



TOWN OF PROSPECT, CONNECTICUT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**with
SUPPLEMENTAL STATEMENTS AND SCHEDULES
and
INDEPENDENT AUDITOR'S REPORT**



**TOWN OF PROSPECT, CONNECTICUT
ANNUAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Prospect, Connecticut

Report on the Financial Statements

We 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, 2017, and the related notes to the financial statements, which collectively comprise the Town of Prospect, Connecticut's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's financial statements on Pages 74 through 101, the Schedule of Pension Liabilities on Page 50 through 63, the Schedule of The Town's Proportionate Share of The Net Pension Liability on Page 57 and the Schedule of Town Contributions on Page 58 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our 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 and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018, on our consideration of the Town of Prospect, Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Prospect, Connecticut's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Charles H. Brown & Co".

January 3, 2018

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.

* **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 position* that presents information on all of the Town of Prospect's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 human 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 position is reported as capital assets net of related debt (net investment in capital assets), restricted, and unrestricted. Permanent endowments or permanent fund principal amounts included in restricted net position are shown as either expendable or nonexpendable.

Expenses presented are 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 position 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 three major governmental funds (general fund, police special duty, and housing rehabilitation fund), five non-major special revenue funds, and four 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 two other 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. In addition to funds that meet the major fund criteria, any other governmental fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Governmental fund balances are segregated into nonspendable, restricted, committed, ~~assigned, and unassigned~~ categories as described in Note 12 to the financial statements.

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 position and a statement of changes in fiduciary net position. 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)

- Schedule of Revenue and Expenditures Detail – Budget and Actual (Budgetary Basis) – General Fund
- Note to Schedule of Revenue and Expenditures Detail – Budget and Actual (Budgetary Basis) – General Fund

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, 2017. 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 \$20,326,796 (net position). Of this amount, \$2,658,678 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net position increased by \$1,224,350 primarily due to an increase in fund balances of \$833,820, an excess of capital expenditures (\$1,919,840) over depreciation charges (\$1,149,408) of \$770,432, and a reduction in outstanding debt of \$763,970. Offsetting these positive inputs was \$981,864 of new debt.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,638,896, a net increase of \$833,820 in comparison with the prior year. Of the total fund balance, \$2,278,870, or 62.6%, is available for spending at the government's discretion (unassigned fund balance).
- The unassigned fund balance for the general fund increased \$1,230,232 from \$1,137,579 to \$2,367,811. The June 30, 2017 balance is 7.6% of total general fund expenditures of \$31,239,389.
- Prospect's total bonded debt decreased by \$551,667. A short-term note in the amount of \$873,000 was issued for the purchase of the Community School building from Regional School District #16.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Town of Prospect, assets exceeded liabilities by \$20,326,796 at the close of the most recent fiscal year.

By far the largest portion of the Town's net position, \$16,556,489, or 81.5%, 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 Position

	Total Primary Government 2017	Total Primary Government 2016
Current and Other Assets.....	\$ 5,318,476	\$ 4,401,930
Capital Assets, net of depreciation	18,895,336	18,124,904
Total Assets	24,213,812	22,526,834
Deferred Outflows of Resources.....	115,406	70,517
Long-Term Obligations Outstanding.....	3,374,874	3,156,980
Other Liabilities.....	627,548	337,925
Total Liabilities	4,002,422	3,494,905
Net Position:		
Net Investment in Capital Assets	16,556,489	15,920,376
Restricted.....	1,111,629	1,373,062
Unrestricted	2,658,678	1,809,008
Total Net Position	\$ 20,326,796	\$ 19,102,446

Restricted net position consists of \$860,480 of the Housing Rehabilitation Fund, which may be used to carry out the objectives of that program, \$251,073 for capital expenditures of the library in accordance with the donors' bequests, and \$76 of Town Aid Road unexpended grant proceeds.

Unrestricted net position of \$2,658,678 may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net position increased by \$1,224,350 during the current fiscal year. The Town brought in net general revenues of \$25,785,934, which exceeded its net operating expenditures of \$24,561,584. Gross revenues amounted to \$32,336,113. Gross expenses of \$31,111,763 were offset by \$984,004 in charges for services, \$5,477,190 in operating grants and contributions, and \$88,985 in capital grants. Of the net expenditures, \$16,718,070 was accounted for by Regional School District No. 16 assessments. Net public works expenditures of \$2,685,653, net general government outlays of \$2,018,856, net public safety of \$1,778,161, and net parks and recreation costs of \$657,210 accounted for almost all of the remaining balance. The Town's general revenues derived from \$25,268,646 in tax collections, \$379,420 of unrestricted grants and contributions, and \$137,868 in other general revenues and investment income.

Governmental activities. Governmental activities accounted for the entire net position increase of \$1,224,350. Key elements of this increase are as follows:

Table 2. Changes in Net Position

	Total Primary Government 2017	Total Primary Government 2016
Revenues:		
Program Revenues:		
Charges for Services.....	\$ 984,004	\$ 1,318,294
Operating Grants and Contributions.....	5,477,190	5,623,903
Capital Grants and Contributions	88,985	174,665
General Revenues:		
Property Taxes.....	25,268,646	24,243,275
Grants and Contributions not Restricted to Specific Purpose..	379,420	188,273
Investment Earnings	15,949	12,206
Other General Revenues.....	121,919	123,740
Total Revenues	<u>\$ 32,336,113</u>	<u>\$ 31,684,356</u>
Program Expenses:		
General Government	\$ 2,678,594	\$ 2,659,893
Public Safety	2,168,374	2,277,016
Public Works	2,640,415	2,748,039
Parks and Recreation	782,689	887,585
Health and Human Services	400,318	327,205
Education.....	22,015,679	21,845,190
Other Expenditures.....	382,823	63,979
Interest on Long-Term Debt.....	42,871	50,591
Total Governmental Activities.....	<u>31,111,763</u>	<u>30,859,498</u>
Increase (Decrease) in Net Position	<u>\$ 1,224,350</u>	<u>\$ 824,858</u>

- Property taxes collected increased by \$1,025,371 (4.2%) over FY 2016. Actual collections of property tax, interest, and lien fees during FY 2017 exceeded the budgeted figure of \$25,067,518 by \$191,102.
- Charges for services decreased by \$334,290 (-25.4%) due to a decrease in police special duty revenue of \$190,992 and a \$54,210 decrease in general government services driven primarily by building inspections and conveyance tax. Also, the Town received \$91,146 as a participant in a joint venture with the Bristol Resource Recovery Facility Operating Committee (BRRFOC) in FY16. There was no such receipt in FY17.
- In FY16, the Town received Local Capital Improvement Program and Senior minibus capital grants. Recognition of FY17 LoCIP funds has been deferred until such grant revenue is received.
- General revenue grants for FY17 includes new State of Connecticut municipal revenue sharing in the amount of \$197,097.
- For FY17 the Town's share of proceeds from Region 16 for the sale of Community School to the Town in the amount of \$530,470 was offset against education expense.
- Net education expenditures increased \$170,489 after reducing the cost by the prior year refund and our share of the Community School sales proceeds. Due to budget cuts, the State Education Cost Sharing grant decreased 1.5%. Our share of the Region's budget, based on the Average Daily Membership (ADM), increased from 60.197% to 60.764%. The refund of prior year unspent Region 16 budgeted expenditures in FY 2017 was \$405,560 as compared to \$759,466 in FY 2016.

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.

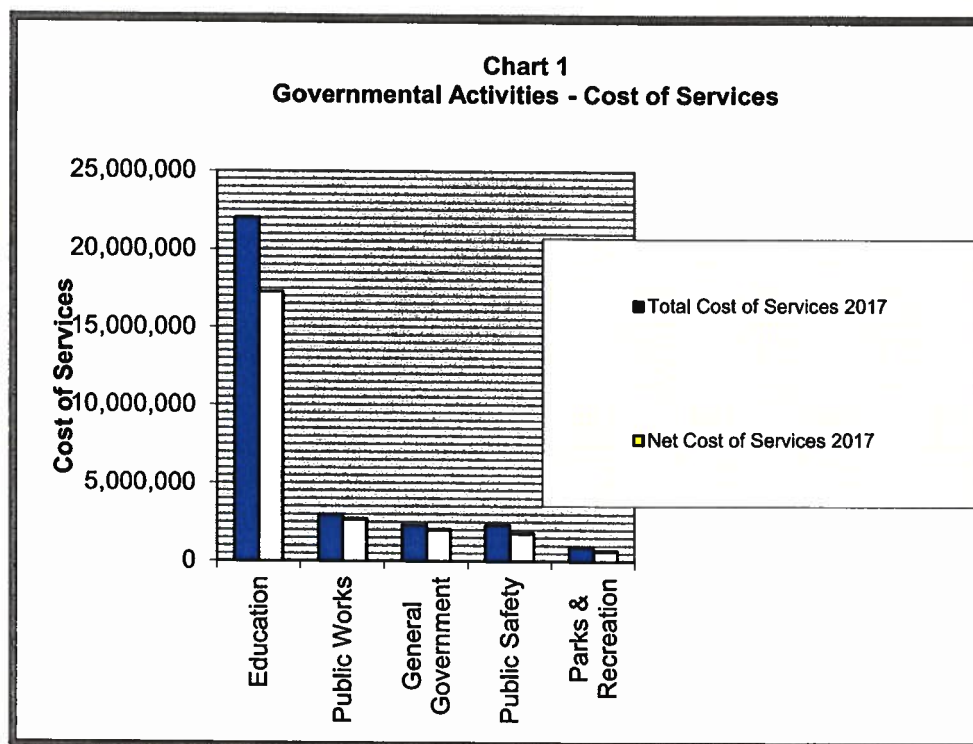
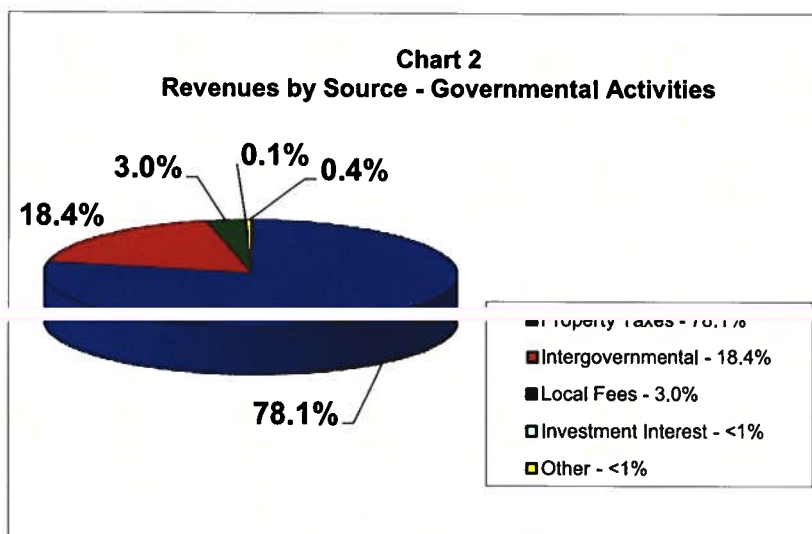


Chart 2 below reflects what percentage of our total revenue is contributed by each of five primary sources. As with most local governments in Connecticut, Prospect relies heavily on the property tax to fund education and other town services.



Financial Analysis of the Government's Funds

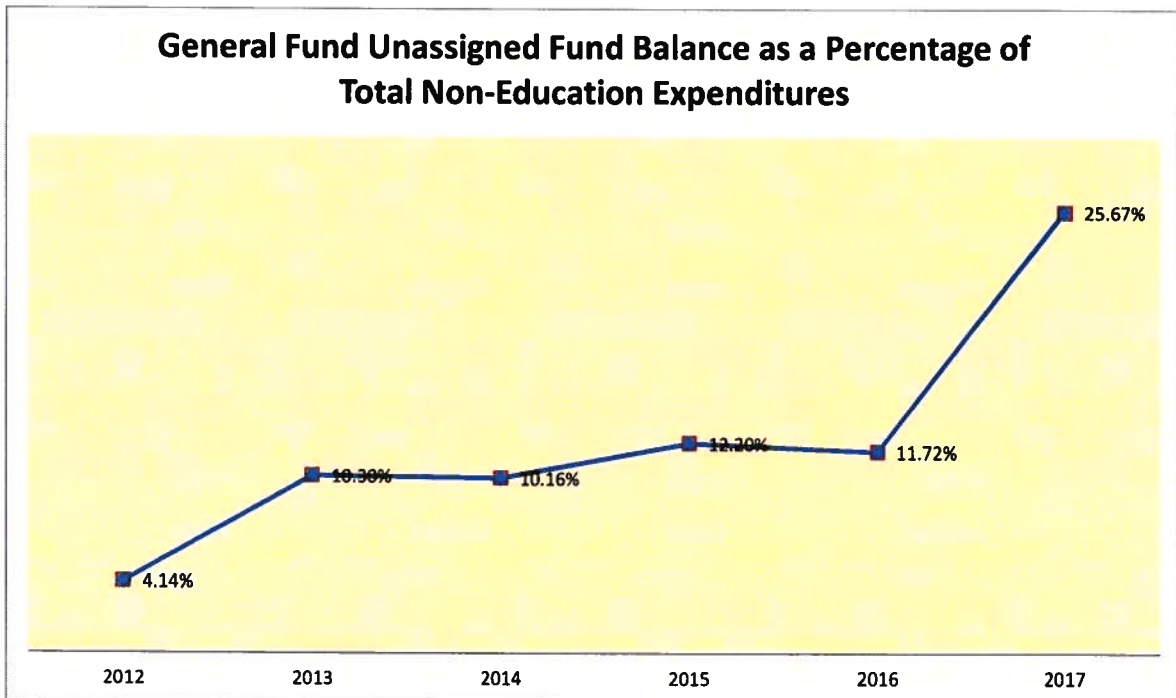
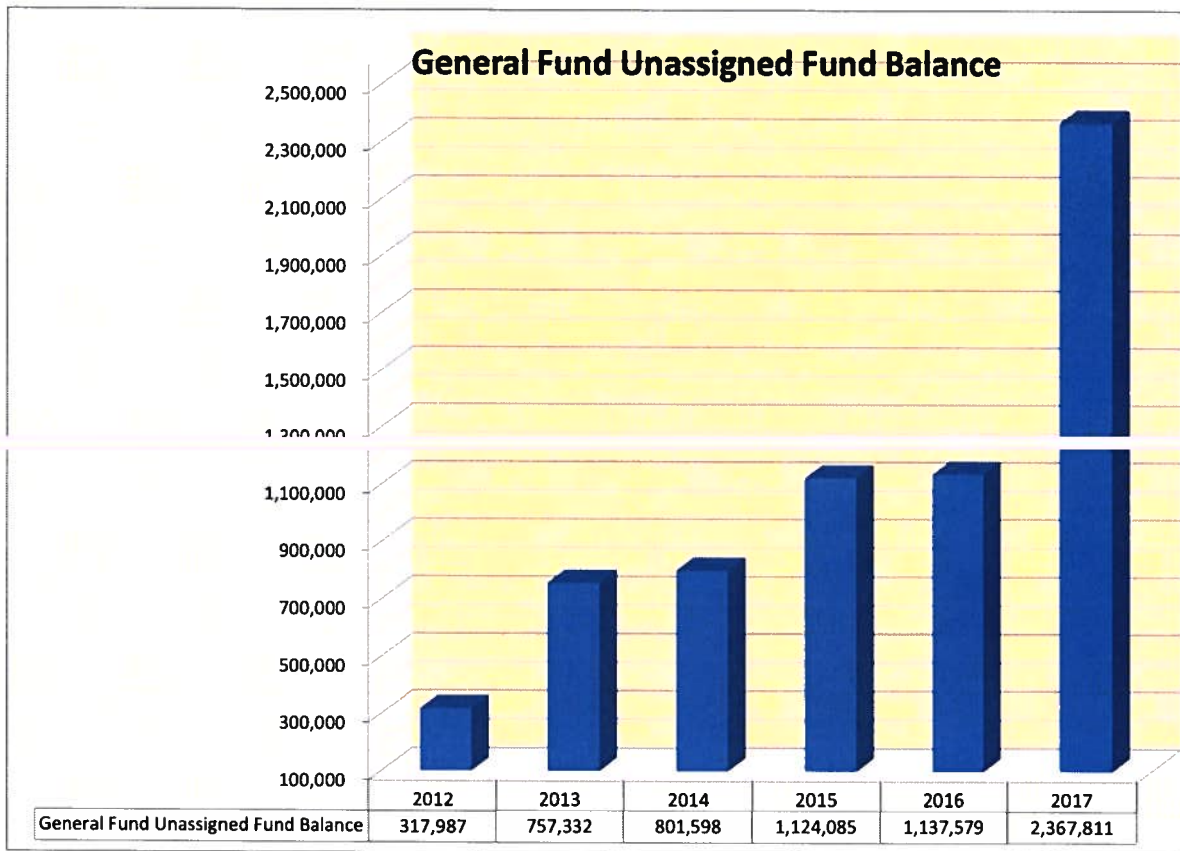
As noted earlier, Prospect uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 \$3,638,896, an increase of \$833,820 in comparison with the prior year. About 87% of fund balance, or \$3,162,042, constitutes *unrestricted fund balance* (assigned plus unassigned) which is available for spending at the government's discretion. The remainder of the fund balance is restricted for future capital expenditures (\$278,816), or committed for other purposes (\$198,038).

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 \$2,367,811 and total general fund balance was \$2,509,406. As a measure of the general fund's liquidity, it may be useful to compare the unassigned general fund balance to total general fund expenditures. Unassigned fund balance represents 7.58% of total general fund expenditures of \$31,239,389 and 25.67% of non-education expenditures of \$9,223,710.

The Town's total general fund balance increased by \$995,237 to a total of \$2,509,406 during the current fiscal year. The increase was primarily due to the Town's share of the proceeds from the sale of Community School, \$530,470, and the refund of prior year unspent Region 16 budgeted expenditures, \$405,560, which both offset education expenditures.



General Fund Budgetary Highlights

The original budget contemplated total revenue and transfers in of \$31,227,520 and total expenditures and transfers out of \$31,227,520. The final budget reflected increases in total expenditures and transfers out, and increases in revenue and transfers in, thereby utilizing \$151,557 general fund surplus. The significant differences in the original and final budget can be explained as follows:

- \$54 thousand increase in legal fees for Town charter revision and negotiations with the public works union and the new police union;
- \$47 thousand increase to town buildings included resurfacing the town hall parking lot, replacement of the town hall hot water heater, firehouse repairs, and the purchase of a 24' x 24' sand/salt house for the public works department;
- \$370 thousand increase in the public safety budget for police wages and a related \$69 thousand increase in social security, which was offset by transfers from the police special duty special revenue fund;
- \$50 thousand net decrease to public works expenditures; an increase of \$72 thousand for road reconstruction and town roads was offset by decreases to solid waste, ice and snow, and labor;
- Decreases in other expenditures included \$22 thousand for Community School renovation and maintenance and \$30 thousand for contingency.

Actual revenues compared to the original budget were favorable by \$538,442.

- The Region 16 School District refunded \$405,560 of unexpended funds from the prior year as compared to the \$20,000 that was budgeted. We also received our share of the Community School sale proceeds of \$530,470.
- Tax collections overall were \$191,102 greater than anticipated. Collections on the current grand list and automobile supplement were \$177,449 favorable at a collection rate of 98.95% of the original assessment. Unfavorable collection of previous years tax in the amount of \$32,605 was offset by \$46,258 favorable collection of interest and lien fees.
- The State Department of Education Cost Sharing grant was \$56,593 less than anticipated;
- The Town received a municipal purposes and projects grant in the amount of \$70,942 that was not included in the budget;
- Local capital improvement program (LoCIP) grant revenue in the amount of \$64,798 was budgeted for FY17. However, recognition of the income is deferred until the grant proceeds are received.

\$1,838,000 proceeds of general obligation notes were used to purchase the Community School for \$873,000 and to refinance \$965,000 of existing general obligation notes.

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 of \$1,149,408 and after dispositions of \$738,805) was \$1,181,035 for governmental activities. After accounting for accumulated depreciation, capital assets increased by \$770,432, to \$18,895,336.

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

- We purchased the Community School building from Regional School District #16 for \$873,000 and spent \$276,490 for renovations and improvements.
- We expended \$435,381 for road infrastructure which included regular road reconstruction and repair.
- We spent \$73,665 renovating the Hotchkiss Field basketball court.
- We purchased public safety vehicles in the amount of \$61,004 and a public works truck in the amount of \$80,169.

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

	Total Primary Government	
	2017	2016
Land	\$ 1,536,054	\$ 1,520,214
Buildings and Improvements	6,047,881	5,046,792
Infrastructure	9,515,268	9,689,872
Vehicles	1,389,596	1,456,206
Furnishings and Equipment	406,537	411,820
Totals	\$17,359,282	\$16,604,690

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 no long-term bonded debt outstanding, \$1,838,000 of bond anticipation notes and a general obligation note in the amount \$56,666.

We reduced our long-term debt by \$551,667 of regularly scheduled principal amortization. We issued a new BAN in the amount of \$873,000 for the purchase of Community School. We refinanced the \$1,145,000 existing BAN with a \$965,000 issue for Road Safety 2014 (\$350,000), the 3 Center Street purchase (\$90,000), and Road Safety 2015 (\$525,000). 100% of the Town's debt is general obligation backed by the full faith and credit of the government. See Note 5, Long-Term Debt, of this report for more information.

Prospect is a member town of Regional School District No. 16 along with the Town of Beacon Falls. As such, Region 16's \$29,990,000 of long-term debt and \$858,000 of short-term debt represent 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 2017, Prospect's ADM percentage was calculated to be 60.764%, and the Town's share of the District net debt of \$30,848,000 at the ADM rate amounts to \$18,744,479.

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, 2017, the maximum amount of borrowing permitted under the formula is \$170,187,647. Net direct borrowings of \$1,894,667 and the Town's net share of overlapping regional school district net debt of \$18,744,479 totals \$20,639,146 and represents the Town of Prospect's outstanding general

obligation net debt. This debt is well below the maximum debt limitation (see “Statement of Statutory Debt Limitation” on page 74 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 1 to the financial statements. Actuarial information, including assumptions and methods, are disclosed in detail.

The annual required contribution (ARC) for fiscal year 2017 was calculated to be \$65,655 and is reported as an expense net of current year contributions in the Statement of Activities. At June 30, 2017, the Town’s net OPEB obligation is \$583,371 and is reflected as a long-term liability in the Statement of Net Position.

For fiscal year June 30, 2015, the Town implemented the accounting principles of GASB Statement #68 – *Accounting and Financial Reporting for Pensions*. This Statement requires the Town to recognize its proportionate share of the net pension liability of the Connecticut Municipal Employees Retirements System (CMERS). At June 30, 2017, \$327,675 was recognized as a long-term liability in the government-wide Statement of Net Position.

Economic Factors and Next Year’s Budget

- The unemployment rate for the Town of Prospect was 4.1% as of June 30, 2017, which is a decrease from an adjusted rate of 4.2% twelve months ago. This compares favorably to the state’s average unemployment rate of 5.1% and the national average rate of 4.4% (not seasonally adjusted).
- Inflationary trends in the region compare favorably to the national indices.
- The State of Connecticut is experiencing an economic crisis at the State level which will have a negative impact on education and other state financial assistance for FY18 and beyond.
- Prospect’s total budget for FY 2017-18 reflects a \$1,000,440 increase (3.20%) from \$31,227,520 to \$32,227,960.
- The Town budget (excluding education) increased \$175,864 from the FY 2017 budget figure of \$8,275,811 to \$8,451,675, an increase of 2.13%.
- The net cost of education for Prospect at Regional School District No. 16 increased \$1,326,539 (7.46%) to \$19,108,178 at the ADM rate of 61.125%.
- The Town tax levy for FY 2017-18 increased \$1,405,646 (5.71%) from \$24,621,518 to \$26,027,164. The projected rate of tax collections remains at 98.5% of the grand list. The mill rate increased 4.48% from 29.91 to 31.25 mills.

Other significant municipal revenue and expenditure changes from the FY17 budget are as follows:

Revenues

- ❖ \$506,650 decrease for State Education Cost Sharing for Regional School District #16;
- ❖ \$86,620 increase in State revenue sharing;
- ❖ \$53,998 increase in Local Capital Improvement Program (LoCIP) funds, with a corresponding increase in road reconstruction LoCIP expenditures ;

Expenditures

- ❖ \$7,500 transfer to the Land Acquisition fund has been eliminated for FY18;
- ❖ \$45,668 increase in social security;
- ❖ \$2,012 increase in Town Council salaries and meeting travel expenditures (+223%),
- ❖ \$71,425 increase in medical benefits (+14%);
- ❖ \$39,679 increase in fire protection (+10%);
- ❖ \$36,288 increase in the recreation department, primarily for programs and park development (+15%);
- ❖ \$15,600 new expenditure line item for Commission on Aging maintenance salaries;
- ❖ \$278,651 decrease in debt service payments for notes and lease payments (-35%)

All of these factors contributed to preparing Prospect's budget for the 2018 fiscal year.

At the close of the 2017 fiscal year, unassigned fund balance in the general fund stood at \$2,367,811. The Town has not appropriated any fund balance for spending in the 2018 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 POSITION

JUNE 30, 2017

ASSETS

Cash and cash equivalents - Note 2	\$ 3,395,734
Investments - Note 2	665,368
Receivables:	
Taxes, net of allowance of \$50,430	278,266
Other receivables:	
Accounts receivable	87,825
Loans receivable	832,813
Interest and lien fees	46,030
Intergovernmental	12,440
Capital Assets - Note 4:	
Not being depreciated	1,536,054
Being depreciated, net of accumulated depreciation	<u>17,359,282</u>

TOTAL ASSETS	<u>24,213,812</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension related net deferred outflows	61,206
Pension contributions subsequent to the measurement date	<u>54,200</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>115,406</u>
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LIABILITIES

Current Liabilities:	
Accounts payable and accrued liabilities	599,295
Accrued interest payable	28,253
Noncurrent Liabilities - Note 5:	
Due within one year	417,512
Due in more than one year	<u>2,957,362</u>

TOTAL LIABILITIES	<u>4,002,422</u>
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NET POSITION

Invested in capital assets, net of related debt	16,556,489
Restricted - Expendable	1,111,629
Unrestricted	<u>2,658,678</u>

TOTAL NET POSITION	<u><u>\$ 20,326,796</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Indirect Expense Allocation	Subtotal	Charges for Services	Operating Grants	Capital Grants
Governmental Activities:						
General government	\$ 2,678,594	\$ (390,296)	\$ 2,288,298	\$ 269,442	\$ -	\$ -
Public safety	2,168,374	117,210	2,285,584	498,813	610	-
Public works	2,640,415	326,331	2,966,746	40,334	151,774	88,985
Parks and recreation	782,689	69,163	851,852	175,415	19,197	-
Health and human services	400,318	40,209	440,527	-	-	-
Education	22,015,679	-	22,015,679	-	5,297,609	-
Other expenditures	382,823	(119,746)	263,077	-	-	-
Interest on long-term debt	42,871	(42,871)	-	-	-	-
Total Governmental Activities	\$ 31,111,763	\$ -	\$ 31,111,763	\$ 984,004	\$ 5,477,190	\$ 88,985
General Revenues:						
Property taxes, interest and lien fees						25,268,646
Grants and contributions not restricted to specific programs						379,420
Investment income						15,949
Other income						121,919
Total General Revenues						25,785,934
Change in Net Position						1,224,350
Net Position - Beginning of the Year						19,102,446
Net Position - End of the Year						\$ 20,326,796

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	<u>General Fund</u>	<u>Police Special Duty</u>	<u>Housing Rehabilitation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,854,612	\$ 152,883	\$ 27,867	\$ 360,372	\$ 3,395,734
Investments	53,704	1,347	-	610,317	665,368
Receivables:					
Taxes receivable	328,696	-	-	-	328,696
Other receivables:					
Accounts receivable	42,321	42,000	-	1,514	85,835
Loans receivable	-	-	832,813	-	832,813
Interest and liens	17,210	-	-	-	17,210
Intergovernmental	12,440	-	-	-	12,440
Due from other funds	50,761	-	-	4,274	55,035
TOTAL ASSETS	<u>\$ 3,360,744</u>	<u>\$ 197,220</u>	<u>\$ 860,680</u>	<u>\$ 976,477</u>	<u>\$ 5,395,121</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 582,256	\$ -	\$ 200	\$ 16,839	\$ 599,295
Due to other funds	-	44,567	-	10,468	55,035
TOTAL LIABILITIES	<u>582,256</u>	<u>44,567</u>	<u>200</u>	<u>27,307</u>	<u>654,330</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - taxes	269,082	-	-	-	269,082
Unavailable revenue - long-term loans receivable	-	-	832,813	-	832,813
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>269,082</u>	<u>-</u>	<u>832,813</u>	<u>-</u>	<u>1,101,895</u>
FUND BALANCES:					
Restricted	-	-	27,667	251,149	278,816
Committed	-	-	-	198,038	198,038
Assigned	141,595	152,653	-	588,924	883,172
Unassigned	2,367,811	-	-	(88,941)	2,278,870
TOTAL FUND BALANCES	<u>2,509,406</u>	<u>152,653</u>	<u>27,667</u>	<u>949,170</u>	<u>3,638,896</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,360,744</u>	<u>\$ 197,220</u>	<u>\$ 860,680</u>	<u>\$ 976,477</u>	<u>\$ 5,395,121</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

Fund Balance - Total Governmental Funds **\$ 3,638,896**

Amounts reported for governmental activities in the Statement
of Net Position are different because of the following:

Capital assets used in governmental activities are not
financial resources and therefore are not reported
in the governmental funds:

Governmental capital assets	\$ 39,013,131	
Less accumulated depreciation	<u>(20,117,795)</u>	
Net capital assets		18,895,336

Taxes and long-term assets are not available to pay for current
period expenditures and, therefore, are deferred in the funds:

Deferred property tax revenue	269,082
Uncollectible taxes receivable	(50,430)
Interest receivable on property taxes	28,820
Long-term loans receivable	832,813

Long-term liabilities, including bonds payable, are not due
and payable in the current period and, therefore, are not
reported in the funds:

Bond and notes payable	(1,894,666)	
Capital leases	(444,181)	
Net pension liability	(327,675)	
Pension unfunded accrued liability	(96,981)	
Net OPEB obligation	(583,371)	
Compensated absences	<u>(28,000)</u>	
		(3,374,874)
Interest payable on long-term liabilities		(28,253)
Pension related net deferred outflows of resources		<u>115,406</u>

Net Position of Governmental Activities **\$ 20,326,796**

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>	<u>Police Special Duty</u>	<u>Housing Rehabilitation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
REVENUES					
Property taxes, interest & lien fees	\$ 25,258,620	\$ -	\$ -	\$ -	\$ 25,258,620
Federal, state and other grants	5,685,639	-	-	259,956	5,945,595
Licenses, permits and fees	265,365	483,034	-	214,099	962,498
Investment income	9,087	431	-	6,431	15,949
Other income	122,906	6,079	3,900	148,040	280,925
TOTAL REVENUES	<u>31,341,617</u>	<u>489,544</u>	<u>3,900</u>	<u>628,526</u>	<u>32,463,587</u>
EXPENDITURES					
Current:					
General government	2,521,612	-	-	-	2,521,612
Public safety	1,929,171	41,140	-	-	1,970,311
Public works	2,016,547	-	-	152,347	2,168,894
Parks and recreation	618,880	-	-	154,860	773,740
Health and social services	347,315	-	-	-	347,315
Education	22,015,679	-	-	-	22,015,679
Other expenditures	113,813	-	45,672	143,433	302,918
Capital Expenditures	890,715	65,299	-	660,627	1,616,641
Debt Service:					
Principal payments	742,305	-	-	-	742,305
Interest and other	43,352	-	-	-	43,352
TOTAL EXPENDITURES	<u>31,239,389</u>	<u>106,439</u>	<u>45,672</u>	<u>1,111,267</u>	<u>32,502,767</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>102,228</u>	<u>383,105</u>	<u>(41,772)</u>	<u>(482,741)</u>	<u>(39,180)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of bond anticipation notes	1,838,000	-	-	-	1,838,000
Bond anticipation notes refinanced	(965,000)	-	-	-	(965,000)
Transfers in	410,309	-	-	394,574	804,883
Transfers out	(390,300)	(368,798)	-	(45,785)	(804,883)
TOTAL OTHER FINANCING SOURCES (USES)	<u>893,009</u>	<u>(368,798)</u>	<u>-</u>	<u>348,789</u>	<u>873,000</u>
NET CHANGE IN FUND BALANCES	995,237	14,307	(41,772)	(133,952)	833,820
FUND BALANCES, BEGINNING	<u>1,514,169</u>	<u>138,346</u>	<u>69,439</u>	<u>1,083,122</u>	<u>2,805,076</u>
FUND BALANCES, ENDING	<u>\$ 2,509,406</u>	<u>\$ 152,653</u>	<u>\$ 27,667</u>	<u>\$ 949,170</u>	<u>\$ 3,638,896</u>

The accompanying notes are an integral part of these financial statements.

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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 833,820
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	1,919,840
Less current year depreciation	(1,149,408)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Issuance of bonds and notes	(873,000)
Bond principal payments	551,667
Capital lease principal payments	187,267
Payment of unfunded pension liability	3,370
Amortization of bond issue costs	(4,129)
Amortization of bond premium	3,876
Long-term loans receivable	(217,404)

Some revenues and expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as revenues and expenditures in the governmental funds:

Revenues:

Property taxes, interest and liens	10,026
Change in deferred outflows related to pensions	44,889

Expenses:

Pensions	(43,209)
OPEB	(43,989)
Accrued interest payable	734

Change in Net Position of Governmental Activities	\$ <u>1,224,350</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Employee Retirement Plans	Private Purpose Trusts	Agency Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 47,032	\$ 13,597
Investments, at fair value	2,290,960	-	-
Receivables	32,480	-	-
TOTAL ASSETS	<u>2,323,440</u>	<u>47,032</u>	<u>13,597</u>
LIABILITIES			
Payables	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Held in trust for retirement benefits and other purposes	<u>\$ 2,323,440</u>	<u>\$ 47,032</u>	<u>\$ 13,597</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017**

	Employee Retirement Plan	Private Purpose Trusts
ADDITIONS		
Employer contributions	€ 61,076	€
Plan member contributions	37,820	-
Charitable contributions	-	23,474
Total contributions	102,796	23,474
Investment earnings:		
Net increase (decrease) in fair value of investments	259,248	-
TOTAL ADDITIONS	362,044	23,474
DEDUCTIONS		
Benefits paid	200,054	-
Administrative fees	5,862	-
Charitable expenditures	-	13,359
TOTAL DEDUCTIONS	205,916	13,359
CHANGE IN NET POSITION	156,128	10,115
NET POSITION, BEGINNING OF THE YEAR	2,167,312	36,917
NET POSITION, END OF THE YEAR	<u>\$ 2,323,440</u>	<u>\$ 47,032</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017

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 human 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 Position 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, 2017

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 position is reported as restricted only when constraints are placed on net position 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 and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specific 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 three *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, 2017

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Government-wide Statement of Net Position 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.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND EQUITY

Cash and Cash Equivalents – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, time deposit accounts, certificates of deposit, money market funds and other 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.

Loans Receivable – The Town administers a loan program for low to moderate income families through the Small Cities grant program. The loans bear an interest rate of 0%. Repayment of the loans is deferred, but the loans become due and payable upon sale or transfer of the property, the owner's demise, or when the subject property is no longer the applicant's principal place of residence. The notes may be paid in full or in part by the borrower at any time without penalty.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and the fund financial statements.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in appropriate governmental funds to indicate that they are not available for appropriation and represent expendable financial resources.

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. Land and construction-in-progress are not depreciated.

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 Position. 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

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.

Unearned Revenue – Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources:

Deferred outflows of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflow of resources in the government-wide Statement of Net Position related to pension results from differences between expected and actual experience and for pension contributions made subsequent to the measurement date. These amounts are deferred and included in pension expense in a systematic and rational manner.

Deferred inflows of resources represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For governmental funds, the Town reports unavailable revenue, which arises only under the modified accrual basis of accounting. The unavailable revenue from property taxes is reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Pension Liability – The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its Statement of Fiduciary Net Position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Long-term obligations – All long-term debt to be repaid from governmental resources is reported as liabilities in the Statement of Net Position 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.

Net Position and Fund Balance:

In the government-wide financial statements, net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net position is classified in the following three categories:

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.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net position – 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 position – 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 the difference between current assets and current liabilities and is called fund balance. In the fund financial statements, fund balance 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 and prepaids) or they are legally or contractually required to be maintained intact.

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.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, deferred inflow/outflows, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. 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 (modified accrual basis).

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.

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.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. PROPERTY TAXES

Property taxes on real estate, motor vehicles and personal property are assessed on the Town's grand list as of October 1st and billed on the following July 1st and January 1st. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed. Property assessments are made at 75% of the assessed value for all taxable real and personal property located within the Town as of October 1st.

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 75% of their accumulated sick leave or a maximum of 60 days. An estimated contingent liability in the amount of \$ 28,000 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 – Custodial credit risk is the possibility that in the event of a bank failure, the Town deposits may not be returned. 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 State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk-based capital ratio.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 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.

Credit Risk – The Town has no formal investment policy that would limit its investment exposure to credit risk other than the State Statutes.

Interest Rate Risk – Interest rate risk is the possibility that the Town will incur losses in fair value caused by changing interest rates. 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 – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

A. CASH AND CASH EQUIVALENTS

As of June 30, 2017, total deposits of \$3,456,363 represent cash and cash equivalents of \$3,395,734 as reported on the statement of net position and \$60,629 as reported on the statement of fiduciary net assets.

B. CUSTODIAL CREDIT RISK ON DEPOSITS

At June 30, 2017, the carrying amount of the Town's cash deposits with financial institutions was \$3,456,363 and the bank balance was \$3,599,423. Of the bank balance, \$1,869,206 was covered by Federal Depository Insurance and \$1,730,217 was uninsured and uncollateralized. 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.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. INVESTMENTS

At June 30, 2017, investments reported at fair value include \$585,229 collateralized by investments held by the Town or by its agent in the Town's name and \$2,371,099 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, 2017:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Retirement Trusts</u>	<u>Total Investments</u>
Certificates of deposit	\$ 53,704	\$ 82,841	\$ 359,244	\$ -	\$ 495,789
U.S. Government Bonds	-	88,092	-	-	88,092
Fixed Income Annuity *	-	80,140	-	-	80,140
Mutual Funds:					
Bond & Fixed Income *	-	-	-	721,800	721,800
Equities *	-	1,347	-	1,284,829	1,286,176
International *	-	-	-	284,331	284,331
Total	<u>\$ 53,704</u>	<u>\$ 252,420</u>	<u>\$ 359,244</u>	<u>\$ 2,290,960</u>	<u>\$ 2,956,328</u>

Fair Value Measures – The Town utilizes the market approach as the valuation technique to measure fair value of its financial assets. Generally accepted accounting principles establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value of financial instruments into three levels.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities where the organization has the ability to access at the measurement date;

Level 2 – Significant other observable inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly (i.e. quoted prices in inactive markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency);

Level 3 – Unobservable inputs are used to the extent that observable inputs are unavailable due to little, if any, market activity for the asset or liability. Unobservable inputs are developed based on the best information available, which might include the organization's own data that reflects assumptions that market participants would use in pricing the asset or liability.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Town's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The Town has no financial assets measured using Level 2 or Level 3 at June 30, 2017.

Investments are summarized as follows at June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Fixed income	\$ 575,929	\$ 497,681	\$ 78,248	\$ -	\$ -
U.S. Treasury notes	88,092	-	-	88,092	-
	664,021	\$ 497,681	\$ 78,248	\$ 88,092	\$ -
Mutual funds **	2,292,307				
	\$ 2,956,328				
** Mutual funds do not mature.					

NOTE 3 – RECEIVABLES

Receivables reported in the Statement of Net Position consist of the following at June 30, 2017:

Current Receivables:

Taxes	\$ 328,696
Accounts receivable	87,825
Loans receivable	832,813
Interest and fees on delinquent taxes	58,234
Intergovernmental	12,440
Gross Receivables	1,320,008
Less: Allowance for uncollectibles	(62,633)
Net Receivables	<u>\$ 1,257,375</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Governmental Activities:</u>				
Non-Depreciable Assets:				
Land	\$ 1,520,214	\$ 15,840	\$ -	\$ 1,536,054
Depreciable Assets:				
Buildings and improvements	7,687,548	1,154,840	-	8,842,388
Infrastructure	21,985,924	556,349	698,160	21,844,113
Vehicles	4,365,737	141,173	40,645	4,466,265
Furnishings and equipment	<u>2,272,673</u>	<u>51,638</u>	<u>-</u>	<u>2,324,311</u>
Totals at Historical Cost	<u>37,832,096</u>	<u>1,919,840</u>	<u>738,805</u>	<u>39,013,131</u>
Less Accumulated Depreciation for:				
Buildings and improvements	2,640,756	153,751	-	2,794,507
Infrastructure	12,296,052	730,953	698,160	12,328,845
Vehicles	2,909,531	207,783	40,645	3,076,669
Furnishings and equipment	<u>1,860,853</u>	<u>56,921</u>	<u>-</u>	<u>1,917,774</u>
Total Accumulated Depreciation	<u>19,707,192</u>	<u>1,149,408</u>	<u>738,805</u>	<u>20,117,795</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 18,124,904</u>	<u>\$ 770,432</u>	<u>\$ -</u>	<u>\$ 18,895,336</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 30,185
Public Safety	214,398
Public Works	758,954
Parks and Recreation	91,648
Health and Social Services	<u>54,223</u>
Total Depreciation Expense	<u>\$ 1,149,408</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	Balance <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
GENERAL OBLIGATION BONDS:					
\$4,310,000 issue dated 07/15/98, interest from 4.25% to 6.00%, matures 07/15/16	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
\$1,155,000 issue dated 08/15/06, interest from 3.70% to 5.00%, matures 08/15/16	115,000	-	115,000	-	-
BOND ANTICIPATION NOTES:					
Road Safety 2014, dated 08/27/15	425,000	-	75,000	350,000	75,000
3 Center Street Purchase, dated 08/27/15	120,000	-	30,000	90,000	30,000
Road Safety 2015, dated 08/27/15	600,000	-	75,000	525,000	75,000
Community School Purchase, dated 07/06/16	-	873,000	-	873,000	-
GENERAL OBLIGATION NOTE:					
5 Cheshire Road Purchase, dated 12/31/15	<u>113,333</u>	<u>-</u>	<u>56,667</u>	<u>56,666</u>	<u>56,666</u>
SUB-TOTAL	1,573,333	873,000	551,667	1,894,666	236,666
CAPITAL LEASE OBLIGATIONS	631,448	-	187,267	444,181	157,240
NET PENSION LIABILITY – NOTE 6	284,466	43,209	-	327,675	-
UNFUNDED MERS PENSION – NOTE 6	100,351	-	3,370	96,981	3,668
NET OPEB OBLIGATION – NOTE 7	539,382	65,655	21,666	583,371	19,938
COMPENSATED ABSENCES – NOTE 1G	<u>28,000</u>	<u>-</u>	<u>-</u>	<u>28,000</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 3,156,980</u>	<u>\$ 981,864</u>	<u>\$ 763,970</u>	<u>\$ 3,374,874</u>	<u>\$ 417,512</u>

For the fiscal year ended June 30, 2017, the Town expended \$ 806,841 for debt service consisting of principal payments totaling \$ 763,970 and interest payments totaling \$ 42,871.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Overlapping Debt

The Town is contingently liable for its pro-rata share of Regional School District No. 16 general obligation school bonds. The District's operating budget provides for annual retirement of principal and interest. At June 30, 2017, the District had \$29,990,000 of long-term bonded debt and \$858,000 of short-term debt. The Town's share is based on student enrollment attending the regional facility on October 1 of the preceding year and is calculated at 60.764% for the fiscal year ending June 30, 2017. The overlapping debt to the Town is calculated to be \$18,744,479.

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>
2018	\$ 3,270,000	\$ 981,559	\$ 4,251,559
2019	3,235,000	866,707	4,101,707
2020	3,210,000	744,818	3,954,818
2021	1,425,000	620,094	2,045,094
2022	1,420,000	571,919	1,991,919
2023-2027	6,975,000	2,178,713	9,153,713
2028-2032	6,975,000	1,173,475	8,148,475
2033-2036	<u>3,480,000</u>	<u>223,000</u>	<u>3,703,000</u>
Total	<u>\$ 29,990,000</u>	<u>\$ 7,360,285</u>	<u>\$ 37,350,285</u>

Legal Debt Limit

Connecticut General Statutes Section 7-374(b) provides that authorized debt of the Town shall not exceed seven times base receipts for the immediate preceding fiscal year, as defined in the Statute, or \$170,187,647 as of June 30, 2017. Further, the Statute limits the amount of debt that may be authorized by the Town for general purposes, schools, sewers, urban renewal and pension deficit. The Town did not exceed any of the statutory debt limitations at June 30, 2017 (See Statement of Debt Limitation, page 74).

Capital Lease Obligations

The Town has entered into various lease agreements as lessee for financing the acquisition of equipment. The leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date in the government-wide financial statements. The assets acquired through the capital leases are as follows:

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Fire pumper truck, 3.50%, 9 years to September 2018	\$ 537,840
Pierce tanker fire truck, 3.27%, 8 years to March 2022	416,179
Backhoe loader, 3.00%, 4 years to August 2017	<u>162,660</u>
Total Equipment	1,116,679
Less accumulated depreciation	<u>317,032</u>
Net	<u>\$ 799,647</u>

The annual requirement to amortize the leases as of June 30, 2017 is as follows:

Fiscal Year Ending <u>June 30</u>	Present Value of Minimum <u>Lease Payments</u>	<u>Interest</u>	Total Minimum <u>Lease Payments</u>
2018	\$ 157,240	\$ 14,631	\$ 171,871
2019	119,874	9,485	129,359
2020	53,907	5,463	59,370
2021	55,670	3,700	59,370
2022	<u>57,490</u>	<u>1,880</u>	<u>59,370</u>
Total	<u>\$ 444,181</u>	<u>\$ 35,159</u>	<u>\$ 479,340</u>

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Defined Contribution Money Purchase Pension Plan

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, 2017). 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.

For the year ended June 30, 2017, the Town contributed \$64,976 on covered payroll of \$812,200.

The Town of Prospect also offers an IRS Section 457 Deferred Compensation Program to its employees. At June 30, 2017, net assets of the Town of Prospect Profit Sharing Plan and Trust totaled \$1,324,673 and net assets of the Deferred Compensation Program totaled \$998,767.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Connecticut Municipal Employees' Retirement System

Organization

The Town participates in the Connecticut Municipal Employees Retirement System (CMERS). CMERS is the public pension plan offered by the State of Connecticut for municipal employees in participating municipalities. The plan was established in 1947 and is governed by Connecticut Statute Title 7, Chapter 113. Chapter 113, Part II of the General Statutes of Connecticut, which can be amended by legislative action, establishes benefits, member contribution rates, and other plan provisions. CMERS is a multiemployer cost sharing defined benefit pension plan administered by the Connecticut State Retirement Commission. The State Treasurer is responsible for investing CMERS funds for the exclusive benefit of CMERS members. The Town had 7 public works employees, covered by union contract, actively participating in CMERS at June 30, 2017.

Plan Description

Municipalities may designate which departments (including elective officers if so specified) are to be covered under the CMERS. This designation may be the result of collective bargaining. Only employees covered under the State Teachers Retirement System may not be included. There are no minimum age or service requirements. Membership is mandatory for all regular full-time employees of participating departments except Police and Fire hired after age 60.

The plan has 4 sub plans as follows:

- General employees with social security
- General employees without social security
- Policemen and firemen with social security
- Policemen and firemen without social security

Benefit Provisions

The plan provides retirement, disability and death benefits as defined in the Statutes.

General Employees – Employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active non-continuous aggregate service. Employees under the age of 55 are eligible to retire with 25 years of service under certain conditions.

Policemen and Firemen – Compulsory retirement age for police and fire members is age 65.

Normal Retirement: For members not covered by social security, the benefit is 2% of average final compensation times years of service.

For members covered by social security, the benefit is 1 ½% of the average final compensation not in excess of the year's breakpoint plus 2% of average final compensation in excess of the year's breakpoint, times years of service.

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The maximum benefit is 100% of average final compensation and the minimum benefit is \$1,000 annually. Both the minimum and the maximum include workers' compensation and social security benefits.

If any member covered by social security retires before age 62, the member's benefit until the member reaches age 62 or a social security disability award is received, is computed as if the member is not under social security.

Early Retirement. Employees are eligible after 5 years of continuous or 15 years of active aggregate service. The benefit is calculated on the basis of average final compensation and service to date of termination. Deferred to normal retirement age, or an actuarially reduced allowance may begin at the time of separation.

Disability Retirement: Employees are eligible for service-related disability benefits from being permanently or totally disabled from engaging in the service of the municipality provided such disability has arisen out of and in the course of employment with the municipality. Disability due to hypertension or heart disease, in the case of firemen and policemen, is presumed to have been suffered in the line of duty. Disability benefits are calculated based on compensation and service to the date of the disability with a minimum benefit (including workers' compensation benefits) of 50% of compensation at the time of disability.

Employees are eligible for non-service related disability benefits with 10 years of service and being permanently or totally disabled from engaging in gainful employment in the service of the municipality. Disability benefits are calculated based on compensation and service to the date of the disability.

Pre-Retirement Death Benefit: The plan also offers a lump sum return of contributions with interest or surviving spouse benefit depending on length of service.

Contributions

Employer – Participating municipalities make annual contributions consisting of a normal cost contribution, a contribution for the amortization of the net unfunded accrued liability, and a prior service amortization payment which covers the liabilities of the system not met by member contributions.

For the year ended June 30, 2016, the Town's required contribution to CMERS was \$54,200, calculated at 11.38% of \$476,273 covered payroll. The annual prior service amortization payment for thirty years is \$7,093 (effective July 1, 2006). A balance of \$96,981 is included in the Town's long-term debt as of June 30, 2017.

Employees – For employees not covered by social security, each person is required to contribute 5% of compensation. For employees covered by social security, each person is required to contribute 2.25% of compensation up to the social security taxable wage base plus 5% of compensation, if any, in excess of such base.

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Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and expense information about CMERS net position and additions to/deductions from CMERS net position have been determined on the same basis as they are reported by CMERS. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources

The Town has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires participating employers of CMERS to recognize their proportional share of the collective net pension liability, deferred outflow of resources, deferred inflows of resources and pension expense.

The collective total pension liability was determined by an actuarial valuation as of June 30, 2016. There were no changes in assumptions or benefits that affected the measurement of the total pension liability since the prior June 30, 2014 measurement date, except the Town's proportional share changed from 0.207775% to 0.166945%. At June 30, 2017, the Town of Prospect reported a liability of \$327,675 in the government-wide Statement of Net Position for its proportionate share and recognized pension expense of \$78,604 in the government-wide Statement of Activities.

At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to CMERS in its government-wide Statement of Net Position from the following sources:

<u>Description of outflows/inflows</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 7,062
Changes in proportional share of employer	(41,094)
Net difference between projected and actual earnings on pension plan investments	95,238
Town contributions subsequent to the measurement date	<u>54,200</u>
Total	<u>\$ 115,406</u>

The deferred outflows of resources resulting from the Town contributions subsequent to the measurement date of June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Amounts reported in deferred outflows of resources and deferred inflows of resources related to

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pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	\$ 66,049
2019	11,849
2020	25,596
2021	11,912

Actuarial Assumptions and Related Data

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increase	4.25% – 11.00%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for annuitants and non-annuitants (set forward one year for males and set back one year for females).

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actual experience study for the period July 1, 2007 – June 30, 2012.

Future Cost-of-Living adjustments for members who retire on or after January 1, 2002 are 60% of the annual increase in the CPI up to 6%. The minimum annual COLA is 2.5%, the maximum is 6%.

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	16.0%	5.8%
Developed non-U.S. equities	14.0%	6.6%
Emerging markets (non-U.S.)	7.0%	8.3%
Core fixed income	8.0%	1.3%

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Inflation linked bond fund	5.0%	1.0%
Emerging market bond	8.0%	3.7%
High yield bonds	14.0%	3.9%
Real estate	7.0%	5.1%
Private equity	10.0%	7.6%
Alternative investments	8.0%	4.1%
Liquidity fund	<u>3.0%</u>	0.4%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability of CMERS, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate.

	1% Decrease <u>7.00%</u>	Current Discount Rate <u>8.00%</u>	1% Increase <u>9.00%</u>
Town's proportionate share of the net pension liability	\$ 517,000	\$ 327,675	\$ 167,134

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description - The Town provides healthcare insurance benefits for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members. Benefit provisions are established by various collective bargaining and employment agreements with the Town.

Annual OPEB Cost and Net OPEB Obligation – The town's annual OPEB cost (expense) is calculated

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based on the annual required contribution (ARC) of the employer. 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 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:

Annual required contribution	\$ 61,007
Interest on net OPEB obligation	1,288
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	65,655
Contributions made	21,666
Increase in net OPEB obligation	43,989
Net OPEB obligation – beginning of year	539,382
Net OPEB obligation – end of year	<u>\$ 583,371</u>

Three-year Trend Information

<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>
06/30/17	\$ 65,655	\$ 21,666	33.0%	\$ 583,371
06/30/16	\$ 70,029	\$ 17,598	25.1%	\$ 539,382
06/30/15	\$ 71,799	\$ 11,539	16.1%	\$ 486,951

Funded Status and Funding Progress – As of June 30, 2017, the actuarial accrued liability for benefits was \$596,435. There is no requirement for funding the Retiree Health Plan and the plan has not been funded. The Town has not established a formal funding plan or a trust. The covered payroll (annual payroll of active employees covered by the plan) was \$1,115,631, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 53.5%.

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.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 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 – 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term rate of inflation is 3.0%.

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, 2017 was twenty-two years.

NOTE 8 – FUND BALANCES

As discussed in Note 1, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

which amounts in those funds can be spent. These are summarized below:

	General Fund	Police Special Duty	Housing Rehabilitation	Other Governmental Funds
Restricted:				
General government	\$ -	\$ -	\$ 27,667	\$ -
Public works	-	-	-	76
Parks and recreation	-	-	-	251,073
	<u>-</u>	<u>-</u>	<u>27,667</u>	<u>251,149</u>
Committed:				
General government	-	-	-	20,000
Public works	-	-	-	52,229
Capital projects	-	-	-	125,809
	<u>-</u>	<u>-</u>	<u>-</u>	<u>198,038</u>
Assigned:				
General government	-	-	-	6,585
Public safety	-	152,653	-	-
Public works	-	-	-	46,258
Parks and recreation	-	-	-	169,337
Capital projects	<u>141,595</u>	<u>-</u>	<u>-</u>	<u>366,744</u>
	<u>141,595</u>	<u>152,653</u>	<u>-</u>	<u>588,924</u>
Unassigned	<u>2,367,811</u>	<u>-</u>	<u>-</u>	<u>(88,941)</u>
Total Fund Balances	<u>\$ 2,509,406</u>	<u>\$ 152,653</u>	<u>\$ 27,667</u>	<u>\$ 949,170</u>

NOTE 9 – INTERFUND ACCOUNTS

Balances due to/from other funds, as presented in the governmental funds balance sheet at June 30, 2017, consist of the following:

TOWN OF PROSPECT, CONNECTICUT
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JUNE 30, 2017

	Due from Other Funds	Due to Other Funds
General Fund:		
Special Revenue Funds:		
Police Special Duty	\$ 44,567	\$ -
Sewer Use Fees	6,194	-
Special Revenue Funds:		
Police Special Duty:		
General Fund	-	44,567
Sewer Use Fees:		
WPCA Capital Improvement	4,274	-
General Fund	-	6,194
Capital Project Funds:		
WPCA Capital Improvement:		
Sewer Use Fees	-	4,274
Total	<u>\$ 55,035</u>	<u>\$ 55,035</u>

NOTE 10 – TRANSFERS

Transfers, as presented in the other financing sources and uses of the governmental funds, at June 30, 2017, consist of the following:

Transfers authorized by adopted budget:

From town aid roads special revenue to the general fund	\$ 34,400
From sewer use fees special revenue to the general fund	7,111
From the general fund to the capital projects land acquisition fund	7,500

Other transfers:

From the Police Special Duty special revenue fund to the general fund to reimburse for wages and benefits paid	368,798
From the sewer use fees special revenue to the capital Projects WPCA capital improvement fund	4,274
From the general fund to the Capital and Non-Recurring general fund for:	
Revaluation	20,000
Community School repairs	360,000
Pool table replacement	<u>2,800</u>

Total Transfers	<u>\$ 804,883</u>
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NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, and natural disasters for which the Town carries commercial insurance.

TOWN OF PROSPECT, CONNECTICUT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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.

NOTE 11 – 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.

NOTE 12 – SUBSEQUENT EVENTS

On July 6, 2017, the Town issued \$1,833,000 of bond anticipation notes maturing July 3, 2018 with an annual interest rate of 1.55% payable at maturity. The proceeds from the issuance were used to pay off the \$1,838,000 bond anticipation notes outstanding at June 30, 2017 as follows:

	Balance			Refinanced
	<u>June 30, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Road Safety 2014	\$ 350,000	\$ -	\$ 75,000	\$ 275,000
3 Center Street purchase	90,000	-	30,000	60,000
Road Safety 2015	525,000	-	75,000	450,000
Community School purchase	873,000	-	575,000	298,000
Road Safety 2017	-	750,000	-	750,000
	<u>\$ 1,838,000</u>	<u>\$ 750,000</u>	<u>\$ 755,000</u>	<u>\$ 1,833,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PROSPECT, CONNECTICUT

**CONNECTICUT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	<u>0.166945%</u>	<u>0.207775%</u>	<u>0.207775%</u>
Town's proportionate share of the net pension liability	<u>\$ 327,675</u>	<u>\$ 284,466</u>	<u>\$ 201,667</u>
Town's covered-employee payroll	<u>\$ 476,273</u>	<u>\$ 429,940</u>	<u>\$ 512,801</u>
Town's proportionate share of the net pension liability as a percentage of it covered payroll	<u>68.80%</u>	<u>66.16%</u>	<u>39.33%</u>
System fiduciary net position as a percentage of the total pension liability	<u>88.29%</u>	<u>92.72%</u>	<u>90.48%</u>

Note: The above information relates to June 30, 2016, the last actuarial valuation

See Accompanying Independent Auditor's Report

TOWN OF PROSPECT, CONNECTICUT

**CONNECTICUT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF TOWN CONTRIBUTIONS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 54,200	\$ 48,927	\$ 61,434
Contributions in relation to the contractually required contribution	<u>(54,200)</u>	<u>(48,927)</u>	<u>(61,434)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	<u>\$ 476,273</u>	<u>\$ 429,940</u>	<u>\$ 512,801</u>
Contributions as a percentage of covered-employee payroll	<u>11.38%</u>	<u>11.38%</u>	<u>11.98%</u>

See Accompanying Independent Auditor's Report

TOWN OF PROSPECT, CONNECTICUT

**GENERAL FUND
SCHEDULE OF REVENUES DETAIL
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts				Variance With
	Original	Additional Revenue	Final	Actual	Final Budget Over (Under)
REVENUE:					
Property taxes:					
Current	\$ 24,555,518	\$ -	\$ 24,555,518	\$ 24,678,703	\$ 123,185
Previous years	182,000	-	182,000	149,395	(32,605)
Interest and lien fees	80,000	-	80,000	126,258	46,258
Automobile supplement	250,000	-	250,000	304,264	54,264
Total Property taxes	25,067,518	-	25,067,518	25,258,620	191,102
Federal, state and other grants:					
Exemptions for elderly, veterans and disabled	95,000	-	95,000	84,308	(10,692)
Education grant Region 16	5,354,202	-	5,354,202	5,297,609	(56,593)
Municipal grants in aid	197,097	-	197,097	197,097	-
Municipal purposes & projects	-	-	-	70,942	70,942
LOCIP	64,798	-	64,798	-	(64,798)
Mashantucket Pequot	26,955	-	26,955	26,955	-
Police grants	15,000	-	15,000	1,480	(13,520)
Other state grants	-	-	-	7,248	7,248
Total Federal, state and other grants	5,753,052	-	5,753,052	5,685,639	(67,413)
Licenses, permits and fees:					
Building inspections	70,000	-	70,000	74,750	4,750
Peddler permits	50	-	50	-	(50)
Raffles & bazaars	100	-	100	205	105
Pistol permits	3,000	-	3,000	6,020	3,020
Motor vehicle fines	300	-	300	-	(300)
Fingerprinting	100	-	100	1,480	1,380
Planning & zoning	5,000	-	5,000	10,935	5,935
Zoning board of appeals	750	-	750	750	-
Inland wetlands	1,750	-	1,750	3,445	1,695
Town clerk fees	70,000	-	70,000	75,237	5,237
Property conveyance tax	75,000	-	75,000	92,543	17,543
Total Licenses, permits and fees	226,050	-	226,050	265,365	39,315

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**GENERAL FUND
SCHEDULE OF REVENUES DETAIL (CONTINUED)
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Additional Revenue</u>	<u>Final</u>		
Interest income	3,900	-	3,900	9,087	5,187
Region 16 :					
Overassessment refund	20,000	-	20,000	405,560	385,560
Pro-rata share of building sale proceed	-	530,470	530,470	530,470	-
Total refunds and credits	<u>20,000</u>	<u>530,470</u>	<u>550,470</u>	<u>936,030</u>	<u>385,560</u>
Other income:					
Library fines	2,000	-	2,000	2,305	305
SCRWA payment in lieu of taxes	38,000	-	38,000	41,230	3,230
Use of copier	500	-	500	382	(118)
Sales/recycling income	30,000	-	30,000	17,080	(12,920)
Telephone tax share	23,000	-	23,000	21,369	(1,631)
Alarm fines	1,500	-	1,500	2,200	700
Refunds and commissions	20,000	-	20,000	24,286	4,286
CIRMA equity distribution	-	-	-	14,054	14,054
Total Other income	<u>115,000</u>	<u>-</u>	<u>115,000</u>	<u>122,906</u>	<u>7,906</u>
Proceeds of general obligation notes	<u>-</u>	<u>1,838,000</u>	<u>1,838,000</u>	<u>1,838,000</u>	<u>-</u>
Transfer in	<u>42,000</u>	<u>391,524</u>	<u>433,524</u>	<u>410,309</u>	<u>(23,215)</u>
TOTAL REVENUE & TRANSFER IN	<u>\$ 31,227,520</u>	<u>\$ 2,759,994</u>	<u>\$ 33,987,514</u>	<u>\$ 34,525,956</u>	<u>\$ 538,442</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

GENERAL FUND

SCHEDULE OF EXPENDITURES DETAIL

BUDGET AND ACTUAL (BUDGETARY BASIS)

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts				
		Additional			Variance With
		Appropriations &			Final Budget
	<u>Original</u>	<u>Transfers</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u>
EXPENDITURES:					
General government:					
Office of the Mayor	\$ 218,667	\$ -	\$ 218,667	\$ 204,987	\$ (13,680)
Probate Court	3,300	663	4,163	4,163	-
Zoning board of appeals	1,725	-	1,725	825	(900)
Elections and registrars	63,200	5,000	68,200	53,889	(14,311)
Auditor	13,000	-	13,000	12,175	(825)
Assessor	121,174	267	121,441	99,633	(21,808)
Board of assessment appeals	350	-	350	75	(275)
Tax Collector	108,127	-	108,127	105,367	(2,760)
Treasurer	10,000	-	10,000	10,000	-
Legal fees	85,000	54,030	139,030	139,030	-
Town clerk	111,463	-	111,463	103,335	(8,128)
Planning and zoning commission	7,950	(702)	7,248	5,005	(2,243)
Economic development	2,500	-	2,500	100	(2,400)
Advertising and printing	22,850	22,656	45,506	40,192	(5,314)
Social Security	175,000	68,866	243,866	221,578	(22,288)
Automated processing of records	65,000	12,500	77,500	69,850	(7,650)
Building department	79,430	-	79,430	71,704	(7,726)
Water Pollution Authority	136,626	10,177	146,803	144,430	(2,373)
Municipal organization fees	9,114	-	9,114	8,885	(229)
Town Council	7,350	3,600	10,950	10,296	(654)
Town buildings	435,000	47,433	482,433	465,732	(16,701)
Unemployment compensation tax	15,000	-	15,000	14,892	(108)
Benefits - Town employees	628,500	527	629,027	611,488	(17,539)
Postage	20,000	2,500	22,500	19,026	(3,474)
Anti-Blight commission	2,500	-	2,500	694	(1,806)
Conservation commission	300	-	300	-	(300)
Inland wetlands	4,025	196	4,221	2,906	(1,315)
Land use inspector	98,259	-	98,259	96,575	(1,684)
Historic preservation	5,300	-	5,300	4,780	(520)
Total General government	2,450,910	227,713	2,678,623	2,521,612	(157,011)

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT
GENERAL FUND
SCHEDULE OF EXPENDITURES DETAIL (CONTINUED)
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>				
	<u>Original</u>	<u>Additional Appropriations & Transfers</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget Over (Under)</u>
Public safety:					
Fire protection	388,110	-	388,110	387,070	(1,040)
Fire marshal	34,234	21	34,201	31,100	(3,101)
Police	891,629	370,139	1,261,768	1,147,519	(114,249)
Insurance	273,662	-	273,662	271,706	(1,956)
Emergency management	9,630	-	9,630	8,576	(1,054)
911 service	63,200	-	63,200	63,200	-
Total Public safety	<u>1,680,465</u>	<u>370,166</u>	<u>2,050,631</u>	<u>1,929,171</u>	<u>(121,460)</u>
Public works:					
Solid waste	492,200	(20,000)	472,200	436,344	(35,856)
Town roads	168,434	15,805	184,239	178,012	(6,227)
Ice and snow	291,000	(36,103)	254,897	243,119	(11,778)
Street lighting	51,500	1,400	52,900	52,368	(532)
Town trucks	268,240	5,753	273,993	268,377	(5,616)
Public works labor	643,769	(72,188)	571,581	554,899	(16,682)
Road reconstruction	229,798	56,067	285,865	283,428	(2,437)
Total Public works	<u>2,144,941</u>	<u>(49,266)</u>	<u>2,095,675</u>	<u>2,016,547</u>	<u>(79,128)</u>
Parks and recreation:					
Town parks	71,200	6,268	77,468	70,961	(6,507)
Library	298,576	-	298,576	284,675	(13,901)
Recreation department	240,522	-	240,522	210,087	(30,435)
Holiday observances	16,400	-	16,400	14,591	(1,809)
Youth - Summer activities	32,500	6,800	39,300	38,566	(734)
Total Parks and recreation	<u>659,198</u>	<u>13,068</u>	<u>672,266</u>	<u>618,880</u>	<u>(53,386)</u>
Health and human services:					
Health	94,174	-	94,174	88,774	(5,400)
Commission on aging	246,254	23,385	269,639	258,541	(11,098)
Total Health and human services	<u>340,428</u>	<u>23,385</u>	<u>363,813</u>	<u>347,315</u>	<u>(16,498)</u>
Education	<u>22,951,709</u>	<u>-</u>	<u>22,951,709</u>	<u>22,951,709</u>	<u>-</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**GENERAL FUND
SCHEDULE OF EXPENDITURES DETAIL (CONTINUED)
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Actual	Variance With Final Budget Over (Under)
	Original	Additional Appropriations & Transfers	Final		
Other expenditures:					
Region I animal control	20,740	-	20,740	14,625	(6,115)
Community School	132,346	(22,500)	109,846	86,976	(22,870)
Contingency	48,000	(30,000)	18,000	12,212	(5,788)
Total Other expenditures	<u>201,086</u>	<u>(52,500)</u>	<u>148,586</u>	<u>113,813</u>	<u>(34,773)</u>
Capital expenditures:					
Community School purchase	-	873,000	873,000	873,000	-
Storm Water Phase II	1,000	-	1,000	-	(1,000)
Nolan property	-	16,590	16,590	17,715	1,125
Total Capital expenditures	<u>1,000</u>	<u>889,590</u>	<u>890,590</u>	<u>890,715</u>	<u>125</u>
Debt service:					
Interest:					
GOB 1998 - Firehouse	4,625	-	4,625	4,625	-
GOB 2002 - Road Safety	1,175	-	1,175	1,175	-
GOB 2002 - Road Safety/Senior Center	1,700	-	1,700	1,700	-
Road Safety 2014	6,000	-	6,000	2,755	(3,245)
3 Center Street	2,000	-	2,000	778	(1,222)
Road Safety 2015	7,000	-	7,000	3,889	(3,111)
Community School	-	-	-	3,347	3,347
Principal:					
GOB 1998 - Firehouse	200,000	-	200,000	200,000	-
GOB 2002 - Road Safety	47,000	-	47,000	47,000	-
GOB 2002 - Road Safety/Senior Center	68,000	-	68,000	68,000	-
Road Safety 2014	75,000	-	75,000	75,000	-
3 Center Street	30,000	-	30,000	30,000	-
5 Cheshire Road	56,667	-	56,667	56,667	-
Road Safety 2015	75,000	-	75,000	75,000	-
Capital leases:					
Public works dump truck	36,879	-	36,879	36,759	(120)
Fire department pumper truck	70,261	-	70,261	69,989	(272)
Pierce tanker truck	59,371	-	59,371	59,370	(1)
John Deere 710K backhoe-loader	42,512	-	42,512	42,510	(2)
MERS pension obligation	7,093	-	7,093	7,093	-
Total Debt service	<u>790,283</u>	<u>-</u>	<u>790,283</u>	<u>785,657</u>	<u>(4,626)</u>
General obligation notes refinanced	<u>-</u>	<u>965,000</u>	<u>965,000</u>	<u>965,000</u>	<u>-</u>
Transfer out	<u>7,500</u>	<u>524,395</u>	<u>531,895</u>	<u>390,300</u>	<u>(141,595)</u>
Total Expenditures and Transfer Out	31,227,520	2,911,551	34,139,071	33,530,719	(608,352)
Revenue and Transfer in less Expenditures and					
Transfer out	-	(151,557)	(151,557)	995,237	1,146,794
Fund Balance - beginning of the year	-	151,557	151,557	1,514,169	1,362,612
Fund Balance - end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,509,406</u>	<u>\$ 2,509,406</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**GENERAL FUND
NOTE TO SCHEDULE OF REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2017**

Basis:

The Schedule of Expenditures Detail Budget and Actual (Budgetary Basis) presents a comparison of the original and final legally-adopted budget with actual data on a budgetary basis.

The budget for the General Fund has been prepared substantially on the modified accrual basis of accounting, the same basis as actual revenues and expenditures.

The expenditure in excess of appropriation of \$125 in the budget line items is primarily due to a misposting not adjusted because it is not significant.

Reconciliation between Budgetary basis and Generally Accepted Accounting Principles (GAAP) Basis follows:

For budgeting purposes the Town recognizes as revenue, educational refunds and other credits of prior year fund balance from Regional School District #16. GAAP requires that refunds and other credits be offset against educational expenditures.

Transfer in and out along with debt issue, refinancing, and sale of assets are treated as Other Financing Sources (Uses) for GAAP Purposes

	<u>Total Revenue and Transfer In</u>	<u>Total Expenditures and Transfer Out</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
Actual -Non-GAAP Budgetary Basis Statement - June 30,2017	\$ 34,525,956	\$ 33,530,719	\$ -	\$ 2,509,406
RSD#16 refunds and credits	(936,030)	(936,030)	-	-
Reclass for GAAP purposes:				
Transfer in	(410,309)		410,309	-
Transfer out		(390,300)	(390,300)	-
General obligation notes refinanced		(965,000)	(965,000)	-
Proceeds from Bond Anticipation Notes	(1,838,000)		1,838,000	-
				-
Actual GAAP - June 30,2017	<u>\$ 31,341,617</u>	<u>\$ 31,239,389</u>	<u>\$ 893,009</u>	<u>\$ 2,509,406</u>

See accompanying Independent Auditor's Report.

SUPPLEMENTAL STATEMENTS AND SCHEDULES

TOWN OF PROSPECT, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2017

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 211,960	\$ 148,412	\$ 360,372
Investments	251,073	350,244	610,317
Other receivables	1,514	-	1,514
Due from other funds	<u>-</u>	<u>4,274</u>	<u>4,274</u>
TOTAL ASSETS	<u><u>\$ 464,547</u></u>	<u><u>\$ 511,930</u></u>	<u><u>\$ 976,477</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 15,619	\$ 1,220	\$ 16,839
Due to other funds	<u>10,468</u>	<u>-</u>	<u>10,468</u>
TOTAL LIABILITIES	<u>26,087</u>	<u>1,220</u>	<u>27,307</u>
FUND BALANCES:			
Restricted	251,149	-	251,149
Committed	-	198,038	198,038
Assigned	187,311	401,613	588,924
Unassigned	<u>-</u>	<u>(88,941)</u>	<u>(88,941)</u>
TOTAL FUND BALANCES	<u>438,460</u>	<u>510,710</u>	<u>949,170</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 464,547</u></u>	<u><u>\$ 511,930</u></u>	<u><u>\$ 976,477</u></u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
REVENUES			
Federal, state and other grants	\$ 259,956	\$ -	\$ 259,956
Licenses, permits and fees	214,099	-	214,099
Investment income	6,178	253	6,431
Other income	143,679	4,361	148,040
TOTAL REVENUES	<u>623,912</u>	<u>4,614</u>	<u>628,526</u>
EXPENDITURES			
Current expenditures:			
General government	-	-	-
Public works	152,347	-	152,347
Parks and recreation	154,860	-	154,860
Other expenditures	143,433	-	143,433
Capital expenditures	99,991	560,636	660,627
TOTAL EXPENDITURES	<u>550,631</u>	<u>560,636</u>	<u>1,111,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>73,281</u>	<u>(556,022)</u>	<u>(482,741)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	394,574	394,574
Transfers out	(45,785)	-	(45,785)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,785)</u>	<u>394,574</u>	<u>348,789</u>
NET CHANGE IN FUND BALANCES	27,496	(161,448)	(133,952)
FUND BALANCES, BEGINNING	<u>410,964</u>	<u>672,158</u>	<u>1,083,122</u>
FUND BALANCES, ENDING	<u>\$ 438,460</u>	<u>\$ 510,710</u>	<u>\$ 949,170</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2017

	<u>Public Library</u>	<u>Town Aid Road</u>	<u>Dog Fund</u>	<u>Board of Recreation</u>	<u>Sewer Use Fees</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 62,848	\$ 76	\$ 10,396	\$ 116,783	\$ 21,857	\$ 211,960
Investments	251,073	-	-	-	-	251,073
Prepaid expenditures	-	-	-	1,514	-	1,514
Due from other funds	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 313,921</u>	<u>\$ 76</u>	<u>\$ 10,396</u>	<u>\$ 118,297</u>	<u>\$ 21,857</u>	<u>\$ 464,547</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 3,811	\$ 11,808	\$ -	\$ 15,619
Due to other funds	-	-	-	-	10,468	10,468
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>3,811</u>	<u>11,808</u>	<u>10,468</u>	<u>26,087</u>
FUND BALANCES						
Restricted	251,073	76	-	-	-	251,149
Assigned	62,848	-	6,585	106,489	11,389	187,311
TOTAL FUND BALANCES	<u>313,921</u>	<u>76</u>	<u>6,585</u>	<u>106,489</u>	<u>11,389</u>	<u>438,460</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 313,921</u>	<u>\$ 76</u>	<u>\$ 10,396</u>	<u>\$ 118,297</u>	<u>\$ 21,857</u>	<u>\$ 464,547</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Public Library	Town Aid Road	Dog Fund	Board of Recreation	Sewer Use Fees	Total
REVENUES						
Federal and State grants	\$ 673	\$ 240,759	\$ -	\$ 18,524	\$ -	\$ 259,956
Licenses, permits and fees	-	-	6,834	166,931	40,334	214,099
Investment income	6,177	-	-	1	-	6,178
Other income	6,179	-	-	-	137,500	143,679
TOTAL REVENUES	<u>13,029</u>	<u>240,759</u>	<u>6,834</u>	<u>185,456</u>	<u>177,834</u>	<u>623,912</u>
EXPENDITURES						
Current expenditures:						
Public works	-	119,399	-	-	32,948	152,347
Parks and recreation	5,425	-	-	149,435	-	154,860
Other expenditures	-	-	5,933	-	137,500	143,433
Capital expenditures	-	88,985	-	11,006	-	99,991
TOTAL EXPENDITURES	<u>5,425</u>	<u>208,384</u>	<u>5,933</u>	<u>160,441</u>	<u>170,448</u>	<u>550,631</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,604</u>	<u>32,375</u>	<u>901</u>	<u>25,015</u>	<u>7,386</u>	<u>73,281</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	(34,400)	-	-	(11,385)	(45,785)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(34,400)</u>	<u>-</u>	<u>-</u>	<u>(11,385)</u>	<u>(45,785)</u>
NET CHANGE IN FUND BALANCES	<u>7,604</u>	<u>(2,025)</u>	<u>901</u>	<u>25,015</u>	<u>(3,999)</u>	<u>27,496</u>
FUND BALANCES, BEGINNING	<u>306,317</u>	<u>2,101</u>	<u>5,684</u>	<u>81,474</u>	<u>15,388</u>	<u>410,964</u>
FUND BALANCES, ENDING	<u>\$ 313,921</u>	<u>\$ 76</u>	<u>\$ 6,585</u>	<u>\$ 106,489</u>	<u>\$ 11,389</u>	<u>\$ 438,460</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2017

	Land Acquisition	Open Space	Capital : and Non-Recu ring Expendit res	WPCA Capital Improvement	Total
ASSETS					
Cash and cash equivalents	\$ 7,500	\$ -	\$ 11 ,317	\$ 30,595	\$ 148,412
Investments	4,937	354,307	-	-	359,244
Due from other funds	-	-	-	4,274	4,274
TOTAL ASSETS	<u>\$ 12,437</u>	<u>\$ 354,307</u>	<u>\$ 11 ,317</u>	<u>\$ 34,869</u>	<u>\$ 511,930</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$,220	\$ -	\$ 1,220
Due to other funds	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>,220</u>	<u>-</u>	<u>1,220</u>
FUND BALANCES					
Committed	-	-	19 ,038	-	198,038
Assigned	12,437	354,307	-	34,869	401,613
Unassigned	-	-	(8 ,941)	-	(88,941)
TOTAL FUND BALANCES	<u>12,437</u>	<u>354,307</u>	<u>10 ,097</u>	<u>34,869</u>	<u>510,710</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,437</u>	<u>\$ 354,307</u>	<u>\$ 11 ,317</u>	<u>\$ 34,869</u>	<u>\$ 511,930</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

CAPITAL PROJECTS FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	Land Acquisition	Open Space	Capital and Non-Recursing Expenditures	WPCA Capital Improvement	Total
REVENUES					
Investment income	\$ 2	\$ 175	\$ 76	\$ -	\$ 253
Other income	-	-	361	-	4,361
TOTAL REVENUES	<u>2</u>	<u>175</u>	<u>437</u>	<u>-</u>	<u>4,614</u>
EXPENDITURES					
Current expenditures:					
General government	-	-	-	-	-
Capital expenditures	-	-	56,636	-	560,636
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>56,636</u>	<u>-</u>	<u>560,636</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2</u>	<u>175</u>	<u>(55,199)</u>	<u>-</u>	<u>(556,022)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	7,500	-	38,800	4,274	394,574
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,500</u>	<u>-</u>	<u>38,800</u>	<u>4,274</u>	<u>394,574</u>
NET CHANGE IN FUND BALANCES	<u>7,502</u>	<u>175</u>	<u>(17,399)</u>	<u>4,274</u>	<u>(161,448)</u>
FUND BALANCES, BEGINNING	<u>4,935</u>	<u>354,132</u>	<u>28,496</u>	<u>30,595</u>	<u>672,158</u>
FUND BALANCES, ENDING	<u>\$ 12,437</u>	<u>\$ 354,307</u>	<u>\$ 10,097</u>	<u>\$ 34,869</u>	<u>\$ 510,710</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**CAPITAL AND NONRECURRING FUND
SCHEDULE OF CHANGES IN FUND BALANCE BY PROJECT
FOR THE YEAR ENDED JUNE 30, 2017**

	Fund Balance Activity				
	Beginning Balance	Appropriations	Revenues	Capital Expenditures	Ending Balance
Committed Fund Balance:					
Revaluation	\$ -	\$ 20,000	\$ -	\$ -	\$ 20,000
Community School repairs	36,860	360,000	4,361	(348,992)	52,229
New truck	83,785	-	-	(80,169)	3,616
Sidewalk design	20,000	-	-	(18,565)	1,435
Road reconstruction	104,273	-	-	(103,515)	758
Pool table replacement	-	9,395	-	(9,395)	-
Full-size truck	-	100,000	-	-	100,000
Street Scape (Rte 69/Center Street)	-	20,000	-	-	20,000
Total Committed Fund Balance	244,918	509,395	4,361	(560,636)	198,038
Assigned/(Unassigned):					
Available for other projects	37,578	(126,595)	76	-	(88,941)
Total Fund Balance	\$ 282,496	\$ 382,800	\$ 4,437	\$ (560,636)	\$ 109,097

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**REPORT OF THE TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2017**

Grand List October 1:	Taxes		Lawful Corrections		Transfers		Adjusted		Coll ections During the Year			Taxes	
	Receivable				(To)/From		Taxes					Receivable	
	July 1, 2016		Additions	Deductions	Suspense		Receivable		Taxes, Net of Refunds	Interest and Lien Fees	Total Collections	June 30, 2017	
2015	\$ 25,192,999	\$	64,673	\$ (80,462)	\$ (8,114)	\$ 25,169,096	\$ 24,927,676	\$	71,698	\$ 24,999,374	\$	241,420	\$
2014	227,376		2,728	(6,312)	(6,571)	217,221	147,540		36,462	184,002		69,681	
2013	70,815		385	(2,195)	(10,594)	58,411	44,262		14,861	59,123		14,149	
2012	16,182		161	(14)	(5,005)	11,324	8,368		4,614	12,982		2,956	
2011	3,393		245	-	(87)	3,551	3,265		2,781	6,046		286	
2010	4,124		-	-	-	4,124	3,920		3,284	7,204		204	
2009	181		-	-	(181)	-	-		-	-		-	
Suspense	-		-	-	2,213	2,213	2,213		1,916	4,129		-	
TOTALS	\$ 25,515,070	\$	68,192	\$ (88,983)	\$ (28,339)	\$ 25,465,940	\$ 25,137,244	\$	135,616	\$ 25,272,860	\$	328,696	\$

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**STATEMENT OF DEBT LIMITATION
CONNECTICUT GENERAL STATUTES, SECTION 7-374(b)
FOR THE YEAR ENDED JUNE 30, 2017**

Total tax collections (including interest and lien fees) for the year ended June 30, 2016	\$ 24,239,729
Reimbursement for revenue loss on: Tax relief for elderly (CGS 12-129d)	<u>72,792</u>
Total Receipts for Determination of Base	<u>\$ 24,312,521</u>

<u>Debt Limitation:</u>	<u>General Purposes</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit</u>
2 1/4 times base	\$ 54,703,172	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	109,406,345	-	-	-
3 3/4 times base	-	-	91,171,954	-	-
3 1/4 times base	-	-	-	79,015,693	-
3 times base	-	-	-	-	72,937,563
Total Debt Limitation	<u>54,703,172</u>	<u>109,406,345</u>	<u>91,171,954</u>	<u>79,015,693</u>	<u>72,937,563</u>
<u>Indebtedness:</u>					
General obligation bonds	-	-	-	-	-
Bond anticipation notes	1,838,000	-	-	-	-
General obligation note	56,667	-	-	-	-
Net Overlapping Regional School District 16 Bonds Payable - Note 5	<u>-</u>	<u>18,744,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Indebtedness	<u>1,894,667</u>	<u>18,744,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 52,808,505</u>	<u>\$ 90,661,866</u>	<u>\$ 91,171,954</u>	<u>\$ 79,015,693</u>	<u>\$ 72,937,563</u>

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation or \$170,187,647.

See accompanying Independent Auditors Report.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Mayor Robert Chatfield
Town Council
Town of Prospect
Prospect, Connecticut

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Town of Prospect, Connecticut's basic financial statements and have issued our report thereon dated January 3, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Charles Heaven & Co". The signature is written in a cursive, flowing style.

Charles Heaven & Co.
Waterbury, Connecticut
January 3, 2018

STATE FINANCIAL ASSISTANCE

Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance in Accordance with the State Single Audit Act

Independent Auditor's Report

Mayor Robert Chatfield
Town Council
Town of Prospect
Prospect, Connecticut

Report on Compliance for Each Major State Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major State Program

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

Report on Internal Control Over Compliance

Management of the Town of Prospect, Connecticut is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Prospect, Connecticut's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

We have audited the financial statements of the 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, 2017, and the related notes to the financial statements, which collectively comprise the Town of Prospect, Connecticut's basic financial statements. We have issued our report thereon dated January 3, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Prospect, Connecticut's basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Charles Heaven & Co.
Waterbury, Connecticut
January 3, 2018

TOWN OF PROSPECT, CONNECTICUT

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2017**

<u>State Grantor/Pass-Through Grantor Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management		
Property Tax Relief for:		
Elderly Homeowners	11000-OPM20600-17018	\$ 68,136
Disability Exemption	11000-OPM20600-17011	869
Veterans	11000-OPM20600-17024	15,303
Municipal Purposes & Projects	12052-OPM20600-43587	70,942
State Department of Education		
Youth Services Bureau	11000-SDE64370-17052	14,000
Youth Services Bureau Enhancement	11000-SDE64370-16201	5,000
Department of Transportation		
Town Aid Road Grant	12052-DOT57131-43455	242,784
Alcohol Open Container Requirements	12062-DOT57513-22091	1,035
Department of Public Safety		
Emergency Management Performance	12060-DPS32160-21881	7,130
State Homeland Security	12060-DPS32160-21877	1,000
Connecticut State Library		
Connecticard Payments	11000-CSL66051-17010	673
Judicial Branch		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	1,265
Total State Financial Assistance Before Exempt Programs		<u>428,137</u>
Exempt Programs		
State Department of Education		
Education Cost Sharing	11000-SDE64370-17041	5,297,609
Office of Policy and Management		
Municipal Revenue Sharing	12002-OPM20600-17102	197,097
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	26,955
Total Exempt Programs		<u>5,521,661</u>
Total State Financial Assistance		<u><u>\$ 5,949,798</u></u>

See Notes to Schedule.

TOWN OF PROSPECT, CONNECTICUT

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2017

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Town of Prospect, Connecticut under programs of the State of Connecticut for the fiscal year ended June 30, 2017. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including education, general government, transportation, 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, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None
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
Type of auditor's report issued on compliance for major programs	Unmodified
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>
Department of Transportation:		
Town Aid Road Grant	12052-DOT57131-43455	\$ 242,784

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