

**TOWN OF PROSPECT, CONNECTICUT**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

**TOWN OF PROSPECT, CONNECTICUT  
ANNUAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2012**

**Table of Contents**

Independent Auditor's Report	4
Management's Discussion and Analysis	6

**BASIC FINANCIAL STATEMENTS:**

Government-Wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities	22
Fund Financial Statements:	
Balance Sheet - Governmental Funds	23
Reconciliation of the Total Governmental Fund Balance to Net Assets of Governmental Activities	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Statement of Fiduciary Net Assets - Fiduciary Funds	28
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	29
Notes to the Financial Statements	30

**REQUIRED SUPPLEMENTARY INFORMATION:**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis) - General Fund	50
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## **OTHER SUPPLEMENTARY INFORMATION:**

### Combining and Individual Fund Statements:

Combining Balance Sheet - Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	53
Combining Balance Sheet - Nonmajor Special Revenue Funds	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	55
Combining Balance Sheet - Nonmajor Capital Projects Funds	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Projects Funds	57
Report of the Tax Collector	58
Statement of Debt Limitation	59

### **Report Required by Government Auditing Standards:**

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> (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)	60
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### **State Financial Assistance:**

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the State Single Audit Act (Unqualified Opinion on Compliance and No Material Weaknesses and No Significant Deficiencies in Internal Control over Compliance Identified)	63
Schedule of Expenditures of State Financial Assistance	66
State Financial Assistance Programs - Note to Schedule	67
State Financial Assistance Programs - Schedule of Findings and Questioned Costs	68

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Independent Auditor's Report

Mayor Robert Chatfield  
Town Council  
Town of Prospect  
Prospect, Connecticut

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut as of and for the year ended June 30, 2012, 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 Prospect, 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. 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, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

In accordance with *Government Auditing Standards*, I have also issued my report dated December 7, 2012, on my consideration of the Town of Prospect's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other grant agreements and other matters. The purpose of that report is to describe the scope of 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 read in conjunction with this report in considering the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements, Report of the Tax Collector, and Statement of Debt Limitation are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State of Connecticut Single Audit Act (C.G.S. Sections 4-230 to 4-236) and is also not a required part of the basic financial statements of the Town of Prospect, Connecticut. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



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Michael J. Battista  
Certified Public Accountant

Northford, Connecticut  
December 7, 2012

## **Management's Discussion and Analysis**

### **Introduction**

This Annual Financial Report incorporates financial reporting requirements of the Governmental Accounting Standards Board (GASB) Statement 34. GASB Statement 34 requires that we, as managers of the Town of Prospect, focus on our most important, or "major" funds, including the general fund.

Fund statements measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the short-term performance of individual funds using the same measures governments use when financing current operations. On the other hand, if we charge a fee to users for services, fund information will continue to be based on accrual accounting. Showing budgetary compliance has always been an important part of governmental accountability. Our financial statements include the *original* budget as well as the final amended budget.

Our hope is to provide you, the reader, with an objective and readable analysis of our financial performance for the year. Taken together, the following statements should enable you to assess whether Prospect's financial position has improved or deteriorated as a result of the year's operations. The annual report includes government-wide financial statements prepared on the accrual basis for all of your government's activities. Accrual accounting measures not just current assets and current liabilities, but long-term assets and liabilities as well. It also reports all revenues and all costs of providing services each year, not just those received or paid in the current fiscal year (or shortly thereafter).

In summary, the government-wide financial statements will help you:

- Assess the finances of the Town of Prospect in its entirety, including the year's operating results;
- Determine whether our overall financial position improved or deteriorated;
- Evaluate whether our current-year revenues were sufficient to pay for current-year services;
- See the costs of providing you the services you have requested of us;
- See how we finance the programs you have asked for – through user fees and other program revenues - versus general tax revenues;
- Understand the extent to which your government has invested in capital assets, including roads, bridges, water mains, schools, parks, and other infrastructure assets;
- Make better comparisons between governments.

The Annual Financial Report includes the following information and financial statements as defined by GASB Statement 34:

- ✱ **Management Discussion and Analysis (MD&A)** – An introduction to the basic financial statements and an analytical overview of the government’s financial activities. The MD&A provides an objective and easily readable analysis of the Town’s financial activities based on currently known facts, decisions, or conditions. The MD&A

- Includes comparisons of the current year to the prior year based on government-wide information;
- Provides an analysis of our overall financial position and the results of operations to assist you in assessing whether our financial position has improved or deteriorated as a result of the year’s activities;
- Analyzes significant changes in fund and major budget variances;
- Describes capital asset and long-term debt activity during the year;
- Concludes with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on our financial position or the results of our operations.

- ✱ **Basic Financial Statements**

- **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the Town of Prospect’s finances, in a manner similar to private-sector business.

- The Government-Wide Financial Statements include a *statement of net assets* that presents information on all of the Town of Prospect’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Prospect is improving or deteriorating. The *statement of activities* presents information showing how the government’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The statement of activities is prepared using the economic resources measurement focus and the accrual basis of accounting. These statements report all assets, liabilities, revenues, expenses, and gains and losses of the government. Both of the government-wide financial statements distinguish functions of the Town of Prospect that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Town of Prospect conducts no business-type activities. The governmental activities of the Town include general government, public safety, public works, parks and recreation, health and social services, education, other expenditures, and payment of interest on long-term debt. Thus the government-wide financial statements include only the Town of Prospect itself (known as the *primary government*);



- Fiduciary activities whose resources are not available to finance our governmental programs are excluded from these statements.

Capital assets, including infrastructure, are reported along with depreciation expense in the statement of activities. Net assets are reported as capital assets net of related debt, restricted, and unrestricted. Permanent endowments or permanent fund principal amounts included in restricted net assets are shown as either expendable or nonexpendable;

Expenses are presented reduced by program revenues, resulting in a measurement of “net (expense) revenue” for each of the government’s functions. Program expenses include all direct expenses. General revenues such as taxes and special and extraordinary items are reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management.

➤ **Fund Financial Statements** are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Prospect, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

- *Governmental fund* financial statements include financial data for the general fund, special revenue funds, capital projects, debt service, and permanent funds and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements with similar information presented for *governmental funds* in the long-term impact of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The Town of Prospect maintains four major governmental funds (general fund, library fund, land acquisition fund, and open space fund), seven non-major special revenue funds,

and two non-major capital projects funds, all of which are governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the other three major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. Prospect adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

- *Fiduciary fund* financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Fund financial statements are presented for primary government funds. Governmental fund statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances. A summary reconciliation of the fund and government-wide statements accompanies the fund financial statements.

Separate columns are shown for each major governmental fund and for consolidated non-major governmental funds. Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental funds and at least 5 percent of the aggregate amount for all governmental funds.

Governmental fund balances are segregated into restricted, assigned, and unassigned categories.

We present separate fiduciary fund statements used to report assets held in a trustee or agency capacity for others and which cannot be used for our own programs. We must show a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Fiduciary fund statements also disclose interfund loans, interfund services provided and used, and interfund transfers.

#### ➤ Notes to the Financial Statements

- Consist of notes that provide information essential to your understanding of the data provided in the government-wide and fund financial statements.



➤ Required Supplementary Information (RSI)

- Consists of MD&A and budgetary comparison schedules;
- Includes a budgetary comparison schedule for the general fund to demonstrate whether resources were obtained and used in accordance with the legally adopted budget;
- The Town of Prospect's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

We hope the financial reporting model will serve as a comprehensive way to demonstrate our stewardship in the long term in addition to the way we currently demonstrate our management in the short term and through the budgetary process.

As management of the Town of Prospect, we offer readers of the Town's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished elsewhere in this report.

**Financial Highlights**

- The assets of the Town of Prospect exceeded its liabilities at the close of the most recent year by \$16,568,652 (net assets). Of this amount, \$854,378 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$423,083 through a combination of decreased governmental fund balances and depreciation that exceeded the acquisition of capital assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combining ending fund balances of \$1,178,191, a decrease of \$213,991 in comparison with the prior year. Of the total fund balance, \$949,312, or 80.6%, is available for spending at the government's discretion (unrestricted fund balance).
- The unassigned fund balance for the general fund decreased \$184,527 from \$502,514 to \$317,987. The June 30, 2012 balance is 1.1% of total general fund expenditures of \$27,902,473.
- Prospect's total bonded debt decreased by \$315,000 (16.7%) to \$1,575,000 as we made scheduled principal payments on our outstanding bonded debt.



## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the Town of Prospect, assets exceeded liabilities by \$16,568,652 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets, \$15,485,395, or 93.5%, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. Prospect uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1. Net Assets

	Total Primary Government 2012	Total Primary Government 2011
Current and Other Assets.....	\$ 2,055,651	\$ 2,253,894
Capital Assets, net of depreciation .....	17,666,394	18,231,994
Total Assets.....	19,722,045	20,485,888
Long-Term Obligations Outstanding.....	2,154,302	2,977,637
Other Liabilities.....	999,091	516,516
Total Liabilities .....	3,153,393	3,494,153
Net Assets:		
Invested in Capital Assets, net of related debt .....	15,485,395	15,621,009
Restricted.....	228,879	224,225
Unrestricted .....	854,378	1,146,501
Total Net Assets .....	\$ 16,568,652	\$ 16,991,735

*Restricted net assets* (\$228,879) may be used for capital expenditures of the library in accordance with the donor's bequest.

*Unrestricted net assets* (\$854,378) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets decreased by \$423,083 during the current fiscal year. The Town brought in net general revenues of \$21,386,928, which were exceeded by its net operating expenditures of \$21,810,011. Gross revenues amounted to \$27,997,872. Gross expenses of \$28,420,955 were offset by \$635,096 in charges for services, \$5,752,247 in operating grants and contributions, and \$223,601 in capital grants. Of the net expenditures, \$14,899,226 was accounted for by Regional School District No. 16 assessments. Net public works expenditures of \$2,552,747, net general government outlays of \$1,758,897, net public safety of \$1,498,806,

and net parks and recreation costs of \$691,489 accounted for almost all of the remaining balance. The Town's general revenues derived from \$21,068,007 in tax collections, \$178,032 of unrestricted grants and contributions, and \$140,889 in investment income and other general revenues.

**Governmental activities.** Governmental activities accounted for the entire net asset decrease of \$423,083. Key elements of this increase are as follows:

**Table 2. Changes in Net Assets**

	Total Primary Government 2012	Total Primary Government 2011
Revenues:		
Program Revenues:		
Charges for Services.....	\$ 635,096	\$ 793,296
Operating Grants and Contributions.....	5,752,247	5,425,989
Capital Grants and Contributions .....	223,601	633,757
General Revenues:		
Property Taxes.....	21,068,007	20,930,943
Grants and Contributions not Restricted to Specific Purpose..	178,032	210,782
Investment Earnings .....	11,497	18,847
Other General Revenues .....	129,392	128,871
Total Revenues .....	<u>\$ 27,997,872</u>	<u>\$ 28,142,485</u>
Program Expenses:		
General Government .....	\$ 2,524,160	\$ 2,478,290
Public Safety.....	1,619,712	1,498,493
Public Works .....	2,795,702	2,564,912
Parks and Recreation .....	630,693	562,180
Health and Social Services .....	299,562	277,648
Education.....	20,218,427	19,692,982
Other Expenditures.....	227,449	421,764
Interest on Long-Term Debt.....	105,250	119,021
Total Governmental Activities .....	<u>28,420,955</u>	<u>27,615,290</u>
Increase (Decrease) in Net Assets .....	<u>\$ (423,083)</u>	<u>\$ 527,195</u>

- Property taxes collected increased by \$137,064 (0.7%) over FY 2011. Actual collections of property tax, interest, and lien fees during FY 2012 exceeded the budgeted figure of \$21,039,785 by \$70,387.
- Charges for services decreased by \$158,200 due to sewer use host fees of \$137,500 that were unique to FY 2011. Other expenditures decreased from \$421,764 to \$227,449 in FY 2012 with the absence of the related sewer use expenditure.
- Operating grants and contributions increased by \$326,258 due to storm damage assistance of \$406,097 from FEMA in FY 2012 as compared to \$36,177 relief recognized in FY 2011.
- Capital grants decreased \$410,156 from FY 2011. In FY 2011, we received Federal stimulus funds for the Straitsville Road project in the amount of \$184,827 and for an Energy Conservation project in the amount of \$81,602. We also received \$155,502 from the Connecticut Department of Environmental Protection to complete the Water Main project. There were no such projects for FY 2012.



- Significant expenditure increases between FY 2011 and FY 2012 come from education, \$525,445 (2.7%), and public works, \$230,790 (9.0%).
- The Region 16 expenditure budget increased 1.6% from \$33,010,458 to \$33,531,079. There was no increase in the State Education Cost Sharing grant. Our share of the Region's budget, based on the Average Daily Membership (ADM), increased from 60.101% to 60.298%. Accordingly, our net cost increased 2.6% from \$14,520,414 to \$14,899,226. Further, there was no refund of prior year unspent Region 16 budgeted expenditures in FY 2012 as compared to \$146,633 received in FY 2011.
- The public works increase is due to the damage and clean up related to Hurricane Irene in August 2011 (the fifth costliest hurricane in United States history, excluding Hurricane Sandy a year later) and Snow Storm Alfred in October 2011. Total recognized storm expense for FY 2012 was \$541,463 and was accounted for primarily in Public Works and General Government. The expenditures were financed by a short-term loan from the Capital Projects Open Space Fund, which was repaid upon receipt of FEMA funds in the amount of \$406,097. The net cost of the storm damage to the Town was \$135,366.

Chart 1 presents the costs of each of the Town's five largest programs as well as each program's net cost (total cost less revenues generated by the activities). The Net Cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

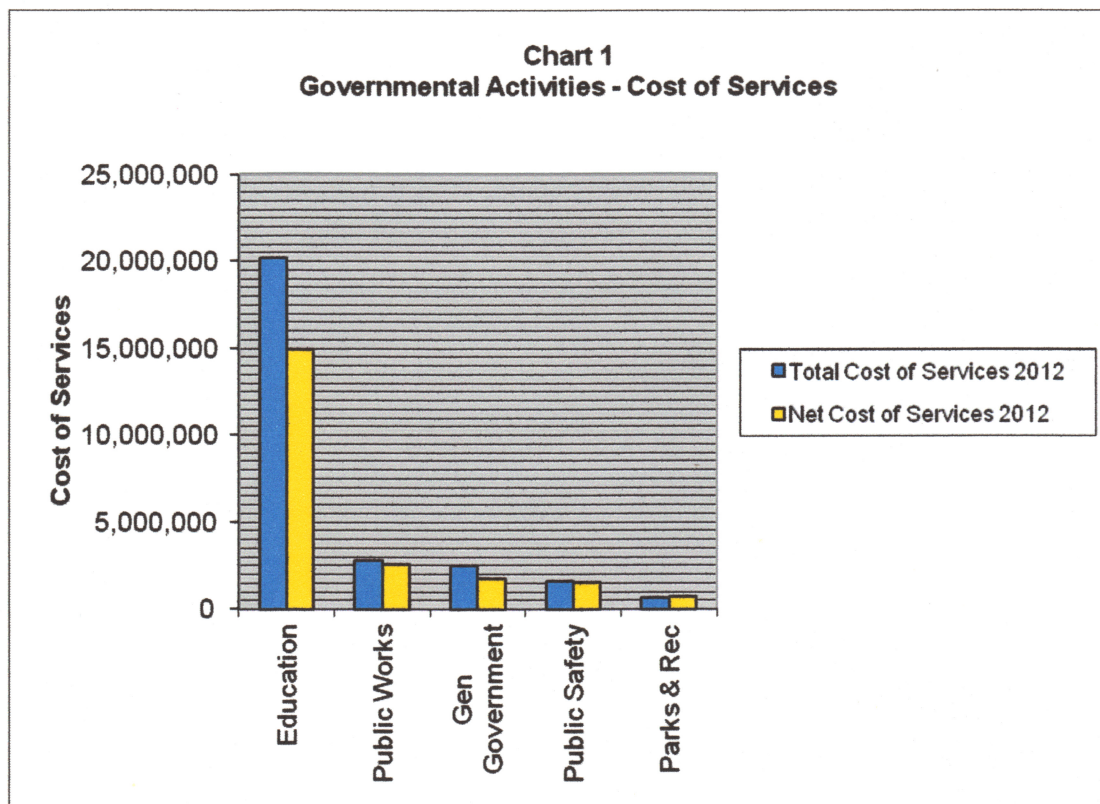
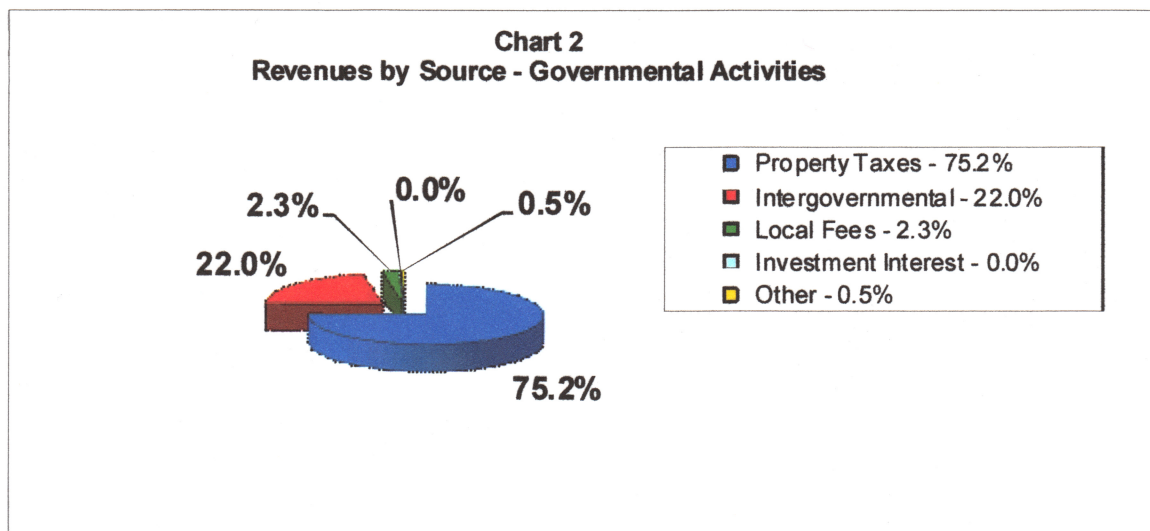


Chart 2 below reflects what percentage of our total revenue is contributed by each of five primary sources. As with most local governments in Connecticut, Prospect relies heavily on the property tax to fund education and other town services.



### Financial Analysis of the Government's Funds

As noted earlier, Prospect uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Prospect's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,178,191, a decrease of \$213,991 in comparison with the prior year. Over 80% of fund balance, or \$949,312, constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is restricted for future capital expenditures (\$228,879).

The general fund is the chief operating fund of the Town of Prospect. At the end of the current fiscal year, unassigned fund balance of the general fund was \$317,987, the same as total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare the unassigned general fund balance (and total fund balance) to total general fund expenditures. Unreserved (and total) fund balance represents 1.1% of total general fund expenditures of \$27,902,473.

The Town's general fund balance decreased by \$184,527 to \$317,987 during the current fiscal year. In essence, our expenditures exceeded our expectations while revenues were moderately favorable.

### **General Fund Budgetary Highlights**

The original budget contemplated total revenues of \$27,085,626 and total expenditures of \$27,115,626 with an operating deficit of \$30,000 being covered by net transfers. The final revenue budget reflected a \$445,938 increase in total revenues to \$27,531,564 and total expenditures increased \$816,155 to \$27,931,781 to produce an expected operating deficit of \$400,217; balanced by \$204,004 of net transfers and the use of \$196,213 general fund surplus. The significant differences in the original and final budget can be explained as follows:

- \$101 thousand additional net appropriation to general government primarily to cover \$92 thousand of town hall building operating expense;
- \$205 thousand increase in the public safety budget for police wages which was offset by transfers from the police overtime special revenue fund;
- \$451 thousand increase in the public works budget for storm damage which was reimbursed 75% from FEMA relief grants.

During the year, favorable revenue budgetary variances from the original budget totaling \$423,556 and unfavorable expenditure variances of \$786,847 produced a net operating excess of expenditures over revenues of \$363,291. The unfavorable operating budget variance was offset by additional positive transfers of \$178,764 resulting in an overall unfavorable budget variance of \$184,527.

Actual revenues compared to the original budget were favorable in all categories except interest income which was \$17,014 less than anticipated. Tax collections were \$70,387 greater than anticipated, with favorable variances of \$77,251 for the current grand list, \$2,823 for automobile supplement and \$19,335 for interest and lien fees. Collections on prior year taxes were \$29,022 less than budgeted.

Grant revenue exceeded expectations by \$325,462 due to the unanticipated FEMA grant of \$406,097 and the balance of a stimulus grant award of \$36,049 for the Waterline. However, State of Connecticut financial assistance fell \$116,684 short of budget anticipation.

### **Capital Asset and Debt Administration**

**Capital Assets.** The Town of Prospect's investment in capital assets for its governmental assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, water mains, and bridges. The net increase in the Town's investment in capital assets for the current fiscal year (before depreciation and net of dispositions of \$311,515) was \$516,492, or 1.5%, for governmental activities. After accounting for accumulated depreciation, capital assets decreased by \$565,600, or 3.1% to \$17,666,394.

Major capital asset events during the current fiscal year included the following:

- We expended \$447,775 for infrastructure which consisted primarily of road reconstruction and repair. We wrote off \$132,843 of infrastructure that was fully depreciated and 15 years old or more;
- We purchased a 2012 Expedition in the amount of \$34,825 for the police department and we expended \$15,590 of specially budgeted funds for a plow and frame for public works.

**Table 3. Capital Assets at Year-end (Net of Depreciation)**

	Total Primary Government	
	2012	2011
Land	\$ 1,343,153	\$ 1,343,153
Buildings and Improvements	5,184,007	5,328,588
Infrastructure	9,588,623	9,853,152
Vehicles	1,170,016	1,298,906
Furnishings and Equipment	380,595	408,195
Totals	<u>\$17,666,394</u>	<u>\$18,231,994</u>

Additional information on the Town of Prospect's capital assets can be found in Note 4 of this report.

**Long-term debt.** At the end of the current fiscal year, the Town of Prospect had \$1,575,000 of long-term bonded debt outstanding and no short-term debt. We reduced our long-term debt by \$315,000 (16.7%) through the payment of regularly scheduled principal amortizations. 100% of the Town's debt is general obligation backed by the full faith and credit of the government.

Prospect is a member town of Regional School District No. 16 along with the Town of Beacon Falls. As such, Region 16's \$21,498,000 of long-term and short-term debt represents overlapping debt to the Town for which it has also pledged its full faith and credit. The State reimburses the District for principal and interest on its long-term debt at about 72% for bonds authorized prior to 1996. Prospect's share of the district's net debt is based on the average daily membership (ADM) of Prospect students attending the regional facility on October 1 of the preceding year. For the fiscal year 2012, Prospect's ADM percentage was calculated to be 60.298%, and the Town's share of the District net debt of \$11,044,973 at the ADM rate amounts to \$6,659,897, which debt constitutes overlapping debt to the Town.



**Table 4. Long-Term Term Debt**

<u>Bonds</u>					<u>Date of</u>
<u>Date</u>	<u>Purpose</u>	<u>Rate %</u>	<u>Original</u>	<u>Debt</u>	<u>Fiscal</u>
			<u>Issue</u>	<u>Outstanding</u>	<u>Year</u>
					<u>Maturity</u>
07/15/98	Public Improvement	4.75-4.625	\$4,310,000	\$1,000,000	2017
08/15/06	Public Improvement	3.70-5.00	1,155,000	575,000	2017
			<u>\$5,465,000</u>	<u>\$1,575,000</u>	

The Town of Prospect's bonded debt decreased by \$315,000 (16.7%) during the current fiscal year. See Note 5, Long-Term Debt, of this report for more information.

State statutes limit the amount of general obligation debt a governmental entity may issue to seven times its tax collections plus interest and lien fees. For June 30, 2012, the maximum amount of borrowing permitted under the formula would be \$148,210,818. Net direct borrowings of \$1,575,000 and the Town's net share of overlapping regional school district debt of \$6,659,897 totals \$8,234,897 and represent the Town of Prospect's outstanding general obligation net debt. This debt is \$139,975,921 below the maximum debt limitation (see "Statement of Statutory Debt Limitation" of this report).

For fiscal year June 30, 2009, the Town adopted Governmental Accounting Standards Board (GASB) Statement #45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. The basic premise of GASB Statement #45 is that "Other Post-Employment Benefits" (OPEB) such as post-retirement healthcare benefits are earned, and should be recognized, when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future. GASB Statement #45 requires employers to account for and to report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in the same manner as they currently do for pensions. This includes the notion that annual OPEB cost would equal the annual required contribution (ARC) to the plan, provided that the ARC is calculated within specified actuarial parameters. The Government OPEB Plan is described in Note 7 to the financial statements. Actuarial information, including assumptions and methods, are disclosed in detail.

The annual required contribution (ARC) for fiscal year 2012 was calculated to be \$91,007 and is reported as an expense net of current year contributions in the Statement of Activities. At June 30, 2012, the Town's net OPEB obligation is \$292,443 and is reflected as a long-term liability in the Statement of Net Assets.

## **Economic Factors and Next Year's Budget**

- The unemployment rate for the Town of Prospect was 7.5% as of June 30, 2012, which is a decrease from a rate of 7.8% twelve months ago. This compares favorably to the state's average unemployment rate of 8.4% and the national average rate of 8.4% (not seasonally adjusted).

Inflationary trends in the region compare favorably to the national indices.

- Prospect's budget for FY 2012-13 reflects a \$607,793 increase in expenditures (2.24%) from \$27,121,626 to \$27,729,419.
- The Town budget (excluding education) increased \$79,309 from the FY 2012 budget figure of \$6,903,199 to \$6,982,508, an increase of 1.15%.
- The cost of education at Regional School District No. 16 increased \$528,484 (2.61%) to \$20,746,911 at the ADM rate of 60.522% after expected grants and fees and before expected State of Connecticut Educational Cost Sharing (ECS) grants of \$5,319,201.
- The Town tax levy for FY 2012-13 increased \$686,152 (3.33%) from \$20,601,291 to \$21,287,443. The projected rate of tax collections remains at 98.5% of the grand list.
- Except as noted below, municipal revenue and expenditure changes from the FY 2012 budget were modest adjustments.

Significant municipal revenue and expenditure changes from the FY 2012 budget are noted below:

### Revenues

- ❖ \$20,000 decrease in interest income;
- ❖ \$15,000 decrease in Town Clerk fees;
- ❖ \$15,000 decrease in property conveyance tax;
- ❖ \$30,000 decrease in State of Connecticut revenue sharing.

### Expenditures

- ❖ \$90,000 *decrease* in assessor due to completion of revaluation;
- ❖ \$10,000 increase in planning & zoning for Review Plan development & P & Z regulations;
- ❖ \$22,000 *decrease* in employee medical benefits;
- ❖ \$15,000 increase for fire protection;
- ❖ \$17,000 increase in police protection;
- ❖ \$19,000 increase in workers compensation insurance;
- ❖ \$13,000 *decrease* in household hazardous waste;
- ❖ \$44,000 increase for the commission on aging;
- ❖ \$27,000 increase for a public works vehicle lease payment.



All of these factors contributed to preparing Prospect's budget for the 2013 fiscal year.

At the close of the 2012 fiscal year, unreserved fund balance in the general fund stood at \$317,987. The Town has not appropriated any fund balance for spending in the 2013 fiscal year budget.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town of Prospect's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Mayor, 36 Center Street, Prospect, CT 06712.

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF PROSPECT, CONNECTICUT  
STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents - Note 2	\$ 640,394
Investments - Note 2	458,526
Receivables, net of allowance for collection losses - Note 3	936,086
Bond issuance expenses, net of amortization	20,645
Capital Assets - Note 4:	
Not being depreciated	1,343,153
Being depreciated, net of accumulated depreciation	<u>16,323,241</u>
<b>TOTAL ASSETS</b>	<u>19,722,045</u>
<b>LIABILITIES</b>	
Accounts payable	452,172
Accrued interest payable	52,561
Deferred revenue	36,370
Noncurrent Liabilities - Note 5:	
Due within one year	457,988
Due in more than one year	<u>2,154,302</u>
<b>TOTAL LIABILITIES</b>	<u>3,153,393</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	15,485,395
Restricted net assets - Expendable	228,879
Unrestricted	<u>854,378</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 16,568,652</u>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT  
STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2012**

Function/Program Activities	Program Revenues					Net (Expense) Revenue and Changes in Net Assets
	Expenses	Indirect Expense Allocation	Subtotal	Charges for Services	Operating Grants	Capital Grants
<b>Primary Government:</b>						<b>Primary Governmental Activities</b>
Governmental Activities:						
General government	\$ 2,524,160	\$ (503,765)	\$ 2,020,395	\$ 261,498	\$ -	\$ (1,758,897)
Public safety	1,619,712	227,880	1,847,592	343,024	-	(1,498,806)
Public works	2,795,702	386,743	3,182,445	-	406,097	(2,552,747)
Parks and recreation	630,693	112,557	743,250	30,574	21,187	(691,489)
Health and social services	299,562	41,959	341,521	-	-	(341,521)
Education	20,218,427	-	20,218,427	-	5,319,201	(14,899,226)
Other expenditures	227,449	(160,124)	67,325	-	-	(67,325)
Interest on long-term debt	105,250	(105,250)	-	-	-	-
Total Governmental Activities	\$ 28,420,955	\$ -	\$ 28,420,955	\$ 635,096	\$ 5,752,247	\$ (21,810,011)
<b>General Revenues:</b>						
Property taxes						21,068,007
Grants and contributions not restricted to specific programs						178,032
Investment income						11,497
Other income						129,392
Total General Revenues						21,386,928
Change in Net Assets						(423,083)
Net Assets - Beginning of the Year						16,991,735
Net Assets - End of the Year						\$ 16,568,652

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2012**

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 439,520	\$ 51,707	\$ -	\$ -	\$ 149,167	\$ 640,394
Investments	49,698	228,879	73,759	106,190	-	458,526
Taxes receivable	479,933	-	-	-	-	479,933
Other receivables	457,058	-	-	-	26,823	483,881
Due from other funds	760	-	-	247,182	-	247,942
<b>TOTAL ASSETS</b>	<b>\$ 1,426,969</b>	<b>\$ 280,586</b>	<b>\$ 73,759</b>	<b>\$ 353,372</b>	<b>\$ 175,990</b>	<b>\$ 2,310,676</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 446,419	\$ -	\$ -	\$ -	\$ 5,753	\$ 452,172
Due to other funds	247,182	-	-	-	760	247,942
Deferred revenue - Note 8	415,381	-	-	-	16,990	432,371
<b>TOTAL LIABILITIES</b>	<b>1,108,982</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,503</b>	<b>1,132,485</b>
<b>FUND BALANCES:</b>						
Restricted	-	228,879	-	-	-	228,879
Assigned	-	51,707	73,759	353,372	152,487	631,325
Unassigned	317,987	-	-	-	-	317,987
<b>TOTAL FUND BALANCES</b>	<b>317,987</b>	<b>280,586</b>	<b>73,759</b>	<b>353,372</b>	<b>152,487</b>	<b>1,178,191</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,426,969</b>	<b>\$ 280,586</b>	<b>\$ 73,759</b>	<b>\$ 353,372</b>	<b>\$ 175,990</b>	<b>\$ 2,310,676</b>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT**  
**RECONCILIATION OF THE TOTAL GOVERNMENTAL FUND BALANCE TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**JUNE 30, 2012**

<b>Fund Balance - Total Governmental Funds</b>		<b>\$ 1,178,191</b>
Total Net Assets reported for governmental activities in the Statement of Net Assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	\$ 35,128,749	
Less accumulated depreciation	<u>(17,462,355)</u>	17,666,394
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Bond issue costs	78,938	
Less accumulated amortization	<u>(58,293)</u>	20,645
Interest payable used in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(52,561)
Deferred revenues reported in the governmental funds are susceptible to full accrual in the governmental activities.		387,653
Bond premium reported in governmental activities does not provide current resources and therefore is not reported in the governmental funds.		(19,380)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		<u>(2,612,290)</u>
<b>Net Assets of Governmental Activities</b>		<b><u>\$ 16,568,652</u></b>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes, interest & lien fees	\$ 21,110,172	\$ -	\$ -	\$ -	\$ -	\$ 21,110,172
Federal, state and other grants	6,012,381	2,187	-	-	139,312	6,153,880
Licenses, permits and fees	256,916	-	-	-	348,016	604,932
Investment income	5,986	4,664	231	398	218	11,497
Region 16 - overassessment refund	-	-	-	-	-	-
Other income	123,727	2,694	-	-	33,135	159,556
<b>TOTAL REVENUES</b>	<u>27,509,182</u>	<u>9,545</u>	<u>231</u>	<u>398</u>	<u>520,681</u>	<u>28,040,037</u>
<b>EXPENDITURES</b>						
Current:						
General government	2,457,062	-	-	-	-	2,457,062
Public safety	1,447,683	-	-	-	-	1,447,683
Public works	2,331,220	-	-	-	-	2,331,220
Parks and recreation	582,035	4,372	-	-	-	586,407
Health and social services	247,976	-	-	-	-	247,976
Education	20,218,427	-	-	-	-	20,218,427
Other expenditures	28,286	-	-	-	280,369	308,655
Capital Expenditures	66,639	-	-	-	42,115	108,754
Debt Service:						
Principal payments	410,712	-	-	-	22,297	433,009
Interest and other	112,433	-	-	-	2,402	114,835
<b>TOTAL EXPENDITURES</b>	<u>27,902,473</u>	<u>4,372</u>	<u>-</u>	<u>-</u>	<u>347,183</u>	<u>28,254,028</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(393,291)</u>	<u>5,173</u>	<u>231</u>	<u>398</u>	<u>173,498</u>	<u>(213,991)</u>

**TOWN OF PROSPECT, CONNECTICUT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)**  
**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(393,291)</u>	<u>5,173</u>	<u>231</u>	<u>398</u>	<u>173,498</u>	<u>(213,991)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	214,764	-	5,000	1,000	2,557	223,321
Transfers out	<u>(6,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(217,321)</u>	<u>(223,321)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>208,764</u>	<u>-</u>	<u>5,000</u>	<u>1,000</u>	<u>(214,764)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(184,527)</u>	<u>5,173</u>	<u>5,231</u>	<u>1,398</u>	<u>(41,266)</u>	<u>(213,991)</u>
<b>FUND BALANCE, BEGINNING</b>	<u>502,514</u>	<u>275,413</u>	<u>68,528</u>	<u>351,974</u>	<u>193,753</u>	<u>1,392,182</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 317,987</u>	<u>\$ 280,586</u>	<u>\$ 73,759</u>	<u>\$ 353,372</u>	<u>\$ 152,487</u>	<u>\$ 1,178,191</u>



**TOWN OF PROSPECT, CONNECTICUT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**JUNE 30, 2012**

**Net Change in Fund Balances - Total Governmental Funds** **\$ (213,991)**

The change in Net Assets reported for governmental activities in the Statement of Activities is different because:

Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements. (37,719)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 19,295

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.

Expenditures for capital assets	\$ 516,492	
Less current year depreciation	<u>(1,082,092)</u>	(565,600)

Recognition of post-employment benefits as a long-term liability in the governmental activities is not payable from current financial resources and is therefore not reported in the governmental funds. (67,662)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 433,009

In a previous year, the government issued bonds and incurred bond issue costs and realized bond premium. Amortization is not recognized in the governmental funds:

Amortization of bond issue costs	(4,129)
Amortization of bond premium	3,876

Accrued interest payable used in the governmental activities is not payable from current financial resources and is therefore not reported in the governmental funds. 9,838

**Change in Net Assets of Governmental Activities** **\$ (423,083)**

See accompanying notes to the basic financial statements.

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

**JUNE 30, 2012**

	Employee Retirement Plans	Private Purpose Trusts	Agency Funds
	<hr/>	<hr/>	<hr/>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 34,501	\$ 31,156
Investments, at fair value	1,572,399	-	-
Receivables	<u>27,975</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>1,600,374</u>	<u>34,501</u>	<u>31,156</u>
 <b>LIABILITIES</b>			
Payables	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>NET ASSETS</b>			
Held in trust for retirement benefits and other purposes	<u>\$ 1,600,374</u>	<u>\$ 34,501</u>	<u>\$ 31,156</u>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Employee Retirement Plan	Private Purpose Trusts
<b>ADDITIONS</b>		
Employer contributions	\$ 57,893	\$ -
Plan member contributions	55,662	-
Charitable contributions	-	33,276
Total contributions	113,555	33,276
Investment earnings:		
Net increase (decrease) in fair value of investments	(42,292)	1
<b>TOTAL ADDITIONS</b>	71,263	33,277
<b>DEDUCTIONS</b>		
Benefits	-	-
Administrative fees	3,354	(22)
Charitable expenditures	-	25,549
<b>TOTAL DEDUCTIONS</b>	3,354	25,527
<b>CHANGE IN NET ASSETS</b>	67,909	7,750
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	1,532,465	26,751
<b>NET ASSETS, END OF THE YEAR</b>	\$ 1,600,374	\$ 34,501

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Prospect's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Town of Prospect, Connecticut are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

- The financial statements include:
  - A Management Discussion and Analysis (MD & A) section providing an analysis of the Town's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the Town's activities.
  - Depreciation calculated on general capital assets, including infrastructure (roads, bridges, water delivery systems, etc.).
- The focus of governmental fund financial statements is on *major* funds. The Town's general fund is always reported as a *major* fund. Other individual governmental funds are reported as *major* funds if the total assets, liabilities, revenues or expenditures/expenses of that fund are at least 10 percent of the corresponding element total for all governmental funds. In addition, any other governmental fund that the Town's officials believe are particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a *major* fund.

The Town was required to implement the general provisions of the Statement No. 34 for the year ended June 30, 2003 and elected to retroactively report infrastructure (including accumulated depreciation) in that year.

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. FINANCIAL REPORTING ENTITY**

The Town of Prospect, Connecticut was incorporated in 1827, under the provisions of Connecticut General Statutes, as amended. The Town is governed by a charter last revised in November of 2000 and operates under a Mayor, Town Council, Town Meeting form of government first established in 1967. The Town provides services as authorized by its Charter including public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative service.

For financial reporting purposes, the Town includes all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the Town, as determined on the basis of budget adoption, management oversight responsibility, taxing authority, or the Town's obligation to fund any deficits.

The Town has excluded certain agencies from its financial report for which it may exhibit some limited form of oversight responsibility. These agencies and the reasons for exclusion are summarized as follows:

Board of Education - The Town of Prospect appoints four of the eight board members of the Region 16 School District. Personnel, management and finances are controlled by the School Board, with the Town's control over finances limited to approval of annual budgets.

Prospect Fire Department - The Prospect Fire Department is incorporated as a separate entity. The Town's control over finances is limited to approval of annual contributions of cash and equipment.

**B. BASIS OF PRESENTATION**

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Eliminations have been made to minimize the double-counting of internal activities. The Town of Prospect conducts no business-type activities. Therefore, these statements report only governmental activities, which are generally financed through taxes, intergovernmental revenues, and other nonexchange revenues.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide Statement of Activities presents a comparison between expenses (direct expenses plus indirect allocated expenses including interest, payroll taxes, medical insurance, retirement benefits and other expenditures) and program revenues for each function of the Town's governmental activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grant revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function/program activity is self-financing or draws from the general revenues of the Town.

Net assets are reported as restricted only when constraints are placed on net asset use either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through charter provisions or enabling legislation.

#### *Fund Financial Statements:*

The fund financial statements provide information about the Town's funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Separate statements for each of the Town's fund categories, governmental and fiduciary, are presented.

Governmental funds are comprised of the following fund types:

**General Fund** - The general fund is the primary operating fund of the Town and it is used to account for all financial activities except those legally or administratively required to be accounted for in other funds.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

**Capital Projects Funds** - Capital projects funds are used to account for financial resources restricted for the planning, acquisition, construction or improvement of major capital facilities.

The emphasis of the fund financial statements in the governmental category is on *major* funds. The Town of Prospect has four *major* funds which are displayed in separate columns. All remaining governmental funds are aggregated and reported as nonmajor funds. Detail of the nonmajor funds is reported in the combining and individual fund statements located in the Other Supplementary Information section of this report.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary funds account for assets held by the Town of Prospect in a purely custodial capacity either for retirement boards, charitable trusts or other agencies.

#### **C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

The Government-wide Statement of Net Assets and the Statement of Activities and the fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of cost recovery and changes in net assets. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Only current financial assets and liabilities are generally included in governmental fund balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Under the modified accrual basis of accounting, revenues are recognized when “*measurable and available*”. *Measurable* means knowing or being able to reasonably estimate an amount. The Town considers all revenues reported in the governmental funds to be *available* if the revenues are collected within sixty days after year-end. Property taxes, intergovernmental revenue and interest income are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are reported when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the terms of grant agreements, the Town of Prospect funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs until exhausted followed by general revenues.

#### **D. ASSETS, LIABILITIES, AND EQUITY**

*Cash and Cash Equivalents* – 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. Nonparticipating, interest-earning investment contracts are generally reported at cost plus accrued earnings.

*Investments* – Investments, including retirement and deferred compensation funds, are stated at fair value based on quoted market prices.

*Receivables* – In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Property tax receivable and accrued interest are shown net of an allowance for uncollectibles. In the fund financial statements, property taxes collectible but not available (not paid within 60 days) are reported under liabilities as deferred revenue in accordance with the modified accrual basis of accounting.

*Fixed Assets* – In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. Road network infrastructure has been retroactively valued at estimated historical cost and waterline infrastructure has been retroactively valued at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are not capitalized.

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of assets is as follows:

Buildings and improvements	25 – 50 years
Infrastructure	15 – 50 years
Vehicles	7 – 12 years
Furnishings and equipment	5 – 7 years



## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

*Long-term debt* – All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. Long-term debt consists of general obligation bonds, bond anticipation notes and direct financing leases.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures upon maturity.

*Fund Equity:*

In the government-wide statements, equity is classified as net assets and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes or lease obligations that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, or contributors or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

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

Nonspendable Fund Balance – Includes amounts that cannot be spent because they are either not in spendable form (e.g. inventory) or legally or contractually required to be maintained intact.

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Restricted Fund Balance – Includes amounts that have constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

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

Unassigned Fund Balance – The residual classification for the general fund fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

**E. BUDGETS AND BUDGETARY ACCOUNTING**

An annual budget is prepared and employed for management control for the General Fund adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Town established its budget in accordance with provisions of the Connecticut General Statutes and the Prospect Town Charter. The Required Supplementary Information section of this report includes a schedule reporting the original budget that was adopted at the Annual Town Meeting. Transfers and supplemental appropriations were approved during the year in accordance with provisions of the Prospect Town Charter and are reported as the final budget.

The Town Council is empowered to appropriate up to an amount equal to two-and-a-half (2 ½) percent of the amount to be raised by taxation in the annual budget for the current fiscal year as adopted, if approved by a majority of the Council. Total supplemental appropriations in any one fiscal year in excess of 2 ½ percent requires Town Meeting approval.

Supplemental appropriations may be drawn from the unreserved surplus or any available unappropriated and unencumbered general fund cash balance. In the absence of a balance in the unreserved surplus or of an available unappropriated and unencumbered general fund cash balance to meet such appropriations, as determined by the Council, additional means of financing shall be determined by the Council in a manner consistent with the provisions of the Connecticut General Statutes and the Town Charter.

## **TOWN OF PROSPECT, CONNECTICUT**

### **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

For the purposes of meeting a public emergency threatening the lives, health or property of citizens, emergency appropriations, the total amount of which shall not exceed five (5) percent of the current tax levy in any one fiscal year, may be made upon the recommendation of the Mayor and the majority vote of the available membership of the Council. In the absence of the Mayor, the Council may act alone.

#### **F. PROPERTY TAXES**

Property taxes on real estate, motor vehicles and personal property are assessed on the Town's grand list as of October 1 and billed on the following July 1 and January 1. Property assessments are made at 70% of the assessed value for all taxable real and personal property located within the Town as of October 1. Property taxes receivable are recorded on the due date. Property tax revenues are recognized in the fiscal period in which they are levied in the government-wide statements and to the extent that the funds are collected during the fiscal period or within sixty days thereafter in the fund financial statements. Property tax revenues that are not recognized in the current period are reported in the balance sheet as deferred revenue. The Report of the Tax Collector is included in the Other Supplementary Information section of this report.

#### **G. COMPENSATED ABSENCES**

The Town's employment policy does not provide for the accumulation of vacation time, unused sick leave or other compensated absences. However, union employees may accumulate sick leave up to a maximum of 80 days. Upon voluntary termination or retirement, the union employee shall receive 50% of their accumulated sick leave or a maximum of 40 days. A contingent liability in the amount of \$ 25,000 has been reported as a long-term liability in the government-wide statement of net assets. No provision has been otherwise made for compensated absences. Future absences are expected to be liquidated with future resources and are not readily estimated.

#### **NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

*Custodial Credit Risk* - The Town of Prospect Charter does not specifically authorize or prohibit the types of investments that may be made. The treasurer is, however, restricted to investing funds in accordance with the Connecticut General Statutes (Section 7-402). Deposits may be placed with any "qualified public depository", as defined by statute, which has its main place of business in the State of Connecticut.

The Connecticut General Statutes authorize the investment of funds in the obligations of the United States, or may be invested in any state or other tax exempt political subdivision under certain conditions. Funds may also be deposited in the State Treasurer's Short-Term Investment Fund (STIF). The provisions of the statutes regarding the investments of municipal pension funds does

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

not specify permitted investments. Therefore, investments of such funds are generally controlled by the laws applicable to fiduciaries and the provisions of the applicable pension plan.

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

*Concentration of Credit Risk* – The Town places no limit on the amount they may invest in any one issuer.

#### A. CASH AND CASH EQUIVALENTS

Total deposits of \$706,051 represent cash and cash equivalents of \$640,394 as reported on the statement of net assets and \$65,657 as reported on the statement of fiduciary net assets.

#### B. DEPOSITS

At June 30, 2012, the carrying amount of the Town's cash deposits with financial institutions was \$706,051 and the bank balance was \$805,462, all of which was covered by Federal Depository Insurance. All of the deposits were maintained in institutions considered to be "qualified public depositories" and are protected under the provisions of Chapter 656, sections 36a-333 of the Connecticut General Statutes, which provide for protection against loss in excess of any deposit insurance by providing individual bank collateral pledge requirements tiered to risk-based capital ratio.

#### C. INVESTMENTS

At June 30, 2012, investments reported at fair value include \$379,374 collateralized by investments held by the Town or by its agent in the Town's name and \$1,651,551 collateralized by investments held by the financial institution's trust department in the Town's name. The Town's investments consisted of the following at June 30, 2012:

	General Fund	Special Revenue	Capital Projects	Retirement Trusts	Total Investments
Certificates of deposit	\$ 49,698	\$ 77,475	\$ 179,949	\$ -	\$ 307,122
U.S. Government Bonds	-	72,252	-	-	72,252
Fixed Income Annuity	-	79,152	-	-	79,152
Mutual Funds:					
Bond & Fixed Income	-	-	-	623,518	623,518
Equities	-	-	-	754,317	754,317
International	-	-	-	194,564	194,564
Total	\$ 49,698	\$ 228,879	\$ 179,949	\$ 1,572,399	\$ 2,030,925

# TOWN OF PROSPECT, CONNECTICUT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

### NOTE 3 – RECEIVABLES

Receivables reported in the Statement of Net Assets consist of the following at June 30, 2012:

Current Receivables:

Taxes	\$ 479,933
Interest and fees on delinquent taxes	266,863
Other	<u>483,881</u>
Gross Receivables	1,230,677
Less: Allowance for uncollectibles	<u>(294,591)</u>
Net Receivables	<u>\$ 936,086</u>

### NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Governmental Activities:</u>				
Non-Depreciable Assets:				
Land	\$ 1,343,153	\$ -	\$ -	\$ 1,343,153
Depreciable Assets:				
Buildings and improvements	7,229,058	-	-	7,229,058
Infrastructure	20,730,504	447,775	132,843	21,045,436
Vehicles	3,674,230	34,825	175,172	3,533,883
Furnishings and equipment	<u>1,946,827</u>	<u>33,892</u>	<u>3,500</u>	<u>1,977,219</u>
Totals at Historical Cost	<u>34,923,772</u>	<u>516,492</u>	<u>311,515</u>	<u>35,128,749</u>
Less Accumulated Depreciation for:				
Buildings and improvements	1,900,470	144,581	-	2,045,051
Infrastructure	10,877,352	712,304	132,843	11,456,813
Vehicles	2,375,324	163,715	175,172	2,363,867
Furnishings and equipment	<u>1,538,632</u>	<u>61,492</u>	<u>3,500</u>	<u>1,596,624</u>
Total Accumulated Depreciation	<u>16,691,778</u>	<u>1,082,092</u>	<u>311,515</u>	<u>17,462,355</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 18,231,994</u>	<u>\$ (565,600)</u>	<u>\$ -</u>	<u>\$ 17,666,394</u>

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 28,197
Public Safety	173,131
Public Works	731,222
Parks and Recreation	97,956
Health and Social Services	<u>51,586</u>
Total Depreciation Expense	<u>\$ 1,082,092</u>

**NOTE 5 – LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2012</u>	Due Within <u>One Year</u>
<b><u>GOVERNMENTAL ACTIVITIES</u></b>					
GENERAL OBLIGATION BONDS:					
\$4,310,000 issue dated 07/15/98, interest from 4.25% to 6.00%, matures 07/15/16	\$ 1,200,000	\$ -	\$ 200,000	\$ 1,000,000	\$ 200,000
\$1,155,000 issue dated 08/15/06, interest from 3.70% to 5.00%, matures 08/15/16	<u>690,000</u>	<u>-</u>	<u>115,000</u>	<u>575,000</u>	<u>115,000</u>
TOTAL BOND INDEBTEDNESS	1,890,000	-	315,000	1,575,000	315,000
DIRECT FINANCING LEASES	722,503	-	115,239	607,264	103,592
UNFUNDED MERS PENSION LIABILITY – NOTE 6	115,353	-	2,770	112,583	2,880
NET OPEB OBLIGATION – NOTE 7	224,781	91,007	23,345	292,443	36,516
COMPENSATED ABSENCES – NOTE 1G	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
TOTAL GENERAL LONG-TERM DEBT	<u>\$ 2,977,637</u>	<u>\$ 91,007</u>	<u>\$ 456,354</u>	<u>\$ 2,612,290</u>	<u>\$ 457,988</u>

# TOWN OF PROSPECT, CONNECTICUT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

### NOTE 5 – LONG-TERM DEBT (Continued)

For the fiscal year ended June 30, 2012, the Town expended \$ 547,844 for debt service consisting of principal payments totaling \$ 433,009 and interest payments totaling \$ 114,835.

The debt service requirements for the Town's bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 315,000	\$ 66,700	\$ 381,700
2014	315,000	52,425	367,425
2015	315,000	37,475	352,475
2016	315,000	22,500	337,500
2017	<u>315,000</u>	<u>7,500</u>	<u>322,500</u>
Total	<u>\$ 1,575,000</u>	<u>\$ 186,600</u>	<u>\$ 1,761,600</u>

The Town is contingently liable for its share of Regional School District No. 16 general obligation school bonds. The District's operating budget provides for annual retirement of principal and interest. The Town's share is based on student enrollment attending the regional facility on October 1 of the preceding year and is calculated at 60.298% for the fiscal year ending June 30, 2012. The State of Connecticut reimburses the District for principal and interest on its long-term debt at about 72% for bonds authorized prior to 1996. At June 30, 2012, Region 16's net debt is \$11,044,973 and based on the average daily membership (ADM), the overlapping debt to the Town is calculated to be \$6,659,898.

The debt service requirements for the School District bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,415,000	\$ 705,911	\$ 3,120,911
2014	2,524,000	601,427	3,125,427
2015	2,509,000	496,492	3,005,492
2016	2,325,000	396,725	2,721,725
2017	1,890,000	295,425	2,185,425
2018-2020	<u>5,530,000</u>	<u>447,350</u>	<u>5,977,350</u>
Total	<u>\$ 17,193,000</u>	<u>\$ 2,943,330</u>	<u>\$ 20,136,330</u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### NOTE 5 – LONG-TERM DEBT (Continued)

The Town entered into lease-purchase agreements for the acquisition of (1) a front-end loader in the amount of \$147,351 (\$105,351 after a down payment of \$42,000) with an imputed interest rate of 5.12%; the lease will be amortized by annual payments of \$20,888 for both principal and interest extending to fiscal year 2013, (2) a dump truck totaling \$242,510 (\$212,510 after a down payment of \$30,000) with an imputed interest rate of 5.34%; the lease will be amortized by annual payments of \$36,879 for both principal and interest extending to fiscal year 2017, (3) a fire pumper truck in the amount of \$537,840 with an imputed interest rate of 3.35%; the lease will be amortized by annual payments of \$62,434 in fiscal years 2011 and 2012, and payments of \$69,989 thereafter thru fiscal year 2019 and (4) a police vehicle in the amount of \$34,222 with an imputed interest rate of 7.10%; amortized by annual payments of \$12,350 for both principal and interest extending to fiscal year 2012.

The annual requirement to amortize the leases as of June 30, 2012 is as follows:

Fiscal Year Ending June 30	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
2013	\$ 103,591	\$ 24,155	\$ 127,746
2014	87,154	19,715	106,869
2015	90,709	16,159	106,868
2016	94,416	12,452	106,868
2017	98,283	8,585	106,868
2018	65,437	4,552	69,989
2019	<u>67,674</u>	<u>2,314</u>	<u>69,988</u>
Total	<u>\$ 607,264</u>	<u>\$ 87,932</u>	<u>\$ 695,196</u>

#### NOTE 6 – RETIREMENT PLANS

The Town of Prospect maintains a defined contribution money purchase pension plan for all full time employees of the Town (excluding union employees, who are covered separately as discussed below), including elected officials. Contributions to the Plan are made annually at the discretion of the retirement board (8% of eligible wages for the year ended June 30, 2012). Participating employees are not required to make any contributions to the Plan. However, each employee may make voluntary contributions in an amount no less than 2% or more than 10% of gross pay.



## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

#### NOTE 6 – RETIREMENT PLANS (Continued)

Public Works employees, covered by union contract, participate in the Municipal Employees' Retirement System (MERS), a cost sharing multiple employer public employee retirement system established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. Each covered municipality is required by State statute to pay an actuarially determined percentage of covered payroll (11.56% of eligible wages for the year ended June 30, 2012) to provide for benefits based on current service. The statute also requires each municipality to pay an annual amount for benefits based on service prior to the unit's date of participation. This amount is a level dollar amortization (including interest and principal) over varying time periods depending upon the unit's date of participation and other factors. Effective July 1, 2006, the Town of Prospect's annual accrued liability payment is \$ 7,384 for thirty years and a balance of \$112,583 is included in the Town's long-term debt as of June 30, 2012.

Actuarial accrued liability, value of assets and unfunded actuarial accrued liability of the Connecticut Municipal Employees' Retirement System as of July 1, 2011 follows:

Total Actuarial Accrued Liability	\$ 1,985,267,907
Actuarial Value of Assets	<u>1,753,331,163</u>
Unfunded Actuarial Accrued Liability	<u>\$ 231,936,744</u>

The actuarial accrued liability is a measure that uses the benefit provisions and is intended to (1) help users assess the plan's funding status on a going-concern basis, and (2) assess progress being made in accumulating sufficient assets to pay benefits when due.

In lieu of a full valuation, updated asset information was provided and plan liabilities were rolled forward to determine the funding requirements and status of the system. The unfunded accrued liability as of June 30, 2012 was approximately \$204.7 million as compared to \$187.4 million as of June 30, 2011. The funded percentage of the System, calculated as the valuation assets divided by the accrued liability, is 88.32% as of June 30, 2012, as compared to 88.40% as of June 30, 2011.

The following disclosures for the Town are for the year ended June 30, 2012:

	Total Payroll	"Covered Payroll"	Town Contribution
Town non-union employees	\$ 1,964,176	\$ 723,659	\$ 57,893
Town union employees	<u>434,827</u>	<u>434,827</u>	<u>50,266</u>
Total	<u>\$ 2,399,003</u>	<u>\$ 1,158,486</u>	<u>\$ 108,159</u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

The Town of Prospect also offers an IRS Section 457 Deferred Compensation Program to its employees. At June 30, 2012, net assets of the Town of Prospect Profit Sharing Plan and Trust totaled \$933,637 and net assets of the Deferred Compensation Program totaled \$666,737.

#### **NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

*Plan Description* - The Town of Prospect administers a single-employer defined benefit healthcare plan. The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the town's group health insurance plan, which covers both active and retired members.

*Annual OPEB Cost and Net OPEB Obligation* – The town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC).

The town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the town's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 91,007
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	91,007
Contributions made	23,345
Increase in net OPEB obligation	67,662
Net OPEB obligation – beginning of year	224,781
Net OPEB obligation – end of year	\$ 292,443

The town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution Made</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/12	\$ 91,007	\$ 23,345	25.7%	\$ 292,443
06/30/11	\$ 74,927	\$ 0	0.0%	\$ 224,781
06/30/10	\$ 74,927	\$ 0	0.0%	\$ 149,854

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

*Funded Status and Funding Progress* – As of June 30, 2012, the actuarial accrued liability for benefits was \$761,868. There is no requirement for funding the Retiree Health Plan and the plan has not been funded. The Town has not yet established a formal funding plan or a trust at this time. The covered payroll (annual payroll of active employees covered by the plan) was \$434,827, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 175.2 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on the RP-2000 mortality table for males and females.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums is 5.0%.

*Health insurance premiums* – 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

*Inflation rate* – The expected long-term rate of inflation is 2.0%.

*Payroll growth rate* – The expected long-term payroll growth rate was assumed to be 1.0%.

Based on the historical and expected returns of the town's short-term investment portfolio, a discount rate of 2.0% was used. In addition, a simplified version of the projected unit credit actuarial cost method was used with the present value of future normal costs amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was twenty-seven years.

**NOTE 8 – DEFERRED REVENUE**

Deferred revenue, as presented in the governmental funds balance sheet at June 30, 2012, is comprised of the following elements:

General Fund:	
Property taxes:	
Delinquent	\$ 415,381
Collected in advance	-
Special Revenue -	
Youth Services – Summer Programs	<u>16,990</u>
Total	<u>\$ 432,371</u>

**NOTE 9 – INTERFUND ACCOUNTS**

Balances due to/from other funds, as presented in the governmental funds balance sheet at June 30, 2012, consist of the following:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund:		
Special Revenue Funds:		
Police Overtime	\$ 760	\$ -
Capital Projects Funds:		
Open Space	-	247,182
Special Revenue Funds	-	760
Capital Projects Funds	<u>247,182</u>	<u>-</u>
Total	<u>\$ 247,942</u>	<u>\$ 247,942</u>

**TOWN OF PROSPECT, CONNECTICUT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 10 – TRANSFERS**

Transfers, as presented in the other financing sources and uses of the governmental funds, at June 30, 2012, consist of the following:

Transfers authorized by adopted budget:

From town aid roads special revenue to the general fund	\$ 36,000
From the general fund to the Land Acquisition capital projects fund	5,000
From the general fund to the Open Space capital projects fund	1,000

Other transfers:

From the Police Overtime special revenue fund to the general fund to reimburse for wages and benefits paid	174,764
From the Dog Fund special revenue to the general fund	4,000
From the Sewer Use Fees special revenue fund to the WPCA Capital Improvement capital projects fund	<u>2,557</u>

Total Transfers	\$ <u>223,321</u>
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**NOTE 11 – RISK MANAGEMENT**

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

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-749a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement states limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

**TOWN OF PROSPECT, CONNECTICUT**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 12 – CONTINGENCIES**

The Town of Prospect is currently involved as a defendant in various types of litigation involving the Town, its officers, employees, boards and commissions. The probability of adverse decisions in these matters and the amounts of potential losses that may result are not presently determinable. However, the Town is of the opinion that the liability in these cases, if any, not covered by insurance will not materially adversely affect the financial statements for these contingencies.

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PROSPECT, CONNECTICUT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts			Variance with Original
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>
<b>REVENUE</b>				
Property taxes, interest and lien fees	\$ 21,039,785	\$ 21,039,785	\$ 21,110,172	\$ 70,387
Federal, state and other grants	5,686,919	6,132,857	6,012,381	325,462
Licenses, permits and fees	242,850	242,850	256,916	14,066
Investment income	23,000	23,000	5,986	(17,014)
Region 16 overassessment	-	-	-	-
Other income	93,072	93,072	123,727	30,655
<b>TOTAL REVENUE</b>	<u>27,085,626</u>	<u>27,531,564</u>	<u>27,509,182</u>	<u>423,556</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,371,929	2,473,352	2,457,062	(85,133)
Public safety	1,246,469	1,451,748	1,447,683	(201,214)
Public works	1,881,902	2,333,106	2,331,220	(449,318)
Parks and recreation	596,446	583,874	582,035	14,411
Health and social services	235,340	248,584	247,976	(12,636)
Education	20,218,427	20,218,427	20,218,427	-
Other expenditures	33,905	31,905	28,286	5,619
Capital expenditures	16,000	67,639	66,639	(50,639)
Debt Service:				
Principal payments	407,943	410,713	410,712	(2,769)
Interest and other	107,265	112,433	112,433	(5,168)
<b>TOTAL EXPENDITURES</b>	<u>27,115,626</u>	<u>27,931,781</u>	<u>27,902,473</u>	<u>(786,847)</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>(30,000)</u>	<u>(400,217)</u>	<u>(393,291)</u>	<u>(363,291)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	36,000	210,004	214,764	178,764
Transfers out	(6,000)	(6,000)	(6,000)	-
<b>TOTAL OTHER SOURCES (USES)</b>	<u>30,000</u>	<u>204,004</u>	<u>208,764</u>	<u>178,764</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (196,213)</u>	<u>(184,527)</u>	<u>\$ (184,527)</u>
<b>FUND BALANCE, JULY 1, 2011</b>			<u>502,514</u>	
<b>FUND BALANCE, JUNE 30, 2012</b>			<u>\$ 317,987</u>	



## **OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF PROSPECT, CONNECTICUT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2012**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 86,001	\$ 63,166	\$ 149,167
Other receivables	26,823	-	26,823
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 112,824</u>	<u>\$ 63,166</u>	<u>\$ 175,990</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 5,753	\$ -	\$ 5,753
Due to other funds	760	-	760
Deferred revenue	<u>16,990</u>	<u>-</u>	<u>16,990</u>
<b>TOTAL LIABILITIES</b>	<u>23,503</u>	<u>-</u>	<u>23,503</u>
<b>FUND BALANCES:</b>			
Assigned	89,321	63,166	152,487
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES</b>	<u>89,321</u>	<u>63,166</u>	<u>152,487</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u>\$ 112,824</u>	 <u>\$ 63,166</u>	 <u>\$ 175,990</u>

**TOWN OF PROSPECT, CONNECTICUT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES			
Federal, state and other grants	\$ 139,312	\$ -	\$ 139,312
Licenses, permits and fees	348,016	-	348,016
Investment income	167	51	218
Other income	33,135	-	33,135
TOTAL REVENUES	<u>520,630</u>	<u>51</u>	<u>520,681</u>
EXPENDITURES			
Services and project expenditures	273,412	6,957	280,369
Capital expenditures	42,115	-	42,115
Debt Service:			
Principal payments	22,297	-	22,297
Interest and other	2,402	-	2,402
TOTAL EXPENDITURES	<u>340,226</u>	<u>6,957</u>	<u>347,183</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>180,404</u>	<u>(6,906)</u>	<u>173,498</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	2,557	2,557
Transfers out	(217,321)	-	(217,321)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(217,321)</u>	<u>2,557</u>	<u>(214,764)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(36,917)	(4,349)	(41,266)
FUND BALANCES, BEGINNING	<u>126,238</u>	<u>67,515</u>	<u>193,753</u>
FUND BALANCES, ENDING	<u>\$ 89,321</u>	<u>\$ 63,166</u>	<u>\$ 152,487</u>

**TOWN OF PROSPECT, CONNECTICUT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS**

**JUNE 30, 2012**

	Town Aid Road	Dog Fund	Police Overtime Fund	Housing Rehabilitation	Youth Services	Police Programs	Sewer Use Fees	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 2,918	\$ 3,886	\$ 13,859	\$ 34,869	\$ 18,026	\$ 2,552	\$ 9,891	\$ 86,001
Accounts receivable	-	7,230	19,593	-	-	-	-	26,823
Due from other funds	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 2,918</u>	<u>\$ 11,116</u>	<u>\$ 33,452</u>	<u>\$ 34,869</u>	<u>\$ 18,026</u>	<u>\$ 2,552</u>	<u>\$ 9,891</u>	<u>\$ 112,824</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 595	\$ 4,001	\$ 1,157	\$ -	\$ -	\$ -	\$ -	\$ 5,753
Due to other funds	-	-	760	-	-	-	-	760
Deferred revenue	-	-	-	-	16,990	-	-	16,990
<b>TOTAL LIABILITIES</b>	<u>595</u>	<u>4,001</u>	<u>1,917</u>	<u>-</u>	<u>16,990</u>	<u>-</u>	<u>-</u>	<u>23,503</u>
<b>FUND BALANCE</b>								
Assigned	2,323	7,115	31,535	34,869	1,036	2,552	9,891	89,321
Unassigned	-	-	-	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>2,323</u>	<u>7,115</u>	<u>31,535</u>	<u>34,869</u>	<u>1,036</u>	<u>2,552</u>	<u>9,891</u>	<u>89,321</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,918</u>	<u>\$ 11,116</u>	<u>\$ 33,452</u>	<u>\$ 34,869</u>	<u>\$ 18,026</u>	<u>\$ 2,552</u>	<u>\$ 9,891</u>	<u>\$ 112,824</u>

**TOWN OF PROSPECT, CONNECTICUT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Town Aid Road	Dog Fund	Police Overtime	Housing Rehabilitation	Youth Services	Police Programs	Sewer Use Fees	Total Nonmajor Special Revenue Funds
<b>REVENUE</b>								
Federal and State grants	\$ 120,312	\$ -	\$ -	\$ -	\$ 19,000	\$ -	\$ -	\$ 139,312
Licenses, permits and fees	-	7,149	336,409	-	-	-	4,458	348,016
Investment income	-	6	91	70	-	-	-	167
Other income	-	-	19	7,604	25,305	-	207	33,135
<b>TOTAL REVENUE</b>	<b>120,312</b>	<b>7,155</b>	<b>336,519</b>	<b>7,674</b>	<b>44,305</b>	<b>-</b>	<b>4,665</b>	<b>520,630</b>
<b>EXPENDITURES</b>								
Services and project expenditures	81,206	7,259	72,044	53,203	45,578	-	14,122	273,412
Capital expenditures	-	-	42,115	-	-	-	-	42,115
Debt Service:								
Principal payments	-	-	22,297	-	-	-	-	22,297
Interest and other	-	-	2,402	-	-	-	-	2,402
<b>TOTAL EXPENDITURES</b>	<b>81,206</b>	<b>7,259</b>	<b>138,858</b>	<b>53,203</b>	<b>45,578</b>	<b>-</b>	<b>14,122</b>	<b>340,226</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>39,106</b>	<b>(104)</b>	<b>197,661</b>	<b>(45,529)</b>	<b>(1,273)</b>	<b>-</b>	<b>(9,457)</b>	<b>180,404</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(36,000)	(4,000)	(174,764)	-	-	-	(2,557)	(217,321)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(36,000)</b>	<b>(4,000)</b>	<b>(174,764)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,557)</b>	<b>(217,321)</b>
<b>EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>3,106</b>	<b>(4,104)</b>	<b>22,897</b>	<b>(45,529)</b>	<b>(1,273)</b>	<b>-</b>	<b>(12,014)</b>	<b>(36,917)</b>
<b>FUND BALANCE, BEGINNING</b>	<b>(783)</b>	<b>11,219</b>	<b>8,638</b>	<b>80,398</b>	<b>2,309</b>	<b>2,552</b>	<b>21,905</b>	<b>126,238</b>
<b>FUND BALANCE, ENDING</b>	<b>\$ 2,323</b>	<b>\$ 7,115</b>	<b>\$ 31,535</b>	<b>\$ 34,869</b>	<b>\$ 1,036</b>	<b>\$ 2,552</b>	<b>\$ 9,891</b>	<b>\$ 89,321</b>

**TOWN OF PROSPECT, CONNECTICUT  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS**

**JUNE 30, 2012**

	<u>Capital and Non-Recurring Expenditures</u>	<u>WPCA Capital Improvement</u>	<u>Total Nonmajor Capital Projects Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 37,445	\$ 25,721	\$ 63,166
Other receivables	-	-	-
Due from general fund	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 37,445</u>	<u>\$ 25,721</u>	<u>\$ 63,166</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to general fund	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Assigned	<u>37,445</u>	<u>25,721</u>	<u>63,166</u>
<b>TOTAL FUND BALANCES</b>	<u>37,445</u>	<u>25,721</u>	<u>63,166</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 37,445</u>	<u>\$ 25,721</u>	<u>\$ 63,166</u>



**TOWN OF PROSPECT, CONNECTICUT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Capital and Non-Recurring Expenditures	WPCA Capital Improvement	Total Nonmajor Capital Projects Funds
REVENUE			
Federal and State grants	\$ -	\$ -	\$ -
Investment income	51	-	51
TOTAL REVENUE	<u>51</u>	<u>-</u>	<u>51</u>
EXPENDITURES			
Project expenditures	5,000	1,957	6,957
Capital expenditures	-	-	-
TOTAL EXPENDITURES	<u>5,000</u>	<u>1,957</u>	<u>6,957</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(4,949)</u>	<u>(1,957)</u>	<u>(6,906)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	2,557	2,557
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>2,557</u>	<u>2,557</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES & OTHER FINANCING USES	(4,949)	600	(4,349)
FUND BALANCE, BEGINNING	<u>42,394</u>	<u>25,121</u>	<u>67,515</u>
FUND BALANCE, ENDING	<u>\$ 37,445</u>	<u>\$ 25,721</u>	<u>\$ 63,166</u>

**TOWN OF PROSPECT, CONNECTICUT  
REPORT OF THE TAX COLLECTOR**

**FOR THE YEAR ENDED JUNE 30, 2012**

Grand List October 1:	Uncollected Taxes at July 1, 2011 & Current List	Lawful Corrections		Transfers (To)/From Suspense	Net Taxes Collectible	Collections During the Year			Total Collections	Uncollected Taxes June 30, 2012
		Additions	Deductions			Taxes, Net of Refunds	Interest	Lien Fees		
2010	\$20,915,154	\$ 66,565	\$ (28,924)	\$ (2,314)	\$20,950,481	\$20,707,468	\$ 63,721	\$ 319	\$ 20,771,508	\$ 243,013
2009	248,715	2,194	(1,804)	(4,372)	244,733	157,677	29,866	1,014	188,557	87,056
2008	107,117	120	(1,960)	(5,434)	99,843	55,702	23,111	477	79,290	44,141
2007	51,826	-	(183)	(6,242)	45,401	30,404	8,881	144	39,429	14,997
2006	15,105	-	(218)	(2,545)	12,342	4,044	1,127	84	5,255	8,298
2005	2,033	-	-	-	2,033	-	-	-	-	2,033
2004	1,732	-	-	-	1,732	-	450	-	450	1,732
2003	1,425	-	-	-	1,425	-	-	-	-	1,425
2002	1,275	-	-	-	1,275	-	-	-	-	1,275
2001	12,035	-	-	-	12,035	-	-	-	-	12,035
2000	10,004	-	-	-	10,004	-	-	-	-	10,004
1999	15,188	320	-	-	15,508	320	-	-	320	15,188
1998	14,075	-	-	-	14,075	-	-	-	-	14,075
1997	13,158	-	-	-	13,158	-	1,597	-	1,597	13,158
1996	11,667	-	-	-	11,667	164	216	24	404	11,503
1995	11,021	-	-	(11,021)	-	-	-	-	-	-
1994	10,295	-	-	(10,295)	-	-	-	-	-	-
Suspense	-	-	-	5,334	5,334	5,334	4,806	-	10,140	-
<b>TOTALS</b>	<b>\$21,441,825</b>	<b>\$ 69,199</b>	<b>\$ (33,089)</b>	<b>\$ (36,889)</b>	<b>\$21,441,046</b>	<b>\$20,961,113</b>	<b>\$ 133,775</b>	<b>\$ 2,062</b>	<b>\$ 21,096,950</b>	<b>\$ 479,933</b>

**TOWN OF PROSPECT, CONNECTICUT  
STATEMENT OF DEBT LIMITATION  
CONNECTICUT GENERAL STATUTES, SECTION 7-374(b)**

**FOR THE YEAR ENDED JUNE 30, 2012**

Total tax collections (including interest and lien fees)	
for current fiscal year	\$ 21,096,950
Reimbursement for revenue loss on:	
Tax relief for elderly (CGS 12-129d)	<u>76,024</u>
Total Receipts for Determination of Base	<u>\$ 21,172,974</u>

<u>Debt Limitation:</u>	<u>General Purposes</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit (1)</u>
2 1/4 times base	\$ 47,639,192	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	95,278,383	-	-	-
3 3/4 times base	-	-	79,398,653	-	-
3 1/4 times base	-	-	-	68,812,166	-
3 times base	-	-	-	-	63,518,922
Total Debt Limitation	<u>47,639,192</u>	<u>95,278,383</u>	<u>79,398,653</u>	<u>68,812,166</u>	<u>63,518,922</u>
<u>Indebtedness:</u>					
Bonds Payable	1,575,000	-	-	-	-
Net Overlapping Regional School District No. 16 Bonds Payable - Note 5	<u>-</u>	<u>6,659,897</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Indebtedness	<u>1,575,000</u>	<u>6,659,897</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 46,064,192</u>	<u>\$ 88,618,486</u>	<u>\$ 79,398,653</u>	<u>\$ 68,812,166</u>	<u>\$ 63,518,922</u>

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation or \$148,210,818.

(1) As defined by Public Act No. 06-79, effective July 1, 2006.

**MICHAEL J. BATTISTA**  
**CERTIFIED PUBLIC ACCOUNTANT**

P.O. Box 485  
Northford, Connecticut 06472-0485  
(203) 376-1445

**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* (No Material Weaknesses Identified, No Significant Deficiencies Identified,  
No Reportable Instances of Noncompliance or Other Matters Identified)**

Independent Auditor's Report

Mayor Robert Chatfield  
Town Council  
Town of Prospect  
Prospect, Connecticut

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut as of and for the year ended June 30, 2012, and have issued my report thereon dated December 7, 2012. 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**

Management of the Town of Prospect is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Town of Prospect, Connecticut's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Prospect's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Prospect's internal control over financial reporting.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Prospect, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Town of Prospect, Connecticut, 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, reading "Michael J. Battista". The signature is fluid and cursive, with the first name "Michael" and last name "Battista" clearly legible.

Michael J. Battista  
Certified Public Accountant

Northford, Connecticut  
December 7, 2012

## **STATE FINANCIAL ASSISTANCE**



**MICHAEL J. BATTISTA**  
**CERTIFIED PUBLIC ACCOUNTANT**  
P.O. Box 485  
Northford, Connecticut 06472-0485  
(203) 376-1445

**Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with the State Single Audit Act (Unqualified Opinion on Compliance and No Material Weaknesses and No Significant Deficiencies in Internal Control over Compliance Identified)**

Independent Auditor's Report

Mayor Robert Chatfield  
Town Council  
Town of Prospect  
Prospect, Connecticut

**Compliance**

I have audited the Town of Prospect, Connecticut's compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012. The major state 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 state programs is the responsibility of the Town of Prospect, 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 Prospect, 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 Prospect, Connecticut's compliance with those requirements.

In my opinion, the Town of Prospect, Connecticut complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

### **Internal Control Over Compliance**

The management of the Town of Prospect, 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 Town of Prospect, Connecticut's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town of Prospect, Connecticut's internal control over compliance.

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

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

### **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 Prospect, Connecticut as of and for the year ended June 30, 2012, and have issued my report thereon dated December 7, 2012, which contained unqualified opinions on those financial statements.. My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Connecticut's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Town of Prospect, Connecticut, 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, reading "Michael J. Battista". The signature is written in a cursive style with a horizontal line underneath the name.

Michael J. Battista  
Certified Public Accountant

Northford, Connecticut  
December 7, 2012

**TOWN OF PROSPECT, CONNECTICUT**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

State Grantor/Pass-Through Grantor/ Program Title	State Grant Program Core-CT Number	Expenditures
<b>Office of Policy and Management</b>		
Property Tax Relief for:		
Elderly Homeowners	11000-OPM20600-17018	\$ 74,858
Elderly Homeowners - Freeze Program	11000-OPM20600-17021	1,166
Disability Exemption	11000-OPM20600-17011	1,134
Veterans	11000-OPM20600-17024	18,135
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	67,240
Payment in Lieu of Taxes - State Property	11000-OPM20600-17004	2,108
<b>State Department of Education</b>		
Youth Services Bureau	11000-SDE64370-17052	14,000
Youth Services Bureau Enhancement	11000-SDE64370-16201	5,000
<b>Department of Transportation</b>		
Town Aid Road Grant	12001-DOT57131-17036	120,312
Alcohol Open Container Requirements	12062-DOT57513-22091	4,256
<b>Connecticut State Library</b>		
Grants to Public Libraries	11000-CSL66051-17003	1,223
Connecticard Payments	11000-CSL66051-17010	964
<b>Judicial Branch</b>		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	1,525
<b>Total State Financial Assistance Before Exempt Programs</b>		<u>311,921</u>
<b>Exempt Programs</b>		
<b>State Department of Education</b>		
Education Cost Sharing	11000-SDE64370-17041	5,319,201
<b>Office of Policy and Management</b>		
Municipal Revenue Sharing	12062-OPM20600-35458	42,225
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	36,776
Municipal Video Competition	12060-OPM20600-35362	67
<b>Total Exempt Programs</b>		<u>5,398,269</u>
<b>Total State Financial Assistance</b>		<u>\$ 5,710,190</u>

**TOWN OF PROSPECT, CONNECTICUT  
STATE FINANCIAL ASSISTANCE PROGRAMS – NOTE TO SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of Prospect, Connecticut under programs of the State of Connecticut for the fiscal year ended June 30, 2012. 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, general government, public works and capital improvement.

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

The accounting policies of the Town of Prospect, Connecticut conform to accounting principles generally accepted in the United States of America as applicable to governments.

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 expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance operations of the fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

In accordance with Section 4-236-22 of the Regulations to 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 PROSPECT, CONNECTICUT  
STATE FINANCIAL ASSISTANCE PROGRAMS -  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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

*Financial Statements*

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

*State Financial Assistance*

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	No

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

<u>State Grantor and Program</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management:		
Property Tax Relief - Elderly Circuit Breaker	11000-OPM20600-17018	\$ 74,858
Department of Transportation:		
Town Aid Road Grant	12001-DOT57131-17036	\$ 120,312

The dollar threshold used to distinguish between type A and type B programs was \$100,000.