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Over the past 49 years, the town's financial position has been stable and healthy. With the Town Council's approval, we made several significant purchases over the last two fiscal years and then encountered some unexpected expenses. As a result, we now find ourselves in a cash flow shortage that requires, for the first time, a bank loan.

The town does not employ a full-time CFO or CPA but does employ office staff who are responsible for processing payroll and accounts payable. These individuals do not have the authority to approve expenses. The Department Heads are the only individuals who have the authority to submit expenses for approval to the Mayor and the Town Council.

The town did hire a financial consultant, Mr. Stephen Hill, a CPA with an extensive background in municipal government. Beginning in November 2025, Mr. Hill began discussing the town's cash flow status with the Mayor, the Council Chairman, and Accounts Payable. Over the course of multiple meetings between November 2025 and March 2026 Mr. Hill raised concerns about the cash flow shortfall, the unexpected expenses already incurred, and the projected winter expenses related to cold temperatures, heating costs, and snow removal. Additionally, each Department submits reports to the Town Council for review at the second meeting of every month, including individual departmental reports, the Treasurer's Report, and the Tax Collector's Report. These reports show monthly revenues and all bank account balances. Mr. Hill, at the Council's request, also submitted monthly unaudited reports to the Town Council through January 2026. From February through May, the Mayor's Office has been providing monthly expenditure reports.

The town also has an auditor that is appointed by the Town Council. The most recent audit was not presented until March 2026, and at the May 5, 2026 Town Council meeting, the same auditor was reappointed. My office had already reached out to the Town Attorney's Office to request a second look at the audit and to conduct a special audit in light of the cash flow situation. I am not opposed to having another auditing firm review our financials; in fact, my office encourages it. I am in full support of it. However, as Council Member Scott Martin stated at the May 26, 2026 budget workshop meeting, the cost associated with any additional audit needs to be researched and approved by the Town Council in order to allocate the necessary funds.

Additional reports, including check registers and weekly payroll totals, have been supplied to the Town Council in the past. It was later discussed that council members did not feel they needed those reports. If the current members of the council would like to begin receiving the check register report again, it can be included in the monthly report submissions.

There has been some confusion about the accounting software the town uses. At the advice of the financial advisors and auditors hired by the town over the past several years, the town uses the Sage Financial Management and Accounting Suite of software for general ledger accounting. Payroll is processed through ADP, an outside vendor. Although QuickBooks is not suitable for managing municipal government general ledger, it is used for the accounting of the smaller checking accounts that the town maintains, such as the Senior Center account.

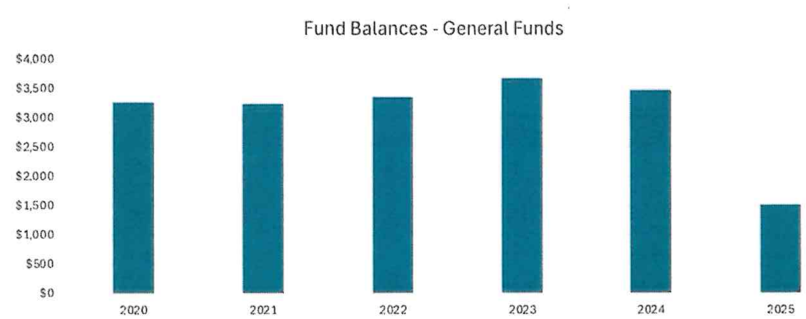
There have been numerous questions regarding the financial circumstances and decisions that have contributed to the Town's current fiscal position. I will summarize a few examples below in an effort to provide an understanding and would be happy to provide additional detail on this information. This documentation is also available in the Council meeting minutes and the financial reports, all of which are publicly available.

Examples of the contributing factors to the current fiscal position is transfers made from the general fund surplus over the previous fiscal year and the current fiscal year to cover operating expenses and capital expenditures:

- Over the course of the 2024-2025 fiscal year, the Town Council approved several transfers totaling approximately $800,000 from the general fund to cover operating expenses and several capital projects. Examples of the transfers include:
    - February 18, 2025: Approved $134,827 from general fund to replace truck #17, a 2001 Mini Dump Truck
    - June 3, 2025: Approved $126,909 from general fund to cover multiple expenses including electricity and solid waste.
- For the past several years, the town has offset the mill rate increase by using surplus funds of approximately $300,000 each year.

These transfers, along with other transfers that were approved and necessary at the time, have had an effect on our current cash flow. It has reduced our available cash which has made it more difficult to handle unexpected expenses.

Submitted by the Office of the Mayor



This chart is part of the Town of Prospect Annual Financial Report – June 30, 2025 (Table A-3 on page 53)