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**THE TOWN OF SHARON**

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**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
The Town of Sharon, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Sharon, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Sharon. Our responsibility is to express an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Sharon as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, on our consideration of the internal control over financial reporting of the Town of Sharon 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule for the general fund on page 16 be presented to supplement the basic financial statements. Such information, although not 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.

Management has not presented the management's discussion and analysis or the budgetary comparison schedule for the utility fund that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



Becky Fleming, C.P.A., Inc.  
September 24, 2012

**THE TOWN OF SHARON  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	Governmental Activities	Business-type Activities	2012 Total
<b>ASSETS</b>			
Current Assets			
Cash and demand deposits	1,458	57,659	59,117
Certificates of deposit	78,584	29,662	108,246
Accounts receivable	3,939	3,254	7,193
Allowance for doubtful accounts	0	(673)	(673)
Internal balances	1,063	(1,063)	0
Total current assets	85,044	88,839	173,883
Noncurrent Assets			
Property and equipment	176,327	356,108	532,435
Accumulated depreciation	(51,684)	(159,302)	(210,986)
Total noncurrent assets	124,643	196,806	321,449
<b>TOTAL ASSETS</b>	<b>209,687</b>	<b>285,645</b>	<b>495,332</b>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	338	370	708
Noncurrent Liabilities			
Meter deposits refundable	0	2,740	2,740
<b>TOTAL LIABILITIES</b>	<b>338</b>	<b>3,110</b>	<b>3,448</b>
<b>NET ASSETS</b>			
Invested in capital assets	124,643	196,806	321,449
Unrestricted	84,706	85,729	170,435
<b>TOTAL NET ASSETS</b>	<b>209,349</b>	<b>282,535</b>	<b>491,884</b>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF SHARON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities
Governmental activities:							
General government	(14,231)	275	1,286	35,852	23,182		23,182
Streets	(3,512)	0	1,174	0	(2,338)		(2,338)
Total governmental activities	(17,743)	275	2,460	35,852	20,844	0	20,844
Business-type activities:							
Administration	(8,908)	2,067				(6,841)	(6,841)
Sewer	(5,832)	7,220				1,388	1,388
Water	(23,820)	24,870				1,050	1,050
Total business-type activities	(38,560)	34,157	0	0	0	(4,403)	(4,403)
Total all activities	(56,303)	34,432	2,460	35,852	20,844	(4,403)	16,441
		General revenues:					
					4,336	0	4,336
					629	761	1,390
					14,040	(14,040)	0
					19,005	(13,279)	5,726
					39,849	(17,682)	22,167
					169,500	300,217	469,717
					209,349	282,535	491,884

The accompanying notes are an integral part of these financial statements

**THE TOWN OF SHARON  
 BALANCE SHEET  
 GOVERNMENTAL FUND  
 JUNE 30, 2012**

	<u>General</u>
	<u>Fund</u>
ASSETS	
Cash and demand deposits	1,458
Certificates of deposit	78,584
Revenue receivable	3,939
Due from other funds	<u>1,063</u>
TOTAL ASSETS	<u>85,044</u>
LIABILITIES	
Accounts payable	338
FUND BALANCE	
Unassigned	<u>84,706</u>
TOTAL LIABILITIES AND	<u>85,044</u>
FUND BALANCE	
Reconciliation of fund balance to	
net assets of governmental activities:	
Fund balance	84,706
Capital assets	176,327
Accumulated depreciation	<u>(51,684)</u>
Net Assets of Governmental Activities	<u>209,349</u>

The accompanying notes are an integral part of these financial statements

**CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund
REVENUES	
Taxes	4,336
Intergovernmental shared taxes	2,459
Charges for services	275
Interest	629
Grants	35,852
TOTAL REVENUES	43,551
 EXPENDITURES	
General government	5,601
Street department	3,512
Capital outlay	45,408
TOTAL EXPENDITURES	54,521
 REVENUES (UNDER) EXPENDITURES	(10,970)
 OTHER FINANCING SOURCES	
Transfers-in	14,040
 NET CHANGE IN FUND BALANCE	3,070
 BEGINNING FUND BALANCE	81,636
ENDING FUND BALANCE	84,706
 Reconciliation of the change in fund balance to the change in net assets of governmental activities:	
Net change in fund balance	3,070
Depreciation expense	(8,629)
Purchase of fixed assets	45,408
Change in Net Assets of Governmental Activities	39,849

The accompanying notes are an integral part of these financial statements

**THE TOWN OF SHARON  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012**

	<u>Utility Fund</u>
<b>ASSETS</b>	
Current Assets	
Cash and demand deposits	57,659
Certificates of deposit	29,662
Accounts receivable	3,254
Allowance for doubtful accounts	<u>(673)</u>
Total current assets	89,902
Noncurrent Assets	
Depreciable property and equipment	356,108
Accumulated depreciation	<u>(159,302)</u>
Total noncurrent assets	<u>196,806</u>
<b>TOTAL ASSETS</b>	<u>286,708</u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	370
Due to other funds	<u>1,063</u>
Total current liabilities	1,433
Noncurrent Liabilities	
Meter deposits refundable	<u>2,740</u>
<b>TOTAL LIABILITIES</b>	<u>4,173</u>
<b>NET ASSETS</b>	
Invested in capital assets	196,806
Unrestricted	<u>85,729</u>
<b>TOTAL NET ASSETS</b>	<u><u>282,535</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF SHARON  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Utility Fund</u>
OPERATING REVENUES	
Sewer revenue	7,220
Water revenue	24,870
Penalties and other revenues	2,067
TOTAL OPERATING REVENUES	<u>34,157</u>
 OPERATING EXPENSES	
Administration department	8,908
Sewer department	5,832
Water department	23,820
TOTAL OPERATING EXPENSES	<u>38,560</u>
 OPERATING LOSS	 (4,403)
 NON-OPERATING REVENUES	
Interest income	<u>761</u>
 LOSS BEFORE TRANSFERS	 (3,642)
 TRANSFERS (OUT)	 <u>(14,040)</u>
 NET LOSS	 (17,682)
 BEGINNING NET ASSETS	 <u>300,217</u>
ENDING NET ASSETS	<u><u>282,535</u></u>

The accompanying notes are an integral part of these financial statements

**THE TOWN OF SHARON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Utility Fund</u>
Cash flows from operations:	
Cash received from:	
Customers	35,333
Cash payments for:	
Goods and services	(13,684)
Employees	(10,000)
Net cash provided from operations	<u>11,649</u>
 Cash flows from capital financing activities:	
Purchase of capital assets	(5,791)
Transfers to the general fund	(14,040)
Net cash from capital financing activities	<u>(19,831)</u>
 Cash flows from investing activities:	
Interest received	534
 Net increase (decrease) in cash	<u>(7,648)</u>
 Beginning cash	<u>65,307</u>
Ending cash	<u><u>57,659</u></u>
 Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	(4,403)
Adjustments to income from operations:	
Depreciation	13,786
Bad debts	12
Change in assets and liabilities:	
(Increase) decrease in receivables	751
Increase (decrease) in payables	15
Increase (decrease) in due to other funds	1,063
Increase (decrease) in meter deposits	425
Net cash provided by operations	<u><u>11,649</u></u>

The accompanying notes are an integral part of these financial statements

**The Town of Sharon  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012**

**1. Summary of Significant Accounting Policies**

The Town complies with generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless they conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

**1A. Financial Reporting Entity**

The Town of Sharon (Town) operates under the Statutory Town Board of Trustees form of government and provides the following major services: streets, public improvements, planning and zoning, water and sewer services, and general administration.

**1B. Basic Financial Statements**

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's streets and general administration are classified as governmental activities. The Town's water and sewer services are classified as business-type activities.

**1C. Government-wide Financial Statements**

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity, which maintains only two funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, fines, and other miscellaneous revenues and are maintained in one fund. Business-type activities are financed by charges for services and are maintained in a separate fund.

**1D. Fund Financial Statements**

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

**The Town of Sharon  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012**

**Governmental Funds**

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period.

**Proprietary Funds**

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Town uses only one proprietary fund, an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

**1E. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual Basis**

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual Basis**

The governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

**The Town of Sharon  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012**

**1F. Cash and Cash Equivalents**

The Town has defined cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**1G. Investments**

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. The Town has not formally adopted deposit and investment policies that limit its allowable deposits or investments and address the specific types of risk to which the Town is exposed.

**1H. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

**1I. Interfund Activity**

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**1J. Capital Assets**

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25 years
Equipment	15 years
Water system	25 years
Sewer system	40 years

**The Town of Sharon**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2012**

Effective with fiscal year 2004, GASB-34 required the Town to report and depreciate new infrastructure assets. Infrastructure assets include roads, sidewalks, bridges traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. Retroactive reporting is not required.

**1K. Revenues and Expenditures**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are nonoperating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**1K. Fund Balance**

For the fiscal year ended June 30, 2011, the Town implemented the new financial reporting requirements of GASB-54, which established new fund balance classifications for governmental funds. Fund balance is now composed of three primary categories: nonspendable, restricted, and unrestricted. Nonspendable fund balance consists of amounts that are inherently nonspendable, such as inventories and prepaid expenses. Restricted amounts reflect amounts that are restricted by external sources. Unrestricted balances consist of amounts that either have no restriction, or that have been internally restricted by the town board of trustees. Currently the Town has no nonspendable fund balance, and has no restrictions, external or internal, on its governmental fund balance.

**2. Deposits and Investments**

All deposits and investments of the Town are fully insured.

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

**The Town of Sharon**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2012**

**3. Capital Assets**

Capital asset activity for the year just ended is summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities</b>				
Depreciable Assets				
Buildings	70,786	14,538	0	85,324
Equipment	60,132	30,871	0	91,003
Total capital assets	130,918	45,409	0	176,327
Accumulated depreciation				
Buildings	(19,085)	(3,195)	0	(22,280)
Equipment	(23,969)	(5,435)	0	(29,404)
Total depreciation	(43,054)	(8,630)	0	(51,684)
Net governmental capital assets	87,864	36,779	0	124,643
<b>Business-type activities</b>				
Depreciable Assets				
Water system	282,476	5,791	0	288,267
Sewer system	67,841	0	0	67,841
Total capital assets	350,317	5,791	0	356,108
Accumulated depreciation				
Water system	(107,341)	(11,589)	0	(118,930)
Sewer system	(38,175)	(2,197)	0	(40,372)
Total depreciation	(145,516)	(13,786)	0	(159,302)
Net business-type assets	204,801	(7,995)	0	196,806

Depreciation expense was charged to functions as follows:

<b>Governmental activities</b>		<b>Business-type activities</b>	
General government	8,630	Sewer	2,197
		Water	11,589
		Total	<u>13,786</u>

**4. Risk Management**

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

The Town of Sharon  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012

5. Interfund Transfers and Loans

	General	Utility	
Transfers	Fund	Fund	Total
Capital outlay	14,040	(14,040)	0

	General	Utility	
Due to/from	Fund	Fund	Total
Operations	1,063	(1,063)	0

6. Subsequent Events

Management performed an evaluation of the Town's activity through September 24, 2012, the date the audit report was available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

**THE TOWN OF SHARON  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Budget Basis Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	3,500	3,500	4,336	836
Intergovernmental shared taxes	2,050	2,050	2,459	409
Rentals of town property	300	300	275	(25)
Interest income	1,000	1,000	629	(371)
Grants	25,000	25,000	35,852	10,852
<b>TOTAL REVENUES</b>	<b>31,850</b>	<b>31,850</b>	<b>43,551</b>	<b>11,701</b>
<b>EXPENDITURES</b>				
General government	5,400	5,400	5,601	(201)
Street department	2,000	2,000	3,512	(1,512)
Capital outlay	25,000	25,000	45,408	(20,408)
<b>TOTAL EXPENDITURES</b>	<b>32,400</b>	<b>32,400</b>	<b>54,521</b>	<b>(22,121)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(550)</b>	<b>(550)</b>	<b>(10,970)</b>	<b>(10,420)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers-in	5,450	5,450	14,040	8,590
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,900</b>	<b>4,900</b>	<b>3,070</b>	<b>(1,830)</b>
<b>BEGINNING FUND BALANCE</b>	<b>81,636</b>	<b>81,636</b>	<b>81,636</b>	<b>0</b>
<b>ENDING FUND BALANCE</b>	<b>86,536</b>	<b>86,536</b>	<b>84,706</b>	<b>(1,830)</b>

Notes to the Budgetary Comparison Schedule:

The Town prepares its annual operating budget according to the Municipal Budget Act. The same generally accepted accounting principles basis of accounting used for financial reporting purposes is used for budgetary purposes. Actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board as required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. For the year just ended, no budget amendments were approved.

Every department of the general fund exceeded its appropriations.

The utility fund was not budgeted for FY 2012 as required by state statutes.

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Mobile: 405.641.5794

**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**

The Board of Trustees  
The Town of Sharon, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Sharon, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Town of Sharon, and have issued our report thereon, dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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 a 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. We consider the following deficiencies in the Town's internal control to be material weaknesses:

2012-1        There are no established procedures to ensure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that donated capital assets are correctly recorded.

Response     We will establish procedures to make sure all capital expenditures are properly recorded in the general ledger and that subsidiary schedules are adequately maintained and reconciled to the general ledger accounts.

2012-2        There is no segregation of duties between those maintaining the general ledger, the billing system, and performing reconciliations.

Response     Since we are a small town with our clerk/treasurer as the only administrative and bookkeeping employee, we do not have a way of segregating duties. However, we do provide additional oversight of town financial activity by reviewing all bank statements, bank reconciliations, utility billings, and utility past due accounts monthly. We also review all vendor invoices before they are paid and all monthly cash receipts.

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. We consider the following deficiencies in the Town's internal control to be significant deficiencies:

2012-3        There are no established procedures for reviewing the general ledger for posting errors.

Response     We will establish procedures for reviewing the general ledger for posting errors.

### Compliance and Other Matters

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

The Town of Sharon's response to the findings identified in our audit is described above. We did not audit the Town of Sharon's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Becky Fleming, C.P.A., Inc.  
September 24, 2012