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Town of Salem, Connecticut

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

For the Year Ended June 30, 2011

Marien + Company CPAs

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

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

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Independent Auditors' Report

Board of Finance
Town of Salem, Connecticut
Salem, Connecticut

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

Independent Auditors' Report (Continued)

In accordance with Government Auditing Standards, we have also issued our report dated December 05, 2011 on our consideration of the Town of Salem, Connecticut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

Maier + Company

December 05, 2011

**Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011**

Our discussion and analysis of Town of Salem, Connecticut's (the Government) financial performance provides an overview of the Government's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

Due to firm enforcement of our purchasing policy, strong negotiations with all vendors, as well as a concerted effort of fiscal responsibility by all departments, the General Government was able to return \$255,750 to the Town's General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the Government as a whole and present a longer-term view of the Government's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. The remaining statements provide financial information about activities for which the Government acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Government as a Whole

Our analysis of the Government as a whole begins with Exhibit 1. One of the most important questions asked about the Government's finances is, "Is the Government as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Government's *net assets* and changes in them. You can think of the Government's net assets—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government.

Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011

In the Statement of Net Assets and the Statement of Activities, the Government shows the following activity:

- Governmental activities—The Government's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.

Reporting the Government's Most Significant Funds

Our analysis of the Government's major funds begins in the section titled "The Government's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Finance establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- *Governmental funds*—The Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Government's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Government's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

The Government as Trustee

The Government is the trustee, or *fiduciary*, for the activity funds at the school. These funds do not belong to the Government. The Government's fiduciary activities are reported in separate Statements of Fiduciary Net Assets in Exhibits 5. We exclude these activities from the Government's other financial statements because the Government cannot use these assets to finance its operations. The Government is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011**

THE GOVERNMENT AS A WHOLE

The Government's *combined* net assets increased by \$572,071 from a year ago—*increasing* from \$15,765,498 to \$16,337,569. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Government.

**Table 1
Change in Net Assets (on Exhibit 1)**

	2011	Change During Year		2010
		Dollars	Percent	
Current and other assets	\$ 3,428,446	\$ 505,129	17.28%	\$ 2,923,317
Capital assets	15,204,504	84,835	0.56%	15,119,669
Total assets	<u>18,632,950</u>	<u>589,964</u>	3.27%	<u>18,042,986</u>
Long-term debt outstanding	1,352,007	(306,399)	-18.48%	1,658,406
Other liabilities	943,374	324,292	52.38%	619,082
Total liabilities	<u>2,295,381</u>	<u>17,893</u>	0.79%	<u>2,277,488</u>
Net assets:				
Invested in capital assets, net of related debt	14,363,196	543,258	3.93%	13,819,938
Restricted - Expendable	284,388	242,084	572.25%	42,304
Restricted - Nonexpendable	1,997	-	0.00%	1,997
Unrestricted	1,687,988	(213,271)	-11.22%	1,901,259
Total net assets	<u>\$ 16,337,569</u>	<u>\$ 572,071</u>	3.63%	<u>\$ 15,765,498</u>

Capital Assets increased due to the completion of drainage and reconstruction of Forsyth Road. Other significant increases include the BOE Salem School Network Upgrades. The Bryant Heat Pumps were an energy efficient upgrade to Town Hall and were fully reimbursable from a grant. The Computerized Sanders were a safety and cost savings retrofit to three of our Plow Trucks.

Capital assets increased by \$553,988 (cost). This is due to the addition of the following:

- Bryant Heat Pump - \$31,400
- Computerized Sanders - \$26,949 (3 for \$8,983)
- Salt Shed Roof- \$12,150
- SVCO Fire Fighting Gear - \$20,869
- Education – BOE School Network Upgrades- \$72,775
- Construction in progress:
 - Pavilion - \$9,731
 - Route 85 Sidewalks - \$20,485
 - Additional Highway rehab – Forsyth Road - \$253,580
 - Recreation Field Drive Upgrade - \$13,670
 - School Building Committee capitalized costs- \$5,950

Depreciation was subtracted from net assets. This was \$414,099.

The town also disposed of some assets totaling \$145,250 in the current year which included a wood Chipper with an initial cost of \$15,000 and a Public Works truck and plow with a cost of \$56,000.

Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011

The net increase in capital assets was \$84,835. You can see the summary of Capital Asset activity in footnote 5.

Long term debt decreased by a net amount of \$306,399. See the details in footnote 6 A.

Current and other assets increased as a result of the increase in special education money and town aid road money received.

Table 2
Change in Net Assets (on Exhibit 2)

	2011	Change During Year		2010
		Dollars	Percent	
Revenues				
Program revenues:				
Charges for services	\$ 331,751	\$ (28,870)	-8.01%	\$ 360,621
Operating grants and contributions	4,476,600	57,933	1.31%	4,418,667
Capital grants and contributions	12,776	(125,423)	-90.76%	138,199
General revenues:				
Property taxes	10,635,928	480,369	4.73%	10,155,559
Grants and contributions	20,713	(9,555)	-31.57%	30,268
Interest and investment earnings	18,096	(10,341)	-36.36%	28,437
Gain (loss) on disposal of equipment	(14,287)	(14,287)	100.00%	-
Other general revenues	17,615	(99,748)	-84.99%	117,363
Total revenues	<u>15,499,192</u>	<u>250,078</u>	1.64%	<u>15,249,114</u>
Program expenses				
General government	1,483,946	29,993	2.06%	1,453,953
Public safety	782,672	(111,477)	-12.47%	894,149
Public works	823,701	165,076	25.06%	658,625
Sanitation and landfill	203,179	35,165	20.93%	168,014
Education	11,618,513	565,852	5.12%	11,052,661
Interest on long-term debt	12,234	(55,240)	-81.87%	67,474
Total expenses	<u>14,924,245</u>	<u>629,369</u>	4.40%	<u>14,294,876</u>
Increase (decrease) in net assets	<u>\$ 574,947</u>	<u>\$ (379,291)</u>	-39.75%	<u>\$ 954,238</u>

Significant changes are as follows:

Capital Grants and Contributions decreased 90.76% in the current year. In the prior year this included the contributions received on the Plow Truck Note totaling \$134,770. In the current year the balance is comprised of the Recreation Trail Fund revenue.

Other general revenues decreased as a result of the Town winning a lawsuit in the amount of \$112,000 in the prior year.

Public Safety decreased as a result of the purchase of Volunteer Fire fighter capital assets which reduced government-wide expenditures by \$67,447.

Public works increased by \$165,076. A major factor was the increase in public works expenditure in the capital and non recurring fund. Public works expenditures totaled \$418,962 in the capital and non recurring fund in the current year and \$257,809 in the prior year. This

Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011

was combined with a slight increase in public works expenditures in the general fund. Public works salaries increased from \$292,516 in the prior year to \$302,371 in the current year.

Sanitation and Landfill expenses increased 20.93% as a result of the transfer station capital assets purchased in the prior year which reduced government wide expenditures in the prior year by \$254,008.

Governmental Activities

Table 3 presents the cost of each of the Government's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Government's taxpayers by each of these functions.

Table 3
Comparison of Total Cost to Net Cost (Exhibit 2)

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2011	2010		2011	2010	
Governmental Activities						
General government	\$ 1,483,946	\$ 1,453,953	2.06%	\$ 1,075,174	\$ 1,085,053	-0.91%
Public safety	782,672	894,149	-12.47%	782,672	759,379	3.07%
Public works	823,701	658,625	25.06%	726,772	561,735	29.38%
Sanitation and landfill	203,179	168,014	20.93%	131,519	99,247	32.52%
Education	11,618,513	11,052,661	5.12%	7,374,747	6,804,501	8.38%
Interest on long-term debt	12,234	67,474	-81.87%	12,234	67,474	-81.87%
Totals	\$ 14,924,245	\$ 14,294,876	4.40%	\$ 10,103,118	\$ 9,377,389	7.74%

Public Works and sanitation and landfill - refer to above discussion.

Interest on long-term debt is lower as a result of less debt. We are currently paying off \$200,000 per year of principal on our long term debt, which is \$800,000 as of June 30, 2011.

THE GOVERNMENT'S FUNDS

While the year showed an increase in net assets, it showed a decrease in fund balance in the governmental funds as presented in Exhibits 3 and 4. The difference for this is primarily the treatment of long-term debt and capital assets. In the fund balance principal payments on long-term debt are a reduction in fund balance when the payments on the debt are made. Debt payments are never a direct reduction in net assets on the government-wide statements. Likewise, purchases of capital assets are a reduction in fund balance when the purchase is made. Capital asset purchases are never a direct reduction in net assets on the government-wide statements.

**Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011**

General Fund Budgetary Highlights

Over the course of the year, the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriations increase the total budget. The Board of Finance is allowed by Town Charter to make additional appropriations up to two tenths of one percent of the Town's Budget per Board or department. Additional appropriations over two tenths of one percent up to one percent of the Town's Budget require a Town Meeting. Additional appropriations over one percent of the Town's Budget require a referendum. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. State Statutes allow these transfers to be made by the Board of Finance without a Town Meeting. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 4
General Fund - Budget Summary**

	Final Budget	Actual	Variance
Revenue			
Property Taxes	\$10,449,357	\$10,524,871	\$ 75,514
Intergovernmental	3,456,755	2,955,080	(501,675)
Interest Income	25,000	17,132	(7,868)
Local Revenues	271,562	290,093	18,531
Transfers In From CNR	-	7,313	7,313
	<u>14,202,674</u>	<u>13,794,489</u>	<u>(408,185)</u>
Expenditures			
General Government	3,351,243	3,095,493	255,750
Education	10,077,593	9,513,135	564,458
Capital Outlay	809,026	809,026	-
	<u>14,237,862</u>	<u>13,417,654</u>	<u>820,208</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (35,188)</u>	<u>\$ 376,835</u>	<u>\$ 412,023</u>

Due to firm enforcement of our purchasing policy, strong negotiations with all vendors, as well as a concerted effort of fiscal responsibility by all departments, the General Government was able to return \$255,750 to the Town's General Fund. ARRA Stabilization Grant Revenue was recorded in the Special Education Grants Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$15,204,504 invested in government activity capital assets. This amount represents a net increase (including additions and deductions) of \$84,835 from last year. More detailed information about the Government's capital assets is presented in Note 5 to the financial statements.

**Town of Salem, Connecticut
Managements' Discussion and Analysis
June 30, 2011**

Debt

At year end, the Government had \$800,000 in general obligation bonds. This is a decrease of \$200,000 from last year. The Government's general obligation bond rating continues to carry an A1 rating. More detailed information about the Government's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Government's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and tax rates. With continued economic uncertainty there was much thought and concern for keeping expenditures in check to lessen the mill rate impact on our townspeople.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Finance at Town of Salem, Connecticut, 270 Hartford Road, Salem, CT 06420.

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

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,853,588
Investments	51,855
Receivables, net of allowance for collection losses	500,016
Prepaid expenses	8,374
Bond issue costs, net of amortization	14,613
Capital assets:	
Not being depreciated	2,223,693
Net of accumulated depreciation	12,980,811
Total assets	18,632,950
Liabilities	
Accounts payable	805,394
Accrued expenses	85,022
Due to others	23,735
Accrued interest	24,384
Deferred revenue	4,839
Noncurrent liabilities:	
Due within one year	31,061
Due in more than one year	1,320,946
Total liabilities	2,295,381
Net Assets	
Invested in capital assets, net of related debt	14,363,196
Restricted net assets:	
Expendable	284,388
Nonexpendable	1,997
Unrestricted net assets	1,687,988
Total net assets	\$ 16,337,569

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

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

	Expenses	Program Specific Revenues			Total
		Charges for Services	Operating	Grants and Contributions Capital	
Functions/Programs					
Governmental activities:					
General government	\$ (1,483,946)	\$ 172,252	\$ 223,744	\$ 12,776	\$ (1,075,174)
Public safety	(782,672)	-	-	-	(782,672)
Public works	(823,701)	-	96,929	-	(726,772)
Sanitation and landfill	(203,179)	71,660	-	-	(131,519)
Education	(11,618,513)	87,839	4,155,927	-	(7,374,747)
Interest on long-term debt	(12,234)	-	-	-	(12,234)
Total governmental activities	\$ (14,924,245)	\$ 331,751	\$ 4,476,600	\$ 12,776	(10,103,118)
General revenues:					
Property taxes, payments in lieu of taxes, interest and liens					10,635,928
Grants and contributions					20,713
Interest and investment earnings					18,096
Gain (loss) on disposal of equipment					(14,287)
Miscellaneous					17,615
Total general revenues					10,678,065
Changes in net assets					574,947
Net assets, beginning of the year					15,762,622
Net assets, end of the year					\$ 16,337,569

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

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

	General Fund	Capital Non-Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,969,292	\$ 148,084	434,509	\$ 301,703	\$ 2,853,588
Investments	4,937	2,028	-	44,890	51,855
Receivables	452,374	-	43,569	4,073	500,016
Due from other governmental funds	477,546	178,671	4,653	112,743	773,613
Prepaid expenditures	8,374	-	-	-	8,374
Total assets	\$ 2,912,523	\$ 328,783	\$ 482,731	\$ 463,409	\$ 4,187,446
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 791,226	\$ -	\$ -	\$ 14,168	\$ 805,394
Accrued expenses	85,022	-	-	-	85,022
Deferred revenue	367,431	-	40	-	367,471
Due to others	23,735	-	-	-	23,735
Due to other governmental funds	296,067	-	477,546	-	773,613
Total liabilities	1,563,481	-	477,586	14,168	2,055,235
Fund balance					
Nonspendable	-	-	-	1,997	1,997
Restricted	23,467	-	-	359,291	382,758
Committed	-	178,925	-	-	178,925
Assigned	64,788	149,858	5,145	87,953	307,744
Unassigned	1,260,787	-	-	-	1,260,787
Total fund balance	1,349,042	328,783	5,145	449,241	2,132,211
Total liabilities and fund balance	\$ 2,912,523	\$ 328,783	\$ 482,731	\$ 463,409	

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

Less: Long-term liabilities not due and payable in current period:		
Bonds, notes, capital leases payable and unamortized premiums on bond costs		(922,488)
Compensated absences and special termination benefits		(30,544)
Landfill closure and pollution remediation costs		(35,000)
Other post-employment benefits		(363,975)
Accrued interest payable		(24,384)
Plus:		
Deferred charges on bond costs (to be amortized over the life of the bond)		14,613
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		15,204,504
Other long-term assets not available to pay for current period expenditures, recorded as deferred revenue in the funds		362,632
Net assets reported on the government-wide financial statements (Exhibit 1)		\$ 16,337,569

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

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

	General Fund	Capital Non-Recurring Fund	Education Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes, interest and lien fees	\$ 10,524,871	\$ -	\$ -	\$ -	\$ 10,524,871
Intergovernmental revenues	3,699,162	-	664,998	227,164	4,591,324
Local revenues	307,225	219	8,000	94,051	409,495
	<u>14,531,258</u>	<u>219</u>	<u>672,998</u>	<u>321,215</u>	<u>15,525,690</u>
Expenditures					
Current expenditures:					
General government	1,400,121	-	-	30,913	1,431,034
Public safety	631,452	-	-	-	631,452
Public works	606,060	-	-	-	606,060
Sanitation and landfill	216,988	-	-	-	216,988
Education	10,454,834	-	675,878	107,446	11,238,158
Capital outlay	96,311	615,535	-	-	711,846
Debt service	455,750	272,528	-	-	728,278
	<u>13,861,516</u>	<u>888,063</u>	<u>675,878</u>	<u>138,359</u>	<u>15,563,816</u>
Excess (deficiency) of revenues over expenditures	<u>669,742</u>	<u>(887,844)</u>	<u>(2,880)</u>	<u>182,856</u>	<u>(38,126)</u>
Other financing sources (uses)					
Proceeds from long-term debt	-	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-
Operating transfers in	7,313	809,026	-	-	816,339
Operating transfers out	(809,026)	(7,313)	-	-	(816,339)
	<u>(801,713)</u>	<u>801,713</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(131,971)</u>	<u>(86,131)</u>	<u>(2,880)</u>	<u>182,856</u>	<u>(38,126)</u>
Fund balance, beginning of the year	<u>1,481,013</u>	<u>414,914</u>	<u>8,025</u>	<u>266,385</u>	<u>2,170,337</u>
Fund balance, end of the year	<u>\$ 1,349,042</u>	<u>\$ 328,783</u>	<u>\$ 5,145</u>	<u>\$ 449,241</u>	<u>\$ 2,132,211</u>

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

Net change in fund balances - total governmental funds (above)	\$ (38,126)
Transactions involving the treatment of capital outlays:	
Plus: Capital outlays treated as expenditures here, but capitalized on Exhibit 2	513,221
Less: Depreciation expense recorded in Exhibit 2, but not considered in the fund statements	(414,099)
Net effects of various transactions involving fixed assets:	
Plus: Gain or (Loss) on disposal of fixed assets not reported in this statement	(14,287)
Transactions involving the treatment of long-term debt:	
Plus: Principal repayments:	
General obligation bonds	400,000
Note retirement	23,788
Capital lease financing	297,534
Post-closure landfill costs	2,500
Changes in other items not requiring the use of current financial resources:	
Compensated absences benefits payable	(2,335)
Accrued interest payable	18,510
Amortization on issue premium on bonds	(4,740)
Post-employment benefits	(175,977)
Revenue in the Statement of Activities (Exhibit 2) that is deferred in this statement	
Taxes, interest and lien fees	33,951
Other	(64,993)
Changes in net assets of governmental activities (Exhibit 2)	<u>\$ 574,947</u>

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

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

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 19,279</u>
Liabilities	
Due to others	<u> 19,279</u>
Net Assets	<u><u>\$ -</u></u>

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

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

Note 1 - Summary of Significant Accounting Policies

A. Reporting entity

The Town of Salem, Connecticut (Town) is a municipal corporation governed by a town charter. The charter establishes the Town Meeting as the legislative body. A town meeting is required to make appropriations, levy taxes and borrow money. The executive branch is lead by an elected five-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education manages the public school system. The elected board of finance is the budget making authority and supervises the town financial matters.

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

B. Government-wide and fund financial statements

The *government-wide financial statements* (Exhibits 1 and 2) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* (if any), which rely to a significant extend on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate *fund financial statements* are provided for governmental funds and fiduciary funds (Exhibits 3, 4 and 5). *Governmental activities*, activities which normally are supported by taxes and intergovernmental revenues, are reported in the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. *Fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the governments own programs.

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

C. Measurement focus, accounting basis, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

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

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund accounting for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Capital Non-Recurring Fund* is used for major capital expenditures. It is funded with transfers from the general fund, grants and debt.
- The *Education Grants Fund* accounts for Federal and State education grant revenues and expenditures as well as preschool revenues and expenses.

Additionally, the Town reports the following fiduciary fund types:

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

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

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

D. Assets, liabilities, and net assets

1) Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town are reported at fair value.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy is to invest in obligations allowable under the Connecticut General Statutes. In general, this includes deposits in allowable banks, obligations of the United States of America and obligations of any State or political subdivision, which is tax exempt.

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

Interest Rate Risk – Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town places no limit on the amount they may invest in any one issuer.

2) Receivables

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

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

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

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

3) Activity between funds

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

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

4) Inventories and prepaid items

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

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

5) Capital assets

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

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

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

Assets	Years	Capitalization Threshold
Land	N/A	\$ 25,000
Land improvements	10-40	\$ 20,000
Buildings and improvements	15-100	\$ 20,000
Equipment	10-50	\$ 5,000
Vehicles	10-25	\$ 5,000
Infrastructure	20-50	\$ 100,000

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

6) *Compensated absences*

It is the Town's policy to permit certain employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the Town has a policy to pay any amounts when certain employees separate from service with the Town. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7) *Long-term obligations*

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8) *Fund equity*

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

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

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

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

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

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

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

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

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

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

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

E. Estimates

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

F. Subsequent Events

Subsequent events have been evaluated through the date of this report, December 05, 2011. This date represents the date that the financial statements were available to be issued.

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

G. Changes in Financial Statements

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

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

Note 2 - Budgeting

A. Budget Basis

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

- **Teacher's Retirement** - The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer governments recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.
- **Excess Cost Grant** - The State reimburses the Town for certain costs incurred for special educational needs of students that exceed a set multiple of a student in the regular program. This reimbursement is the Excess Cost Grant – Student Based. Connecticut General Statute 10-76g states that this grant should reduce the education expenditures instead of being reported as revenue.
- **Long-Term Debt and Lease Financing** - Revenues and expenditures from refunding or renewing long-term debt or issuing loan or lease financing are included in the budget as the net revenues or expenditures expected.
- **Cash Basis Payroll** – The general government and salaried Board of Education payroll is budgeted based on when it is expected to be paid. On the statements prepared under Generally Accepted Accounting Principles, payroll is charged to the fiscal year in which it is earned.

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

- **Netting Revenues with Expenditures** – A number of other grants and revenues are netted with the expenditures on the budget basis. These are not netted on the statements prepared under Generally Accepted Accounting Principles so that the flow of current financial resources can be shown.
- **Reconciling Costs with East Lyme High School (ELHS)** – The Town pays and budgets for tuition to ELHS based on estimated costs per student. This is compared to the actual cost each year. A reconciling payment or benefit is included in the second subsequent year. This is posted against the budget in the second subsequent year.
- **Prepayment of debt** – The town records a prepayment for loan and lease payments paid in advance of being budgeted.

B. Budget Calendar

The Boards of Selectmen and Education and other boards submit requests for appropriation(s) to the Board of Finance. The budget is prepared with itemized appropriations, estimates of the available surplus (or deficit) at the end of the current fiscal year, and rationale for appropriation requests and comparison with the current fiscal year appropriations.

The Board of Finance compiles a proposed general government budget showing the combined expenditure information from the Selectmen's operating budget, the other boards' operating budgets, actual revenues collected in the last completed fiscal year, the current year budget, estimated revenues to be collected during the current fiscal year, and estimated revenues to be collected in the year of the proposed budget.

The Board of Finance compiles the proposed general government, education and capital budgets and makes them available for public review. The Board of Finance holds a public hearing on the budget.

The Annual Town Meeting, which takes place the first Wednesday in May, takes action on this budget. After the Annual Town Meeting, the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget Control

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

The Board of Finance, in accordance with the provisions set forth by the Town Charter, is authorized to transfer unexpended balances from one appropriation to another. During the year \$60,756 of additional appropriations were made. The Board of Finance is subject to the following limitations when making supplemental appropriations to the budget:

- All additional appropriations less than 0.2% of the annual budget require Board of Finance approval.

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

- All additional appropriations in excess of 0.2% of the annual budget shall be submitted to a Town Meeting, which must be held no later than thirty days following the endorsement by the Board of Finance.
- All additional appropriations which exceed 1% of the annual budget shall be submitted to referendum at a time set by the Board of Selectmen.

Note 3 – Deposits and Investments

A. Cash and Cash Equivalents

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

Governmental Funds	\$ 2,853,588
Agency Funds	<u>19,279</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,872,867</u></u>

B. Custodial Credit Risk on Deposits

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

Deposits	\$ 1,274,995
Plus: External Investment Pools treated as cash and cash equivalents	1,545,987
Less: Certificates of Deposit treated as investments	<u>51,885</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,872,867</u></u>

The bank balance of the deposits was \$1,714,099 and was exposed to custodial credit risk as follows:

1 Covered by Federal Depository Insurance	\$ 798,347
2 Collateralized with securities held by the pledging institution's trust	
In the Town's name	277,973
3 Uninsured and uncollateralized	<u>637,779</u>
Total Deposits	<u><u>\$ 1,714,099</u></u>

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

C. External Investment Pools Treated as Cash and Cash Equivalents

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

D. Investments

At June 30, 2011, the Town's investments consisted of the following:

	General Fund	Capital Non-Recurring Fund	Other Governmental Funds	Total Investments
Certificates of Deposit	\$ 4,937	\$ 2,028	\$ 44,890	\$ 51,855

E. Credit Risk and Interest Rate Risk of Investments

As of June 30, 2011 the range of maturities of the investments was as follows:

	Avg. Credit Rating	Fair Value	Investment Maturity		
Type of Investment			N/A	Less than 1 Year	1 to 5 Years
Certificates of Deposit	*	\$ 51,855		\$ 17,609	\$ 34,246

* **Certificates of Deposit** – The Town invests in nonparticipating interest-earning investment contracts in the form of certificates of deposit. These do not capture the market (interest rate) changes though the investment's negotiability or transferability, or redemption terms that consider market rates. This exposes the Town to interest rate risks.

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

Note 4 - Receivables

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

	General Fund	Education Grants Fund	Other Governmental Funds
Taxes	\$ 395,628	\$ -	\$ -
Interest and fees on back receivables	89,954	-	-
Intergovernmental	-	43,569	4,073
Other	37,615	-	-
Gross receivables	<u>523,197</u>	<u>43,569</u>	<u>4,073</u>
Less: allowance for uncollectibles	<u>(70,823)</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 452,374</u>	<u>\$ 43,569</u>	<u>\$ 4,073</u>

Of the taxes that are due, \$106,459 (27%) is owed by a single taxpayer. Of the interest that is due, \$29,977 (33%) is owed by that same taxpayer.

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

	Unavailable	Unearned
Delinquent net property taxes, interest and liens receivable	\$ 333,117	\$ -
Other receivables	29,515	-
Grants and donations	-	4,799
Intergovernmental grants	-	40
Total deferred/unearned revenue for governmental funds	<u>\$ 362,632</u>	<u>\$ 4,839</u>

Note 5 - Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,641,960	\$ -	\$ -	\$ 1,641,960
Deposits on capital assets	-	-	-	-
Construction in Progress	319,084	303,416	(40,767)	581,733
	<u>\$ 1,961,044</u>	<u>\$ 303,416</u>	<u>\$ (40,767)</u>	<u>\$ 2,223,693</u>

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

BOE Network Upgrades included in Construction in Progress at the beginning of the year were transferred to Equipment reducing the Construction in Progress balance. This combined with an increase in Construction in Progress from roadwork resulted in an overall increase in the balance.

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Land improvements	\$ 877,268	\$ 7,958	\$ -	\$ 885,226
Buildings and improvements	11,097,906	83,133	(6,200)	11,174,839
Machinery and equipment	1,404,779	102,627	(47,050)	1,460,356
Vehicles	2,984,064	17,967	(92,000)	2,910,031
Infrastructure	263,092	38,887	-	301,979
	<u>16,627,109</u>	<u>250,572</u>	<u>(145,250)</u>	<u>16,732,431</u>
Less: Accumulated depreciation:	<u>(3,468,484)</u>	<u>(414,099)</u>	<u>130,963</u>	<u>(3,751,620)</u>
	<u>\$ 13,158,625</u>	<u>\$ (163,527)</u>	<u>\$ (14,287)</u>	<u>\$ 12,980,811</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 59,493
Public safety	113,787
Public works	90,246
Sanitation and landfill	12,218
Education	138,355
Total depreciation expense - governmental activities	<u>\$ 414,099</u>

Note 6 – Long-Term Debt

A. Changes in long-term liabilities

Long-term liability activity for the year June 30, 2011, was as follows:

	Opening Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 1,000,000	\$ -	\$ (200,000)	\$ 800,000	\$ -
Capital Lease	299,731	-	(258,423)	41,308	-
Note/Loan	104,968	-	(23,788)	81,180	25,507
Compensated Absences	28,209	2,335	-	30,544	3,054
Other Post-Employment Benefits	187,998	175,977	-	363,975	-
Pollution Remediation	-	-	-	-	-
Post Closure Landfill Costs	37,500	-	(2,500)	35,000	2,500
	<u>\$ 1,658,406</u>	<u>\$ 178,312</u>	<u>\$ (484,711)</u>	<u>\$ 1,352,007</u>	<u>\$ 31,061</u>

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

B. General obligation bonds

General obligation bonds currently outstanding are as follows:

	Original Balance	Matures in Year Ending	Interest Rates	Year End Balance
Library Bonds	\$ 800,000	2015	3.25-3.75%	\$ 300,000
Land Acquisition Bonds	1,200,000	2016	3.25-3.75%	500,000
	<u>\$ 2,000,000</u>			<u>\$ 800,000</u>

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20 year serial bonds with equal amounts of principal maturing each year. Payments on these bonds have been made out of the General Fund and are all charged to expenditures. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending	Principal	Interest	Year Ending	Principal	Interest
2012	\$ -	30,000	2015	200,000	11,000
2013	200,000	25,000	2016	200,000	3,750
2014	200,000	18,000	Total	<u>\$ 800,000</u>	<u>\$ 87,750</u>

C. Capital Lease

The Town has entered into lease agreements to finance certain capital assets. These leases qualify as capital leases for accounting purposes and are being paid through the Capital Non-Recurring Fund. The following is a schedule of the asset details and future minimum lease payments and the present value of the net minimum lease payments under these leases:

Asset financed:	SCBAs
Cost of asset	\$ 169,900
Accumulated depreciation	13,592
Future minimum lease payments in:	
2012	-
2013	43,943
Total	<u>43,943</u>
Less: amount representing interest	<u>(2,635)</u>
Present value of lease obligation	<u>\$ 41,308</u>

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

D. Post Closure Landfill Costs

The Town has a closed landfill with no further capacity or estimated useful life. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in long-term debt. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year the actual costs amounted to \$4,441.

E. Bank Loan

The Town has an installment note for the purchase of a Plow Truck in the initial amount of \$134,770. The note is payable in five annual installments of \$29,802. This installment includes interest at a rate of 5.29 percent per year.

Annual debt service requirements to maturity for the bank loan are shown in the following schedule. During this fiscal year, the total payments have been charged to expense in the General Fund.

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 25,507	\$ 4,294
2013	26,857	2,945
2014	28,816	986
Total	\$ 81,180	\$ 8,225

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

F. Debt Limitations under Connecticut State Statutes

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

Total tax collections (including interest and lien fees) for the year	\$ 10,519,036
Reimbursements for revenue loss on tax relief for the elderly (C.G.S. 12-129d)	<u>20,080</u>
Debt limitation base	<u><u>\$ 10,539,116</u></u>

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation:					
2 1/4 times base	\$ 23,713,011	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	47,426,022	-	-	-
3 3/4 times base	-	-	39,521,685	-	-
3 1/4 times base	-	-	-	34,252,127	-
3 times base	-	-	-	-	31,617,348
	23,713,011	47,426,022	39,521,685	34,252,127	31,617,348
Indebtedness: Bonds & notes	800,000	-	-	-	-
Debt limitation in excess of debt outstanding and authorized	\$ 22,913,011	\$ 47,426,022	\$ 39,521,685	\$ 34,252,127	\$ 31,617,348

In no case shall total indebtedness exceed seven times annual receipts from taxation \$ 73,773,812

Note 7 - Interfund Activities

A. Advance to/from other funds

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

B. Due to/from other funds

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

Receivable Fund	Payable Fund	Amount
Capital Non-Recurring Fund	General Fund	\$ 178,671
General Fund	Education Grants Fund	477,546
Grant Fund	General Fund	106,162
Education Grants Fund	General Fund	4,653
Community Foundation Grant	General Fund	6,581
		<u>\$ 773,613</u>

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

C. Interfund transfers:

Fund transfers are generally used to fund special projects with general fund revenues as follows:

	Transfers in to:			Total
	General Fund	Capital Non-Recurring Fund	Other Governmental	
Transfers out of:				
General Fund	\$ -	\$ 809,026	\$ -	\$ 809,026
Capital Non-Recurring Fund	7,313	-	-	7,313
Total transfers out	<u>\$ 7,313</u>	<u>\$ 809,026</u>	<u>\$ -</u>	<u>\$ 816,339</u>

Note 8 – Equity

A. Restricted Net Assets

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

	Nonexpendable	Expendable
Nonexpendable trust principal	\$ 1,997	\$ -
Town Clerk restricted collections	-	23,467
Grant Fund	-	106,162
Donor restricted revenues	0	154,759
	<u>\$ 1,997</u>	<u>\$ 284,388</u>

B. Fund Balances

Nonspendable Fund Balance is summarized as follows:

	Governmental Funds
Not in spendable form:	
Principal Balance	\$ 1,997
	<u>\$ 1,997</u>

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

Restricted Fund Balance is summarized as follows:

	General Fund	Other Governmental Funds
STEAP	\$ -	\$ 90,312
Town Clerk - Restricted Collections	22,035	-
Other Outside Party Restrictions	1,432	-
Town Aid Road	-	237,240
Funds for the Needy	-	9,308
Community Foundation Grant	-	6,581
Preservation and Revaluation	-	15,850
	\$ 23,467	\$ 359,291

Committed Fund Balance is summarized as follows:

	Capital Non-Recurring Fund
Capital Projects	178,925

Assigned Fund Balance is summarized as follows:

	General Fund	Capital Non-Recurring Fund	Education Grants Fund	Other Governmental Funds
To balance next year's budget	\$ 64,788	\$ -	\$ -	\$ -
Assigned for Unspecified Projects	-	149,858	-	-
Education Grants	-	-	5,145	-
Various Fund Projects	-	-	-	87,953
	\$ 64,788	\$ 149,858	\$ 5,145	\$ 87,953

Note 9 - Employee Retirement Systems and Pension Plans

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

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

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

The funding of the system is provided by required member contributions (7 percent of their annual salary) and by amounts appropriated by the State of Connecticut General Assembly. For the year ended June 30, 2011, the State contributed \$526,342 into the pension plan on behalf of the Town of Salem, Connecticut. This was recorded on the GAAP statements as revenue and expenditures in the General Fund. The Town's total payroll for all employees for this year was \$5,180,936 of which \$3,310,757 was covered under this pension plan.

Note 10 – Other Post Employment Benefits (OPEB)

A. Plan Description

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

Eligibility	Teachers and Administrators - A Teacher or Administrator retiring under the Connecticut State Teachers Retirement System shall be eligible to receive health benefits for self and spouse. Normal Retirement for Teachers and Administrators is the earlier of age 60 with 20 years of service, or completion of 35 years of service regardless of age. Early retirement is the earlier of age 60 with 10 years of service, any age with 25 years of service, or age 55 with 20 years of service. Secretaries and Non Union - A member retiring with age 55 years or older shall be eligible to continue health insurance coverage for self and spouse. Coverage is pre-65 only.
Cost Sharing	All retirees pay 100% of the premiums
Life Insurance	Superintendent - \$300,000 from retirement until age 65 at Board's expense provided member worked at least 35 years of credited service in the Connecticut Teachers Retirement System of which the last 10 years of service as superintendent of the Salem Public School System.

B. Actuarial Assumptions and Methods

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

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

Latest Actuarial Date	June 30, 2010
Actuarial Cost Method	Entry Age
Discount Rate	4.50%
Payroll Growth Rate	3.00%
Medical Inflation	Initial rate of 9% grading down to an ultimate inflation rate of 5% in 2020 and later.
Amortization Method	Level percentage of projected payroll
Remaining amortization	30 years, closed
Mortality	RP2000 Mortality Table for Males and Females projected 10 years
Turnover	Standard Turnover assumptions- GASB 45 paragraph 35b
Retirement	Average Retirement Age of 65
Future Retiree Coverage	100% are assumed to elect coverage at retirement
Future Dependent Coverage	Male 50%; Female 30% with female spouses assumed to be 3 years younger than males.

C. Schedule of Funding Progress

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
6/30/2010	\$ -	\$ 2,173,797	\$ 2,173,797	0.00%	\$ 2,980,737	72.93%

D. Schedule of Employer Contributions

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

Year Ended June 30	Required Contributions	Contributions Made	Percentage Contributed
2011	\$213,555	\$ 38,258	17.91%
2010	\$207,335	\$ 19,337	9.33%

E. Annual Required Contribution (ARC)

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

Past Service Cost (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting on July 1, 2010. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the Unfunded Accrued Liability and added to the Annual Required Contribution.

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

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

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

F. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 213,555
Interest on net OPEB obligation	8,460
Adjustment to annual required contribution	<u>(7,780)</u>
Annual OPEB cost	214,235
Contributions made	<u>38,258</u>
Increase (decrease) in net OPEB obligation	175,977
Net OPEB obligation (asset), beginning of year	<u>187,998</u>
Net OPEB obligation (asset), end of year	<u><u>\$ 363,975</u></u>

The Net OPEB Obligation history is as follows. (Data in the table below is only presented since the year of transition):

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2011	\$ 214,235	\$ 38,258	17.9%	\$ 363,975
6/30/2010	\$ 207,335	\$ 19,337	9.3%	\$ 187,998

G. Other Disclosures

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

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

Note 11 – Commitments

A. East Lyme High School

In 1997, the Towns of Salem and East Lyme entered into a cooperative agreement to build and maintain an expansion of the East Lyme High School for the mutual benefit of both towns. This agreement has the following financial provisions:

1. **Tuition** - Tuition will be charged at a base rate per Salem's regular education students attending East Lyme High School and a premium rate, equal to 1.85 times the base rate, for special educational students. Regardless of the number of students attending East Lyme High School, Salem is required to pay the base rate for a minimum enrollment equal to 80% of the total Salem high school students enrolled in grades nine through twelve at any high school. During the year ended June 30, 2011 the Town paid \$2,314,328 in regular education tuition and \$428,198 in special education tuition to the Town of East Lyme. The tuition fees paid during the year are based on an estimated amount. The final costs are calculated after the end of the year and are billed, or refunded, in the second subsequent year.

The estimated reconciliation for the year ended June 30, 2011 is an estimated underpayment of \$61,480 which will be added to the 2012-2013 tuition payments. The estimated reconciliation for the year ended June 30, 2010 was an underpayment of \$135,197 which will be added to the 2011-12 tuition payments.

2. **Services Surcharge** - To compensate for services, such as police, fire safety, water and sewer, paid by the Town of East Lyme on behalf of the school, the Town of Salem, Connecticut will reimburse the East Lyme a per student fee. In this fiscal year, the per student fee was \$64.50 and the Town had approximately 250 students. The final costs are calculated after the end of the year and are billed, or refunded, in the subsequent year. This is included in the reconciliation of costs for tuition.
3. **Annual Flat Facilities Charge** - The Town will pay the Town of East Lyme a flat facilities expansion and improvement charge for 20 years. This charge is equal to 20% of the non-reimbursed construction related costs. It is payable in two equal semi-annual installments. The amount paid to the Town of East Lyme for the year ended June 30, 2011 was \$92,353.

B. Gardner Lake Authority

The Towns of Salem, Montville and Bozrah established the Gardner Lake Authority to govern the body of water known as Gardner Lake. The Authority, in cooperation with the State Boating Commission, enforces boating laws and makes recommendations concerning water management. The towns split the operating costs of the authority. The Town of Salem's appropriation to the Authority for the year ended June 30, 2011 was \$10,000.

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

Note 12 - Risk Management

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

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

Note 13 - Contingent Liabilities

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

A. School Building Grants

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

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

B. Other

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

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

Note 14 – GASB Pronouncements Issued, But Not yet Effective

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

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

Town of Salem, Connecticut
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Revenues					
Property Tax Revenues					
Property taxes	\$ 10,221,607	\$ -	\$ 10,221,607	\$ 10,227,922	\$ 6,315
Prior year tax collections	110,000	-	110,000	141,030	31,030
Supplemental motor vehicle tax collections	60,000	-	60,000	73,902	13,902
Interest on property taxes	55,000	-	55,000	78,262	23,262
Liens on property taxes	750	-	750	1,176	426
Interest on supplemental motor vehicles	2,000	-	2,000	2,579	579
	<u>10,449,357</u>	<u>-</u>	<u>10,449,357</u>	<u>10,524,871</u>	<u>75,514</u>
Intergovernmental Revenues					
State/Federal Grants for Education					
Education equalization	3,099,694	-	3,099,694	2,655,504	(444,190)
Transportation	84,787	-	84,787	63,279	(21,508)
Adult education	3,895	-	3,895	3,917	22
	<u>3,188,376</u>	<u>-</u>	<u>3,188,376</u>	<u>2,722,700</u>	<u>(465,676)</u>
Other State/Federal Grants					
Town Aid Road (TAR) - Transfer in	96,890	-	96,890	-	(96,890)
State property in lieu of taxes	56,354	-	56,354	55,582	(772)
Local capital improvement	34,134	-	34,134	-	(34,134)
Telephone access line	26,252	-	26,252	12,556	(13,696)
Tax relief for the elderly	24,000	-	24,000	20,080	(3,920)
Mashantucket Pequot grant	18,744	-	18,744	16,520	(2,224)
Library state aid and connecticard grants	4,234	-	4,234	4,508	274
Veterans' tax relief	3,000	-	3,000	1,272	(1,728)
Services for the blind	2,500	-	2,500	-	(2,500)
Boating safety grant	2,041	-	2,041	1,652	(389)
Tax relief for the disabled	230	-	230	172	(58)
Miscellaneous (STEAP)	-	-	-	57,330	57,330
Energy Efficiency Grant	-	-	-	31,400	31,400
Civil preparedness	-	-	-	24,830	24,830
Office of policy and management grant	-	-	-	4,193	4,193
Justice assistance grant	-	-	-	2,285	2,285
	<u>268,379</u>	<u>-</u>	<u>268,379</u>	<u>232,380</u>	<u>(35,999)</u>
Total Intergovernmental	<u>3,456,755</u>	<u>-</u>	<u>3,456,755</u>	<u>2,955,080</u>	<u>(501,675)</u>
Revenue from the Use of Town Money					
Income from investments	25,000	-	25,000	17,132	(7,868)
Charges for Services					
Licenses and Permits					
Garbage bag revenue	45,000	-	45,000	44,828	(172)
Conveyance tax	35,000	-	35,000	31,003	(3,997)
Building permits	32,000	-	32,000	40,080	8,080
Tipping and hauling fees	10,000	-	10,000	18,984	8,984
Landfill fees - bulky waste	10,000	-	10,000	7,848	(2,152)
Heating	3,600	-	3,600	5,375	1,775
Plumbing	2,200	-	2,200	2,764	564
Electrical	2,000	-	2,000	3,488	1,488
Zoning compliance	2,000	-	2,000	2,225	225
Septic	2,000	-	2,000	1,100	(900)
Miscellaneous permits and fees	750	-	750	697	(53)
Town engineering fees	500	-	500	200	(300)
Wells	350	-	350	400	50
Warrant fees	50	-	50	90	40
Pistol permits/Sport licenses	-	-	-	980	980
	<u>145,450</u>	<u>-</u>	<u>145,450</u>	<u>160,062</u>	<u>14,612</u>

(Continued)

Town of Salem, Connecticut
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Charges for Current Services					
Recording fees	25,000	-	25,000	24,190	(810)
Planning and zoning commission fees	7,500	-	7,500	4,184	(3,316)
Sale of copies	6,000	-	6,000	5,358	(642)
Inland/wetland commission fees	2,000	-	2,000	830	(1,170)
CFC evacuation fees	1,500	-	1,500	1,095	(405)
Sale of maps	1,200	-	1,200	756	(444)
Zoning board of appeals fees	1,000	-	1,000	525	(475)
Sale of zoning regulations	350	-	350	40	(310)
Engineering fees	100	-	100	-	(100)
LOCIP- CIP (Farm Fee Revenue)	-	-	-	2,703	2,703
Historic Preservation CL	-	-	-	1,591	1,591
Farmland Preservation CL	-	-	-	901	901
	<u>44,650</u>	<u>-</u>	<u>44,650</u>	<u>42,173</u>	<u>(2,477)</u>
Miscellaneous					
Miscellaneous	51,162	-	51,162	63,777	12,615
Recreation fee based activity	21,000	-	21,000	12,344	(8,656)
Library fees/fines	9,300	-	9,300	10,470	1,170
Insurance claims and refunds	-	-	-	1,266	1,266
Leases	-	-	-	1	1
	<u>81,462</u>	<u>-</u>	<u>81,462</u>	<u>87,858</u>	<u>6,396</u>
Total charges for services	<u>271,562</u>	<u>-</u>	<u>271,562</u>	<u>290,093</u>	<u>18,531</u>
Transfers In from Capital Nonrecurring Fund	-	-	-	7,313	7,313
Total revenues	<u>14,202,674</u>	<u>-</u>	<u>14,202,674</u>	<u>13,794,489</u>	<u>(408,185)</u>
Expenditures					
General Government					
Selectman	6,829	-	6,829	6,828	1
Salaries	1,037,821	5,040	1,042,861	1,008,402	34,459
Zoning enforcement/building official/sanitarian	2,465	-	2,465	2,329	136
Town clerk	17,466	-	17,466	16,434	1,032
Treasurer/auditor/Board of Finance	21,850	-	21,850	21,073	777
Assessor	8,600	-	8,600	8,592	8
Tax collector	5,580	-	5,580	5,580	-
Registrar	10,700	-	10,700	10,384	316
Town counsel	22,000	-	22,000	18,100	3,900
Town office operation	92,450	-	92,450	91,503	947
Municipal building maintenance	40,000	-	40,000	40,000	-
Employee benefits	437,272	(33,733)	403,539	328,918	74,621
Utilities	170,978	-	170,978	170,880	98
Probate court	2,808	3,735	6,543	6,220	323
Town services	29,575	-	29,575	19,292	10,283
Regional services	11,450	-	11,450	8,394	3,056
Library	21,586	-	21,586	21,284	302
Security	204,150	-	204,150	183,973	20,177
Gardner Lake Fire Department	57,350	-	57,350	57,223	127
Salem Fire Department	63,596	11,948	75,544	75,489	55
Ambulance	31,865	-	31,865	31,707	158
Public Safety	61,800	-	61,800	59,466	2,334
Public Works	234,000	42,983	276,983	259,234	17,749
Transfer Station	181,592	-	181,592	179,688	1,904
Economic development	3,050	-	3,050	100	2,950
Inland wetlands/Conservation Commission	4,300	-	4,300	3,008	1,292
Planning and zoning	35,300	(5,692)	29,608	29,493	115
Zoning Board of Appeals	300	-	300	-	300
Recreation Commission	53,900	-	53,900	53,109	791
Municipal insurance	108,278	-	108,278	89,847	18,431
Unanticipated expenses	1,000	-	1,000	960	40
Interest payments	38,250	-	38,250	38,250	-
Principal payments	200,000	-	200,000	200,000	-
Open Space Land Acquisition	1	-	1	-	1
Revaluation	108,800	-	108,800	49,733	59,067
	<u>3,326,962</u>	<u>24,281</u>	<u>3,351,243</u>	<u>3,095,493</u>	<u>255,750</u>

(Continued)

Town of Salem, Connecticut
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended June 30, 2011

	Original Budget	Additional Appropriations and Transfers	Final Budget	Actual	Variance
Education	10,077,593	-	10,077,593	9,513,135	564,458
Capital Expenditures	772,551	36,475	809,026	809,026	-
Total expenditures	14,177,106	60,756	14,237,862	13,417,654	820,208
Excess (deficiency) of revenues over expenditures	<u>\$ 25,568</u>	<u>\$ (60,756)</u>	<u>\$ (35,188)</u>	376,835	<u>\$ 412,023</u>

Adjustments to Generally Accepted Accounting Principles (GAAP):

Reconciling payments with East Lyme High School	(196,677)
On behalf revenues from teacher's retirement netted in budget	526,342
On behalf expenditures from teacher's retirement netted in budget	(526,342)
Change in prepaid lease payments paid in advance of budget year and due date	(46,578)
Change in prepaid loan payments paid in advance of budget year and due date	(217,500)
Revenues that were netted with expenditures in the budget:	
Revenues from Excess Cost Grant	217,740
Expenditures from Excess Cost Grant	(217,740)
General government change in accrued payroll	<u>(48,051)</u>

**Excess (deficiency) of revenues and other financing sources over
expenditures and other financing (uses) - GAAP basis** \$ (131,971)

Notes to Required Supplementary Information: A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: 1. The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf; 2. The Town nets revenues from the Excess Cost Grant in the Board of Education expenditure accounts; 3. The Town nets revenues from the Board of Education fuel grant in the Board of Education expenditure accounts; 4. The Town records a prepayment for loan payments paid in advance of being budgeted; 5. The Town recognizes encumbrances payable as an expenditure in the year they were committed; 6. General government payroll is recorded on a cash basis; 7. Board of Education salaried employee's payroll is recorded on a cash basis; 8. Revenues and expenditures from refunding or renewing long-term debt or issuing loan or lease financing are included in the budget as net revenues or expenditures expected; 9: The Town pays and budgets for tuition to East Lyme High School on an estimated cost per student. A reconciling payment or benefit is included and budgeted for in the second subsequent year.

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

**Town of Salem, Connecticut
Fund Descriptions**

Special Revenue Funds:

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

Capital Project Funds:

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

Permanent Funds:

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

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

	Special Revenue Funds	Capital Project Funds	Permanent Fund Memorial and Cemetery Fund	Total Other Governmental Funds
Assets				
Cash and cash equivalents	\$ 265,507	\$ 35,360	\$ 836	\$ 301,703
Investments	31,298	-	13,592	44,890
Receivables	4,073	-	-	4,073
Due from other governmental funds	112,743	-	-	112,743
Total assets	\$ 413,621	\$ 35,360	\$ 14,428	\$ 463,409
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 14,168	\$ -	\$ -	\$ 14,168
Total liabilities	14,168	-	-	14,168
Fund balance				
Nonspendable	-	-	1,997	1,997
Restricted	359,291	-	-	359,291
Committed	-	-	-	-
Assigned	40,162	35,360	12,431	87,953
Total fund balance	399,453	35,360	14,428	449,241
Total liabilities and fund balance	\$ 413,621	\$ 35,360	\$ 14,428	\$ 463,409

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

	Special Revenue Funds	Capital Project Funds	Permanent Fund Memorial and Cemetery Fund	Total Other Governmental Funds
Revenues				
Intergovernmental revenues	\$ 214,388	\$ 12,776	\$ -	\$ 227,164
Local revenues	93,862	43	146	94,051
Total revenues	308,250	12,819	146	321,215
Expenditures				
Current expenditures:				
General government	18,137	12,776	-	30,913
Education	107,446	-	-	107,446
Total expenditures	125,583	12,776	-	138,359
Excess (deficiency) of revenues over expenditures	182,667	43	146	182,856
Other financing sources and (uses)				
Operating transfers out	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Excess (deficiency) of revenues over expenditures and other financing sources and (uses)	182,667	43	146	182,856
Fund balance, beginning	216,786	35,317	14,282	266,385
Fund balance, end of the year	\$ 399,453	\$ 35,360	\$ 14,428	\$ 449,241

Town of Salem, Connecticut
 Combining Balance Sheet
 Special Revenue Funds
 June 30, 2011

	Town Aid Road	Grant Fund	Senior Citizens Fund	Dog Fund	Free Public Library	School Cafeteria Fund	Community Foundation Grant	Needy Fund	Total
Assets									
Cash and cash equivalents	\$ 237,240	\$ -	\$ -	\$ 8,424	\$ -	\$ 12,515	\$ -	\$ 7,328	\$ 265,507
Investments	-	-	29,318	-	-	-	-	1,980	31,298
Receivables	-	-	-	-	-	4,073	-	-	4,073
Due from other governmental funds	-	106,162	-	-	-	-	6,581	-	112,743
Total assets	\$ 237,240	\$ 106,162	\$ 29,318	\$ 8,424	\$ -	\$ 16,588	\$ 6,581	\$ 9,308	\$ 413,621
Liabilities and fund balance									
Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ 2,697	\$ -	\$ 11,471	\$ -	\$ -	\$ 14,168
Total liabilities	-	-	-	2,697	-	11,471	-	-	14,168
Fund Balance									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted	237,240	106,162	-	-	-	-	6,581	9,308	359,291
Committed	-	-	-	-	-	-	-	-	-
Assigned	-	-	29,318	5,727	-	5,117	-	-	40,162
Total fund balance	237,240	106,162	29,318	5,727	-	5,117	6,581	9,308	399,453
Total liabilities and fund balance	\$ 237,240	\$ 106,162	\$ 29,318	\$ 8,424	\$ -	\$ 16,588	\$ 6,581	\$ 9,308	\$ 413,621

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

	Town Aid Road	Grant Fund	Senior Citizens Fund	Dog Fund	Free Public Library	School Cafeteria Fund	Community Foundation Grant	Needy Fund	Total
Revenues									
Intergovernmental revenues	\$ 96,929	\$ 93,312	\$ -	\$ -	\$ -	\$ 24,147	\$ -	\$ -	\$ 214,388
Local revenues	227	-	329	5,040	-	79,839	-	8,427	93,862
Total revenues	97,156	93,312	329	5,040	-	103,986	-	8,427	308,250
Expenditures									
Current expenditures:									
General government	-	3,000	-	4,437	607	-	9,047	1,046	18,137
Education	-	-	-	-	-	107,446	-	-	107,446
Total expenditures	-	3,000	-	4,437	607	107,446	9,047	1,046	125,583
Excess (deficiency) of revenues over expenditures	97,156	90,312	329	603	(607)	(3,460)	(9,047)	7,381	182,667
Fund balance, beginning of the year	140,084	15,850	28,989	5,124	607	8,577	15,628	1,927	216,786
Fund balance, end of the year	\$ 237,240	\$ 106,162	\$ 29,318	\$ 5,727	\$ -	\$ 5,117	\$ 6,581	\$ 9,308	\$ 399,453

Town of Salem, Connecticut
 Combining Balance Sheet
 Capital Project Funds
 June 30, 2011

	Land Acquisition Fund	Open Space Land Acquisition Fund	Recreation Trail Fund	Total
Assets				
Cash and cash equivalents	\$ 14,810	\$ 20,550	\$ -	\$ 35,360
Total assets	\$ 14,810	\$ 20,550	\$ -	\$ 35,360
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund balance				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	14,810	20,550	-	35,360
Total fund balance	14,810	20,550	-	35,360
Total liabilities and fund balance	\$ 14,810	\$ 20,550	\$ -	\$ 35,360

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

	Land Acquisition Fund	Open Space Land Acquisition Fund	Recreation Trail Fund	Total
Revenues				
Intergovernmental revenues	\$ -	\$ -	\$ 12,776	\$ 12,776
Local revenues	18	25	-	43
Total revenues	18	25	12,776	12,819
Expenditures				
Current expenditures:				
General government	-	-	12,776	12,776
Total expenditures	-	-	12,776	12,776
Excess (deficiency) of revenues over expenditures	18	25	-	43
Fund balance, beginning	14,792	20,525	-	35,317
Fund balance, end of the year	\$ 14,810	\$ 20,550	\$ -	\$ 35,360

Town of Salem, Connecticut
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011

	Balance Beginning		Additions		Deductions		Balance Ending
Student Activity Fund							
Assets							
Cash	\$ 27,163	\$	39,580		47,464	\$	19,279
Liabilities							
Due to others	\$ 27,163	\$	39,580	\$	47,464	\$	19,279

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

Grand List	Beginning Receivable Balance	Current Year Levy	Lawful Corrections		Net Taxes Collectible	Collections During The Year			Transfer To Suspend	Refunds Issued	Over-Payments	Ending Receivable Balance													
			Additions	Deductions		Taxes	Interest	Liens					Suspend												
2009	\$ 215,882	\$ 10,538,575	\$ 14,438	\$ 42,982	\$ 10,510,031	\$ 10,285,160	\$ 37,681	\$ 108	\$ -	\$ 10,322,949	\$ 1,645	\$ 233,909													
2008	73,538		\$ 1,970	\$ 4,818	213,034	\$ 123,275	\$ 24,597	\$ 750	\$ 311	148,933	\$ 2,850	\$ 89,459													
2007	28,545		152	6,411	67,279	18,398	6,962	264	2,847	28,471	5,233	44,218													
2006	12,564			5,960	22,585	1,021	4,160		988	6,169	2,800	18,764													
2005	2,582			631	11,933	2,686	1,760		549	4,995	4,163	5,084													
2004	924				2,582				411	411	789	1,793													
2003	881				924	106	71		1,701	1,878		818													
2002	184				881	57	76		671	804	56	768													
2001					184	67	101		316	484		117													
2000					-				-																
1999					-				652	652															
1998					-				1,221	1,221															
1997	699				699				1,401	1,401		699													
1996					-				335	335															
1995					-				333	333															
Total												\$ 335,799	\$ 10,538,575	\$ 16,560	\$ 60,802	\$ 10,830,132	\$ 10,430,770	\$ 75,408	\$ 1,122	\$ 11,736	\$ 10,519,036	\$ 17,536	\$ 7,121	\$ 6,682	\$ 395,629

Town of Salem, Connecticut
Statement of Changes in Fund Balance
Capital Non-Recurring Fund
For the Year Ended June 30, 2011

	Beginning Balance	New Appropriations	Subsequent Changes		Additions (Revenues Posted)	Reductions (Expenditures Posted)	General Fund Undesignated Fund Balance	Ending Balance	Eliminating Deficit Balances Per GASB 54	Reported Fund Balance
			Additional Appropriation	Transfer in (Transfer out)						
Committed fund balance:										
Salem Fire Co										
SVFC Ladder Truck	-	226,840	-	-	-	(225,950)	(890)	-	-	-
Fire Fighting Gear	-	20,870	-	-	-	(20,869)	(1)	-	-	-
SCBA	-	46,578	-	-	-	(46,578)	-	-	-	-
	-	294,288	-	-	-	(293,397)	(891)	-	-	-
General Government										
Town Center Roof	-	34,892	-	-	-	(4,200)	-	30,692	-	30,692
Parking Lot Rehab	-	20,000	-	-	-	(7,958)	-	12,042	-	12,042
Alarm/Monitoring System TOB	12,000	-	-	-	-	-	-	12,000	-	12,000
ARRA Grant	36,878	-	-	-	-	(31,400)	(5,478)	-	-	-
	48,878	54,892	-	-	-	(43,558)	(5,478)	54,734	-	54,734
Public Works										
10/11 Highway Rehab	-	270,000	-	-	-	(238,546)	-	31,454	-	31,454
Lawn Mower	14,000	-	-	-	-	-	-	14,000	-	14,000
GIS Stick	-	-	9,122	-	-	-	-	9,122	-	9,122
Field Maintenance Equipment	3,425	-	-	-	-	-	-	3,425	-	3,425
Salt Shed Roof	-	12,900	-	-	-	(12,150)	(750)	-	-	-
09/10 Highway Rehab	112,589	-	-	-	-	(112,589)	-	-	-	-
Public Works Dump Truck	-	29,802	-	-	-	(29,802)	-	-	-	-
Computerized Sander	-	25,875	-	-	-	(25,875)	-	-	-	-
	130,014	338,577	9,122	-	-	(418,962)	(750)	58,001	-	58,001
Sanitation and Landfill										
Transfer Station	11,992	-	-	-	-	(10,869)	-	1,123	-	1,123
Recreation Commission										
Recreation Field Upgrades	-	12,000	-	-	-	(1,231)	-	10,769	-	10,769
Multi-Purpose Path	18,195	-	-	-	-	(8,320)	-	9,875	-	9,875
PRK Lot Exp/Babe Ruth FLD	4,500	-	-	-	-	-	-	4,500	-	4,500
Softball Conversion	1,960	-	-	-	-	-	-	1,960	-	1,960
Rec Com Snack Stand	1,954	-	-	-	-	-	-	1,954	-	1,954
	26,609	12,000	-	-	-	(9,551)	-	29,058	-	
Building Committee										
Building Committee	4,233	-	25,000	(3,597)	-	(25,636)	-	-	-	-
	4,233	-	25,000	(3,597)	-	(25,636)	-	-	-	-
Education										
Tile Repair	15,244	-	-	-	-	-	-	15,244	-	15,244
Bathroom Repairs	7,500	-	-	-	-	-	-	7,500	-	7,500
Replace Exterior Door	6,393	-	-	-	-	-	-	6,393	-	6,393
Replace Classroom Doors	5,000	-	-	-	-	(4,825)	(175)	-	-	-
Oil Tank Encapsulation	3,080	-	-	-	-	-	-	3,080	-	3,080
Sheetrock Repair	2,550	-	-	-	-	-	-	2,550	-	2,550
New Wells	3,782	-	-	-	-	(2,540)	-	1,242	-	1,242
School Network Repairs	-	72,794	-	-	-	(72,775)	(19)	-	-	-
Building Committee Post Ref	-	-	2,353	3,597	-	(5,950)	-	-	-	-
Replace Sec Lighting	(252)	-	-	-	-	-	-	(252)	252	-
	43,297	72,794	2,353	3,597	-	(86,090)	(194)	35,757	252	36,009
Total Committed Fund Balance	265,023	772,551	36,475	-	-	(888,063)	(7,313)	178,673	252	178,925
Assigned Fund Balance	149,891	-	-	-	219	-	-	150,110	(252)	149,858
Total Fund Balance	\$ 414,914	\$ 772,551	\$ 36,475	\$ -	\$ 219	\$ (888,063)	\$ (7,313)	\$ 328,783	\$ -	\$ 328,783

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

Board of Finance
Town of Salem, Connecticut
Salem, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut as of and for the year ended June 30, 2011 and have issued our report thereon dated December 05, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items MW-11-1, MW-09-2, MW-09-3 and MW-09-4 to be material weaknesses.

Government Auditing Standards Report (Continued)

Compliance and Other Matters

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

The Town of Salem, Connecticut's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Salem, Connecticut's response and, accordingly, we express no opinion on it.

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

Marien + Company

December 05, 2011

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With the State Single Audit Act, and on the Schedule of Expenditures of State Financial Assistance

Board of Finance
Town of Salem, Connecticut
Salem, Connecticut

Compliance

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

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

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

State Single Audit Report (Continued)

Internal Control over Compliance

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

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

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

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut as of and for the year ended June 30, 2011, and have issued our report thereon dated December 05, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Salem, Connecticut's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

State Single Audit Report (Continued)

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

Marion + Company

December 05, 2011

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

State Program Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
State Aid to Public Libraries	11000-CSL66051-17003	\$ 2,560
Connecticard	11000-CSL66051-17010	1,948
Historic Documents Preservation Grants	12060-CSL66094-35150	3,000
Department of Environmental Protection		
Small Town Economic Assistance Program (DEP)	12052-DEP43153-40531	10,869
Boating Temp Receivable	12060-DEP44434-34907	1,652
Environmental Conservation Fund	11000-DEP43153-12491	25
Department of Transportation		
Town Aid Roads - Municipal	12052-DOT57131-43455	-
Town Aid Roads - STO	13033-DOT57131-43459	-
Judicial Department		
Operating Appropriations	34001-JUD95162-40001	1,630
Office of Policy and Management		
Property Tax Relief for Disability Exemption	11000-OPM20600-17011	172
Property Tax Relief for Elderly and Totally Disabled (CB)	11000-OPM20600-17018	18,080
Property Tax Relief for Elderly Homeowners - Freeze	11000-OPM20600-17021	2,000
Property Tax Relief for Veterans	11000-OPM20600-17024	1,272
PILOT for Manufacturing and Commercial Vehicles	11000-OPM20600-17031	3,740
Municipal Video Competition	12060-OPM20600-35362	454
Office of the State Comptroller		
PILOT on State Owned Property	11000-OSC15910-17004	55,582
Department of Education		
Child Nutrition Program (School Lunch State Match)	11000-SDE64370-16211	1,478
Health Foods Initiative	11000-SDE64370-16212	3,221
Adult Education	11000-SDE64370-17030	3,917
Magnet Schools	11000-SDE64370-17057	6,300
Total State Financial Assistance before Exempt Programs		<u>117,899</u>
EXEMPT PROGRAMS		
Department of Education:		
Education Cost Sharing	11000-SDE64370-17041	2,655,504
Public School Transportation	11000-SDE64370-17027	56,979
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	217,740
School Construction Grants - Principal	13009-SDE64370-40901	51,502
Office of the State Comptroller		
Grants to Towns	12009-OSC15910-17005	<u>16,520</u>
Total exempt programs		<u>2,998,245</u>
Total State Financial Assistance		<u><u>\$ 3,116,144</u></u>

See Accountants' Report

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

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

1. Summary of Significant Accounting Policies

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

A. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, when applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

Certain revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

I. Summary of Audit Results

A. Financial Statements:

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

B. State Financial Assistance:

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

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

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

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

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management:		
Property Tax for Elderly and Disabled	11000-OPM20600-17018	\$18,080
Office of the State Comptroller:		
PILOT on State Owned Property	11000-OSC15910-17004	\$55,582
Dollar threshold used to distinguish between type A and type B programs:		<u>\$100,000</u>

II. Financial Statement Findings:

MW-11-1 – Controls over Bookkeeping Records

Condition: The Town's internal bookkeeping is not providing reliable reports for management. There are variances between reports printed from the same computer program. For example, the cash balance on one report was millions of dollars different from a second report printed at the same time. In addition, the Town is not using a double entry system of accounting for many of the funds. Not all funds are producing reports for management. Not all transactions are being captured in the accounting system.

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

Recommendation: The Town needs a reliable bookkeeping system that is balanced on a monthly basis. Accurate financial reports for each fund, consisting of at least a balance sheet and income statement, must be provided to management on a timely basis.

Managements Response: The financial records will be converted to a more reliable accounting package. An outside consultant has been hired to balance the reports at the end of each month and coordinate the accounting process.

MW-09-2 – Controls over the Period-End Financial Reporting Process

Condition: The audit identified material adjustments to the Town of Salem, Connecticut's internally prepared financial reporting. Although these have been subsequently corrected by management, the internal reports presented and used for management decisions were materially misstated.

Recommendation: We recommend that the management of the Town of Salem, Connecticut review the adjustments that have been proposed by the auditor. This should be a good indication of where controls need to be improved. Additionally, the Town of Salem, Connecticut should consider developing specific preparation and review procedures, required documentation and checklists to review their internally prepared financial reports prior to their release.

Management's Response: The Town of Salem, Connecticut will include internal controls and checklists over financial reporting to their accounting manual. In addition, the Town of Salem, Connecticut will review additional training opportunities for the accounting personnel to help them understand why the material adjustments were made to the internally prepared financial statements.

MW-09-3 – Entity Level Controls

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

- *Control Environment* – A favorable control environment exists when management is knowledgeable about controls (entity wide and specific), is committed to establishing controls and communicates its support for internal controls to all individuals involved.
- *Risk Assessment* – This involves management's continual identification and assessment of the potential risks that might prevent management from fulfilling its responsibilities and achieving its objectives.

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

- *Information and Communication Systems* – These are the systems used to assure that appropriate individuals have timely and accurate information to carry out their responsibilities.
- *Control Activities* – These are management’s response to the risks identified. These are the specific policies and procedures that are put in place to alert management of undesired actions in a timely manner.
- *Monitoring* – There is a responsibility of management to follow up on the controls that have been put in place to assure that they continue to function and function properly, effectively and efficiently.

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

Recommendation: We recommend that as part of developing an accounting manual, the Town of Salem, Connecticut consider the entity wide controls as discussed above.

Management’s Response: The Town of Salem, Connecticut will assign a committee to work on developing the necessary entity wide controls.

MW-09-4 - Segregation of Duties

Condition: The Town of Salem, Connecticut does not maintain an adequate segregation of duties for proper internal control over the financial transactions in certain areas. Proper internal control relies on the following three aspects of processing transactions being performed by separate individuals: authorizing transactions, custody of assets, and record keeping. This weakness in internal controls could lead to funds being expended in a manner not consistent with the intentions of management. These weaknesses were noted in the following areas:

Treasurer - The Town Treasurer handles cash receipts, prepares and makes deposits, posts cash receipt transactions, and reconciles bank statements. The Treasurer also authorizes, makes, records and reconciles all investment activities.

Tax Collector - The Tax Collector or her assistants prepare and send bills, handle tax collections, prepare and make deposits and post tax receipt transactions.

Recommendation: The Town should review the segregation of duties involved in all the cash receipts functions. The duties of the individuals involved should be analyzed and restructured as necessary to provide for a better system of checks and balances. Once a better system has been devised, it should be written, approved by the Board of Finance and distributed to the individuals involved.

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

Management's Response: The Town will review the segregation of duties as part of preparing an overall accounting manual. If a segregation of duties is not possible, other control procedures will be implemented.

III. State Financial Assistance Findings And Questioned Costs

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

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

MW-09-2 – Controls over the Period-End Financial Reporting Process

Condition: The audit identified material adjustments to the Town of Salem, Connecticut's internally prepared financial reporting. Although these have been subsequently corrected by management, the internal reports presented and used for management decisions were materially misstated.

Current Status: This has been repeated with the same number.

Planned Corrective Action: See the response included in the current year Schedule of Findings and Questioned Costs.

MW-09-3 – Entity Level Controls

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

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

Current Status: This has been repeated with the same number.

Planned Corrective Action: See the response included in the current year Schedule of Findings and Questioned Costs.

MW-09-4 - Segregation of Duties

Condition: The Town of Salem, Connecticut does not maintain an adequate segregation of duties for proper internal control over the financial transactions in certain areas. Proper internal control relies on the following three aspects of processing transactions being performed by separate individuals: authorizing transactions, custody of assets, and record keeping. This weakness in internal controls could lead to funds being expended in a manner not consistent with the intentions of management.

Current Status: This has been repeated with the same number.

Planned Corrective Action: See the response included in the current year Schedule of Findings and Questioned Costs.

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

Board of Finance
Town of Salem, Connecticut
Salem, Connecticut

Compliance

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

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

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

Federal Single Audit Report (Continued)

Internal Control over Compliance

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

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

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

Schedule of Expenditures of Federal Financial Assistance

We have audited the financial statements of the governmental activities and the business-type activities each major fund, and the aggregate remaining fund information of the Town of Salem, Connecticut, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 05, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Salem, Connecticut's basic financial statements. The accompanying Schedule of Expenditures of Federal Financial Assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Marien + Company

December 05, 2011

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

Federal grantor/ Pass-Through grantor program title	Federal CFDA Number	Pass- Through Grantor's Number	Expenditures
Department of Education:			
Received Directly:			
Rural Education Achievement Program (REAP)	84.358	Not Applicable	\$ 41,880
Rural Education Achievement Program (REAP)- Carryover	84.358	Not Applicable	19,390
			<u>61,270</u>
Passed through the State of Connecticut:			
Title I - Current	84.010	12060-SDE64370-20679	6,163
Title I - Carryover	84.010	12060-SDE64370-20679	14,291
			<u>20,454</u>
Title II - Part A, Improving Teacher Quality - Current	84.367	12060-SDE64370-20858	7,171
Title II - Part A, Improving Teacher Quality - Carryover	84.367	12060-SDE64370-20858	11,537
			<u>18,708</u>
Title IV - Safe and Drug Free Schools - Carryover	84.186	12060-SDE64370-20873	401
IDEA, Part B, Section 611, Handicapped - Current	84.027	12060-SDE64370-20977	1,960
IDEA, Part B, Section 611, Handicapped - Carryover	84.027	12060-SDE64370-20977	105,336
IDEA, Part B, Section 611, Handicapped - ARRA- Carryover	84.391	12060-SDE64370-29011	6,299
			<u>113,595</u>
IDEA, Part B, Section 619, Preschool - Current	84.173	12060-SDE64370-20983	332
IDEA, Part B, Section 619, Preschool - Carryover	84.173	12060-SDE64370-20983	5,201
IDEA, Part B, Section 619, Preschool - ARRA- Carryover	84.392	12060-SDE64370-29012	1,818
			<u>7,351</u>
American Recovery and Reinvestment Act, SFSF: Education	84.394	12060-SDE64370-29054	442,218
Total Department of Education			<u>663,997</u>
Department of Agriculture - Passed through the State of Connecticut:			
National School Lunch	10.555	12060-SDE64370-20560	18,626
Special School Milk	10.556	12060-SDE64370-20500	259
			<u>18,885</u>
Department of Energy - Passed through the State of Connecticut:			
Energy Efficiency & Conservation Block Grant (ARRA)	81.128	12060-OPM20810-29009	31,400
			<u>31,400</u>
Department of Transportation - Passed through the State of Connecticut:			
Highway Planning and Construction	20.205	12062-DOT57191-22108	142
Recreation Trails Program	20.219	12060-DEP44321-20296	4,198
			<u>4,340</u>
Department of Homeland Security - Passed through the State of Connecticut:			
Emergency Management Performance Grant	97.042	12060-EHS99660-21881	3,000
Emergency Management Performance Grant - Supplemental	97.042	12060-EHS99690-21881	62,257
			<u>65,257</u>
Department of the Interior - Passed through the State of Connecticut:			
JAG - ARRA	16.803	12060-OPM20350-29002	2,285
Total Department of the Interior			<u>2,285</u>
Total Federal Financial Assistance			<u>\$ 786,164</u>

Town of Salem, Connecticut
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

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

A. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, when applicable. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

Certain revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

B. Basis of Presentation

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

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

I. Summary of Audit Results

A. Financial Statements:

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

B. Federal Financial Assistance:

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

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

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

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

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

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

II. Findings and Questioned Costs Related to Financial Statements:

MW-11-1 – Controls over Bookkeeping Records

Condition: The Town's internal bookkeeping is not providing reliable reports for management. There are variances between reports printed from the same computer program. For example, the cash balance on one report was millions of dollars different from a second report printed at the same time. In addition, the Town is not using a double entry system of accounting for many of the funds. Not all funds are producing reports for management. Not all transactions are being captured in the accounting system.

Recommendation: The Town needs a reliable bookkeeping system that is balanced on a monthly basis. Accurate financial reports for each fund, consisting of at least a balance sheet and income statement, must be provided to management on a timely basis.

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

Managements Response: The financial records will be converted to a more reliable accounting package. An outside consultant has been hired to balance the reports at the end of each month and coordinate the accounting process.

MW-09-2 – Controls over the Period-End Financial Reporting Process

Condition: The audit identified material adjustments to the Town of Salem, Connecticut's internally prepared financial reporting. Although these have been subsequently corrected by management, the internal reports presented and used for management decisions were materially misstated.

Recommendation: We recommend that the management of the Town of Salem, Connecticut review the adjustments that have been proposed by the auditor. This should be a good indication of where controls need to be improved. Additionally, the Town of Salem, Connecticut should consider developing specific preparation and review procedures, required documentation and checklists to review their internally prepared financial reports prior to their release.

Management's Response: The Town of Salem, Connecticut will include internal controls and checklists over financial reporting to their accounting manual. In addition, the Town of Salem, Connecticut will review additional training opportunities for the accounting personnel to help them understand why the material adjustments were made to the internally prepared financial statements.

MW-09-3 – Entity Level Controls

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

- *Control Environment* – A favorable control environment exists when management is knowledgeable about controls (entity wide and specific), is committed to establishing controls and communicates its support for internal controls to all individuals involved.
- *Risk Assessment* – This involves management's continual identification and assessment of the potential risks that might prevent management from fulfilling its responsibilities and achieving its objectives.
- *Information and Communication Systems* – These are the systems used to assure that appropriate individuals have timely and accurate information to carry out their responsibilities.

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

- *Control Activities* – These are management’s response to the risks identified. These are the specific policies and procedures that are put in place to alert management of undesired actions in a timely manner.
- *Monitoring* – There is a responsibility of management to follow up on the controls that have been put in place to assure that they continue to function and function properly, effectively and efficiently.

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

Recommendation: We recommend that as part of developing an accounting manual, the Town of Salem, Connecticut consider the entity wide controls as discussed above.

Management’s Response: The Town of Salem, Connecticut will assign a committee to work on developing the necessary entity wide controls.

MW-09-4 - Segregation of Duties

Condition: The Town of Salem, Connecticut does not maintain an adequate segregation of duties for proper internal control over the financial transactions in certain areas. Proper internal control relies on the following three aspects of processing transactions being performed by separate individuals: authorizing transactions, custody of assets, and record keeping. This weakness in internal controls could lead to funds being expended in a manner not consistent with the intentions of management. These weaknesses were noted in the following areas:

Treasurer - The Town Treasurer handles cash receipts, prepares and makes deposits, posts cash receipt transactions, and reconciles bank statements. The Treasurer also authorizes, makes, records and reconciles all investment activities.

Tax Collector - The Tax Collector or her assistants prepare and send bills, handle tax collections, prepare and make deposits and post tax receipt transactions.

Recommendation: The Town should review the segregation of duties involved in all the cash receipts functions. The duties of the individuals involved should be analyzed and restructured as necessary to provide for a better system of checks and balances. Once a better system has been devised, it should be written, approved by the Board of Finance and distributed to the individuals involved.

Management’s Response: The Town will review the segregation of duties as part of preparing an overall accounting manual. If a segregation of duties is not possible, other control procedures will be implemented.

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

III. Federal Financial Assistance Findings And Questioned Costs

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