

CITY OF MIDDLETOWN, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2010

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

To the Honorable Mayor and the Common Council
City of Middletown, Connecticut

Compliance

We have audited the City of Middletown, Connecticut's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the City of Middletown, Connecticut's major state programs for the year ended June 30, 2010. The City of Middletown, Connecticut's 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 City of Middletown, Connecticut's management. Our responsibility is to express an opinion on the City of Middletown, 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 City of Middletown, 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 City of Middletown, Connecticut's compliance with those requirements.

In our opinion, the City of Middletown, 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, 2010.

Internal Control over Compliance

Management of the City of Middletown, Connecticut, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the City of Middletown, Connecticut's internal control over compliance with the 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 City of Middletown, 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, on a timely basis.

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

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2010 and have issued our report thereon dated December 30, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown, 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.

This report is intended solely for the information and use of management, the Honorable Mayor, the Common Council, the Board of Education, others within the entity, the Office of Policy and Management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

December 30, 2010

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Children's Trust Fund		
Community - Based Child Abuse and Neglect Program	11000-CTF94000-12042	\$ <u>173,455</u>
Commission on Culture and Tourism		
Local Arts Agency Program	11000-CAT45220-17067	3,082
Culture, Tourism and Art Grant	11000-CAT45220-16196	<u>944</u>
Total Commission on Culture and Tourism		<u>4,026</u>
Office of the State Comptroller		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	2,753,725
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	<u>4,984,769</u>
Total Office of the State Comptroller		<u>7,738,494</u>
Department of Economic and Community Development		
Tax Abatement Program	11000-ECD46400-17008-038	74,204
Payment In Lieu of Taxes (PILOT)	11000-ECD46400-17012-039	<u>132,133</u>
Total Department of Economic and Community Development		<u>206,337</u>
Department of Education		
Primary Mental Health	11000-SDE64000-12198	25,000
Healthy Food Certification	11000-SDE64000-16072-82010	47,865
Child Nutrition Program - (School Lunch State Match)	11000-SDE64000-16072-82051	21,997
Youth Services Bureau - Enhancement	11000-SDE84000-16201	7,550
Vocational Agriculture	11000-SDE64000-17017	161,388

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Adult Education	11000-SDE64000-17030	\$ 1,463,597
Health Services	11000-SDE64000-17034	134,599
Priority School Districts	11000-SDE64000-17043-82056	343,548
Interdistrict Cooperative Grant	11000-SDE64000-17045	81,106
School Breakfast	11000-SDE64000-17046	37,035
Youth Services Bureau	11000-SDE64000-17052	31,624
Magnet Schools	11000-SDE64000-17057	198,000
After School Program	11000-SDE64000-17084	50,000
School Readiness Quality Enhancement	12060-SDE64000-90242	32,009
Family Resource Centers	11000-SDE64370-16110	<u>184,650</u>
Total Department of Education		<u>2,819,968</u>
Department of Environmental Protection		
Protected Open Space Watershed Land Acquisition Grant Program	12060-DEP43153-35328	20,500
DEP Open Space	12052-DEP43153-42813	81,750
Clean Water Fund	21014-DEP43720-40001	247,711
Boating Account	12060-DEP44434-35403	3,222
Environmental Quality Fees Fund	11000-DEP43970-12501	75
Solid Waste Management Account	11000-DEP43930-12488	4,655
Environmental Conservation Fund	11000-DEP44373-12491	<u>121</u>
Total Department of Environmental Protection		<u>358,034</u>
Office of Policy and Management		
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	3,396

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	\$ 116,219
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	239,400
Property Tax Relief for Elderly Homeowners - Freeze Program	11000-OPM20600-17021	8,000
Property Tax Relief for Veterans	11000-OPM20600-17024	12,720
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	1,762,837
Local Capital Improvement Program	12050-OPM20600-40254	283,308
Municipal Video Competition	12060-OPM20600-35362	<u>58,183</u>
Total Office of Policy and Management		<u>2,484,063</u>
Department of Public Safety		
Telecommunications Fund	12060-DPS32740-35190	161,601
State Assets Forfeiture Revolving Fund	12060-DPS32155-35142	<u>5,576</u>
Total Department of Public Safety		<u>167,177</u>
Department of Social Services		
Medicaid	11000-DSS60000-16020	<u>175,325</u>
Department of Transportation		
Town Aid Road Grants - Municipal	12052-DOT57000-43455	81,309
Town Aid Road - STO	13033-DOT57000-43459	<u>223,600</u>
Total Department of Transportation		<u>304,909</u>
Total State Financial Assistance Before Exempt Programs		<u>14,431,788</u>

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Exempt Programs		
Office of the State Comptroller		
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	\$ <u>1,232,491</u>
Department of Education		
Public School Transportation	11000-SDE64000-17027	637,523
Educational Cost Sharing	11000-SDE64000-17041	14,226,643
Excess Costs Student Based and Equity	11000-SDE64000-17047	1,994,426
Nonpublic School Transportation	11000-SDE64000-17049	145,505
School Construction Grants	13009-SDE64000-40896	1,171
School Construction Grants	13010-SDE64000-40901	<u>193,897</u>
Total Department of Education		<u>17,199,165</u>
Total Exempt Programs		<u>18,431,656</u>
Total State Financial Assistance		\$ <u>32,863,444</u>

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010**

Various departments and agencies of the State of Connecticut have provided financial assistance to the City of Middletown, Connecticut, through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. The financial assistance programs fund several programs including education, transportation public works, property tax relief and environmental protection.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Middletown, Connecticut, conform to accounting principles generally accepted in the United States of America as applicable to government entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting - The financial statements contained in the City of Middletown, Connecticut's annual audit report are prepared on the modified accrual basis of accounting. The following is a summary of such basis:

Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, if measurable.

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.

NOTE 2 - LOAN PROGRAMS

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2010:

Department of Environmental Protection:

Clean Water Fund:

Outstanding Balance, July 1, 2009	\$ 8,926,000
Issued	
Repaid	<u>(1,077,000)</u>
Outstanding Balance, June 30, 2010	\$ <u>7,849,000</u>

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Independent Auditors' 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*

To the Honorable Mayor and the Common Council
City of Middletown, Connecticut

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2010, which collectively comprise the City of Middletown, Connecticut's basic financial statements, and have issued our report thereon dated December 30, 2010. 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 City of Middletown, 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 City of Middletown, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown, Connecticut's internal control over financial reporting.

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

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Middletown, 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*.

We noted certain matters that we reported to management of the City of Middletown, Connecticut, in a separate letter dated December 30, 2010.

This report is intended solely for the information and use of management, the Honorable Mayor, the Common Council, the Board of Education, others within the entity, the Office of Policy and Management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

December 30, 2010

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X 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 X 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>
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	\$ 2,753,725
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	4,984,769
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	1,762,837

- Dollar threshold used to distinguish between type A and type B programs: \$288,636

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No matters were reported.