

**TOWN OF NORTH CANAAN, CONNECTICUT**  
State Single Audit  
Table of Contents  
For the Year Ended June 30, 2017

	<u>Page</u>
<b>COMPLIANCE REPORTS AND SUPPLEMENTARY SCHEDULES</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
<b>STATE SINGLE AUDIT ACT</b>	
Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act	3
Schedule of Expenditures of State Financial Assistance	6
Notes to Schedule of Expenditures of State Financial Assistance	7
Schedule of Findings and Questioned Costs	8

**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**

Independent Auditor's Report

To the Board of Finance of the  
Town of North Canaan, CT

We have audited, 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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of North Canaan, CT, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of North Canaan, CT's basic financial statements, and have issued our report thereon dated December 11, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of North Canaan, CT's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of North Canaan, CT's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of North Canaan, CT's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these

limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-01, 2016-02 and 2017-01 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

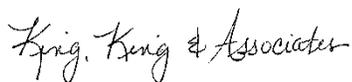
As part of obtaining reasonable assurance about whether the Town of North Canaan, CT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct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

### **The Town of North Canaan's Reponse to Findings**

The Town of North Canaan, CT's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of North Canaan, CT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town of North Canaan, CT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of North Canaan, CT's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



King, King & Associates, P.C., CPAs  
Winsted, CT  
December 11, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY  
THE STATE SINGLE AUDIT ACT**

Independent Auditor's Report

To the Board of Finance of the  
Town of North Canaan, CT

**Report on Compliance for Each Major State Program**

We have audited the Town of North Canaan, CT's compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town of North Canaan, CT's major state programs for the year ended June 30, 2017. The Town of North Canaan, CT's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of North Canaan, CT's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of North Canaan, CT's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of North Canaan, CT's compliance.

### ***Opinion on Each Major State Program.***

In our opinion, the Town of North Canaan, CT, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of the Town of North Canaan, CT, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of North Canaan, CT's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Canaan, CT's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act**

We have audited the financial statements of the Town of North Canaan, CT, as of and for the year ended June 30, 2017 and have issued our report thereon dated December 11, 2017, which contained an unmodified opinion on those financial statements. Our audit was

conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole.

*King, King & Associates*

King, King & Associates, P.C., CPAs  
Winsted, CT  
December 11, 2017

**TOWN OF NORTH CANAAN, CONNECTICUT**  
Schedule of Expenditures of State Financial Assistance  
For the Year Ended June 30, 2017

<u>State Grantor/Pass Through Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>Department of Transportation</b>		
Town Aid Road	12052-DOT57131-43455	\$ 187,983
Small Town Economic Assistance Program	12052-DOT57000-40532	381,906
<b>Connecticut State Library</b>		
Historic Document Preservation	12060-CSL66094-35150	4,000
CT Education Network	12052-CSL66011-43649	20,840
Connecticard Payments	11000-CSL66051-17010	407
<b>Office of Early Childhood</b>		
Early Childhood Program	11000-OEC64845-16274	151,854
School Readiness Quality Enhancement	11000-OEC64845-17097	3,881
<b>Department of Education</b>		
Child Nutrition State Match	11000-SDE64370-16211	1,285
Health Foods Initiative	11000-SDE64370-16212	2,606
School Breakfast Program	11000-SDE64370-17046	2,904
<b>Office of Policy and Management</b>		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	6,827
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	26,817
Reimbursed Property Tax - Disability Exemption	12050-OPM20600-17011	194
Municipal Grants-In-Aid	12052-OPM20600-43587	359,719
Property Tax Relief for Veterans	11000-OPM20600-17024	1,149
<b>Department of Consumer Protection</b>		
Bingo	34003-DCP39930-42350	39
<b>Judicial Department</b>		
Public Acts	34001-JUD95162-40001	795
Total State Financial Assistance Before Exempt Programs		<u>1,153,206</u>
<b><u>Exempt Programs</u></b>		
<b>Office of Policy and Management</b>		
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	21,925
Municipal Revenue Sharing	12002-OPM20600-17102	70,255
<b>Department of Education</b>		
Education Cost Sharing	11000-SDE64370-17041	<u>2,044,235</u>
Total Exempt Programs		<u>2,136,415</u>
<b>Total State Financial Assistance</b>		<b><u>\$ 3,289,621</u></b>

See notes to schedule.

**TOWN OF NORTH CANAAN, CONNECTICUT**  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2017

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of North Canaan, CT under programs of the State of Connecticut for the fiscal year ended June 30, 2017. Various departments and agencies of the State of Connecticut have provided financial assistance 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, road maintenance, property tax relief, and others.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Town of North Canaan, CT conform to accounting principles generally accepted in the United States of America as applicable to governmental entities.

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

***Basis of Accounting***

The fund financial statements contained in the Town of North Canaan, CT's annual audit report are prepared on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they become both measurable and available while expenditures are recognized in the accounting period in which the fund liability is incurred.

The government-wide financial statements are prepared on the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred.

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations of the State Single Audit Act, 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 NORTH CANAAN, CONNECTICUT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

We audited the financial statements of the Town of North Canaan, CT as of and for the year ended June 30, 2017 and issued our unmodified report thereon dated December 11, 2017.

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified?  Yes  None Reported
- Noncompliance material to financial statements noted?  Yes  No

*State Financial Assistance*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

We have issued an unmodified opinion relating to compliance for major State programs.

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?

Yes  No

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

<b>State Grantor And Program</b>	<b>State Core – CT Number</b>	<b><u>Expenditures</u></b>
<b>Department of Transportation:</b>		
Small Town Economic Assistance Program	12052-DOT57000-40532	\$ 381,906
<b>Office of Policy and Management:</b>		
Municipal Grants-In-Aid	12052-OPM20600-43587	\$ 359,719
• Dollar threshold used to distinguish between type A and type B programs		<u>\$ 200,000</u>

## II. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated December 11, 2017, 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*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated significant deficiencies, described below as Findings 2016-01, 2016-02 and 2017-01.

### FINDING 2016-01

#### Criteria

There should also be review of bank reconciliations by someone other than the preparer.

#### Condition

There was no review of prepared bank reconciliations.

#### Context

Bank reconciliations are prepared and should be reviewed by someone other than the preparer.

#### Effect

Internal controls are weakened.

#### Cause

Loss of the Town's accounting consultant.

#### Recommendation

We recommend that the Town engage a consultant to assist them.

#### Views of Responsible Officials and Planned Corrective Actions

The Town has engaged an accounting consultant to assist them.

## **FINDING 2016-02**

### **Criteria**

A reconciliation should be performed to ensure accuracy of reporting between the Town and the Board of Education.

### **Condition**

The Town and the Board of Education do not formally reconcile their expenditures recorded in the General Fund software to the expenditures reported in the Board of Education QuickBooks file.

### **Context**

The Town transfers money to the Board of Education for expenditures. The amounts transferred and expended should reconcile.

### **Effect**

There could be unreconciled differences between amounts reported by the BOE and amounts reported by the Town's General Fund.

### **Cause**

Past practices.

### **Recommendation**

We recommend that the Town and the Board of Education formally reconcile the amounts reported in the General Fund to the amounts reported in the Board of Education QuickBooks file.

### **Views of Responsible Officials and Planned Corrective Actions**

The Town and the Board of Education will formally reconcile going forward.

## **FINDING 2017-01**

### **Criteria**

Expenditures should be recorded in the year that the expenditure applies to.

### **Condition**

There were amounts recorded as an expenditure during 2016-2017 that should have been recorded as a prepaid since they were for the following fiscal year.

### **Context**

The BOE did not record the expenditures as Prepaid.

### **Effect**

The expenditures will be overstated in the current fiscal year and understated in the following fiscal year.

### **Cause**

Past practices.

### **Recommendation**

We recommend that the Board of Education record a prepaid for expenditures that pertain to the following fiscal year.

### **Views of Responsible Officials and Planned Corrective Actions**

The Board of Education will identify prepaid expenditures going forward.

### **III. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE**

- No findings or questioned costs are reported related to State Financial Assistance Programs.