

**TOWN OF DURHAM, CONNECTICUT**

**FINANCIAL STATEMENTS  
TOGETHER WITH SUPPLEMENTAL  
SCHEDULES AND REPORTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

**TOWN OF DURHAM CONNECTICUT  
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AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006**

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**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board of Finance  
of the Town of Durham, Connecticut:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Durham, Connecticut, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Durham, Connecticut's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2006 on my consideration of the Town of Durham, Connecticut's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

(Continued)

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 40 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Durham, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and the accompanying schedule of state financial assistance are also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and the State of Connecticut Single Audit Act and are also not a required part of the basic financial statements of the Town of Durham, Connecticut. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Albert J. Rusilowicz  
Certified Public Accountant, LLC  
Killingworth, Connecticut  
December 14, 2006

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**TOWN OF DURHAM, CONNECTICUT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

This discussion and analysis of the Town of Durham, Connecticut's (the "Town") financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2006. This management discussion and analysis should be read in conjunction with the Town's financial statements.

**Financial Highlights**

- Net assets of the Town's governmental activities increased by \$1,139,923 or nearly 2%.
- The total cost of all of the Town's governmental activities was \$23,226,456.
- The General Fund reported a fund balance of \$2,466,130 at June 30, 2006.
- For the year ended June 30, 2006, the resources available for appropriation were \$582,054 more than budgeted for the general fund. Expenditures were generally kept within spending limits.
- The Town's total bonded debt decreased by \$370,000.

**Overview of the Financial Statements**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits III and IV. 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 Town's operations in more detail than the government-wide financial statements by providing information on the Town's most significant funds. The financial statements of the Town's business-type activities are presented in Exhibits V through VII. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside the government.

**Government-Wide Financial Statements**

The analysis of the Town as a whole begins on Exhibit I and II. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of 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 Town's net assets and changes in them. The Town's net assets, the difference between assets and liabilities, is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. The reader need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall financial health of the Town.

(Continued)

In the statement of net assets and the statement of activities, the Town reports its activities:

- *Governmental activities*-Most of the Town's basic services are reported here, including general government, highway, public safety, health and welfare, library, recreation, environmental services and education. Property taxes, charges for services and state and federal grants finance most of these activities.
- *Business-type activities*-In 2003, the Town purchased a water company. The Town charges fees to customers which are expected to cover all of the costs associated with the services which the Town provides to the respective customers. The Town's water company is reported here.

### **Fund Financial Statements**

The fund financial statements begin with Exhibit III and provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by Charter or State law. However, the Board of Finance and/or the Treasurer have established other funds to help the Town control and manage financial activities for particular purposes or to show that the Town is meeting legal responsibilities for using certain grants and other money. The Town's fund are divided into three categories; governmental, proprietary and fiduciary.

- *Governmental funds* (Exhibit III and IV) – Most of the Town'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 accrual method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the Town'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 Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.

- *Proprietary funds* (Exhibits V through VII) – When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. The Town's enterprise fund (the component of proprietary funds) is the same as the business-type fund reported in the government wide financial statements but provide more detail and additional information, such as cash flows for proprietary funds.
- *Fiduciary funds* (Exhibits VIII and IX) – The Town is the trustee, or fiduciary, for its employees' pension plans. All of the Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the Town's other financial statements because the Town cannot use the assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

(Continued)

## Government-wide Financial Analysis

The Town's combined net assets increased by \$1,123,250 from a year ago. The analysis below focuses on the net assets and changes in net assets of the Town's governmental and business-type activities.

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>FY 2006 Total</b>	<b>FY 2005 Total</b>
Current and other assets	\$ 4,795,201	18,260	4,813,461	5,064,002
Capital assets, net	42,632,898	499,864	43,132,762	41,955,218
<b>Total assets</b>	<b>47,428,099</b>	<b>518,124</b>	<b>47,946,223</b>	<b>47,019,220</b>
Long-term liabilities outstanding	502,286	-	502,286	897,377
Other liabilities	314,092	23,973	338,065	139,221
<b>Total liabilities</b>	<b>816,378</b>	<b>23,973</b>	<b>840,351</b>	<b>1,036,598</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	42,207,954	499,864	42,707,818	41,850,523
Restricted	47,469	-	47,469	34,623
Unrestricted	4,356,298	(5,713)	4,350,585	4,097,476
<b>Total net assets</b>	<b>\$ 46,611,721</b>	<b>494,151</b>	<b>47,105,872</b>	<b>45,982,622</b>

Net assets of the Town's governmental activities increased by \$1,139,923 or 2.52%. Unrestricted net assets – the part of net assets than can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$258,822 to \$4,356,298 at June 30, 2006.

The net assets of our business-type activity decreased to \$494,151 with a year to date net loss of \$16,673 from the operation of the water company. The Town generally can only use these net assets to finance continuing operations of the water company operations.

(Continued)

### Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total 2006</u>	<u>Total 2005</u>
Revenues:				
Program revenues:				
Charges for services	\$ 630,628	45,888	676,516	698,307
Operating grants and contributions	3,633,866	-	3,633,866	3,514,911
Capital grants and contributions	906,034	44,060	950,094	1,136,725
General revenues:				
Property taxes	18,682,930	-	18,682,930	16,806,908
Grants and contributions not restricted to specific purposes	319,910	-	319,910	335,455
Unrestricted investment earnings	188,592	714	189,306	87,609
Miscellaneous	4,419	-	4,419	1,039
<b>Total revenues</b>	<b>24,366,379</b>	<b>90,662</b>	<b>24,457,041</b>	<b>22,580,954</b>
Program expenses:				
General government	1,997,700	-	1,997,700	1,837,359
Highway	1,760,987	-	1,760,987	2,319,430
Public safety	647,093	-	647,093	445,944
Health and welfare	171,467	-	171,467	166,567
Library	485,535	-	485,535	463,477
Recreation	117,758	-	117,758	114,425
Miscellaneous	71,112	-	71,112	36,001
Debt service/interest/fees	11,619	-	11,619	32,665
Education	17,640,859	-	17,640,859	16,211,639
Environmental services	322,326	-	322,326	328,440
Water services and operations	-	107,335	107,335	111,617
<b>Total program expenses</b>	<b>23,226,456</b>	<b>107,335</b>	<b>23,333,791</b>	<b>22,067,564</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 1,139,923</b>	<b>(16,673)</b>	<b>1,123,250</b>	<b>513,390</b>

The Town's total revenues (excluding special items) was \$24,457,041. The total cost of all programs and services was \$23,333,791 which included the Town Hall Renovation Fund which was a new program added during the year. Our analysis below separately considers the operations of governmental and business-type activities.

(Continued)

**Governmental activities**

Governmental activities increased the Town's net assets by \$1,139,923 with the largest factor being the receipt of a \$520,000 Federal grant for ADA compliance related to the Town hall renovation project.

The table below presents the cost of each of the Town's five largest programs – education, highway, general government, library and public safety - as well as each program's net cost (total cost less revenues generated by the activities). Net cost shows the burden that was placed on the Town's taxpayers by each of the functions.

**Governmental Activities**

	<u>Year Ended June 30, 2006</u>		<u>Year Ended June 30, 2005</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Education	\$ 17,640,859	14,242,740	16,211,639	12,912,484
Highway	1,760,987	1,612,283	2,319,430	1,167,152
General government	1,997,700	1,395,566	1,837,359	1,172,635
Public safety	647,093	616,948	445,944	424,380
Library	485,535	435,218	463,477	418,057
All other	694,282	(246,827)	678,098	613,115
	<u>\$ 23,226,456</u>	<u>18,055,928</u>	<u>21,955,947</u>	<u>16,707,823</u>

**Business-type activities**

In June, 2003, the Town acquired a water company at a cost of \$554,605, including related fees. During the year ended June 30, 2006, the water company reported an operating loss of \$16,673.

**Town Fund Financial Analysis**

**Governmental funds**

As the Town completed the year, its governmental funds (as presented in the balance sheet – Exhibit III) reported a combined fund balance of \$4,036,860, which is a decrease of \$415,318 from last years total of \$4,452,178. Included in this year's total change in fund balance, is an increase in the Town's General Fund balance of \$169,299 and a decrease in the Town's Reserve Fund for Capital and Nonrecurring Expenditures Fund balance of \$724,936. The primary reasons for the General Fund's surplus mirror the governmental activities analysis highlighted in Exhibit IV.

(Continued)

**Proprietary Funds**

Net assets of the proprietary fund, the Town’s business-type activity, reflected a decrease of \$17,387 attributable to operating activities.

**General Fund budgetary highlights**

General property taxes-property tax revenue was \$139,118 higher than budgeted due primarily to an increase in the and overall collections. Intergovernmental revenue-grant revenues were significantly lower than the previous year due primarily to the receipt of the State of Connecticut Department of Environmental Protections Grant in the amount of \$494,000 for the Wimler property development rights and grant revenue received related to the Maple Avenue Bridge Project, both of which were not received during the current fiscal year. Local revenues decreased significantly as a result of a decrease in reserve fund transfers, and a decrease in the utilization of prior year fund balance. General Fund additional/special appropriations made during the year totaled \$434,431.

The Town’s General Fund balance of \$2,466,130 reported on Exhibit III differs from the General Fund’s budgetary fund balance due primarily to the appropriation of surplus in the amount of \$509,431 which is reported as revenue for budgetary purposes.

**Capital asset and debt administration**

At June 30, 2006, the Town had a net balance of \$43,132,762 invested in a broad range of capital assets, including land, buildings, vehicles and equipment, roads, bridges, and a water system. This represents a net increase (including additions and deductions) of \$1,177,544, or approximately 2.8% from the prior year.

**Capital Assets at Year-End (net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 5,114,241	4,673,501	-	-	5,114,241	4,673,501
Buildings and improvements	3,217,845	1,599,620	-	-	3,217,845	1,599,620
Equipment and vehicles	782,105	957,380	-	-	782,105	957,380
Infrastructure	33,518,707	34,206,606	-	-	33,518,707	34,206,606
Water systems	-	-	499,864	518,111	499,864	518,111
<b>Totals</b>	<b>\$ 42,632,898</b>	<b>41,437,107</b>	<b>499,864</b>	<b>518,111</b>	<b>43,132,762</b>	<b>41,955,218</b>

The Town’s major additions included a gift of property and the Town Hall renovation project.

The Town’s 2006/2007 budget calls for no major capital expenditures from the General Fund. The Town anticipates significant improvements to the Durham water system. Said improvements are expected to be funded primarily through grants to the Town.

(Continued)

**Long-term debt**

At June 30, 2006, the Town had \$370,000 in general obligation bonds outstanding and \$54,944 in capital lease obligations payable – a decrease of \$419,751 over the prior year – as shown below:

**Outstanding Debt at Year-End**

	<b>Governmental Activities</b>	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 370,000	740,000
Capital lease obligations	54,944	104,695
Totals	<u>\$ 424,944</u>	<u>844,695</u>

The Town's general obligation bond rating is A1 from Moodys rating agency. This rating was assigned by this national rating agency in 2003. The State limits the amount of general obligation debt that cities and towns can issue based on a formula determined under State statutes based on the type of debt and the tax base. The Town's outstanding general obligation debt is significantly below the state-imposed limit.

Other obligations include accrued vacation and sick leave. More detailed information about the Town's long-term liabilities is presented in the notes to the financial statements.

**Economic factors and next year's budgets and rates**

The Town's elected and appointed officials consider many factors when establishing the annual budget and setting the mil rate. One of those factors is the state and local economy. Other factors include anticipated tax collections as well as uncertainty regarding the levels of state funding to be received.

These factors were taken into account when adopting the General Fund budget.

(Continued)

### **Contacting the Town's financial management**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the First Selectman at the Town of Durham, Town House Road, Durham, Connecticut.

**BASIC  
FINANCIAL STATEMENTS**

## TOWN OF DURHAM, CONNECTICUT

## STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 4,031,929	12,654	4,044,583
Receivables, net	743,149	5,606	748,755
Prepaid expenses	2,000	-	2,000
Internal balances	18,123	-	18,123
Capital assets, net	42,632,898	499,864	43,132,762
<b>Total Assets</b>	<u>47,428,099</u>	<u>518,124</u>	<u>47,946,223</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	314,092	5,850	319,942
Internal balances	-	18,123	18,123
Long-term liabilities:			
Due within one year	474,191	-	474,191
Due in more than one year	28,095	-	28,095
<b>Total Liabilities</b>	<u>816,378</u>	<u>23,973</u>	<u>840,351</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	42,207,954	499,864	42,707,818
Restricted for:			
Trust purposes:			
Expendable	27,034	-	27,034
Nonexpendable	20,435	-	20,435
Unrestricted	4,356,298	(5,713)	4,350,585
<b>Total Net Assets</b>	<u>\$ 46,611,721</u>	<u>494,151</u>	<u>47,105,872</u>

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

TOWN OF DURHAM, CONNECTICUT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			
					Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 1,997,700	535,553	66,581	-	(1,395,566)	-	(1,395,566)	
Highway	1,760,987	431	139,939	8,334	(1,612,283)	-	(1,612,283)	
Public safety	647,093	22,959	7,186	-	(616,948)	-	(616,948)	
Health and welfare	171,467	-	14,000	-	(157,467)	-	(157,467)	
Library	485,535	42,276	8,041	-	(435,218)	-	(435,218)	
Recreation	117,758	29,409	-	-	(88,349)	-	(88,349)	
Miscellaneous	71,112	-	-	-	(71,112)	-	(71,112)	
Debt service/interest/fees	11,619	-	-	-	(11,619)	-	(11,619)	
Education	17,640,859	-	3,398,119	-	(14,242,740)	-	(14,242,740)	
Environmental services	322,326	-	-	-	(322,326)	-	(322,326)	
Capital outlays	-	-	-	897,700	897,700	-	897,700	
Total governmental activities	23,226,456	630,628	3,633,866	906,034	(18,055,928)	-	(18,055,928)	
Business-type activities:								
Water	107,335	45,888	-	44,060	-	(17,387)	(17,387)	
Total business-type activities	107,335	45,888	-	44,060	-	(17,387)	(17,387)	
Total government	\$ 23,333,791	676,516	3,633,866	950,094				
General revenues:								
Property taxes					18,682,930	-	18,682,930	
Grants and contributions not restricted to specific programs					319,910	-	319,910	
Unrestricted investment earnings					188,592	714	189,306	
Miscellaneous					4,419	-	4,419	
Total general revenues and transfers					19,195,851	714	19,196,565	
Change in net assets					1,139,923	(16,673)	1,123,250	
Net assets-beginning					45,471,798	510,824	45,982,622	
Net assets-ending					\$ 46,611,721	494,151	47,105,872	

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

## TOWN OF DURHAM, CONNECTICUT

## GOVERNMENTAL FUNDS

BALANCE SHEET  
June 30, 2006

	<u>General</u>	<u>Reserve Fund For Capital And Nonrecurring Expenditures</u>	<u>Town Hall Restoration Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 2,147,636	1,305,330	438,596	140,367	4,031,929
Property taxes receivable (Net of an allowance of \$10,000 for uncollectible amounts)	442,719	-	-	-	442,719
Grants receivable	-	-	188,685	-	188,685
Due from other funds	323,437	-	-	80,736	404,173
Prepaid expenses	2,000	-	-	-	2,000
<b>Total Assets</b>	<b>\$ 2,915,792</b>	<b>1,305,330</b>	<b>627,281</b>	<b>221,103</b>	<b>5,069,506</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses	\$ 33,123	-	277,670	-	310,793
Deferred revenue	335,803	-	-	-	335,803
Due to other funds	80,736	-	214,263	91,051	386,050
<b>Total Liabilities</b>	<b>449,662</b>	<b>-</b>	<b>491,933</b>	<b>91,051</b>	<b>1,032,646</b>
<b>Fund Balances:</b>					
Reserved	-	1,190,675	135,348	92,329	1,418,352
Unreserved, reported in:					
General Fund	2,146,763	-	-	-	2,146,763
General Fund-Designated for Subsequent Year's Budget	319,367	-	-	-	319,367
Reserve Fund For Capital And Nonrecurring Expenditures	-	114,655	-	-	114,655
Special Revenue Funds	-	-	-	37,723	37,723
<b>Total Fund Balances</b>	<b>2,466,130</b>	<b>1,305,330</b>	<b>135,348</b>	<b>130,052</b>	<b>4,036,860</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,915,792</b>	<b>1,305,330</b>	<b>627,281</b>	<b>221,103</b>	

Amounts reported for governmental activities in the statement of net assets (Exhibit I) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	42,632,898
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	335,803
Certain receivables do not provide current financial resources and are not recorded in the funds	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(502,286)
Interest receivable on delinquent taxes is not recorded in the funds	111,745
Accrued interest payable on long-term liabilities is not recorded in the funds	(3,299)
<b>Net assets of governmental activities</b>	<b>46,611,721</b>

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

## TOWN OF DURHAM, CONNECTICUT

## GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2005

	<u>General</u>	<u>Reserve Fund For Capital And Nonrecurring Expenditures</u>	<u>Town Hall Restoration Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>					
Property taxes	\$ 18,708,621	-	-	-	18,708,621
Intergovernmental	3,973,961	-	520,000	8,041	4,502,002
Fees, permits and other	588,627	-	-	46,420	635,047
Investment income	107,120	62,086	17,173	2,213	188,592
<b>Total Revenues</b>	<b>23,378,329</b>	<b>62,086</b>	<b>537,173</b>	<b>56,674</b>	<b>24,034,262</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	1,995,730	-	-	3,059	1,998,789
Highway	1,039,893	-	-	-	1,039,893
Public safety	581,586	-	-	28,874	610,460
Health and welfare	167,967	-	-	-	167,967
Library	400,906	-	-	27,501	428,407
Recreation	109,820	-	-	-	109,820
Miscellaneous	71,112	-	-	-	71,112
Debt service	386,600	-	-	-	386,600
Education	17,640,859	-	-	-	17,640,859
Environmental services	322,326	-	-	-	322,326
<b>Capital outlay</b>	-	-	1,673,347	-	1,673,347
<b>Total Expenditures</b>	<b>22,716,799</b>	<b>-</b>	<b>1,673,347</b>	<b>59,434</b>	<b>24,449,580</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>661,530</b>	<b>62,086</b>	<b>(1,136,174)</b>	<b>(2,760)</b>	<b>(415,318)</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	41,219	509,500	1,271,522	23,950	1,846,191
Operating transfers out	(533,450)	(1,296,522)	-	(16,219)	(1,846,191)
Proceeds of capital lease	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(492,231)</b>	<b>(787,022)</b>	<b>1,271,522</b>	<b>7,731</b>	<b>-</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>169,299</b>	<b>(724,936)</b>	<b>135,348</b>	<b>4,971</b>	<b>(415,318)</b>
<b>Fund Balance (Deficit), June 30, 2005</b>	<b>2,296,831</b>	<b>2,030,266</b>	<b>-</b>	<b>125,081</b>	
<b>Fund Balance (Deficit), June 30, 2006</b>	<b>\$ 2,466,130</b>	<b>1,305,330</b>	<b>135,348</b>	<b>130,052</b>	

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current year.	818,091
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.	(35,641)
Donated fixed assets are not considered to be financial resources and are not recorded in the funds.	377,700
Bond proceeds and capital lease obligation proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and capital lease obligation principal is an expenditure in governmental funds, but the repayment of such debt reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	419,751
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(24,660)

\$ 1,139,923

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

## TOWN OF DURHAM, CONNECTICUT

## PROPRIETARY FUND

## STATEMENT OF NET ASSETS

June 30, 2006

	<b>Business-type Activity- Enterprise Fund <u>Water Company</u></b>	<b>Total <u>Business-type Funds</u></b>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 12,654	12,654
Service fees receivable	3,589	3,589
Grants receivable	2,017	2,017
Total Current Assets	<u>18,260</u>	<u>18,260</u>
Capital Assets:		
Service lines, machinery and equipment, net	499,864	499,864
Total Noncurrent Assets	<u>499,864</u>	<u>499,864</u>
Total Assets	<u>518,124</u>	<u>518,124</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable	5,850	5,850
Due to other funds	18,123	18,123
Total Liabilities	<u>23,973</u>	<u>23,973</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets	499,864	499,864
Unrestricted	(5,713)	(5,713)
Total Net Assets	<u>\$ 494,151</u>	<u>494,151</u>

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

## TOWN OF DURHAM, CONNECTICUT

## PROPRIETARY FUND

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the year ended June 30, 2006

	Business-type Activity- Enterprise Fund <u>Water Company</u>	Total <u>Business-type Funds</u>
<b>Operating revenues:</b>		
Charges for services	\$ 45,888	45,888
Total Operating Revenues	<u>45,888</u>	<u>45,888</u>
<b>Operating Expenses:</b>		
Utilities	5,957	5,957
General operating expenses	38,918	38,918
Repairs and maintenance	153	153
Depreciation	18,247	18,247
Total Operating Expenses	<u>63,275</u>	<u>63,275</u>
Operating Income (Loss)	(17,387)	(17,387)
<b>Non Operating Revenues (Expenses):</b>		
Grants	44,060	44,060
Interest Income	714	714
Professional services	(44,060)	(44,060)
Total Non Operating Revenues (Expenses)	<u>714</u>	<u>714</u>
Income (Loss) Before Operating Transfers and Contributions	(16,673)	(16,673)
Operating transfers in	-	-
Change in Net Assets	<u>(16,673)</u>	<u>(16,673)</u>
Net Assets-Beginning	510,824	510,824
Net Assets-Ending	<u>\$ 494,151</u>	<u>494,151</u>

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

## TOWN OF DURHAM, CONNECTICUT

## PROPRIETARY FUND

## STATEMENT OF CASH FLOWS

For the year ended June 30, 2006

	<u>Business-type Activity- Enterprise Fund Water Company</u>	<u>Total Business-type Funds</u>
<b>Cash Flows From Operating Activities:</b>		
Receipts From Customers and Users	\$ 44,594	44,594
Payments to Suppliers	(45,028)	(45,028)
Net Cash Used in Operating Activities	<u>(434)</u>	<u>(434)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Repayment of advances from other funds	(16,877)	(16,877)
Intergovernmental receipts	69,236	69,236
Payments to Suppliers	(67,864)	(67,864)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(15,505)</u>	<u>(15,505)</u>
<b>Cash Flows From Investing Activities:</b>		
Interest Income	714	714
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>714</u>	<u>714</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(15,225)</b>	<b>(15,225)</b>
<b>Cash at the beginning of the year</b>	<b>27,879</b>	<b>27,879</b>
<b>Cash at the end of the year</b>	<b><u>\$ 12,654</u></b>	<b><u>12,654</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:</b>		
Operating Income (Loss)	\$ (17,387)	(17,387)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:		
Depreciation	18,247	18,247
(Increase) Decrease in Assets:		
Service fees receivable	(1,294)	(1,294)
<b>Net Cash Used by Operating Activities</b>	<b><u>\$ (434)</u></b>	<b><u>(434)</u></b>

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

**TOWN OF DURHAM, CONNECTICUT**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

June 30, 2006

	<b><u>Pension Trust Funds</u></b>	<b><u>Agency Funds</u></b>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ -	240,686
Investments	1,379,881	-
Other assets	2,220	-
Total Assets	<u>1,382,101</u>	<u>240,686</u>
<b><u>LIABILITIES</u></b>		
Due to employees and others	-	240,686
Accounts and other payables	-	-
Total Liabilities	<u>-</u>	<u>240,686</u>
<b><u>NET ASSETS</u></b>		
Held in trust for pension benefits	1,382,101	
Total Net Assets	<u>\$ 1,382,101</u>	

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

## TOWN OF DURHAM, CONNECTICUT

## FIDUCIARY FUNDS

STATEMENT OF CHANGES IN PLAN NET ASSETS  
PENSION TRUST FUNDS

For the Year Ended June 30, 2006

Additions:	
Contributions:	
Employer	\$ 96,187
Employee	28,621
Total contributions	<u>124,808</u>
Investment income (loss)	79,890
Total additions	<u>204,698</u>
Deductions:	
Benefits	48,564
Administration	-
Total deductions	<u>48,564</u>
Net increase (decrease)	156,134
Net assets held in trust for pension benefits, June 30, 2005	1,225,967
Net assets held in trust for pension benefits, June 30, 2006	<u>\$ 1,382,101</u>

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

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the Town of Durham, Connecticut (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below:

In 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. The statement established a reporting model for governments that includes the following segments:

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

*Government-wide financial statements* – consist of a statement of net assets and a statement of activities, which are prepared on the accrual basis of accounting. These statements distinguish between governmental activities and business-type activities and exclude fiduciary (employee retirement systems and agency funds). Capital assets, including infrastructure (roads, bridges, drainages systems, etc.) are included along with long-term obligations (general obligation bonds, bond anticipation notes, capital lease obligations and compensated absences) are included along with current assets and liabilities.

*Fund financial statements* – provide information about the Town's governmental, proprietary and fiduciary funds. These statements emphasize major fund activity and, depending on the fund type, utilize different basis of accounting. Governmental funds focus on sources, uses, and balances of current financial resources and often have budgetary orientation, and therefore use a modified accrual basis of accounting. Proprietary funds, which include enterprise and internal service funds, focus on determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows, and therefore, use the accrual basis of accounting. Fiduciary funds focus on net assets and changes in net assets, and include assets held in a trustee (Pension Trust Fund) or agency (Performance Bonds) capacity and utilize the accrual basis of accounting.

*Required supplementary information* – in addition to the Management Discussion and Analysis, budgetary comparison schedules are presented for the General Fund, which is the only major fund with a legally adopted annual budget. The original budget for revenues and expenditures and the final adjusted budget are presented in comparison with the actual final budgetary revenues and expenditures.

**A. Reporting Entity**

The Town of Durham, Connecticut was incorporated in 1708 under provisions of the Connecticut General Statutes. The Town of Durham, Connecticut operates under a Board of Selectmen/Board of Finance form of Government. The Town provides the following services: public safety; highways and streets; health and welfare; culture-recreation; education; public improvements; planning and zoning; and general administrative services.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

The Town operates under the provisions of its charter and the General Statutes of the State of Connecticut. The legislative powers of the Town are vested in the Town meeting. The executive body is made up of a Board of Selectmen, consisting of a First Selectwoman, the chief executive officer, and two other board members. A six-member Board of Finance is responsible for presenting fiscal operating budgets to the Annual Town Meeting. The members of the Board of Finance are elected to 6 year terms.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 purpose. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from the 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 financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The various funds included in the financial statements are described below:

**Governmental Funds**

Governmental Funds are those through which most of the governmental functions are financed.

**General Fund** - The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal grants, licenses, permits, charges for services, and interest income.

**Special Revenue Funds** - Special Revenue Funds are used to account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

**Permanent Funds** - Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**B. Government-Wide and Fund Financial Statements, Continued**

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The following is the Town's proprietary fund:

**Enterprise Fund - Water Company** - The Town purchased a water system in June, 2003. This fund is used to account for operations for which a fee is charged to external users for goods or services.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements. The fiduciary funds are as follows:

**Pension Trust Funds** – The Pension Trust Funds are used to account for the Town's defined benefit pension plan and the Town's money accumulation plan.

**Agency Funds** – The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the results of operations.

**C. Measurement Focus, Basis of Accounting, 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 proprietary fund and 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 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. 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.

Property taxes, charges for services, 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.

(Continued)

**TOWN OF DURHAM, CONNECTICUT**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued**

The Town reports the following major governmental funds:

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

The Reserve Fund for Capital and Nonrecurring Expenditures is a Special Revenue Fund which is used to account for financial resources to be used for the acquisition of capital and/or nonrecurring items (other than those financed by Proprietary Funds or Trust Funds).

The Town Hall Restoration Fund is a Special Revenue Fund which is used to account for financial resources to be used for the restoration of Town Hall.

Additionally, the Town reports the following fund types:

The Enterprise Fund which accounts for the activities of the water company.

The Pension Trust Fund which accounts for the activities of the Town's pension plans, which accumulates resources for pension benefit payments to qualified Town employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between certain Town's functions because the elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include property taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for water service. Operating expenses for the enterprise fund include the cost of operating, maintaining and administering the Town's water systems. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

(Continued)

**TOWN OF DURHAM, CONNECTICUT**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**D. 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.

State statutes authorize the Town to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements, and certain other investments as more fully described in Note 4.

Investments of the Town are reported at fair value.

**E. Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts being owed 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/due from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund receivables and payables within governmental activities are eliminated in the Statement of Net Assets.

All trade and property taxes receivable are shown net of an allowance for uncollectibles. Property taxes are assessed as of October 1. Assessed values are established by the Town's Assessor's offices at 70% of appraised value. Taxes are billed in the following July and are due in two installments, July 1 and the following January 1. Taxes become overdue one month after the installment due date. Interest at the rate of 1.5% per month accrues on all overdue tax balances. Liens are effective on the assessment date and are continued by filing in May following the due date.

Section 12-165 of the General Statutes of the State of Connecticut require each municipality to write-off, on an annual basis, the property taxes which are deemed uncollectible. Property taxes receivable at June 30, 2006 are stated net of an allowance for uncollectible amounts of \$10,000.

**F. Inventories and Prepaid Expenses**

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. At June 30, 2006, the Town had no inventory.

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. At June 30, 2006, the Town had prepaid expenses totaling \$2,000.

**G. Capital Assets**

Capital assets, which include land and related improvements, buildings and related improvements, equipment and vehicles, 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.

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**G. Capital Assets, Continued**

Fixed assets used in governmental fund operations are accounted for as capital outlays, or departmental expenditures in the fund financial statements upon acquisition.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. 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 assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and related improvements, land improvements, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Land improvements	15
Equipment and vehicles	5-10
Infrastructure	60

**H. Compensated Absences**

Under the terms of the Town's contracts, Town employees are granted vacation and sick leave in varying amounts. Certain employees may carry over a limited number of unused vacation and sick days to subsequent years and, in the event of termination, are reimbursed for these days based upon various formulas. Accumulated vacation and sick leave is recognized as a liability of the Town in the government-wide financial statements.

**I. Long-Term Obligations**

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term debt consists primarily of general obligation bonds payable, capital lease obligations, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and the payment of principal and interest are reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide financial statements.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies, Continued**

**J. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**2. Reconciliation of Government-Wide and Fund Financial Statements**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.” The details of this (\$502,286) are as follows:

General obligation bonds payable	\$	370,000
Capital lease obligations payable		54,944
Compensated absences		77,342
Net adjustment to reduce fund balance - total government funds to arrive at net assets-governmental activities	\$	502,286

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$818,091 are as follows:

Depreciation expense	\$	(938,336)
Capital outlays		1,756,427
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets- governmental activities	\$	818,091

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**2. Reconciliation of Government-Wide and Fund Financial Statements, Continued**

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities, Continued**

Another element of that reconciliation states that “ the issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.” The details of this \$419,751 difference are as follows:

Principal repayments:	
General obligation bonds	\$ 370,000
Capital lease financing	49,751
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net assets- governmental activities	<u>\$ 419,751</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this (\$24,660) difference are as follows:

Change in compensated absences	\$ 24,660
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets- governmental activities	<u>\$ 24,660</u>

**3. Stewardship, Compliance and Accountability**

The Town establishes a Town-wide budget in accordance with provisions of its Charter and the Connecticut General Statutes. The Annual Budget Meeting is held at least thirty (30) days prior to the end of the fiscal year, in accordance with the Town Charter. At the meeting the Board of Finance recommends its proposed budget to the Town. The operating budget includes proposed expenditures and the means of financing them.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**3. Stewardship, Compliance and Accountability, Continued**

The Board of Finance, on request by Town agencies or officials, may make special appropriations from surplus revenue or from an approved contingency fund. Such a special appropriation in excess of \$5,000 shall require approval by a vote of Town meeting. Not more than one special appropriation for any Town agency, official, or any department may be made by the Board of Finance in each fiscal year, without approval of Town meeting.

The Board of Finance is also authorized to transfer budgeted amounts up to \$5,000 within and between Town departments. Any transfers over \$5,000 must be approved at Town meeting.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Additional appropriations approved during the year totaled \$434,431.

All unencumbered appropriations lapse at year-end, except those for capital projects and certain special revenue funds. Appropriations for capital projects are continued until completion of the applicable projects, even when the project extends for more than one year.

**4. Cash and Cash Equivalents**

The deposit of public funds is controlled by Connecticut General Statutes. Cash equivalents are defined as those liquid investments having original maturities of three months or less. The following is a summary of cash and cash equivalents at June 30, 2006:

Deposits:	
Demand accounts	\$ 2,979,939
Total deposits	<u>2,979,939</u>
Other cash equivalents :	
State of Connecticut, Short-term Investment Fund	1,305,330 **
 Total cash and equivalents	 <u><u>\$ 4,285,269</u></u>

\*\* Risk category not categorized since the Town invests as a shareholder in an investment pool.

As of year-end, the carrying amount of the Town of Durham's deposits was \$4,285,269 and the bank balance was \$4,694,290. Of the bank balance, \$200,000 was covered by Federal depository insurance. The remaining balance of \$4,494,290 was uninsured and uncollateralized (Category 3 as defined below). The levels of the Town's deposits vary significantly throughout the year as a result of higher cash flows during certain periods. As a result, uninsured amounts (Category 3 as defined below) at those times may have been substantially higher than at year-end.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**4. Cash and Cash Equivalents, Continued**

**Investments**

The investment of Town funds is regulated by State Statute. The Town's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty, or by its trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty, or its trust department or agent, but not in the Town's name.

Non-categorized investments – pooled accounts\* \$1,379,881

\*Investments in the Pension Trust Funds are stated at fair market value. These investments are not categorized, as the Town does not own identifiable securities, but invests as a shareholder of the investment pool.

**5. Receivables and Deferred Revenue**

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

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Receivables:			
Taxes	\$ 452,719	-	452,719
Interest *	111,745	-	111,745
Intergovernmental	188,685	2,017	190,702
Service fees receivable	-	3,589	3,589
Total gross receivables	753,149	5,606	758,755
Less: allowance for uncollectibles	(10,000)	-	(10,000)
Net total receivables	\$ 743,149	5,606	748,755

\* Accrued interest on property taxes receivable in the amount of \$111,745 is not included in the Fund Financial Statements.

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. At the end of the current fiscal year, the component of deferred revenue reported in governmental funds is as follows:

Delinquent property taxes receivable \$ 335,803

(Continued)

**TOWN OF DURHAM, CONNECTICUT**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**JUNE 30, 2006**

**6. Capital Assets**

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 4,673,501	440,740	-	5,114,241
Capital assets, being depreciated				
Land improvements	48,740	-	-	48,740
Buildings and improvements	2,564,683	1,682,047	-	4,246,730
Equipment and vehicles	2,639,236	11,340	-	2,650,576
Infrastructure	41,273,943	-	-	41,273,943
Total assets being depreciated	<u>46,526,602</u>	<u>1,693,387</u>	<u>-</u>	<u>48,219,989</u>
Less: accumulated depreciation for:				
Land improvements	48,740	-	-	48,740
Buildings and improvements	965,063	63,822	-	1,028,885
Equipment and vehicles	1,681,856	186,615	-	1,868,471
Infrastructure	7,067,337	687,899	-	7,755,236
Total accumulated depreciation	<u>9,762,996</u>	<u>938,336</u>	<u>-</u>	<u>10,701,332</u>
Total capital assets, being depreciated, net	<u>36,763,606</u>	<u>755,051</u>	<u>-</u>	<u>37,518,657</u>
Governmental activities capital assets, net	<u>41,437,107</u>	<u>1,195,791</u>	<u>-</u>	<u>42,632,898</u>
<b>Business-type activities:</b>				
Capital assets, being depreciated				
Water system	554,605	-	-	554,605
Less: accumulated depreciation for:				
Water system	36,494	18,247	-	54,741
Business-type activities capital assets, net	<u>518,111</u>	<u>(18,247)</u>	<u>-</u>	<u>499,864</u>
<b>Total Government-Wide Capital Assets, Net</b>	<u>\$ 41,955,218</u>	<u>1,177,544</u>	<u>-</u>	<u>43,132,762</u>

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**6. Capital Assets, Continued**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 11,837
Highway	786,768
Health and welfare	3,500
Library	50,238
Recreation	4,020
Public safety	81,973
 Total depreciation expense-governmental activities	 <u>\$ 938,336</u>

**7. Interfund Accounts**

At June 30, 2006, amounts due from and to other funds were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 323,437	80,736
Major Governmental Funds:		
Reserve Fund for Capital and Nonrecurring Expenditures	-	-
Town Hall Restoration Fund	-	214,263
Nonmajor Governmental Funds:		
Special Revenue-Dog Fund	84,489	85,003
Permanent-Town Trust Fund	4,196	-
Permanent-Mary Weber Fund	-	13,997
Enterprise Fund-Water Company	-	18,123
	<u>\$ 412,122</u>	<u>412,122</u>

All interfund receivables and payables represent routine recurring transactions that are temporary in nature.

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**7. Interfund Accounts, Continued**

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 41,219	533,450
Major Governmental Funds:		
Reserve Fund for Capital and Nonrecurring Expenditures	509,500	1,296,522
Town Hall Restoration Fund	1,271,522	-
Nonmajor Governmental Funds:		
Special Revenue-Dog Fund	23,950	-
Special Revenue-Library	-	26,219
Permanent-Library Trust	10,000	-
	\$ 1,856,191	1,856,191

All transfers represent routine recurring transactions to move resources from one fund to another.

**8. Capital Leases**

The Town leases certain a piece of Highway equipment under the terms of a capital lease obligation.

A summary of future minimum lease payments required by the lease agreement, together with the present value of the net minimum lease payments as of June 30, 2006 is as follows:

Fiscal year ending:	
June 30, 2007	\$ 29,398
June 30, 2008	29,398
	58,796
Less: amount representing interest	(3,852)
Present value of minimum lease payments	\$ 54,944

**9. Long-term Debt**

**General Obligation Bonds**

The following is a summary of general obligation bond maturities at June 30, 2006:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending:			
June 30, 2007	\$ 370,000	5,550	375,550

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**9. Long-term Debt, Continued**

**Changes in Long-term Debt**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Balance <u>June 30, 2005</u>	<u>Additions</u>	Reductions/ <u>Maturities</u>	Balance <u>June 30, 2006</u>	Due Within <u>One Year</u>
Governmental Activities:					
General obligation bonds	\$ 740,000	-	370,000	370,000	370,000
Total bonds payable	740,000	-	370,000	370,000	370,000
Capital lease obligations	104,695	-	49,751	54,944	26,849
Compensated absences	52,682	24,660	-	77,342	77,342
Total Governmental Activities long-term liabilities	<u>\$ 897,377</u>	<u>24,660</u>	<u>419,751</u>	<u>502,286</u>	<u>474,191</u>

**Contingent Obligation**

The Town is contingently liable for 66.11% of the total general long-term obligations of Regional School District 13 not to be provided by the State of Connecticut. As of June 30, 2006, the total of such outstanding indebtedness of the Regional School District 13 was approximately \$21,616,000 with Durham's share approximating \$14,290,000.

**Debt Limitation**

The Town's total authorized debt falls within the debt limitation set forth by the Connecticut General Statutes.

**10. 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; workers compensation and natural disasters for which the Town carries commercial insurance. During the year ended June 30, 2006, deductibles paid by the Town were insignificant. Settled claims, for all types of commercial coverage, have not exceeded commercial insurance coverage during any of the past three fiscal years.

The Town is currently a member in Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established for the purpose of administering an interlocal risk management program pursuant to the provisions of Connecticut General Statutes for workers compensation and employer liability coverage. The Town pays an annual premium for its coverage. CIRMA is to be self-sustaining through members' premiums but reinsures in excess of \$1,000,000 for each insured occurrence. Members may be subject to supplemental assessment in the event of deficiencies; however, potential assessments are limited pursuant to the by-laws.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**11. Contingencies and Litigation**

There are various suits and claims pending against the Town, none of which, individually or in the aggregate, is believed by legal counsel to be likely to result in a judgment or judgments, which would materially affect the Town's financial position.

**12. Related Party Transactions**

The Town has joined the neighboring Town of Middlefield in two multi-governmental arrangements established under the Connecticut General Statutes to provide services to residents of the member towns. Regional School District Number 13 provides educational services and facilities, and the Durham Middlefield Interlocal Agreement Advisory Board operates a solid and bulky waste transfer station and recycling facility. The member towns share proportionately in the operating costs of these organizations. Although these organizations provide services to the citizenry of both governments, they do not meet the definition of a joint venture, as the member governments do not retain an ongoing financial interest in either. During the year ended June 30, 2006, the Town recognized expenditures of \$17,640,859 and \$316,121 for its payment of its proportionate share of the respective operating costs of Regional School District Number 13 and the Durham Middlefield Interlocal Agreement Advisory Board.

**13. Deferred Compensation Plan**

The Town of Durham offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible employees, permits employees to defer a portion of their salaries until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or under certain specific conditions as defined in the plan.

**14. Money Accumulation Pension Plan**

**Plan description**

The Money Accumulation Pension Plan is a defined contribution pension plan offered to employees of the Town and Regional School District Number 13. In a defined contribution plan, benefits depend solely on amount contributed to the plan plus investment earnings. Substantially all of the Town's employees working a minimum of twenty hours per week who have attained age 21 and completed one year of service are eligible to participate in the Plan. The Town's contributions for each employee (and related earnings allocated to the employer contributions account) become fully vested at the earlier of the following dates:

(a) the date of the participants death; (b) the date the participant incurs total disability; (c) the date the participant attains normal retirement age; (d) the date of termination of this plan or the date of complete cessation of employer contributions hereunder; or (e) the date the participant becomes 100% vested.

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**14. Money Accumulation Pension Plan, Continued**

Prior to becoming fully vested, the participant shall earn a vested interest in his employer contributions based upon the following vesting schedule:

<u>Vesting Service</u>	<u>Vested Interest</u>
Less than 3 years	0%
At least 3 years	20%
At least 4 years	40%
At least 5 years	60%
At least 6 years	80%
7 years or more	100%

**Plan Provisions**

Participants are always fully vested in their own contributions (and related earnings allocated to the participant contribution account).

The plan is accounted for using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Investment income or loss is recognized when earned. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market value are reported at estimated fair value. No investments represent 5% or more of plan assets. Benefit and administrative expenses are recognized when incurred. Administrative expenses are financed from investment income. The plan is considered to be part of the Town's financial reporting entity and is included as a pension trust fund of the Town.

**Funding Policy**

The Town is required to contribute an amount equal to 5% of the payroll of the eligible employees. The Town's contribution amounted to \$44,193 for the fiscal year ended June 30, 2006. Enrollment in the plan at June 30, 2006 was as follows:

Actively employed:	
Fully vested	13
Partially vested	6
Non-vested	3
	<hr/>
	22
Retired, disabled or deceased	1
Terminated participants	5
	<hr/>
Total participants	<u>28</u>

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**15. Town of Durham Employee Retirement Plan**

**Plan Description**

The Town of Durham is the administrator of a single-employer retirement system (PERS) established and administered by the Town to provide pension benefits for its employees.

The plan covers substantially all union employees; and, on a voluntary basis, officials appointed by the Board of Selectman working 20 hours or more per week; non-union employees working at least twenty hours or more per week; and certain full-time elected officials, specifically the First Selectman, the Tax Collector and the Town Clerk. Participation in the plan is available to all eligible employees who also participate in the Town's Money Accumulation Plan who have attained the age of 21 years and who have completed one year of service. The plan is considered to be part of the Town's financial reporting entity and is included as a pension trust fund of the Town.

**Summary of Significant Accounting Policies**

The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value.

**Plan Membership**

Membership in the plan consisted of the following at July 1, 2005, the date of the most recent actuarial valuation:

Active plan participants	23
Terminated vested participants	6
Participants in payment status	6
	35
	35

**Benefit Provisions**

A participant is eligible for normal retirement upon reaching the age of 65 and completing 5 years of service. The benefit is equal to the following:

The annual accrued benefit of a member shall be equal to (A) times (B), where:

(A) Equals 70% of the annual average annual compensation reduced by the following:

- (1) 1/25 for each year of service the member has that is less than 25.
- (2) The social security benefit provided to the member at his normal retirement age.
- (3) The normal retirement benefit that can be purchased by the member's Participant Contribution Account and the Employer's Contribution Account in the Money Accumulation Pension Plan. (See Note 14)

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**15. Town of Durham Employee Retirement Plan, Continued**

**Benefit Provisions, Continued**

(B) Equals a fraction, the numerator of which is the number of years of service the member has at his date of separation of service, and the denominator of which is the number of years of service the member would have had if the member became a member at his or her earliest eligibility date and had continued in employment until his normal retirement date.

The plan does not contain a provision for early retirement. The death benefit for the plan is the present value of the accrued benefits. Participants in the plan are vested after ten years.

The benefit provisions and all other requirements are established by union contract and the Town's personnel policies.

**Funding Policy**

Active plan members are required to contribute 1% of their regular earnings to the plan. If an employee leaves covered employment or dies before meeting the vesting requirements, accumulated employee contributions and interest thereon are refunded. The Town is required to contribute the remaining amounts necessary to finance the benefits for its employees as are actuarially determined.

**Concentrations**

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

Columbia Proprietary Mutual Funds 99.49%

**Annual Pension Cost and Net Pension Obligation**

The annual pension cost for the Town of Durham for the year ended June 30, 2005, the date of the most recent valuation, is summarized as follows:

Annual required contribution	\$ 42,998
Interest in net pension obligation	2,155
Adjustment to annual required contribution	<u>(3,098)</u>
Annual pension cost	<u>42,055</u>
Contributions made	(51,994)
Increase (decrease) in net pension obligation	<u>(9,939)</u>
Net pension obligation, beginning of year	26,119
Net pension obligation, end of year	<u><u>\$ 16,180</u></u>

(Continued)

**TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006**

**15. Town of Durham Employee Retirement Plan, Continued**

**Actuarial Assumptions**

The annual required contribution for the current year was determined as part of the July 1, 2005 actuarial valuation. The actuarial assumptions included:

A. Investment rate of return	8.25%
B. Projected salary increase (per year)	5.0%
C. Inflation rate	2.5%
D. Cost of living adjustment	None
E. Post-retirement benefit increases	None
F. Remaining amortization period	15 years

**Three –Year Trend Information**

Fiscal Year Ended	Annual Pension Cost (APC)	Actual Contribution	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 44,957	\$ 22,500	50%	\$ 22,457
6/30/2005	\$ 38,050	\$ 34,388	90%	\$ 26,119
6/30/2006	\$ 42,055	\$ 51,994	124%	\$ 16,180

**Pension Plan Required Supplementary Information:**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/1995	\$ 105,743	\$ 225,788	\$ 120,045	46.83%	\$ 607,781	19.75%
7/1/1996	\$ 147,444	\$ 225,288	\$ 77,844	65.45%	\$ 626,887	12.42%
7/1/1997	\$ 190,699	\$ 185,430	\$ (5,269)	102.84%	\$ 594,303	-0.89%
7/1/1998	\$ 238,935	\$ 186,691	\$ (52,244)	127.98%	\$ 592,604	-8.82%
7/1/1999	\$ 260,130	\$ 210,962	\$ (49,168)	123.31%	\$ 665,843	-7.38%
7/1/2000	\$ 284,927	\$ 223,410	\$ (61,517)	127.54%	\$ 722,824	-8.51%
7/1/2001	\$ 257,830	\$ 301,330	\$ 43,500	85.56%	\$ 791,517	5.50%
7/1/2002	\$ 225,782	\$ 409,772	\$ 183,990	55.10%	\$ 722,825	25.45%
7/1/2003	\$ 278,888	\$ 553,986	\$ 275,098	50.34%	\$ 870,454	31.60%
7/1/2004	\$ 282,769	\$ 535,885	\$ 253,116	52.77%	\$ 893,404	28.33%
7/1/2005	\$ 285,810	\$ 566,085	\$ 280,275	50.49%	\$ 912,017	30.73%

(Continued)

TOWN OF DURHAM, CONNECTICUT  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2006

15. Town of Durham Employee Retirement Plan, Continued

Schedule of Employer Contributions

Fiscal Year Ending <u>June 30,</u>	Annual Required <u>Contribution</u>	Actual <u>Contribution</u>	Percent <u>Funded</u>
1996	\$ 13,233	\$ 27,000	204%
1997	\$ 9,579	\$ 21,500	224%
1998	\$ 3,150	\$ 14,000	444%
1999	\$ -	\$ -	100%
2000	\$ -	\$ -	100%
2001	\$ -	\$ -	100%
2002	\$ 7,045	\$ 7,045	100%
2003	\$ 18,867	\$ 18,867	100%
2004	\$ 44,957	\$ 22,500	50%
2005	\$ 38,050	\$ 34,388	90%
2006	\$ 42,055	\$ 51,994	124%

**REQUIRED SUPPLEMENTARY  
INFORMATION**

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

For the year ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property taxes	\$ 18,524,911	18,524,911	18,664,029	139,118
<b>Local Revenues:</b>				
Building and sanitation	100,000	100,000	142,403	42,403
Zoning board of appeals	1,200	1,200	1,265	65
Planning and zoning	4,000	4,000	4,204	204
Conveyance tax	80,000	80,000	107,179	27,179
Dog fund	800	800	1,180	380
Inland wetlands and watercourse	2,500	2,500	2,225	(275)
Interest on investments	25,000	25,000	102,388	77,388
Library	15,000	15,000	16,219	1,219
Board of Selectmen	1,000	1,000	20,058	19,058
Conservation commission	4,000	4,000	3,925	(75)
Recreation	30,000	30,000	29,409	(591)
Highway department	-	-	431	431
Insurance reimbursements	42,787	42,787	71,183	28,396
Town Clerk fees and receipts	80,000	80,000	96,144	16,144
Trust Funds	5,000	5,000	4,732	(268)
Durham Volunteer Fire Department	4,000	4,000	100	(3,900)
Fire marshal	-	-	1,690	1,690
Reserve fund receipt	-	25,000	25,000	-
Durham Fair Association reimbursement	74,000	74,000	80,305	6,305
Other income	-	-	4,419	4,419
State Trooper reimbursements	12,000	12,000	12,560	560
State Trooper-pistol permits	-	-	455	455
Fund balance and prior year surplus (1)	100,000	509,431	509,431	-
Durham/Middlefield Senior/Disabled Van	-	-	3,556	3,556
Water Company loan	7,860	7,860	17,030	9,170
DWI grant	8,000	8,000	5,936	(2,064)
<b>Total Local Revenues</b>	<b>\$ 597,147</b>	<b>1,031,578</b>	<b>1,263,427</b>	<b>231,849</b>

(Continued)

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

For the year ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Intergovernmental Revenues:</b>				
Payment in lieu of taxes-State property	\$ 18,667	18,667	20,045	1,378
Town Aid Roads	72,263	72,263	101,653	29,390
Telecommunications personal property	56,496	56,496	46,507	(9,989)
Local capital improvement program	54,307	54,307	54,307	-
Mashantuckett Pequot grant	32,690	32,690	32,969	279
Educational cost sharing	3,364,631	3,364,631	3,398,119	33,488
State and Federal reimbursements	-	-	28,226	28,226
Pilot manufacturing grant	140,320	140,320	168,381	28,061
State of Connecticut receipts	2,500	2,500	95,568	93,068
Town Clerk-records preservation	7,000	7,000	7,000	-
Youth Service Bureau Grant	14,000	14,000	14,000	-
Public safety grants	-	-	7,186	7,186
<b>Total Intergovernmental Revenues</b>	<u>3,762,874</u>	<u>3,762,874</u>	<u>3,973,961</u>	<u>211,087</u>
<b>Total Revenues</b>	<u>\$ 22,884,932</u>	<u>23,319,363</u>	<u>23,901,417</u>	<u>582,054</u>

Budgetary revenues are different from GAAP revenues because:

Fund balance and prior year surplus are not recognized as revenues for GAAP purposes	(509,431)
Property taxes are budgeted on the cash basis:	
Change in deferred property taxes	7,439
Change in property taxes receivable	37,153
Loan repayments from the Water Company are not recognized as revenues for GAAP purposes	(17,030)

Total revenues and other financing sources as reported on the statement of revenues,  
expenditures and changes in fund balances-governmental funds-Exhibit IV\$ 23,419,548

(1) Budgets include fund balances carried over from prior years. It is not revenue of the current period, but is presented as revenue only for budgetary reporting purposes.

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>ELECTED OFFICIALS AND BOARDS:</b>				
Board of Finance	\$ 21,486	20,474	20,474	-
Board of Selectmen	178,945	186,654	186,654	-
Board of Assessment Appeals	660	130	130	-
Tax Collector	65,826	71,361	71,361	-
Town Clerk	112,573	115,694	115,694	-
Town Treasurer	7,613	7,649	7,649	-
<b>Total Elected Officials and Boards</b>	<b>387,103</b>	<b>401,962</b>	<b>401,962</b>	<b>-</b>
<b>PROFESSIONAL SERVICES:</b>				
Assessor	90,236	149,233	149,233	-
Midstate Regional Planning Agency	4,708	4,708	4,708	-
Middlesex Soil and Water	1,598	1,598	1,598	-
Probate Court	6,748	4,437	4,437	-
Town Counsel	32,000	56,274	56,274	-
Building and Health Department	218,050	222,928	222,928	-
Finance Department	67,818	68,545	68,545	-
Town Counsel-Litigation	41,000	25,730	25,730	-
Town Counsel-Planning and Zoning	1	36,885	36,885	-
Information Technology	72,200	65,032	65,032	-
<b>Total Professional Services</b>	<b>534,359</b>	<b>635,370</b>	<b>635,370</b>	<b>-</b>
<b>OTHER TOWN COMMISSIONS:</b>				
Inland Wetlands	2,405	2,246	2,246	-
Zoning Board of Appeals	2,220	2,557	2,557	-
Planning and Zoning	74,559	90,979	90,979	-
Economic Development	3,100	55	55	-
Conservation	16,085	73,171	73,171	-
Building Code Board of Appeals	1	-	-	-
Connecticut Housing Partnership Program	1	-	-	-
Historic District	1,250	952	952	-
Charter Revision	1	-	-	-
Personnel Policy	1	-	-	-
<b>Total Other Town Commissions</b>	<b>\$ 99,623</b>	<b>169,960</b>	<b>169,960</b>	<b>-</b>

(Continued)

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>GENERAL EXPENSES:</b>				
Elections	\$ 21,400	17,377	17,377	-
Social Security	105,866	104,115	104,115	-
Unemployment Compensation	11,155	10,340	10,340	-
Employee Retirement Plan	119,271	101,737	101,737	-
Insurance	101,911	97,850	97,850	-
Insurance-Payroll Related	366,440	325,806	325,806	-
Employee Payroll Deductions	1	-	-	-
Special Acts and Ordinances	1,000	350	350	-
Tree Warden	3,200	2,000	2,000	-
Employee Assistance Program	506	505	505	-
Drug and Alcohol Test	2,900	1,773	1,773	-
Town Hall Property Maintenance	44,913	86,643	86,643	-
Parmelee Hill Barn	1	-	-	-
Municipal Buildings-Fuel Oil	22,100	20,629	20,629	-
Municipal Buildings-Janitorial	25,900	23,290	23,290	-
Town Hall Restoration	-	3,035	3,035	-
Skating Pond Repairs	-	50,000	7,633	42,367
<b>Total General Expenses</b>	<b>826,564</b>	<b>845,450</b>	<b>803,083</b>	<b>42,367</b>
<b>PUBLIC WORKS:</b>				
Street Lights	45,000	40,560	40,560	-
Capital Equipment	55,000	65,913	65,913	-
Regular Maintenance	801,200	907,073	907,073	-
Miscellaneous Drainage	32,490	30,981	30,981	-
Federal and State Highway Projects	1	-	-	-
Town Hall Relocation	-	2,293	2,293	-
<b>Total Public Works</b>	<b>933,691</b>	<b>1,046,820</b>	<b>1,046,820</b>	<b>-</b>

(Continued)

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

For the Year Ended June 30, 2006

	Original <u>Budget</u>	Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>PUBLIC SAFETY:</b>				
Emergency Management	\$ 3,000	2,663	2,663	-
Constables	5,130	5,130	5,130	-
Dog Damage	1	-	-	-
Dog Fund Transfer	23,950	23,950	23,950	-
Volunteer Fire Company	49,000	146,547	146,547	-
Fire Company Trustees	25,340	62,756	62,756	-
Volunteer Ambulance Company	27,095	26,269	26,269	-
Ambulance Service/Billing	1	34,552	34,552	-
Town-wide Radio Communications	15,472	18,537	18,537	-
Fire Marsal	17,735	17,610	17,610	-
Valley Shore Communications	52,908	52,908	52,908	-
Fire Pond	6,000	13,358	13,358	-
LEPC	250	-	-	-
Resident State Trooper	180,000	200,241	200,241	-
Towing Abandoned Vehicles	1	383	383	-
Public Safety	500	132	132	-
Burning Officer	500	500	500	-
<b>Total Public Safety</b>	<b>406,883</b>	<b>605,536</b>	<b>605,536</b>	<b>-</b>
<b>HEALTH AND WELFARE:</b>				
Human Services	39,521	41,466	41,466	-
Visiting Nurse	3,270	384	384	-
Mental Health Clinic	3,240	3,240	3,240	-
Social Services	480	457	457	-
Red Cross Senior Transportation	16,609	16,609	16,609	-
Community Renewal Team	2,000	2,000	2,000	-
Rushford Center	1,500	1,500	1,500	-
Middlesex County Substance Abuse Action	500	500	500	-
Regional Training Camp	2,955	2,955	2,955	-
Vital Statistics	200	168	168	-
Kuhn Employment Opportunities	1,134	1,134	1,134	-
Durham 60+ Club	600	600	600	-
Meals-On-Wheels	3,500	3,500	3,500	-
Community Health Center	1,000	1,000	1,000	-
Youth Services	39,000	39,000	39,000	-
Eddy Center	5,103	5,103	5,103	-
Greater Middletown Counseling Center	1,609	1,268	1,268	-
Women and Families Center	250	250	250	-
Middlesex Area Transportation	13,631	13,631	13,631	-
Regional Mental Health Board	344	344	344	-
Durham/Middlefield Senior/Disabled Bus	12,000	10,322	10,322	-
Durham Senior Citizens Board	25,831	22,536	22,536	-
<b>Total Health and Welfare</b>	<b>\$ 174,277</b>	<b>167,967</b>	<b>167,967</b>	<b>-</b>

(Continued)

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>LIBRARY:</b>				
Library	\$ 395,247	405,059	405,059	-
<b>Total Library</b>	<u>395,247</u>	<u>405,059</u>	<u>405,059</u>	<u>-</u>
<b>RECREATION:</b>				
Recreation	99,553	110,843	110,843	-
<b>Total Recreation</b>	<u>99,553</u>	<u>110,843</u>	<u>110,843</u>	<u>-</u>
<b>MISCELLANEOUS:</b>				
Durham Cemetery Company	4,000	-	-	-
Tax refunds	1	58,530	58,530	-
Contingency	120,000	-	-	-
Fire and Ambulance Tax Rebates	1	-	-	-
Seniors Tax Rebates	1	-	-	-
Hurricane Katrina Relief Fund	-	12,581	12,581	-
<b>Total Miscellaneous</b>	<u>124,003</u>	<u>71,111</u>	<u>71,111</u>	<u>-</u>
<b>RESERVE FUNDS:</b>				
Transfer to the Reserve Fund	505,000	509,500	509,500	-
<b>DEBT SERVICE:</b>				
Open Space-General Obligation Bonds	386,650	386,600	386,600	-
<b>ENVIRONMENTAL SERVICES:</b>				
DMIAAB	364,917	316,121	316,121	-
Landfill Water Systems	2,000	2,000	2,000	-
Household Hazardous Waste	4,200	4,205	4,205	-
Public Water Supply Engineering Study	1	-	-	-
Bioterrorism Preparedness	1	-	-	-
Durham Water Company	1	-	-	-
<b>Total Environmental Services</b>	<u>371,120</u>	<u>322,326</u>	<u>322,326</u>	<u>-</u>
<b>EDUCATION</b>	<u>17,640,859</u>	<u>17,640,859</u>	<u>17,640,859</u>	<u>-</u>
<b>Total Expenditures</b>	<u>\$ 22,884,932</u>	<u>23,319,363</u>	<u>23,276,996</u>	<u>42,367</u>

(Continued)

## TOWN OF DURHAM, CONNECTICUT

## GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS), CONTINUED

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total Expenditures-Carried Forward	\$ 22,884,932	23,319,363	23,276,996	42,367
Budgetary Expenditures are Different Than GAAP Expenditures Because:				
Accrued payroll is not budgeted. This amount reflects the change in accrued payroll.			(26,747)	
Total Expenditures and Other Financing Uses on the Statement of Revenues, Expenditures, and Changes in Fund Balance-Exhibit IV			<u>23,250,249</u>	

**SUPPLEMENTAL SCHEDULES**

TOWN OF DURHAM, CONNECTICUT  
 SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING  
 FOR THE YEAR ENDED JUNE 30, 2006

Grand List Year	Uncollected Taxes July 1, 2005 and Current Levy	Lawful Corrections		Suspense Collections	Transfers To Suspense	Acquired by Foreclosure	Adjusted Taxes Collectable	Actual Cash Collections		Refunds Issued	Uncollected Taxes June 30, 2006
		Additions	Deductions					Interest	Lien and Other Fees		
2004	\$ 18,637,646	-	96,621	-	-	2,806	18,638,219	76,955	288	31,416	293,966
2003	2,184,472	1,383	4,210	-	1,126	3,697	210,822	31,079	1,032	17,955	63,922
2002	61,956	-	1,377	1,135	4,528	3,534	53,652	11,536	199	12,367	35,882
2001	60,697	-	-	900	12,888	3,365	45,344	13,112	144	1,098	23,957
2000	28,764	19	611	430	1,348	3,133	24,121	6,222	72	84	13,328
1999	13,713	131	-	866	1,058	1,164	12,488	3,063	24	-	8,352
1998	8,064	-	-	556	735	1,103	6,782	695	-	-	6,226
1997	6,843	-	-	50	284	1,921	4,688	70	-	-	4,638
1996	3,173	-	152	91	-	1,857	1,255	143	-	-	1,164
1995	2,282	-	-	207	-	1,836	653	536	-	-	446
1994	2,327	-	-	335	-	1,780	882	676	-	-	547
1993	2,053	-	-	311	-	1,762	602	631	-	-	291
1992	2,870	-	-	143	-	2,870	143	329	-	-	-
1991	2,680	-	-	630	-	2,681	629	1,569	-	-	-
1990	1,672	-	-	551	-	1,672	551	1,527	-	-	-
1989	-	-	-	665	-	-	665	2,430	-	-	-
	\$ 19,053,212	1,533	102,971	6,870	21,967	35,181	18,901,496	150,573	1,759	62,920	452,719
							18,511,697				18,664,029

TOWN OF DURHAM, CONNECTICUT  
 NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue						
	Dog Fund	Library Fund	Library Development Fund	Gazebo on the Green	Town Clerk Record Preservation	Total Special Revenue	
<b>ASSETS</b>							
Cash and cash equivalents	\$ -	38,237	37,283	1,351	6,226	83,097	
Due from other funds	84,489	-	-	-	-	84,489	
Other receivables	-	-	-	-	-	-	
<b>Total Assets</b>	<b>\$ 84,489</b>	<b>38,237</b>	<b>37,283</b>	<b>1,351</b>	<b>6,226</b>	<b>167,586</b>	
<b>LIABILITIES AND FUND BALANCE</b>							
<b>Liabilities:</b>							
Accounts payable	\$ -	-	-	-	-	-	
Due to other funds	85,003	-	-	-	-	85,003	
Deferred revenue	-	-	-	-	-	-	
<b>Total Liabilities</b>	<b>85,003</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,003</b>	
<b>Fund Balance (Deficit):</b>							
Reserved for continued appropriations	-	-	37,283	1,351	6,226	44,860	
Reserved for Trust purposes	-	-	-	-	-	-	
Unreserved and undesignated	(514)	38,237	-	-	-	37,723	
<b>Total Fund Balance (Deficit)</b>	<b>(514)</b>	<b>38,237</b>	<b>37,283</b>	<b>1,351</b>	<b>6,226</b>	<b>82,583</b>	
<b>Total Liabilities and Fund Balance (Deficit)</b>	<b>\$ 84,489</b>	<b>38,237</b>	<b>37,283</b>	<b>1,351</b>	<b>6,226</b>	<b>167,586</b>	

(Continued)

TOWN OF DURHAM, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

June 30, 2006

Permanent

	Library Trust	Town Trust	Mary Weber	Total Permanent	Interrfund Eliminations	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 22,838	-	34,432	57,270	-	140,367
Due from other funds	-	4,196	-	4,196	(7,949)	80,736
Other receivables	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 22,838</b>	<b>4,196</b>	<b>34,432</b>	<b>61,466</b>	<b>(7,949)</b>	<b>221,103</b>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ -	-	-	-	-	-
Due to other funds	-	-	13,997	13,997	(7,949)	91,051
Deferred revenue	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>13,997</b>	<b>13,997</b>	<b>(7,949)</b>	<b>91,051</b>

Fund Balance (Deficit):

Reserved for continued appropriations	-	-	-	-	-	44,860
Reserved for Trust purposes	22,838	4,196	20,435	47,469	-	47,469
Unreserved and undesignated	-	-	-	-	-	37,723
<b>Total Fund Balance (Deficit)</b>	<b>22,838</b>	<b>4,196</b>	<b>20,435</b>	<b>47,469</b>	<b>-</b>	<b>130,052</b>
<b>Total Liabilities and Fund Balance (Deficit)</b>	<b>\$ 22,838</b>	<b>4,196</b>	<b>34,432</b>	<b>61,466</b>	<b>(7,949)</b>	<b>221,103</b>

## TOWN OF DURHAM, CONNECTICUT

## NONMAJOR GOVERNMENTAL FUNDS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2006

	Special Revenue						
	Dog Fund	Library Fund	Library Development Fund	Gazebo on the Green	Town Clerk Record Preservation	Total Special Revenue	
<b>REVENUES:</b>							
Intergovernmental Fees, permits and other	-	8,041	-	-	-	8,041	
Investment income	-	29,152	11,059	-	3,106	43,317	
	-	1,324	4	20	31	1,379	
<b>Total Revenues</b>	-	38,517	11,063	20	3,137	52,737	
<b>EXPENDITURES:</b>							
<b>Current:</b>							
General government	-	-	-	-	3,059	3,059	
Public safety	27,783	-	-	-	-	27,783	
Library	-	22,907	4,594	-	-	27,501	
<b>Total Expenditures</b>	27,783	22,907	4,594	-	3,059	58,343	
<b>Excess of Revenues Over (Under) Expenditures</b>	(27,783)	15,610	6,469	20	78	(5,606)	
<b>Other Financing Sources (Uses):</b>							
Operating transfers in	23,950	-	-	-	-	23,950	
Operating transfers out	-	(26,219)	-	-	-	(26,219)	
<b>Total Other Financing Sources (Uses)</b>	23,950	(26,219)	-	-	-	(2,269)	
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	(3,833)	(10,609)	6,469	20	78	(7,875)	
<b>Fund Balance, June 30, 2005</b>	3,319	48,846	30,814	1,331	6,148	90,458	
<b>Fund Balance, June 30, 2006</b>	\$ (514)	38,237	37,283	1,351	6,226	82,583	

(Continued)

TOWN OF DURHAM, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE, CONTINUED

For the Year Ended June 30, 2006

	Permanent				Interfund	Total
	Library Trust	Town Trust	Mary Weber	Permanent	Eliminations	Nonmajor Governmental Funds
<b>REVENUES:</b>						
Intergovernmental	-	-	-	-	-	8,041
Fees, permits and other	2,065	-	1,038	3,103	-	46,420
Investment income	323	-	511	834	-	2,213
<b>Total Revenues</b>	<b>2,388</b>	<b>-</b>	<b>1,549</b>	<b>3,937</b>	<b>-</b>	<b>56,674</b>
<b>EXPENDITURES:</b>						
<b>Current:</b>						
General government	-	-	-	-	-	3,059
Public safety	-	-	1,091	1,091	-	28,874
Library	-	-	-	-	-	27,501
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>1,091</b>	<b>1,091</b>	<b>-</b>	<b>59,434</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>2,388</b>	<b>-</b>	<b>458</b>	<b>2,846</b>	<b>-</b>	<b>(2,760)</b>
<b>Other Financing Sources (Uses):</b>						
Operating transfers in	10,000	-	-	10,000	(10,000)	23,950
Operating transfers out	-	-	-	-	10,000	(16,219)
<b>Total Other Financing Sources (Uses)</b>	<b>10,000</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>7,731</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>12,388</b>	<b>-</b>	<b>458</b>	<b>12,846</b>	<b>-</b>	<b>4,971</b>
<b>Fund Balance, June 30, 2005</b>	<b>10,450</b>	<b>4,196</b>	<b>19,977</b>	<b>34,623</b>	<b>-</b>	<b>125,081</b>
<b>Fund Balance, June 30, 2006</b>	<b>\$ 22,838</b>	<b>4,196</b>	<b>20,435</b>	<b>47,469</b>	<b>-</b>	<b>130,052</b>

**TOWN OF DURHAM, CONNECTICUT**  
**Special Revenue Fund-Reserve Fund For Capital And Nonrecurring Expenditures**  
**Schedule of Changes in Fund Balance**  
**For The Year Ended June 30, 2006**

	<u>Fund</u> <u>Balance</u> <u>June 30, 2005</u>	<u>Transfers In</u> <u>From</u> <u>Other Funds</u>	<u>Fund</u> <u>Balance</u> <u>Designations</u>	<u>Interest</u> <u>And Other</u> <u>Income</u>	<u>Expenditures</u> <u>and Transfers</u> <u>Out</u>	<u>Fund</u> <u>Balance</u> <u>June 30, 2006</u>
<b>RESERVED:</b>						
Fire equipment	\$ 673,980	-	-	-	-	673,980
Fire department storage building	-	-	25,000	-	-	25,000
Ambulance	93,865	-	10,000	-	-	103,865
Conservation/open space	79,967	-	(50,000)	-	(25,000)	4,967
Building maintenance	671,522	-	600,000	-	(1,271,522)	-
Radio communications	1,562	-	-	-	-	1,562
Town garage	50,000	-	(50,000)	-	-	-
Senior van	2,700	-	-	-	-	2,700
Building/Fire trustees	44,539	-	-	-	-	44,539
Community/Senior Center	245,000	-	-	-	-	245,000
Revaluation	48,875	-	-	-	-	48,875
Cemetery stone repairs	5,000	-	5,000	-	-	10,000
Elections machines	24,492	-	-	-	-	24,492
Highway projects	35,000	-	(35,000)	-	-	-
Demutualization proceeds	1,195	-	-	-	-	1,195
Town green repair	-	-	4,500	-	-	4,500
<b>TOTAL RESERVED FUND BALANCE</b>	<u>1,977,697</u>	<u>-</u>	<u>509,500</u>	<u>-</u>	<u>(1,296,522)</u>	<u>1,190,675</u>
<b>UNRESERVED AND UNSIGNATED</b>						
	52,569	509,500	(509,500)	62,086	-	114,655
<b>TOTAL FUND BALANCE</b>	<u>\$ 2,030,266</u>	<u>509,500</u>	<u>-</u>	<u>62,086</u>	<u>(1,296,522)</u>	<u>1,305,330</u>

**TOWN OF DURHAM, CONNECTICUT**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**

June 30, 2006

	<u>Defined Benefit Pension Plan</u>	<u>Money Accumulation Plan</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ -	-	-
Investments	312,797	1,067,084	1,379,881
Receivables	-	2,220	2,220
<b>Total Assets</b>	<u>312,797</u>	<u>1,069,304</u>	<u>1,382,101</u>
<b><u>LIABILITIES</u></b>			
<b>Liabilities:</b>			
Accounts payable	-	-	-
Due to employees and others	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>NET ASSETS</u></b>			
Held in trust for pension benefits	312,797	1,069,304	1,382,101
<b>Total Net Assets</b>	<u>\$ 312,797</u>	<u>1,069,304</u>	<u>1,382,101</u>

## TOWN OF DURHAM, CONNECTICUT

## FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
PENSION TRUST FUNDS

For the Year Ended June 30, 2006

	<u>Defined Benefit Plan</u>	<u>Money Accumulation Plan</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 51,994	44,193	96,187
Employee	8,801	19,820	28,621
Total contributions	<u>60,795</u>	<u>64,013</u>	<u>124,808</u>
Investment income (loss)	18,109	61,781	79,890
Total additions	<u>78,904</u>	<u>125,794</u>	<u>204,698</u>
Deductions:			
Benefits	38,432	10,132	48,564
Administration	-	-	-
Total deductions	<u>38,432</u>	<u>10,132</u>	<u>48,564</u>
Net increase (decrease)	40,472	115,662	156,134
Net assets held in trust for pension benefits, June 30, 2005	272,325	953,642	1,225,967
Net assets held in trust for pension benefits, June 30, 2006	<u>\$ 312,797</u>	<u>1,069,304</u>	<u>1,382,101</u>

TOWN OF DURHAM, CONNECTICUT  
 AGENCY FUND  
 BALANCE SHEET  
 June 30, 2006

	<u>Agency Fund Performance Bond Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 240,686	240,686
<b>Total Assets</b>	<u>\$ 240,686</u>	<u>240,686</u>
<b><u>LIABILITIES</u></b>		
<b>Liabilities:</b>		
Due to others	\$ 240,686	240,686
<b>Total Liabilities</b>	<u>\$ 240,686</u>	<u>240,686</u>

TOWN OF DURHAM, CONNECTICUT  
 Statement of Changes in Assets and Liabilities-Agency Fund  
 For the Year Ended June 30, 2006

		Performance Bond Fund		
	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<b>ASSETS</b>				
Cash	\$ 214,904	44,601	18,819	240,686
<b>Total Assets</b>	<b>\$ 214,904</b>	<b>44,601</b>	<b>18,819</b>	<b>240,686</b>
<b>LIABILITIES</b>				
Due to others	\$ 314,904	44,601	18,819	340,686
<b>Total Liabilities</b>	<b>\$ 314,904</b>	<b>44,601</b>	<b>18,819</b>	<b>340,686</b>

**TOWN OF DURHAM, CONNECTICUT**  
**Statement of Debt Limitation**  
**June 30, 2006**

Total Current Year Tax Collections,  
Including Interest and Lien Fees \$ 18,664,029

Reimbursement For Revenue Loss On:  
Tax Relief For the Elderly 39,676

Tax Base \$ 18,703,705

	<u>General Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit</u>
Debt Limitation:					
2-1/4 times base	\$ 42,083,336				
4-1/2 times base		84,166,673			
3-3/4 times base			70,138,894		
3-1/4 times base				60,787,041	
3 times base					56,111,115
 Total Debt Limitation	<u>42,083,336</u>	<u>84,166,673</u>	<u>70,138,894</u>	<u>60,787,041</u>	<u>56,111,115</u>
 Indebtedness:					
Town Share of Regional School District Number 13 Bonded Indebtedness		13,335,775			
General obligation bonds payable	370,000				
Capital lease obligations payable	54,944				
 Total Indebtedness	<u>424,944</u>	<u>13,335,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 41,658,392</u>	<u>70,830,898</u>	<u>70,138,894</u>	<u>60,787,041</u>	<u>56,111,115</u>

Total Capacity For Borrowing (7 Times Base) \$ 130,925,935

Total Present Indebtedness 13,760,719

Margin For Additional Borrowing \$ 117,165,216

**REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

**ALBERT J. RUSILOWICZ**  
**CERTIFIED PUBLIC ACCOUNTANT, LLC**  
8 WOLF HOLLOW LANE  
KILLINGWORTH, CONNECTICUT 06419  
(860) 663-2411

**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 members of the Board of Finance  
of the Town of Durham, Connecticut:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut, as of and for the year ended June 30, 2006, which collectively comprise the Town of Durham, Connecticut's basic financial statements and have issued my report thereon dated December 14, 2006. I conducted my 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**

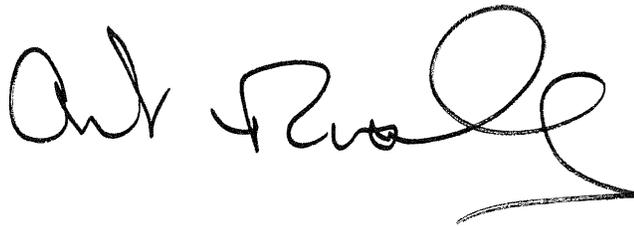
In planning and performing my audit, I considered the Town of Durham, Connecticut's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Town of Durham, Connecticut's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 2006-1 and 2006-2 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Durham, Connecticut's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Finance, management, others within the organization, 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.

A handwritten signature in black ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Albert J. Rusilowicz  
Certified Public Accountant, LLC  
Killingworth, Connecticut  
December 14, 2006

**REPORT AND SCHEDULES REQUIRED  
BY OMB CIRCULAR A-133**

**ALBERT J. RUSILOWICZ**  
**CERTIFIED PUBLIC ACCOUNTANT, LLC**  
8 WOLF HOLLOW LANE  
KILLINGWORTH, CONNECTICUT 06419  
(860) 663-2411

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the members of the Board of Finance  
of the Town of Durham, Connecticut:

**Compliance**

I have audited the compliance of the Town of Durham, Connecticut with the types of compliance requirements described in the "*U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*" that are applicable to each of its major federal programs for the year ended June 30, 2006. The Town of Durham, 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 of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Durham, Connecticut's management. My responsibility is to express an opinion on the Town of Durham, Connecticut's compliance based on my audit.

I conducted my 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 OMB Circular A-133 require that I 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 federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Durham, Connecticut's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Town of Durham, Connecticut's compliance with those requirements.

In my opinion, the Town of Durham, 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, 2006.

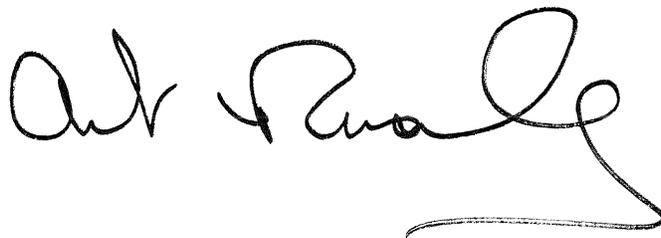
(Continued)

### Internal Control Over Compliance

The management of the Town of Durham, Connecticut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Town of Durham, Connecticut's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Finance, management, others within the organization 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.

A handwritten signature in black ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal flourish at the end.

Albert J. Rusilowicz  
Certified Public Accountant, LLC  
Killingworth, Connecticut  
December 14, 2006

**TOWN OF DURHAM, CONNECTICUT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Pass-through Programs:</b>			
<b>U.S. Department of Housing and Urban Development:</b>			
Passed through the State of Connecticut Department of Economic and Community Development			
Community Development Block Grant-Small Cities Program	14.219	SC0503801	\$ 520,000
Community Development Block Grant-Small Cities Program	14.219	SC0403801	44,068
<b>Total U.S. Department of Housing and Urban Development</b>			<u>564,068</u>
<b>U.S. Department of Homeland Security:</b>			
Passed through the State of Connecticut DEMHS			
Federal Emergency Management Agency-Snow Removal Assistance-Disaster Number EM-3200-CT	97.XXX	FEMA EM-3200-CT	38,286
<b>U.S. Department of Transportation:</b>			
Passed through the State of Connecticut Department of Transportation			
Streetscape Enhancement FAP Number TEA-PEDS(32)	20.XXX	37-95	955
Streetscape Enhancement FAP Number TEA-0137(101)	20.XXX	37-98	73
<b>Total U.S. Department of Transportation</b>			<u>1,028</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 603,382</u>

**TOWN OF DURHAM, CONNECTICUT**

**Notes to the Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2006**

**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Durham, 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 State, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in his schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**TOWN OF DURHAM, CONNECTICUT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2006**

**Section I - Summary of Auditor's Results**

***Financial Statements:***

Type of auditor's report issued:  
**Unqualified**

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	<u>      </u> yes	<u>  X  </u> no
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

***Federal Awards:***

Internal control over major programs:

Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	<u>      </u> yes	<u>  X  </u> no

Type of auditor's report issued on compliance for major programs:  
**Unqualified**

Any findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>      </u> yes	<u>  X  </u> no
--------------------------------------------------------------------------------------------------------------	-------------------	-----------------

Identification of major programs:

CFDA Number: 14.219  
U.S. Department of Housing and Urban Development  
Community Development Block Grant-Small Cities Program

Dollar threshold used to distinguish between type A and type B programs:  
**\$300,000**

Auditee qualified as a low-risk auditee?	<u>      </u> yes	<u>  X  </u> no
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# TOWN OF DURHAM, CONNECTICUT

## Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2006

### Section II- Financial Statement Audit

#### Reportable Conditions Considered to be Material Weaknesses:

#### Finding 2006-1: Internal Controls Regarding the Processing of Transactions in the Tax Collectors' Office.

**Condition:** During fiscal year ended June 30, 2006, the Town of Durham implemented a new software package for processing all tax related activity in the Assessors' office and the Tax Collectors' office. Internal control systems were not established to: (1) Ensure that tax collection information, specifically tax receivable amounts, were properly converted from the previous software package to the new software package and differences, although immaterial as to amount, were noted. (2) Ensure that assessment amounts per the Assessors' office resulted in the proper amount of tax billings being generated. Again, differences, although immaterial as to amount, were noted. (3) Reconcile amounts received and/or refunded by the Tax Collector to amounts as reported on reports as generated by the new tax software package within the Tax Collectors' office. (4) Reconcile amounts reported as being collected by the Tax Collector to amounts as being recorded as having been received by the Finance Department.

**Criteria:** Internal controls should be in place that provide reasonable assurance that all taxes as assessed are billed; all tax amounts received and refunded are properly recorded within the Tax Collectors' office; and that taxes received and refunded per the Tax Collector agree to taxes as collected or refunded per the Finance Department.

**Effect:** Because of the failure to establish adequate reconciling procedures over taxes billed between the Assessors' office and the Tax Collectors'; and between collections as received and refunded by the Tax Collector and amounts as reported by the software package utilized by the Tax Collectors office; and between amounts as reported as having been collected and refunded per the Tax Collectors office and amounts as having been recorded by the Finance Department; taxpayer accounts may have been paid, refunded, or otherwise adjusted without the approval or knowledge of management.

**Recommendation:** Procedures must be implemented to ensure that:

- (1) All taxes as assessed are billed.
- (2) All tax collections and refunds as processed by the Tax Collector are reconciled by the Tax Collector to reports as generated by the tax software and all differences are followed up on promptly and appropriately reconciled on the tax software system and subsidiary records.
- (3) Total tax collections recorded as having been received and total tax refunds as having been recorded as having been issued by the Tax Collector, must be reconciled, at least monthly, to amounts as having been recorded as having been received and refunded by the Finance Department.

(Continued)

## TOWN OF DURHAM, CONNECTICUT

### Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2006

#### Section II- Financial Statement Audit

##### Reportable Conditions Considered to be Material Weaknesses:

##### Finding 2006-2: Reconciliation of General Fund Cash Account

**Condition:** For the period from July, 2005 through April, 2006, the bank reconciliations for the Town's General Fund "Money Market" account contained significant unreconciled differences. The amounts of the unreconciled differences varied from month to month and ranged from several hundred dollars to several thousands of dollars.

**Criteria:** The single most important internal control is the internal control over cash. Effective internal controls contemplate that, at a minimum, cash balances are reconciled to the accounting records of the Town on a monthly basis and that any and all differences be followed up on and corrected in a timely manner.

**Effect:** The failure to properly reconcile the General Fund cash account and follow up on all reconciling items on a timely basis provides an internal control deficiency whereby errors or irregularities which could be material to the financial statements may occur and not be detected by employees or management in the normal course of performing their assigned functions.

**Cause:** Although the Town did perform monthly reconciliations of its cash accounts, the fact that the reconciliations contained, what in some cases were, significant unreconciled differences indicates that the Town did not have adequate internal controls in place to ensure that the bank reconciliation process was complete and effective and that corrective action was being taken on all reconciling items.

**Recommendation:** I recommend that, as part of the bank reconciliation process, all reconciling items be investigated and corrected on a timely basis. Additionally, I recommend that the bank reconciliations be reviewed on a monthly basis by either the Treasurer or the First Selectman so that inquiries can be made, independent of the bank reconciliation preparer, as to any unusual reconciling items and/or unreconciled differences.

#### Section III- Findings and Questioned Costs- Major Federal Awards Programs

None

**TOWN OF DURHAM, CONNECTICUT**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2006**

**Status of Prior Year Findings:**

There were no audit findings relative to Federal programs for the fiscal year ended June 30, 2005.

**REPORT AND SCHEDULES REQUIRED  
BY THE STATE OF CONNECTICUT  
SINGLE AUDIT ACT**

**ALBERT J. RUSILOWICZ**  
**CERTIFIED PUBLIC ACCOUNTANT, LLC**  
8 WOLF HOLLOW LANE  
KILLINGWORTH, CONNECTICUT 06419  
(860) 663-2411

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO 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 members of the Board of Finance  
of the Town of Durham, Connecticut:

**Compliance**

I have audited the compliance of the Town of Durham, Connecticut with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that are applicable to each of its major state programs for the year ended June 30, 2006. 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 Durham, Connecticut's management. My responsibility is to express an opinion on compliance based on my audit.

I conducted my 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 I 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 Durham, Connecticut's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Town of Durham, Connecticut's compliance with those requirements.

In my opinion, the Town of Durham, Connecticut complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the Town of Durham, 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 my audit, I considered the internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act.

(Continued)

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving internal control over compliance and its operation that I consider to be material weaknesses.

**Schedule of Expenditures of State Financial Assistance**

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Durham, Connecticut as of and for the year ended June 30, 2006, and have issued my report thereon dated December 14, 2006. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Durham, 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 my 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, 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.

A handwritten signature in black ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Albert J. Rusilowicz  
Certified Public Accountant, LLC  
Killingworth, Connecticut  
December 14, 2006

**TOWN OF DURHAM, CONNECTICUT**  
**Schedule of Expenditures of State Financial Assistance**  
**For the Year Ended June 30, 2006**

<u>State Grantor; Pass-Through Grantor; Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>Office of Policy and Management:</b>		
Property Tax Relief For Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	\$ 168,381
Local Capital Improvement Program	12050-OPM20600-40254	54,307
Property Tax Relief For Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	39,676
Payment In-Lieu of Taxes-State Owned Property	11000-OSC15910-17004	20,045
Property Tax Relief For Veterans	11000-OPM20600-17024	10,189
Property Tax Relief for the Elderly	11000-OPM20600-17011	1,026
<b>Total Office of Policy and Management</b>		<u>293,624</u>
<b>Department of Transportation:</b>		
Local Bridge Program:		
Maple Avenue Bridge -State Project Number 37-91	21010-DOT-57000-XXXXX	5,440
Town Aid Road Grant	12001-DOT57000-17036	101,653
Resident Trooper DUI Grant	N/A	5,936
Underage Drinking Grant	N/A	7,186
<b>Total Department of Transportation</b>		<u>120,215</u>
<b>Office of the State Comptroller:</b>		
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	32,969
Boat Grant	12027-OSC15910-40211	858
		<u>33,827</u>
<b>Connecticut State Library:</b>		
Connecticard Payments	11000-CSL66051-17010	6,483
Historical Record Preservation Grant	12060-CSL66094-35150	7,000
State Grants to Free Public Libraries	11000-CSL66051-17003	1,558
<b>Total Connecticut State Library</b>		<u>15,041</u>
<b>Department of Education:</b>		
Youth Service Bureau	11000-SDE64000-17052	14,000
<b>Department of Public Health:</b>		
Local Health Transition	11000-DPH48500-21096	5,000
<b>Total State Financial Assistance Before Exempt Programs</b>		<u>481,707</u>
<b>Exempt Programs:</b>		
<b>Department of Education:</b>		
Education Cost Sharing	11000-SDE64000-17041	3,398,119
<b>Total Exempt Programs</b>		<u>3,398,119</u>
<b>Total State Financial Assistance</b>		<u>\$ 3,879,826</u>

**TOWN OF DURHAM, CONNECTICUT**

**Notes to the Schedule of Expenditures of  
State Financial Assistance**

**For the Year Ended June 30, 2006**

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Durham, 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
- Capital Improvements
- Road Maintenance
- Property Tax Relief
- Youth Services

**1. Summary of Significant Accounting Policies**

The accounting policies of the Town of Durham, Connecticut conform to generally accepted accounting principles accepted in the United States of America promulgated by the Governmental Accounting Standards Board. 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 Town of Durham, Connecticut's annual audit report are generally prepared on the accrual basis of accounting. The following is a summary of such basis:

Revenues are normally recognized in the accounting period in which they are earned.

Expenditures are generally recorded when goods or services are received and actual liabilities are incurred.

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 DURHAM, CONNECTICUT**

**State Financial Assistance Programs  
Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2006**

**I. Summary of Audit Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?              X   yes               no
- Reportable condition(s) identified that are  
not considered to be material weaknesses?        yes          X   no
- Noncompliance material to financial  
statements noted?                                       yes          X   no

***State Financial Assistance***

Internal control over major programs:

- Material weakness(es) identified?                   yes          X   no
- Reportable condition(s) identified that are  
not considered to be material weaknesses?        yes          X   none reported

Type of auditor's 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:

<b>State Grantor, Pass-Through Grantor, <u>Program Title</u></b>	<b>State Grant Program <u>Core-CT Number</u></b>	<b><u>Expenditures</u></b>
<b>Office of Policy and Management:</b>		
Property Tax Relief For Manufacturing Machinery and Equipment	11000-OPM2060-17031	\$ 168,381
<b>Department of Transportation:</b>		
Town Aid Road Grant	12001-DOT57000-17036	\$ 101,653

**TOWN OF DURHAM, CONNECTICUT**

**State Financial Assistance Programs  
Schedule of Findings and Questioned Costs, Continued**

**For the Year Ended June 30, 2006**

**II. Summary of Findings Related to Financial Statements Required Under Generally Accepted Government Auditing Standards**

- I have issued my reports dated December 14, 2006 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*.
- My report on compliance and other matters indicated no reportable instances of noncompliance.
- My report on internal control over financial reporting identified 2 reportable conditions which were also considered to be material weaknesses. These reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-2.

**III. Findings and Questioned Costs for State Financial Assistance**

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

**TOWN OF DURHAM, CONNECTICUT**

**Summary Schedule of Prior Audit Findings  
State Financial Assistance**

**For the Year Ended June 30, 2006**

**Status of Prior Year Findings:**

There were no audit findings pertaining to State financial assistance for the fiscal year ended June 30, 2005.