615)
Elementary School Repair Fund	100,000	100,000	---
Total Expenditures and Transfers	21,561,448	21,552,186	9,262
Excess of Revenue over Expenditures and Transfers	---	167,959	167,959
Fund Balance - beginning of year	---	138,474	138,474
Returned to participating towns	---	(138,474)	(138,474)
Fund Balance - end of year	\$ ---	\$ 167,959	\$ 167,959

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Schedule of the District's Proportionate Share of the Net Pension Liability
State of Connecticut Teachers' Retirement System
Last Two Fiscal Years

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	24,039,750	22,219,931
Total	\$ <u>24,039,750</u>	\$ <u>22,219,931</u>
District's covered-employee payroll	\$ N/A	\$ N/A
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	59.50%	61.51%

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization method	22.4 years
Asset valuation method	4-year smoothed market
Changes in benefit terms	None
Changes of assumptions	During 2011, rates of withdrawal, retirement and assumed rates of salary increases were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five-year period ended June 30, 2010.

District's covered-employee payroll Not applicable since 0% proportionate share of the net pension liability

Shepaug Valley Regional School District #12
Employees Retirement System, Non-certified Employee Plan
Schedule of Changes in Net Pension Liability and Related Ratios
Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service Cost	\$ 147,816	\$ 149,359	\$ 148,277
Interest	373,380	350,865	335,174
Differences between expected and actual experience	(51,555)	61,047	(33,666)
Changes of assumptions	542,809	-	-
Benefit payments, including refunds of member contributions	(250,580)	(228,662)	(222,592)
Net change in total pension liability	761,870	332,609	227,193
Total pension liability - beginning	5,459,292	5,126,683	4,899,490
Total pension liability - ending	<u>6,221,162</u>	<u>5,459,292</u>	<u>5,126,683</u>
Plan fiduciary net position:			
Contributions - employer	176,819	225,505	205,888
Net investment income	5,070	149,125	701,161
Benefit payments, including refunds of member contributions	(250,580)	(228,662)	(222,592)
Net change in plan fiduciary net position	(68,691)	145,968	684,457
Plan fiduciary net position - beginning	5,505,230	5,359,262	4,674,805
Plan fiduciary net position - ending	<u>5,436,539</u>	<u>5,505,230</u>	<u>5,359,262</u>
Net Pension Liability (Asset) - Ending	\$ <u>784,623</u>	\$ <u>(45,938)</u>	\$ <u>(232,579)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>87.39%</u>	<u>100.84%</u>	<u>104.54%</u>
Covered employee payroll	\$ <u>2,490,937</u>	\$ <u>2,534,741</u>	\$ <u>2,472,885</u>
Net pension liability as a percentage of covered employee payroll	<u>31.50%</u>	<u>(1.81%)</u>	<u>(9.41%)</u>

Shepaug Valley Regional School District #12
Employees Retirement System, Non-certified Employee Plan
Schedule of Employer Contributions
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 176,819	\$ 183,176	\$ 239,659	\$ 211,015	\$ 237,502	\$ 232,610	\$ 162,651	\$ 119,913	\$ 151,617	\$ 167,834
Contributions in relation to the actuarially determined contribution	176,819	225,505	205,888	375,541	258,583	384,415	181,564	158,235	287,480	344,625
Contribution (Deficiency) Excess	\$ -	\$ 42,329	\$ (33,771)	\$ 164,526	\$ 21,081	\$ 151,805	\$ 18,913	\$ 38,322	\$ 135,863	\$ 176,791
Covered employee payroll	\$ 2,490,937	\$ 2,534,741	\$ 2,472,885	\$ 2,320,238	\$ 2,379,607	\$ 2,364,314	\$ 2,213,838	\$ 2,207,360	\$ 2,092,740	\$ 1,798,806
Contributions as a percentage of covered employee payroll	7.10%	8.90%	8.33%	16.19%	10.87%	16.26%	8.20%	7.17%	13.74%	19.16%

Notes to Schedule

Valuation date:
Measurement date:

July 1, 2014
June 30, 2016
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years from 7/1/1997
Asset valuation method	Fair market value
Inflation	2.20%
Salary increases	3.50%
Investment rate of return	6.75%
Retirement age	65 years
Mortality	RP-2000 projected to valuation date using Scale AA

Other:

Change of benefit terms

None

Changes of assumptions

During 2016, the discount rate, investment rate of return, salary increases, inflation rate, amortization period, and mortality table were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the District for the ten-year period ended June 30, 2016.

Shepaug Valley Regional School District #12
Employees Retirement System, Non-certified Employee Plan
Schedule of Investment Returns
Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.09%	2.78%	15.34%

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds					Total Nonmajor Governmental Funds
	School Cafeteria	State and Federal Grants	Scholarship Fund	Universal Service Fund	Pre-School Restricted Fund	
Assets:						
Cash	\$ 44,977	\$ 85,837	\$ 289,506	\$ 66,623	\$ ---	486,943
Due from State of Connecticut	4,197	6,152	---	---	---	10,349
Due from other funds	---	---	---	---	21,309	21,309
Inventory	8,827	---	---	---	---	8,827
Total Assets	\$ 58,001	\$ 91,989	\$ 289,506	\$ 66,623	\$ 21,309	\$ 527,428
Liabilities and Fund Balances:						
Liabilities:						
Due to other funds	\$ 14,939	\$ 74,588	---	---	---	89,527
Unearned revenue	5,640	12,481	---	---	14,450	32,571
Total Liabilities	20,579	87,069	---	---	14,450	122,098
Fund balances:						
Nonspendable:						
Inventories	8,827	---	---	---	---	8,827
Committed for:						
School cafeteria	28,595	---	---	---	---	28,595
Restricted for:						
Technology - USF fund	---	---	---	66,623	---	66,623
Scholarships	---	---	289,506	---	---	289,506
Federal and State grants	---	4,920	---	---	---	4,920
Pre-School	---	---	---	---	6,859	6,859
Total Fund Balance	37,422	4,920	289,506	66,623	6,859	405,330
Total Liabilities and Fund Equity	\$ 58,001	\$ 91,989	\$ 289,506	\$ 66,623	\$ 21,309	\$ 527,428

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Combining Statement of Revenue, Expenditures And Changes In Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue Funds						Total
	School Cafeteria	State and Federal Grants	Scholarship Fund	Universal Service Fund	Pre-School Restricted Fund	Nonmajor Governmental Funds	
Revenue:							
Sales of lunches, milk, and other	\$ 201,636	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	201,636
Federal & state grants	33,310	366,339	---	---	---	---	399,649
Other	---	---	28,491	27,208	25,345	---	81,044
Total Revenue	234,946	366,339	28,491	27,208	25,345	---	682,329
Expenditures:							
Cost of food consumed	97,696	---	---	---	---	---	97,696
Salaries and wages	120,654	137,629	---	---	---	---	258,283
Supplies and miscellaneous	7,673	14,063	---	---	---	---	21,736
Payroll taxes	9,086	---	---	---	---	---	9,086
Employee benefits	---	450	---	---	---	---	450
Repairs and equipment purchases	---	---	---	10,525	---	---	10,525
Student Services	---	214,197	---	---	23,499	---	237,696
Scholarships	---	---	9,752	---	---	---	9,752
Total Expenditures	235,109	366,339	9,752	10,525	23,499	---	645,224
Excess (Deficiency) of Revenues Over Expenditures	(163)	---	18,739	16,683	1,846	---	37,105
Fund Balance - beginning of year	37,585	4,920	270,767	49,940	5,013	---	368,225
Fund Balance - end of year	\$ 37,422	\$ 4,920	\$ 289,506	\$ 66,623	\$ 6,859	\$ ---	\$ 405,330

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Changes in Assets and Liabilities
All Agency Funds - Student Activities Fund
June 30, 2016

	Balance		Balance	
	July 1, 2015		June 30, 2016	
Assets:				
Cash	\$	111,970	\$	110,560
Total Assets	\$	111,970	\$	110,560
Liabilities:				
Due to Student Groups				
High School Activity Fund	\$	79,775	\$	88,121
Middle School		15,228		6,438
Burnham School		4,118		3,081
Booth Free School		7,073		7,836
Washington Primary		5,776		5,084
Total Liabilities	\$	111,970	\$	110,560

OTHER FINANCIAL INFORMATION



Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

INDEPENDENT AUDITOR'S 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 Education
Shepaug Valley Regional School District #12
Bridgewater, Roxbury and Washington, Connecticut

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Shepaug Valley Regional School District #12's basic financial statements, and have issued our report thereon dated December 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shepaug Valley Regional School District #12's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shepaug Valley Regional School District #12's internal control. Accordingly, we do not express an opinion on the effectiveness of Shepaug Valley Regional School District #12's internal control.

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, or 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shepaug Valley Regional School District #12's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shepaug Valley Regional School District #12's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "CH Heaven & Co", is positioned above the company name.

CHARLES HEAVEN & CO.

December 29, 2016