



TOWN OF PROSPECT, CONNECTICUT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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



**TOWN OF PROSPECT, CONNECTICUT
ANNUAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

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Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

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, 2019, 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, 2019, 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.

Change in Accounting Principle

As explained in Note 12, during the fiscal year ended June 30, 2019, the Town of Prospect, Connecticut adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The net position has been restated to recognize the net other postemployment benefit liability in accordance with GASB No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 7–19) and the required supplementary information (pages 59-67) 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

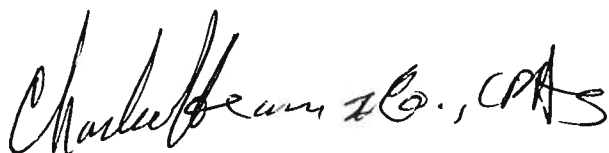
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements and supplemental schedules are presented for purposes of additional 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 21, 2020, 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 solely 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 the effectiveness of the Town of Prospect's 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 black ink, appearing to read "Charles E. Co., CPA". The signature is fluid and cursive, with the initials "CPA" clearly visible at the end.

Waterbury, Connecticut
January 21, 2020

Management's Discussion and Analysis

Introduction

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

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

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

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

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

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

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

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

★ **Basic Financial Statements**

- **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the Town of Prospect's finances, in a manner similar to private-sector business.
 - The Government-Wide Financial Statements include a *statement of net 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 are presented reduced by program revenues, resulting in a measurement of “net (expense) revenue” for each of the government’s functions. Program expenses include all direct expenses. General revenues such as taxes and special and extraordinary items are reported separately, ultimately arriving at the change in net 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 and capital projects 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, capital and non-recurring fund, and housing rehabilitation fund), six non-major special revenue funds, and three 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 1D 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)

- Connecticut Municipal Employees Retirement System:
Schedule of the Town's Proportionate Share of the Net Pension Liability
Schedule of Town Contributions
- Schedule of Changes in Net OPEB Liability and Related Ratios
- 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, 2019. 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 \$20,526,364 (net position). Of this amount, \$1,637,246 (*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 \$236,067 primarily due to an increase in fund balances of \$531,572, an excess of capital expenditures (\$2,774,862) over depreciation charges (\$1,265,449) of \$1,509,413, and a reduction in outstanding debt of \$466,672. Offsetting these positive inputs was \$2,645,095 of new debt.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,437,122, a net increase of \$531,572 in comparison with the prior year. Of the total fund balance, \$2,556,182, or 57.6%, is available for spending at the government's discretion (unassigned fund balance).
- The fund balance for the general fund increased \$315,989 from \$2,435,977 to \$2,751,966. The June 30, 2019 balance is 8.54% of total general fund expenditures of \$32,213,436. Of this fund balance, \$166,665 is assigned to balance the next year budget, \$29,119 is assigned for various other purposes, and the remainder of \$2,556,182 is unassigned.
- Prospect's total bonded debt decreased by \$330,000. \$900,000 of bond anticipation notes were issued for the 2018 Road Safety program.
- The Town's capital lease obligations increased \$1,023,095 with the purchase of a Pierce Velocity Pumper fire truck and a heavy-duty public works truck.

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 \$20,526,364 at the close of the most recent fiscal year.

Table 1. Net Position

	Total Primary Government 2019	Total Primary Government 2018
Current and Other Assets.....	\$ 6,152,279	\$ 5,421,926
Capital Assets, net of depreciation	21,335,867	19,826,454
Total Assets.....	27,488,146	25,248,380
Deferred Outflows of Resources.....	497,350	61,942
Long-Term Obligations Outstanding**	6,715,115	4,536,692
Other Liabilities.....	744,017	483,333
Total Liabilities.....	7,459,132	5,020,025
Net Position:		
Net Investment in Capital Assets	17,742,705	17,706,513
Restricted.....	1,146,413	1,193,380
Unrestricted**	1,637,246	1,390,404
Total Net Position	\$ 20,526,364	\$ 20,290,297

** 2018 Total Restated (See Note 12)

By far the largest portion of the Town's net position, \$17,742,705, or 86.4%, 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.

Restricted net position consists of \$859,880 of the Housing Rehabilitation Fund, which may be used to carry out the objectives of that program, \$269,763 for capital expenditures of the library in accordance with the donors' bequests, and \$16,770 of Town Aid Road unexpended grant proceeds.

Unrestricted net position of \$1,637,246 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities accounted for the entire net position increase of \$236,067 during the current fiscal year. Key elements of this increase are as follows:

Table 2. Changes in Net Position

	Total Primary Government 2019	Total Primary Government 2018
Revenues:		
Program Revenues:		
Charges for Services.....	\$ 1,047,914	\$ 767,885
Operating Grants and Contributions.....	5,295,493	4,871,712
Capital Grants and Contributions.....	152,871	120,273
General Revenues:		
Property Taxes.....	26,713,694	26,703,735
Grants and Contributions not Restricted to Specific Purpose..	163,405	166,595
Investment Earnings.....	19,864	17,374
Other General Revenues.....	100,806	103,299
Total Revenues	<u>\$ 33,494,047</u>	<u>\$ 32,750,873</u>
Program Expenses:		
General Government	\$ 2,899,918	\$ 2,665,384
Public Safety	2,276,152	2,100,240
Public Works	2,893,803	2,072,273
Parks and Recreation.....	881,317	915,059
Health and Human Services	445,400	435,121
Education.....	23,600,523	23,036,797
Other Expenditures.....	154,667	146,796
Interest on Long-Term Debt.....	106,200	42,247
Total Governmental Activities.....	<u>33,257,980</u>	<u>31,413,917</u>
Increase (Decrease) in Net Position	<u>\$ 236,067</u>	<u>\$ 1,336,956</u>

The Town brought in net general revenues of \$26,997,769, which exceeded its net operating expenditures of \$26,761,702. Gross revenues amounted to \$33,494,047. Gross expenses of \$33,257,980 were offset by \$1,047,914 in charges for services, \$5,295,493 in operating grants and contributions, and \$152,871 in capital grants. Of the net expenditures, \$18,575,739 was accounted for by Regional School District No. 16 assessments. Net public safety of \$2,078,944, net public works expenditures of \$2,872,398, net general government outlays of

\$2,151,357, and net parks and recreation costs of \$655,615 accounted for almost all of the remaining balance. The Town's general revenues derived from \$26,713,694 in tax collections, \$163,405 of unrestricted grants and contributions, and \$120,670 in other general revenues and investment income.

- Property tax revenue increased by \$9,959 (+0.04%) over FY 2018. Actual collections of property tax, interest, and lien fees during FY 2019, \$26,707,977, exceeded the budgeted figure by \$180,452.
- Charges for services increased by \$280,029 (+36.5%) primarily due to increases in police special duty revenue of \$158,302, property conveyance tax of \$25,510 and sewer use fees of \$16,201. The Town also received an acre of donated land valued at \$35,700.
- General revenue operating grants increased \$423,781 (+8.7%) primarily due to an increase in Education Cost Sharing grants.
- Net education expenditures increased \$563,726 (+2.4%). The Regional School District refunded \$17,657 for FY19 as compared to \$498,141 for FY18.

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.

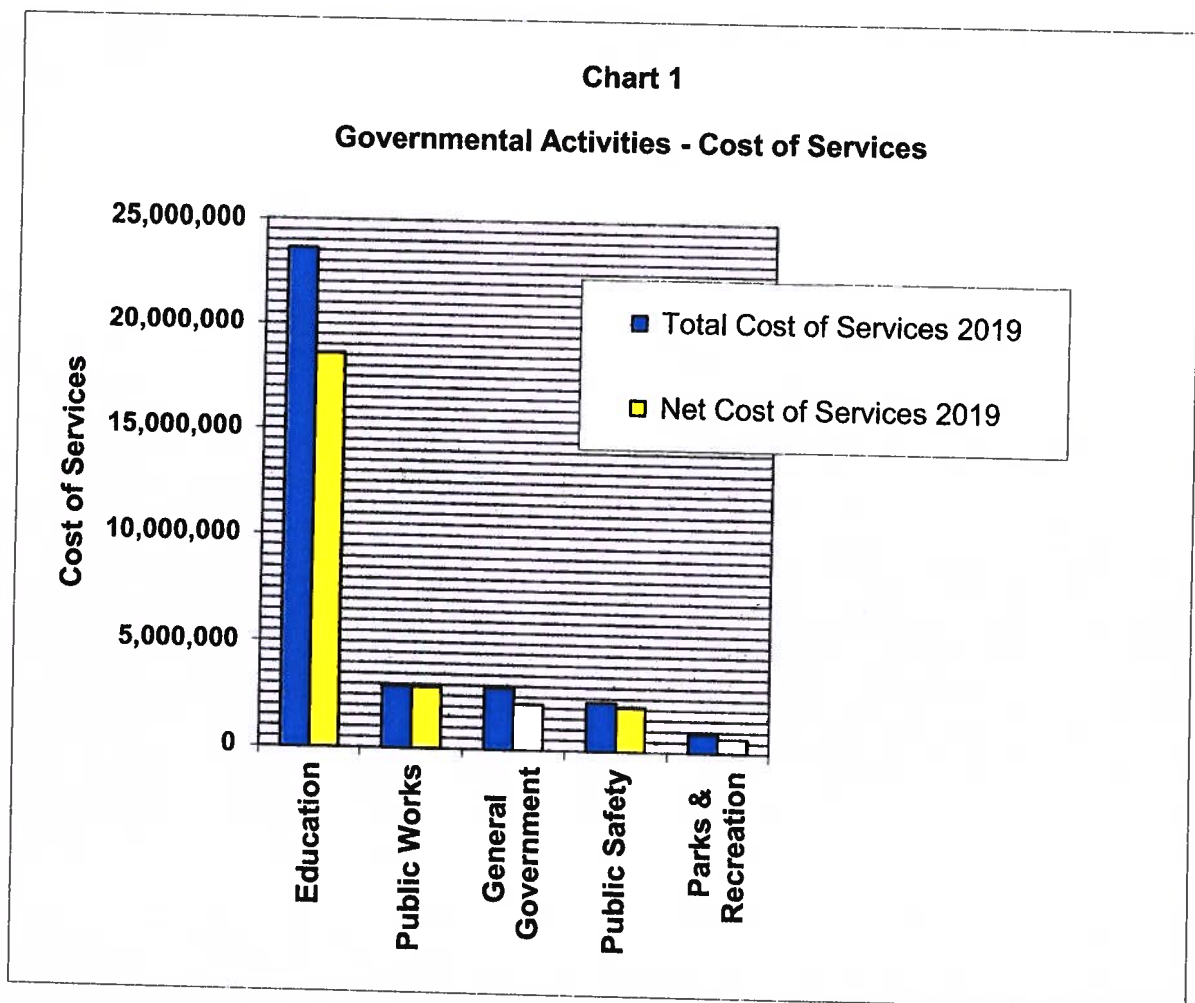
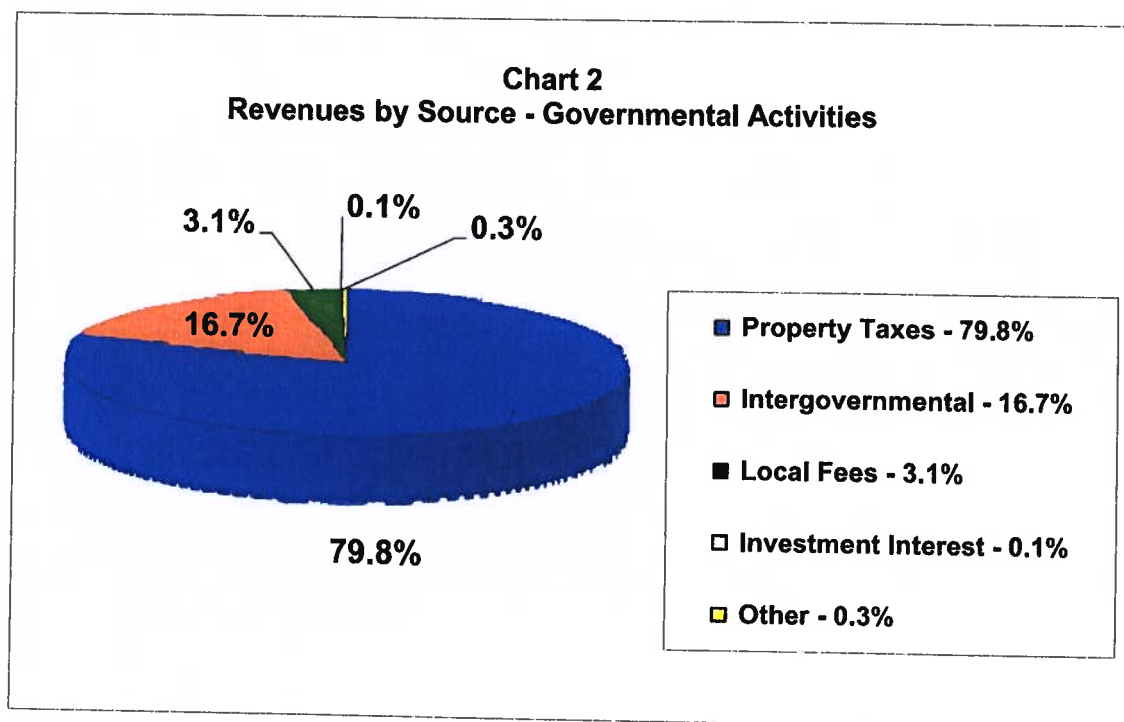


Chart 2 below reflects what percentage of our total revenue is contributed by each of five primary sources. As with most local governments in Connecticut, Prospect relies heavily on the property tax to fund education and other town services.



Financial Analysis of the Government's Funds

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

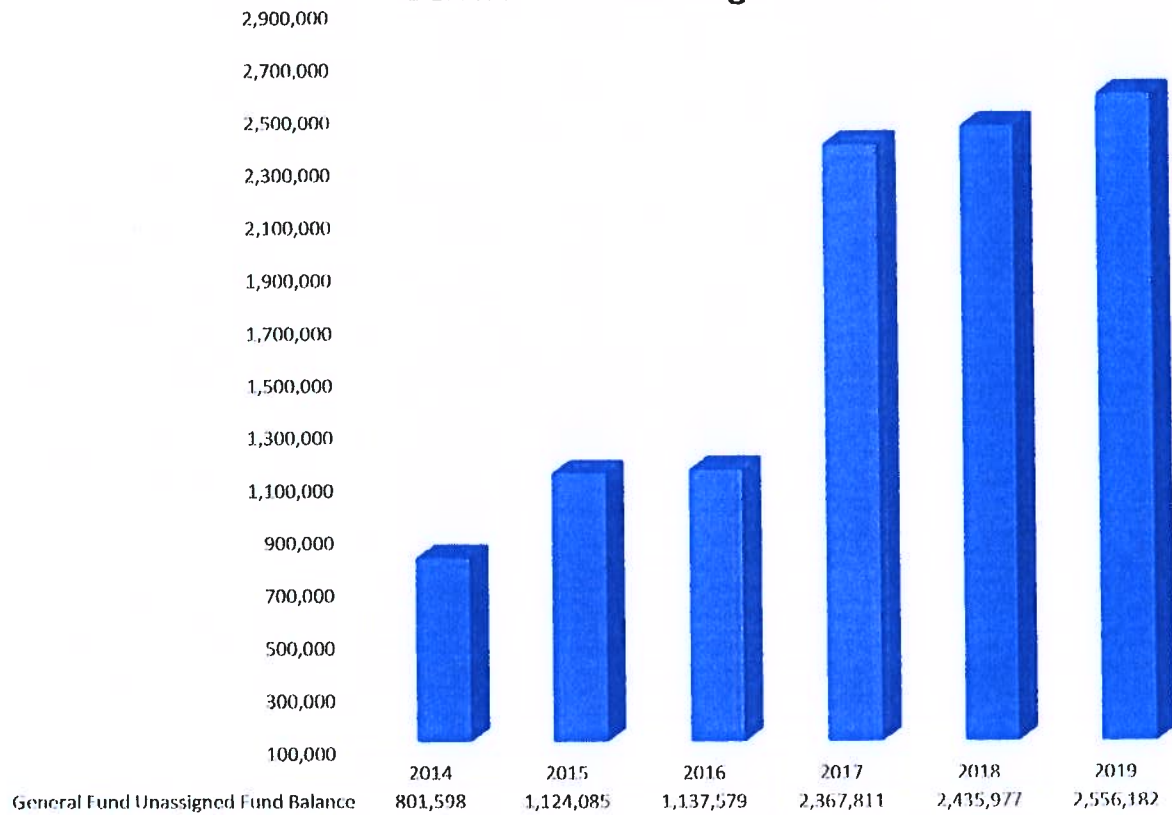
Governmental funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Prospect's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure 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 \$4,437,122, an increase of \$531,572 in comparison with the prior year. About 79% of fund balance, \$3,521,615, 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 (\$588,046) or committed for other purposes (\$327,461).

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 \$2,556,182. 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 7.94% of total general fund expenditures of \$32,213,436 and 29.68% of non-education expenditures of \$8,612,913.

The Town's total general fund balance increased by \$315,989 to a total of \$2,751,966 during the current fiscal year. \$166,665 of total fund balance has been assigned to balance the FY20 general fund budget.

General Fund Unassigned Fund Balance



General Fund Unassigned Fund Balance as a Percentage of Expenditures



General Fund Budgetary Highlights

The original budget contemplated total revenue and transfers in of \$32,255,839 equal to the total expenditures and transfers out. The final budget reflected additional appropriations and transfers of \$2,214,879. The significant differences in the original and final budget can be explained as follows:

- \$1,503,000 of bond anticipation note proceeds used to refinance existing debt
- \$260,000 transferred to capital and non-recurring fund for deposit on new fire truck
- \$17,657 transferred to Land Acquisition fund
- \$54 thousand increase in legal fees
- \$55 thousand increase to town buildings
- \$195 thousand increase in the public safety budget for police wages, which was offset by transfers from the police special duty special revenue fund
- \$76 thousand increase to commission on aging primarily for purchase of new minibus
- \$47 thousand increase to Community Center

Actual revenues compared to the original budget were favorable by \$337,973, excluding transfers in and other financing sources.

- Tax collections overall were \$180,452 greater than anticipated. Collections on the current grand list and automobile supplement were \$163,641 favorable at a collection rate of 99.1% of the original assessment. Unfavorable collection of previous years tax in the amount of \$27,768 was offset by \$44,579 favorable collection of interest and lien fees.
- Revenue exceeded budgeted amounts for building inspections by \$21,801 (+30.3%) and for property conveyance tax by \$68,314 (+96.2%).

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 \$1,265,449 and after dispositions of \$505,490) was \$2,774,862 for governmental activities. After accounting for accumulated depreciation, capital assets increased by \$1,509,413, to \$21,335,867.

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

- We expended \$1,376,300 for road infrastructure which included regular road reconstruction, sidewalks and repair.
- We acquired a Pierce velocity pumper truck for the fire department in the amount of \$815,109 and a heavy-duty dump truck for the public works department in the amount of \$207,986 through direct financing leases.

- We purchased a new minibus for the Senior Center in the amount of \$65,546 which was subsidized by a grant from the Department of Transportation in the amount of \$52,437.

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

	Total Primary Government	
	2019	2018
Land	\$ 1,571,754	\$ 1,536,054
Buildings and Improvements	5,770,730	5,903,835
Infrastructure	11,312,205	10,739,614
Vehicles	2,110,517	1,227,493
Furnishings and Equipment	570,661	419,458
Totals	<u>\$19,764,113</u>	<u>\$18,290,400</u>

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

Long-term debt. At the end of the current fiscal year, the Town of Prospect had \$2,403,000 of bond anticipation notes outstanding. The BAN issue refinanced \$1,503,000 of existing BAN and added \$900,000 for Road Safety 2018. 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 \$23,485,000 of long-term debt represents overlapping debt to the Town, for which it has also pledged its full faith and credit. The State reimburses the District for principal and interest on its long-term debt at about 72% for bonds authorized prior to 1996. Prospect's share of the district's net debt is based on the average daily membership (ADM) of Prospect students attending the regional facility on October 1 of the preceding year. For the fiscal year 2019, Prospect's ADM percentage was calculated to be 61.06%, and the Town's share of the District net debt at the ADM rate amounts to \$14,339,941.

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, 2019, the maximum amount of borrowing permitted under the formula is \$187,171,362. Net direct borrowings of \$2,403,000 and the Town's net share of overlapping regional school district net debt of \$14,339,941 totals \$16,742,941 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 77 of this report).

At June 30, 2019, the Town's net OPEB obligation is \$2,254,895 and is reflected as a long-term liability in the Statement of Net Position. The annual service cost for fiscal year 2019 was \$235,419 and is reported as an expense in the Statement of Activities.

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, 2019, \$762,543 was recognized as a long-term liability in the government-wide Statement of Net Position and

\$110,715 was included as the Town's proportionate share of pension expense in the Statement of Activities.

Economic Factors and Next Year's Budget

- The unemployment rate for the Town of Prospect was 3.4% as of June 30, 2019, which is a decrease from an adjusted rate of 3.7% twelve months ago. This compares favorably to the state's average unemployment rate of 3.8% and the national average rate of 3.7%.
- Inflationary trends in the region compare favorably to the national indices.
- Prospect's total budget for FY 2019-20 reflects a \$725,678 increase (+2.25%) from \$32,255,839 to \$32,981,517.
- The Town budget (excluding education) increased \$456,906 from the FY 2019 budget figure of \$8,637,659 to \$9,094,565, an increase of 5.29%.
- The total cost of education for Prospect at Regional School District No. 16 increased \$268,772, (+1.14%), from \$23,618,180 to \$23,886,952. The ADM rate for Prospect increased from 61.06% to 61.78% (+1.18%).
- The net cost of education for Prospect at Regional School District No. 16 increased \$561,485, (+3.02%), from \$18,591,947 to \$19,153,432.
- The Town tax levy for FY 2019-20 increased \$286,401 (+1.10%) from \$26,058,525 to \$26,344,926. The projected rate of tax collections remains at 98.5% of the grand list. The mill rate decreased 0.16% from 31.00 to 30.95 mills.

Other significant municipal revenue and expenditure changes from the FY19 budget are as follows:

Revenues

- ❖ \$90,903 decrease (-1.8%) for State Education Cost Sharing for Regional School District #16.
- ❖ \$64,136 decrease in state assistance due to the elimination of the reimbursement for the elderly exemption.
- ❖ \$175,000 increase in sales and recycling income to reflect the sale of a fire truck

Expenditures

- ❖ \$61,686 increase in employee benefits, primarily medical, life and disability (+8.1%).
- ❖ \$134,673 increase in Police (+13.6%) due to an increase in police salaries.
- ❖ \$49,601 increase in solid waste (+10.1%) due to recycling disposal.
- ❖ \$54,499 decrease in road reconstruction (-19.1%).
- ❖ Debt service will increase \$107,699 (+29.5%) with the first principal and interest payment for Road Safety 2018.

All of these factors contributed to preparing Prospect's budget for the 2020 fiscal year.

At the close of the 2019 fiscal year, unassigned fund balance in the general fund was \$2,556,182 after the Town appropriated \$166,665 of fund balance for spending in the 2020 fiscal year budget. The Town will also transfer \$135,000 from the Police Special Duty special revenue fund to the general fund to offset the increase in police salaries and to balance the 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, 2019**

ASSETS

Cash and cash equivalents - Note 2	\$ 3,950,298
Investments - Note 2	688,303
Receivables:	
Taxes, net of allowance of \$45,930	269,124
Other receivables:	
Accounts receivable	230,166
Loans receivable	818,952
Interest and lien fees	47,998
Intergovernmental	147,438
Capital Assets - Note 4:	
Not being depreciated	1,571,754
Being depreciated, net of accumulated depreciation	<u>19,764,113</u>

TOTAL ASSETS 27,488,146

DEFERRED OUTFLOWS OF RESOURCES

Pension related net deferred outflows	432,320
Pension contributions subsequent to the measurement date	<u>65,030</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES 497,350

LIABILITIES

Current Liabilities:	
Accounts payable and accrued liabilities	643,906
Accrued interest payable	100,111
Noncurrent Liabilities - Note 5:	
Due within one year	786,149
Due in more than one year	<u>5,928,966</u>

TOTAL LIABILITIES 7,459,132

NET POSITION

Invested in capital assets, net of related debt	17,742,705
Restricted - Expendable	1,146,413
Unrestricted	<u>1,637,246</u>

TOTAL NET POSITION \$ 20,526,364

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

TOWN OF PROSPECT, CONNECTICUT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

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
Governmental Activities:							
General government	\$ 2,899,918	\$ (328,295)	\$ 2,571,623	\$ 415,766	\$ 4,500	\$ -	\$ (2,151,357)
Public safety	2,276,152	144,661	2,420,813	339,919	1,950	-	(2,078,944)
Public works	2,893,803	369,050	3,262,853	72,823	241,498	76,134	(2,872,398)
Parks and recreation	881,317	40,765	922,082	219,406	22,761	24,300	(655,615)
Health and human services	445,400	34,686	480,086	-	-	52,437	(427,649)
Education	23,600,523	-	23,600,523	-	5,024,784	-	(18,575,739)
Other expenditures	154,667	(154,667)	-	-	-	-	-
Interest on long-term debt	106,200	(106,200)	-	-	-	-	-
Total Governmental Activities	\$ 33,257,980	\$ -	\$ 33,257,980	\$ 1,047,914	\$ 5,295,493	\$ 152,871	(26,761,702)
General Revenues:							
Property taxes, interest and lien fees							26,713,694
Grants and contributions not restricted to specific programs							163,405
Investment income							19,864
Other income							100,806
Total General Revenues							<u>26,997,769</u>
Change in Net Position							236,067
Net Position - Beginning of the Year (Restated)							<u>20,290,297</u>
Net Position - End of the Year							<u>\$ 20,526,364</u>

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

TOWN OF PROSPECT, CONNECTICUT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	<u>General Fund</u>	<u>Capital and Non-Recurring</u>	<u>Housing Rehabilitation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 2,862,724	\$ 696,175	\$ 40,928	\$ 350,471	\$ 3,950,298
Investments	55,175	-	-	633,128	688,303
Receivables:					
Taxes receivable	315,054	-	-	-	315,054
Other receivables:					
Accounts receivable	186,538	-	-	43,628	230,166
Loans receivable	-	-	818,952	-	818,952
Interest and liens	10,973	-	-	-	10,973
Intergovernmental	147,438	-	-	-	147,438
Due from other funds	68,794	-	-	24,843	93,637
TOTAL ASSETS	<u>\$ 3,646,696</u>	<u>\$ 696,175</u>	<u>\$ 859,880</u>	<u>\$ 1,052,070</u>	<u>\$ 6,254,821</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 610,618	\$ -	\$ -	\$ 33,288	\$ 643,906
Due to other funds	22,953	55,475	-	15,209	93,637
TOTAL LIABILITIES	<u>633,571</u>	<u>55,475</u>	<u>-</u>	<u>48,497</u>	<u>737,543</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - taxes	261,159	-	-	45	261,204
Unavailable revenue - long-term loans receivable	-	-	818,952	-	818,952
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>261,159</u>	<u>-</u>	<u>818,952</u>	<u>45</u>	<u>1,080,156</u>
FUND BALANCES:					
Restricted	-	-	40,928	286,533	327,461
Committed	-	588,046	-	-	588,046
Assigned	195,784	52,654	-	716,995	965,433
Unassigned	2,556,182	-	-	-	2,556,182
TOTAL FUND BALANCES	<u>2,751,966</u>	<u>640,700</u>	<u>40,928</u>	<u>1,003,528</u>	<u>4,437,122</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,646,696</u>	<u>\$ 696,175</u>	<u>\$ 859,880</u>	<u>\$ 1,052,070</u>	<u>\$ 6,254,821</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, 2019**

Fund Balance - Total Governmental Funds **\$ 4,437,122**

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	\$ 42,995,853	
Less accumulated depreciation	<u>(21,659,986)</u>	
Net capital assets		21,335,867

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	261,204
Uncollectible taxes receivable	(45,930)
Interest receivable on property taxes	37,025
Long-term loans receivable	818,952

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	(2,403,000)	
Capital leases	(1,190,162)	
Net pension liability	(762,543)	
Pension unfunded accrued liability	(89,515)	
Net OPEB obligation	(2,254,895)	
Compensated absences	<u>(15,000)</u>	
		(6,715,115)
Interest payable on long-term liabilities		(100,111)
Pension related net deferred outflows of resources		<u>497,350</u>

Net Position of Governmental Activities **\$ 20,526,364**

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, 2019

	<u>General Fund</u>	<u>Capital and Non-Recurring</u>	<u>Housing Rehabilitation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
REVENUES					
Property taxes, interest & lien fees	\$ 26,707,977	\$ -	\$ -	\$ -	\$ 26,707,977
Federal, state and other grants	5,323,210	-	-	288,559	5,611,769
Licenses, permits and fees	346,321	-	-	605,637	951,958
Investment income	12,210	-	-	7,654	19,864
Other income	144,437	-	2,374	187,451	334,262
TOTAL REVENUES	<u>32,534,155</u>	<u>-</u>	<u>2,374</u>	<u>1,089,301</u>	<u>33,625,830</u>
EXPENDITURES					
Current:					
General government	2,609,386	11,011	-	-	2,620,397
Public safety	2,034,263	-	-	18,233	2,052,496
Public works	2,186,018	-	-	131,877	2,317,895
Parks and recreation	655,098	-	-	210,534	865,632
Health and social services	455,212	-	-	-	455,212
Education	23,600,523	-	-	-	23,600,523
Other expenditures	171,309	-	-	141,430	312,739
Capital Expenditures	7,000	1,938,703	-	352,126	2,297,829
Debt Service:					
Principal payments	453,673	-	-	-	453,673
Interest and other	40,954	-	-	-	40,954
TOTAL EXPENDITURES	<u>32,213,436</u>	<u>1,949,714</u>	<u>-</u>	<u>854,200</u>	<u>35,017,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>320,719</u>	<u>(1,949,714)</u>	<u>2,374</u>	<u>235,101</u>	<u>(1,391,520)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of general obligation note	1,503,000	900,000	-	-	2,403,000
General obligation notes refinanced	(1,503,000)	-	-	-	(1,503,000)
Proceeds from lease-purchase financing	-	1,023,092	-	-	1,023,092
Transfers in	272,927	260,000	-	19,547	552,474
Transfers out	(277,657)	-	-	(274,817)	(552,474)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,730)</u>	<u>2,183,092</u>	<u>-</u>	<u>(255,270)</u>	<u>1,923,092</u>
NET CHANGE IN FUND BALANCES	315,989	233,378	2,374	(20,169)	531,572
FUND BALANCES, BEGINNING	<u>2,435,977</u>	<u>407,322</u>	<u>38,554</u>	<u>1,023,697</u>	<u>3,905,550</u>
FUND BALANCES, ENDING	<u>\$ 2,751,966</u>	<u>\$ 640,700</u>	<u>\$ 40,928</u>	<u>\$ 1,003,528</u>	<u>\$ 4,437,122</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, 2019

Net Change in Fund Balances - Total Governmental Funds **\$ 531,572**

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	2,774,862
Less current year depreciation	(1,265,449)

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	(900,000)
Bond principal payments	330,000
Proceeds of direct financing leases	(1,023,095)
Capital lease principal payments	119,874
Payment of unfunded pension liability	3,798
Long-term loans receivable	(2,374)
Uncompensated absences	13,000

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	5,717
Change in deferred outflows related to pensions	435,408

Expenses:

Pensions	(486,581)
OPEB	(235,419)
Accrued interest payable	(65,246)

Change in Net Position of Governmental Activities **\$ 236,067**

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

TOWN OF PROSPECT, CONNECTICUT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	<u>Employee Retirement Plans</u>	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 42,978	\$ 6,543
Investments, at fair value	2,194,904	-	-
Receivables	<u>64,857</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>2,259,761</u>	<u>42,978</u>	<u>6,543</u>
 LIABILITIES			
Payables	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
 NET POSITION			
Held in trust for retirement benefits and other purposes	<u>\$ 2,259,761</u>	<u>\$ 42,978</u>	<u>\$ 6,543</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, 2019**

	Employee Retirement Plan	Private Purpose Trusts
ADDITIONS		
Employer contributions	\$ 64,857	\$ -
Plan member contributions	137,183	-
Charitable contributions	<u>-</u>	<u>19,334</u>
Total contributions	202,040	19,334
Investment earnings:		
Net increase (decrease) in fair value of investments	<u>125,278</u>	<u>-</u>
TOTAL ADDITIONS	<u>327,318</u>	<u>19,334</u>
DEDUCTIONS		
Benefits paid	131,883	-
Administrative fees	3,628	-
Charitable expenditures	<u>-</u>	<u>23,149</u>
TOTAL DEDUCTIONS	<u>135,511</u>	<u>23,149</u>
CHANGE IN NET POSITION	191,807	(3,815)
NET POSITION, BEGINNING OF THE YEAR	<u>2,067,954</u>	<u>46,793</u>
NET POSITION, END OF THE YEAR	<u>\$ 2,259,761</u>	<u>\$ 42,978</u>

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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 are not 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, 2019

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, 2019

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, 2019

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.

E. BUDGETS AND BUDGETARY ACCOUNTING

An annual budget is prepared and employed for management control for the General Fund adopted on a basis consistent with generally accepted accounting principles (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, 2019

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 70% 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 \$ 15,000 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, 2019

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 choices due 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, 2019, total deposits of \$3,999,819 represent cash and cash equivalents of \$3,950,298 as reported on the statement of net position and \$49,521 as reported on the statement of fiduciary net assets.

B. CUSTODIAL CREDIT RISK ON DEPOSITS

At June 30, 2019, the carrying amount of the Town's cash deposits with financial institutions was \$3,999,819 and the bank balance was \$4,213,550. Of the bank balance, \$573,398 was covered by Federal Depository Insurance and \$3,640,152 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, 2019

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

C. INVESTMENTS

At June 30, 2019, investments reported at fair value include \$604,895 collateralized by investments held by the Town or by its agent in the Town's name and \$2,278,312 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, 2019:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Retirement Trusts</u>	<u>Total Investments</u>
Certificates of deposit	\$ 55,175	\$ 85,081	\$ 367,718	\$ -	\$ 507,974
U.S. Government Bonds	-	95,340	-	-	95,340
Fixed Income Annuity *	-	83,408	-	-	83,408
Mutual Funds:					
Bond & Fixed Income *	-	-	-	667,209	667,209
Equities *	-	1,581	-	1,196,975	1,198,556
International *	-	-	-	330,720	330,720
Total	\$ 55,175	\$ 265,410	\$ 367,718	\$ 2,194,904	\$ 2,883,207

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, 2019

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, 2019.

Investments are summarized as follows at June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Fixed income	\$ 591,382	\$ 507,974	\$ 83,408	\$ -	\$ -
U.S. Treasury notes	95,340	-	95,340	-	-
	686,722	\$ 507,974	\$ 178,748	\$ -	\$ -
Mutual funds **	2,196,485				
	<u>\$ 2,883,207</u>				
** Mutual funds do not mature.					

NOTE 3 – RECEIVABLES

Receivables reported in the Statement of Net Position consist of the following at June 30, 2019:

Current Receivables:

Taxes	\$ 315,054
Accounts receivable	230,166
Loans receivable	818,952
Interest and fees on delinquent taxes	58,175
Intergovernmental	<u>147,438</u>
Gross Receivables	1,569,785
Less: Allowance for uncollectibles	<u>(56,107)</u>
Net Receivables	<u>\$ 1,513,678</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>Governmental Activities:</u>				
Non-Depreciable Assets:				
Land	\$ 1,536,054	\$ 35,700	\$ -	\$ 1,571,754
Depreciable Assets:				
Buildings and improvements	8,875,190	44,399	-	8,919,589
Infrastructure	23,596,377	1,376,300	441,748	24,530,929
Vehicles	4,512,097	1,101,381	63,742	5,549,736
Furnishings and equipment	<u>2,206,763</u>	<u>217,082</u>	<u>-</u>	<u>2,423,845</u>
Totals at Historical Cost	<u>40,726,481</u>	<u>2,774,862</u>	<u>505,490</u>	<u>42,995,853</u>
Less Accumulated Depreciation for:				
Buildings and improvements	2,971,355	177,504	-	3,148,859
Infrastructure	12,856,763	803,709	441,748	13,218,724
Vehicles	3,284,604	218,357	63,742	3,439,219
Furnishings and equipment	<u>1,787,305</u>	<u>65,879</u>	<u>-</u>	<u>1,853,184</u>
Total Accumulated Depreciation	<u>20,900,027</u>	<u>1,265,449</u>	<u>505,490</u>	<u>21,659,986</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 19,826,454</u>	<u>\$ 1,509,413</u>	<u>\$ -</u>	<u>\$ 21,335,867</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 58,751
Public Safety	227,008
Public Works	826,920
Parks and Recreation	97,036
Health and Social Services	<u>55,734</u>
Total Depreciation Expense	<u>\$ 1,265,449</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	Balance <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2019</u>	Due Within <u>One Year</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
SHORT-TERM DEBT EXPECTED TO BE REFINANCED – BOND ANTICIPATION					
NOTES (at 2.51%):					
Road Safety 2014	\$ 275,000	\$ -	\$ 75,000	\$ 200,000	\$ 75,000
3 Center Street Purchase	60,000	-	30,000	30,000	30,000
Road Safety 2015	450,000	-	75,000	375,000	75,000
Community School Purchase	298,000	-	75,000	223,000	75,000
Road Safety 2017	750,000	-	75,000	675,000	75,000
Road Safety 2018	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>	<u>75,000</u>
SUB-TOTAL	1,833,000	900,000	330,000	2,403,000	405,000
CAPITAL LEASE OBLIGATIONS	286,941	1,023,095	119,874	1,190,162	377,217
NET PENSION LIABILITY – NOTE 6	275,962	486,581	-	762,543	-
UNFUNDED MERS PENSION – NOTE 6	93,313	-	3,798	89,515	3,932
NET OPEB OBLIGATION – NOTES 7 & 12	2,019,476	235,419	-	2,254,895	-
COMPENSATED ABSENCES – NOTE 1G	<u>28,000</u>	<u>-</u>	<u>13,000</u>	<u>15,000</u>	<u>-</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 4,536,692</u>	<u>\$ 2,645,095</u>	<u>\$ 466,672</u>	<u>\$ 6,715,115</u>	<u>\$ 786,149</u>

Bond anticipation notes are included in long-term obligations because they meet the criteria of FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*. For the fiscal year ended June 30, 2019, the Town expended \$ 507,626 for debt service consisting of principal payments totaling \$ 466,672 and interest payments totaling \$ 40,954.

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, 2019, the District had \$23,485,000 of long-term bonded 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 61.06% for the fiscal year ending June 30, 2019. The overlapping debt to the Town is calculated to be \$14,339,941.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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>
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	1,395,000	524,194	1,919,194
2024	1,395,000	478,844	1,873,844
2025-2029	6,975,000	1,767,781	8,742,781
2030-2034	6,565,000	754,869	7,319,869
2035-2036	<u>1,100,000</u>	<u>49,500</u>	<u>1,149,500</u>
Total	<u>\$ 23,485,000</u>	<u>\$ 5,512,019</u>	<u>\$ 28,997,019</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 \$187,171,362. 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, 2019 (See Statement of Debt Limitation, page 77).

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:

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
Pierce velocity pumper fire truck, 4.82%, 10 years to July 2028	815,109
Dump body truck, 3.77%, 5 years to April 2024	<u>207,986</u>
Total Equipment	1,977,114
Less accumulated depreciation	<u>425,576</u>
Net	<u>\$ 1,551,538</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

The annual requirement to amortize the leases as of June 30, 2019 is as follows:

<u>Fiscal Year Ending June 30</u>	<u>Present Value of Minimum Lease Payments</u>	<u>Interest</u>	<u>Total Minimum Lease Payments</u>
2020	\$ 377,217	\$ 52,593	\$ 429,810
2021	144,158	35,651	179,809
2022	149,824	29,986	179,810
2023	96,348	24,092	120,440
2024	100,539	19,900	120,439
2025	58,497	15,524	74,021
2026	61,317	12,704	74,021
2027	64,273	9,749	74,022
2028	67,371	6,651	74,022
2029	<u>70,618</u>	<u>3,404</u>	<u>74,022</u>
Total	<u>\$ 1,190,162</u>	<u>\$ 210,254</u>	<u>\$ 1,400,416</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, 2019). 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, 2019, the Town contributed \$62,518 on covered payroll of \$781,471.

The Town of Prospect also offers an IRS Section 457 Deferred Compensation Program to its employees. At June 30, 2019, net assets of the Town of Prospect Profit Sharing Plan and Trust totaled \$1,506,564 and net assets of the Deferred Compensation Program totaled \$753,197.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Connecticut Municipal Employees' Retirement System

Description of Retirement System

The Town is a participating municipality of the Connecticut Municipal Employees Retirement System (CMERS), which 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 Retirement Commission is responsible for the administration of CMERS. 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, 2019.

Plan Description

Municipalities may designate which departments (including elective officers if so specified) are to be covered under CMERS. This designation may be the result of collective bargaining. 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 officers and firefighters hired after age 60.

The plan has 4 sub plans as follows:

- General employees with social security
- General employees without social security
- Police officers and firefighters with social security
- Police officers and firefighters without social security

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.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Benefits Provided

The benefits provided to participants by CMERS include retirement, disability, and death benefits as follows:

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

Police Officers and Firefighters – 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 1.5% 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.

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 for early retirement after 5 years of active continuous or 15 years of active non-continuous 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 police officers and firefighters, who began employment prior to July 1, 1996, 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.

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.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Contribution Requirements

Employer – As a participating municipality, the Town makes 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 CMERS not met by member contributions. There is also an annual administrative fee per active and retired member.

For the year ended June 30, 2019, the Town's required contribution to CMERS was \$65,030, calculated at 11.74% of \$553,919 covered payroll. The annual prior service amortization payment for thirty years is \$7,093 (effective July 1, 2006). A balance of \$89,515 is included in the Town's long-term debt as of June 30, 2019.

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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement period:

- Inflation – 2.50%
- Long-term investment rate of return, net of pension plan investment expense, including inflation – 7.00%
- Salary increase – 3.50% - 10.00%, including inflation
- Investment rate of return 7.00%, net of pension plan investment expense, including inflation
- Mortality rates – For the period after retirement and for dependent beneficiaries, mortality rates were based on the RP-2014 Combined Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for General Employees. For disabled retirees, the RP-2014 Disabled Mortality Table projected with Scale BB to 2020 was used. The static projection produces sufficient margin in the mortality rates to reflect future improvement in our judgment.
- 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%.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Long-Term Rate of Return

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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	20.0%	5.3%
Developed Market International	11.0%	5.1%
Emerging Market International	9.0%	7.4%
Core Fixed Income	16.0%	1.6%
Inflation Linked Bond	5.0%	1.3%
Emerging Market Debt	5.0%	2.9%
High Yield Bond	6.0%	3.4%
Real Estate	10.0%	4.7%
Private Equity	10.0%	7.3%
Alternative Investments	7.0%	3.2%
Liquidity Fund	1.0%	0.9%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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 actuarial determined rates in future years. 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 Proportionate Share 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 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

	1% Decrease <u>6.00%</u>	Current Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Town's proportionate share of the net pension liability	\$ 1,028,686	\$ 762,543	\$ 454,154

Pension Liabilities, Pension Expense, and Deferred Inflows/Outflows 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.

At June 30, 2019, the Town reported a liability of \$762,543 in the government-wide Statement of Net Position for its proportionate share (0.199379%) of the net pension liability related to its participation in CMERS.

The collective total pension liability as of June 30, 2018 is based upon the June 30, 2018 actuarial valuation. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2017.

The Town recognized its total proportionate share of the collective pension expense, \$110,715, in the government-wide Statement of Activities for the fiscal year ended June 30, 2019.

At June 30, 2019, 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	\$ 108,635
Change in assumptions	259,792
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,984
Net difference between projected and actual earnings on pension plan investments	45,909
Town contributions subsequent to the measurement date	<u>65,030</u>
Total	<u>\$ 497,350</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows of resources resulting from the Town contributions subsequent to the measurement date of June 30, 2018 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other deferred outflows and inflows are amortized over a closed five-year period.

Amounts reported in deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2020	\$ 125,907
2021	109,338
2022	93,222
2023	103,853

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.

Membership in the plan consisted of the following at June 30, 2019:

Active plan members	19
Retirees receiving benefits	<u>3</u>
Total	<u><u>22</u></u>

Total OPEB Liability - The Town's total OPEB liability was \$2,254,895 as of June 30, 2019 and was determined by a valuation as of June 30, 2019 with a measurement date of June 30, 2019.

Schedule of Funding Progress - 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.

Net Other Post Employment Benefit (OPEB) Liability of the Town – As permitted by Statement No. 75 of the Governmental Accounting Standards Board, the total OPEB liability was determined using the alternative measurement method. This approach includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

The Net OPEB liability for the fiscal year ended June 30, 2019 is calculated as follows:

Service cost	\$ 164,737
Interest on net OPEB obligation	70,682
Adjustment to annual required contribution	<u>-</u>
Net change	235,419
Contributions made	<u>-</u>
Increase in net OPEB obligation	235,419
Net OPEB liability – beginning of year (Restated)	<u>2,019,476</u>
Net OPEB liability – end of year	<u>\$ 2,254,895</u>

Plan fiduciary net position as a percentage of the total OPEB liability is 0%.

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 Liability</u>
06/30/19	\$ 235,419	\$ 0	0%	\$ 2,254,895
06/30/18	\$ 83,375	\$ 0	0%	\$ 2,019,476
06/30/17	\$ 65,655	\$ 0	0%	\$ 1,953,821

The covered payroll (annual payroll of active employees covered by the plan) was \$1,096,915, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 205.6%.

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.

Alternative Measurement Report 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.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

The following simplifying assumptions were made:

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

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

Future Retiree Coverage – 75% of eligible employees are assumed to elect coverage at retirement (consistent with current participation of active employees)

Mortality – Life expectancy by gender comes from the *Life Expectancy Table* from National Center for Health Statistics updated in 2015.

Turnover – The probability of remaining employed until retirement age from current and entry age comes from The U.S. Office of Personnel Management Civil Service Retirement and Disability Fund Annual Report Fiscal Year Ended September 30, 2016.

Health insurance premiums – 2019 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums is 5.5%.

Discount rate – 3.5%.

Payroll growth rate – The expected long-term payroll growth rate was assumed to be 2.0%.

The following changes of assumptions were effective as of July 1, 2018:

- The discount rate was increased from 2.0% to 3.5%
- The expected rate of increase in healthcare insurance premiums went from 5.0% to 5.5%

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the current discount rate:

	1% Decrease <u>2.50%</u>	Discount Rate <u>3.50%</u>	1% Increase <u>4.50%</u>
Total OPEB liability	\$ 2,481,053	\$ 2,254,895	\$ 2,032,506

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower of 1-percentage-point higher than the current healthcare cost trend rates:

	<u>Healthcare Cost Trend -1%</u>	<u>Healthcare Cost Trend Assumed</u>	<u>Healthcare Cost Trend +1%</u>
Total OPEB liability	\$ 1,983,550	\$ 2,254,895	\$ 2,574,775

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized OPEB expense of \$236,321 on the government-wide statement of activities. At June 30, 2019, the Town reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

NOTE 8 – FUND BALANCES

	General	Capital and	Housing	Other
	Fund	Non-Recurring	Rehabilitation	Governmental Funds
Restricted:				
General government	\$ -	\$ -	\$ 40,928	\$ -
Public works	-	-	-	16,770
Parks and recreation	-	-	-	269,763
	-	-	40,928	286,533
Committed:				
Capital projects	-	588,046	-	-
	-	588,046	-	-
Assigned:				
General government	195,784	-	-	8,053
Public safety	-	-	-	140,934
Public works	-	-	-	13,241
Parks and recreation	-	-	-	157,957
Capital projects	-	52,654	-	396,810
	195,784	52,654	-	716,995
Unassigned	2,556,182	-	-	-
Total Fund Balances	\$ 2,751,966	\$ 640,700	\$ 40,928	\$ 1,003,528

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

NOTE 9 – INTERFUND ACCOUNTS

Balances due to/from other funds, as presented in the governmental funds balance sheet at June 30, 2019, consist of the following:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund:		
Special Revenue Funds:		
Dog Fund	\$ -	\$ 5,296
Police Special Duty	6,279	
Sewer Use Fees	7,040	-
Capital Projects Funds:		
Capital & Non-recurring	55,475	-
Land Acquisition Fund	-	17,657
Special Revenue Funds:		
Dog Fund		
General Fund	5,296	-
Police Special Duty:		
General Fund	-	6,279
Sewer Use Fees:		
WPCA Capital Improvement	-	1,890
General Fund	-	7,040
Capital Project Funds:		
Capital & Non-recurring		
General Fund	-	55,475
Land Acquisition Fund		
General Fund	17,657	-
WPCA Capital Improvement:		
Sewer Use Fees	<u>1,890</u>	<u>-</u>
 Total	 <u>\$ 93,637</u>	 <u>\$ 93,637</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 10 – TRANSFERS

Transfers, as presented in the other financing sources and uses of the governmental funds, at June 30, 2019, consist of the following:

Transfers authorized by adopted budget:

From town aid roads special revenue to the general fund	\$ 36,000
From sewer use fees special revenue to the general fund	7,040

Other transfers:

From the Police Special Duty special revenue fund to the general fund to reimburse for wages and benefits paid	229,887
From the sewer use fees special revenue to the capital Projects WPCA capital improvement fund	1,890
From the general fund to the Land Acquisition Fund	17,657
From the general fund to the Capital and Non-Recurring fund	<u>260,000</u>

Total Transfers	<u>\$ 552,474</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. 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.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

The Town experienced unauthorized externally generated automated clearing house (ACH) withdrawals in its payroll checking account. The bank was able to recover some of the funds withdrawn by reversing transactions that were within sixty days of the date that they were notified of the unauthorized withdrawals. Law enforcement has arrested one suspect and there is an ongoing investigation under way.

As of June 30, 2019, the Town has recorded a receivable in the amount of \$154,566 for the unauthorized ACH withdrawals. It is the opinion of management that this amount will be recoverable through a combination of involved third parties and or insurance claim.

NOTE 12 – RESTATEMENT OF NET POSITION

Effective July 1, 2018, the Town adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. This statement establishes new accounting and financial reporting requirements for OPEB plans and replaces the requirements of GASB Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended, and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, OPEB.

The Town adopted GASB Statement No. 75 during the current fiscal year for the Town's OPEB plan described in Note 7. The adoption of this statement requires the Town to report a Net OPEB Liability for the Town's OPEB plan. The Town's Net Position at July 1, 2018 has been restated for the effects of this liability, which decreases the Net Position \$1,373,455 in the government-wide financial statements. The statement also requires additional disclosures regarding OPEB, which can be found in Note 7 and in the Schedule of Changes in Net OPEB Liability and Related Ratios on page 61.

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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability	<u>0.199379%</u>	<u>0.166945%</u>	<u>0.166945%</u>	<u>0.207775%</u>	<u>0.207775%</u>
Town's proportionate share of the net pension liability	<u>\$ 762,543</u>	<u>\$ 275,962</u>	<u>\$ 327,675</u>	<u>\$ 284,466</u>	<u>\$ 201,667</u>
Town's covered-employee payroll	<u>\$ 553,919</u>	<u>\$ 482,729</u>	<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>137.66%</u>	<u>57.17%</u>	<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>73.60%</u>	<u>91.68%</u>	<u>88.29%</u>	<u>92.72%</u>	<u>90.48%</u>

Note: The above information relates to June 30, 2018, 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 65,030	\$ 56,672	\$ 54,200	\$ 48,927	\$ 61,434
Contributions in relation to the contractually required contribution	<u>(65,030)</u>	<u>(56,672)</u>	<u>(54,200)</u>	<u>(48,927)</u>	<u>(61,434)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	<u>\$ 553,919</u>	<u>\$ 482,729</u>	<u>\$ 476,273</u>	<u>\$ 429,940</u>	<u>\$ 512,801</u>
Contributions as a percentage of covered-employee payroll	<u>11.74%</u>	<u>11.74%</u>	<u>11.38%</u>	<u>11.38%</u>	<u>11.98%</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**PROSPECT OTHER POST EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service costs	\$ 164,737	80,995
Interest	70,682	2,380
Difference between expected and actual experience	-	-
Change in assumptions	-	-
Benefit payments	<u>-</u>	<u>-</u>
Net Change in Total OPEB Liability	235,419	83,375
Total OPEB Liability, Beginning	2,019,476	562,646
Restatement (Note 12)	<u>-</u>	<u>1,373,455</u>
Total OPEB Liability, Ending (a)	<u>\$ 2,254,895</u>	<u>\$ 2,019,476</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ -	-
Contributions - members	-	-
Net investment income	-	-
Benefit payments	-	-
Administrative expenses	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	-	-
Total Fiduciary Net Position, Beginning	<u>-</u>	<u>-</u>
Total Fiduciary Net Position, Ending (b)	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability, Ending (a) - (b)	<u>\$ 2,254,895</u>	<u>\$ 2,019,476</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%
Covered-employee payroll	\$ 1,096,915	\$ 1,069,551
Net OPEB liability as a percentage of covered payroll	205.6%	188.8%

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, 2019

	Budgeted Amounts				Variance with Final Budget Over (Under)
	Original	Additional Appropriations & Transfers	Final	Actual	
REVENUE:					
Property taxes:					
Current	25,948,525	-	25,948,525	26,086,937	138,412
Previous years	184,000	-	184,000	156,232	(27,768)
Interest and lien fees	85,000	-	85,000	129,579	44,579
Automobile supplement	310,000	-	310,000	335,229	25,229
Total Property taxes	26,527,525	-	26,527,525	26,707,977	180,452
Federal, state and other grants:					
Exemptions for veterans and disabled	80,000	-	80,000	15,864	(64,136)
Education grants Region 16	5,024,784	-	5,024,784	5,024,784	-
Municipal revenue sharing	144,213	-	144,213	144,213	-
LOCIP	76,299	-	76,299	76,134	(165)
Mashantucket Pequot	1,085	-	1,085	1,085	-
Police grants	20,000	-	20,000	950	(19,050)
Other grants	1,083	52,437	53,520	60,180	6,660
Total Federal, state and other grants	5,347,464	52,437	5,399,901	5,323,210	(76,691)
Licenses, permits and fees:					
Building inspections	72,000	-	72,000	93,801	21,801
Vendor and other permits	-	-	-	1,800	1,800
Raffles & bazaars	100	-	100	360	260
Pistol permits	4,000	-	4,000	4,760	760
Fingerprinting	1,000	-	1,000	1,090	90
Planning & zoning	8,000	-	8,000	10,570	2,570
Zoning board of appeals	750	-	750	1,450	700
Inland wetlands	1,200	-	1,200	18,041	16,841
Town clerk fees	70,000	-	70,000	75,135	5,135
Property conveyance tax	71,000	-	71,000	139,314	68,314
Total Licenses, permits and fees	228,050	-	228,050	346,321	118,271

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, 2019**

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Transfers & Other Adjustments</u>	<u>Final</u>		
Interest income	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>12,210</u>	<u>6,210</u>
Region 16 - Overassessment refund	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,657</u>	<u>17,657</u>
Other income:					
Library fines	2,000	-	2,000	2,205	205
SCRWA payment in lieu of taxes	40,000	-	40,000	42,732	2,732
Use of copier	500	-	500	489	(11)
Sales/recycling income	25,300	-	25,300	13,154	(12,146)
Telephone tax share	21,000	-	21,000	15,702	(5,298)
Alarm fines	1,000	-	1,000	1,375	375
Refunds and commissions	15,000	-	15,000	9,382	(5,618)
CIRMA equity distribution	-	-	-	14,657	14,657
Insurance & damage claims	-	41,936	41,936	41,936	-
Miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,805</u>	<u>2,805</u>
Total Other income	<u>104,800</u>	<u>41,936</u>	<u>146,736</u>	<u>144,437</u>	<u>(2,299)</u>
Proceeds of general obligation notes	<u>-</u>	<u>1,503,000</u>	<u>1,503,000</u>	<u>1,503,000</u>	<u>-</u>
Transfers in	<u>42,000</u>	<u>229,887</u>	<u>271,887</u>	<u>272,927</u>	<u>1,040</u>
Total Revenue and Transfers In	<u>\$ 32,255,839</u>	<u>\$ 1,827,260</u>	<u>\$ 34,083,099</u>	<u>\$ 34,327,739</u>	<u>\$ 244,640</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, 2019

	Budgeted Amounts			Actual	Variance with Final Budget Over (Under)
	Original	Additional Appropriations & Transfers	Final		
EXPENDITURES:					
General government:					
Office of the Mayor	\$ 227,568	\$ -	\$ 227,568	\$ 220,700	\$ (6,868)
Probate Court	4,500	-	4,500	3,727	(773)
Zoning board of appeals	2,225	-	2,225	1,951	(274)
Elections and registrars	71,500	(844)	70,656	58,450	(12,206)
Auditor	18,500	2,500	21,000	20,575	(425)
Assessor	105,581	1,170	106,751	105,369	(1,382)
Board of assessment appeals	400	-	400	300	(100)
Tax Collector	113,781	(3,000)	110,781	110,009	(772)
Treasurer	10,000	-	10,000	10,000	-
Legal fees	85,000	54,078	139,078	138,640	(438)
Town clerk	114,310	753	115,063	112,149	(2,914)
Planning and zoning commission	7,900	(1,000)	6,900	5,625	(1,275)
Economic development	2,500	(1,600)	900	-	(900)
Advertising and printing	22,850	5,963	28,813	27,275	(1,538)
Social Security	227,468	13,858	241,326	235,421	(5,905)
Automated processing of records	70,000	5,000	75,000	67,434	(7,566)
Building department	73,420	-	73,420	72,956	(464)
Water Pollution Authority	150,564	7,937	158,501	155,561	(2,940)
Municipal organization fees	10,026	-	10,026	9,710	(316)
Town Council	18,331	-	18,331	15,825	(2,506)
Town buildings	449,311	55,395	504,706	501,669	(3,037)
Unemployment compensation tax	4,000	7,000	11,000	9,916	(1,084)
Benefits - Town employees	763,285	15,633	778,918	599,176	(179,742)
Postage	20,000	-	20,000	19,654	(346)
Anti-Blight commission	2,050	-	2,050	1,105	(945)
Conservation commission	150	-	150	-	(150)
Inland wetlands	3,955	-	3,955	2,973	(982)
Land use inspector	98,441	905	99,346	97,942	(1,404)
Historic preservation	5,300	-	5,300	5,274	(26)
Total General government	2,682,916	163,748	2,846,664	2,609,386	(237,278)

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, 2019

	Budgeted Amounts			Actual	Variance with Final Budget Over (Under)
	Original	Additional Appropriations & Transfers	Final		
Public safety:					
Fire protection	427,789	-	427,789	423,063	(4,726)
Fire marshal	57,849	130	57,979	52,671	(5,308)
Police	991,891	195,067	1,186,958	1,169,497	(17,461)
Insurance	322,375	-	322,375	314,396	(7,979)
Emergency management	9,660	385	10,045	8,880	(1,165)
Household hazardous waste	2,000	(1,500)	500	300	(200)
911 service	65,456	-	65,456	65,456	-
Total Public safety	<u>1,877,020</u>	<u>194,082</u>	<u>2,071,102</u>	<u>2,034,263</u>	<u>(36,839)</u>
Public works:					
Solid waste	489,066	(535)	488,531	461,411	(27,120)
Town roads	180,960	21,435	202,395	202,153	(242)
Ice and snow	315,000	(11,828)	303,172	300,448	(2,724)
Street lighting	55,000	(6,264)	48,736	41,307	(7,429)
Town trucks	272,000	8,377	280,377	279,006	(1,371)
Public works labor	670,367	(36,000)	634,367	619,508	(14,859)
Road reconstruction	284,898	-	284,898	282,185	(2,713)
Total Public works	<u>2,267,291</u>	<u>(24,815)</u>	<u>2,242,476</u>	<u>2,186,018</u>	<u>(56,458)</u>
Parks and recreation:					
Town parks	71,700	10,385	82,085	66,629	(15,456)
Library	318,276	-	318,276	286,075	(32,201)
Recreation department	290,751	465	291,216	247,116	(44,100)
Holiday observances	19,400	-	19,400	16,247	(3,153)
Youth - Summer activities	41,850	900	42,750	39,031	(3,719)
Total Parks and recreation	<u>741,977</u>	<u>11,750</u>	<u>753,727</u>	<u>655,098</u>	<u>(98,629)</u>
Health and human services:					
Health	94,453	-	94,453	94,453	-
Commission on aging	296,435	76,911	373,346	360,759	(12,587)
Total Health and human services	<u>390,888</u>	<u>76,911</u>	<u>467,799</u>	<u>455,212</u>	<u>(12,587)</u>
Education	<u>23,618,180</u>	<u>-</u>	<u>23,618,180</u>	<u>23,618,180</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, 2019**

	Budgeted Amounts			Actual	Variance with Final Budget Over (Under)
	Original	Additional Appropriations & Transfers	Final		
Other expenditures:					
Region 1 animal control	18,267	-	18,267	16,062	(2,205)
Community Center	105,400	46,746	152,146	143,437	(8,709)
Contingency	48,000	(34,200)	13,800	11,810	(1,990)
Total Other expenditures	<u>171,667</u>	<u>12,546</u>	<u>184,213</u>	<u>171,309</u>	<u>(12,904)</u>
Capital expenditures:					
Storm Water Phase II	7,000	-	7,000	7,000	-
Scott Road	4,000	-	4,000	-	(4,000)
Total Capital expenditures	<u>11,000</u>	<u>-</u>	<u>11,000</u>	<u>7,000</u>	<u>(4,000)</u>
Debt service:					
Interest:					
Road Safety 2014	6,000	-	6,000	6,000	-
3 Center Street	2,000	-	2,000	2,000	-
Road Safety 2015	7,000	-	7,000	7,000	-
Community Center	6,000	-	6,000	6,000	-
Road Safety 2017	7,175	-	7,175	7,175	-
Principal:					
Road Safety 2014	75,000	-	75,000	75,000	-
3 Center Street	30,000	-	30,000	30,000	-
Road Safety 2015	75,000	-	75,000	75,000	-
Community Center	75,000	-	75,000	75,000	-
Road Safety 2017	75,000	-	75,000	75,000	-
Capital leases:					
Fire department pumper truck	70,261	-	70,261	69,989	(272)
Pierce tanker truck	59,371	-	59,371	59,370	(1)
MERS pension obligation	7,093	-	7,093	7,093	-
Total Debt service	<u>494,900</u>	<u>-</u>	<u>494,900</u>	<u>494,627</u>	<u>(273)</u>
General obligation notes refinanced	<u>-</u>	<u>1,503,000</u>	<u>1,503,000</u>	<u>1,503,000</u>	<u>-</u>
Transfers out	<u>-</u>	<u>277,657</u>	<u>277,657</u>	<u>277,657</u>	<u>-</u>
Total Expenditures and Transfers Out	<u>32,255,839</u>	<u>2,214,879</u>	<u>34,470,718</u>	<u>34,011,750</u>	<u>(458,968)</u>
Revenue less Expenditures and Transfers	-	(387,619)	(387,619)	315,989	703,608
Fund Balance - Beginning of Year	<u>2,435,977</u>	<u>-</u>	<u>2,435,977</u>	<u>2,435,977</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 2,435,977</u>	<u>\$ (387,619)</u>	<u>\$ 2,048,358</u>	<u>\$ 2,751,966</u>	<u>\$ 703,608</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, 2019**

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.

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.

Transfers in and out, along with debt issue and refinancing are treated as Other Financing Sources (Uses) for GAAP purposes.

	Total Revenue & <u>Transfers In</u>	Total Expenditures & <u>Transfers Out</u>	Other Financing <u>Sources (Uses)</u>	<u>Fund Balance</u>
Actual Non-GAAP Budgetary Basis Statement - June 30, 2019	\$ 34,327,739	\$ 34,011,750	\$ -	\$ 2,751,966
RSD #16 refunds and credits	(17,657)	(17,657)	-	-
Reclass for GAAP purposes:				
Transfers in	(272,927)	-	272,927	-
Transfers out	-	(277,657)	(277,657)	-
Proceeds of general obligation notes	(1,503,000)	-	1,503,000	-
General obligation notes refinanced	<u>-</u>	<u>(1,503,000)</u>	<u>(1,503,000)</u>	<u>-</u>
Actual GAAP - June 30, 2019	<u>\$ 32,534,155</u>	<u>\$ 32,213,436</u>	<u>\$ (4,730)</u>	<u>\$ 2,751,966</u>

See accompanying Independent Auditor's Report.

SUPPLEMENTAL STATEMENTS AND SCHEDULES

TOWN OF PROSPECT, CONNECTICUT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2019

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 340,926	\$ 9,545	\$ 350,471
Investments	265,410	367,718	633,128
Receivables	43,628	-	43,628
Due from other funds	<u>5,296</u>	<u>19,547</u>	<u>24,843</u>
TOTAL ASSETS	<u><u>\$ 655,260</u></u>	<u><u>\$ 396,810</u></u>	<u><u>\$ 1,052,070</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 33,288	\$ -	\$ 33,288
Due to other funds	<u>15,209</u>	<u>-</u>	<u>15,209</u>
TOTAL LIABILITIES	<u>48,497</u>	<u>-</u>	<u>48,497</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>45</u>	<u>-</u>	<u>45</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>45</u>	<u>-</u>	<u>45</u>
FUND BALANCES:			
Restricted	286,533	-	286,533
Assigned	<u>320,185</u>	<u>396,810</u>	<u>716,995</u>
TOTAL FUND BALANCES	<u>606,718</u>	<u>396,810</u>	<u>1,003,528</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 655,260</u></u>	<u><u>\$ 396,810</u></u>	<u><u>\$ 1,052,070</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, 2019**

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
REVENUES			
Federal, state and other grants	\$ 288,559	\$ -	\$ 288,559
Licenses, permits and fees	605,637	-	605,637
Investment income	6,941	713	7,654
Other income	<u>151,751</u>	<u>35,700</u>	<u>187,451</u>
TOTAL REVENUES	<u>1,052,888</u>	<u>36,413</u>	<u>1,089,301</u>
EXPENDITURES			
Current expenditures:			
Public safety	18,233	-	18,233
Public works	131,877	-	131,877
Parks and recreation	210,534	-	210,534
Other expenditures	141,430	-	141,430
Capital expenditures	<u>316,426</u>	<u>35,700</u>	<u>352,126</u>
TOTAL EXPENDITURES	<u>818,500</u>	<u>35,700</u>	<u>854,200</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>234,388</u>	<u>713</u>	<u>235,101</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	19,547	19,547
Transfers out	<u>(274,817)</u>	<u>-</u>	<u>(274,817)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(274,817)</u>	<u>19,547</u>	<u>(255,270)</u>
NET CHANGE IN FUND BALANCES	(40,429)	20,260	(20,169)
FUND BALANCES, BEGINNING	<u>647,147</u>	<u>376,550</u>	<u>1,023,697</u>
FUND BALANCES, ENDING	<u>\$ 606,718</u>	<u>\$ 396,810</u>	<u>\$ 1,003,528</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2019

	Public Library	Town Aid Roads	Dog Fund	Police Special Duty	Board of Recreation	Sewer Use Fees	Total
ASSETS							
Cash and cash equivalents	\$ 73,687	\$ 25,995	\$ 5,782	\$ 107,542	\$ 105,047	\$ 22,873	\$ 340,926
Investments	263,829	-	-	1,581	-	-	265,410
Receivables and prepaids	-	-	-	41,281	2,302	45	43,628
Due from other funds	-	-	5,296	-	-	-	5,296
TOTAL ASSETS	<u>\$ 337,516</u>	<u>\$ 25,995</u>	<u>\$ 11,078</u>	<u>\$ 150,404</u>	<u>\$ 107,349</u>	<u>\$ 22,918</u>	<u>\$ 655,260</u>
LIABILITIES							
Accounts payable	\$ -	\$ 9,225	\$ 3,025	\$ 3,191	\$ 17,145	\$ 702	\$ 33,288
Due to other funds	-	-	-	6,279	-	8,930	15,209
TOTAL LIABILITIES	<u>-</u>	<u>9,225</u>	<u>3,025</u>	<u>9,470</u>	<u>17,145</u>	<u>9,632</u>	<u>48,497</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	-	45	45
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>45</u>
FUND BALANCES							
Restricted	269,763	16,770	-	-	-	-	286,533
Assigned	67,753	-	8,053	140,934	90,204	13,241	320,185
TOTAL FUND BALANCES	<u>337,516</u>	<u>16,770</u>	<u>8,053</u>	<u>140,934</u>	<u>90,204</u>	<u>13,241</u>	<u>606,718</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 337,516</u>	<u>\$ 25,995</u>	<u>\$ 11,078</u>	<u>\$ 150,404</u>	<u>\$ 107,349</u>	<u>\$ 22,918</u>	<u>\$ 655,260</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, 2019**

	Public Library	Town Aid Roads	Dog Fund	Police Special Duty	Board of Recreation	Sewer Use Fees	Total
REVENUES							
Federal and State grants	\$ 28,459	\$ 241,498	\$ -	\$ -	\$ 18,602	\$ -	\$ 288,559
Licenses, permits and fees	-	-	5,547	327,132	208,512	64,446	605,637
Investment income	6,533	-	-	408	-	-	6,941
Other income	8,689	-	-	5,562	-	137,500	151,751
TOTAL REVENUES	<u>43,681</u>	<u>241,498</u>	<u>5,547</u>	<u>333,102</u>	<u>227,114</u>	<u>201,946</u>	<u>1,052,888</u>
EXPENDITURES							
Current expenditures:							
Public safety	-	-	-	18,233	-	-	18,233
Public works	-	78,504	-	-	-	53,373	131,877
Parks and recreation	5,957	-	-	-	204,577	-	210,534
Other expenditures	-	-	3,930	-	-	137,500	141,430
Capital expenditures	24,300	186,428	-	57,161	48,537	-	316,426
TOTAL EXPENDITURES	<u>30,257</u>	<u>264,932</u>	<u>3,930</u>	<u>75,394</u>	<u>253,114</u>	<u>190,873</u>	<u>818,500</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>13,424</u>	<u>(23,434)</u>	<u>1,617</u>	<u>257,708</u>	<u>(26,000)</u>	<u>11,073</u>	<u>234,388</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	(36,000)	-	(229,887)	-	(8,930)	(274,817)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(36,000)</u>	<u>-</u>	<u>(229,887)</u>	<u>-</u>	<u>(8,930)</u>	<u>(274,817)</u>
NET CHANGE IN FUND BALANCES	<u>13,424</u>	<u>(59,434)</u>	<u>1,617</u>	<u>27,821</u>	<u>(26,000)</u>	<u>2,143</u>	<u>(40,429)</u>
FUND BALANCES, BEGINNING	<u>324,092</u>	<u>76,204</u>	<u>6,436</u>	<u>113,113</u>	<u>116,204</u>	<u>11,098</u>	<u>647,147</u>
FUND BALANCES, ENDING	<u>\$ 337,516</u>	<u>\$ 16,770</u>	<u>\$ 8,053</u>	<u>\$ 140,934</u>	<u>\$ 90,204</u>	<u>\$ 13,241</u>	<u>\$ 606,718</u>

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2019

	<u>Land Acquisition</u>	<u>Open Space</u>	<u>WPCA Capital Improvement</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 9,545	\$ 9,545
Investments	12,487	355,231	-	367,718
Due from other funds	17,657	-	1,890	19,547
TOTAL ASSETS	<u>\$ 30,144</u>	<u>\$ 355,231</u>	<u>\$ 11,435</u>	<u>\$ 396,810</u>
FUND BALANCES				
Assigned	<u>30,144</u>	<u>355,231</u>	<u>11,435</u>	<u>396,810</u>
TOTAL FUND BALANCES	<u>\$ 30,144</u>	<u>\$ 355,231</u>	<u>\$ 11,435</u>	<u>\$ 396,810</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, 2019

	Land Acquisition	Open Space	WPCA Capital Improvement	Total
REVENUES				
Investment income	\$ 35	\$ 678	\$ -	\$ 713
Other income	-	35,700	-	35,700
TOTAL REVENUES	35	36,378	-	36,413
EXPENDITURES				
Capital expenditures	-	35,700	-	35,700
TOTAL EXPENDITURES	-	35,700	-	35,700
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	35	678	-	713
OTHER FINANCING SOURCES (USES)				
Transfers in	17,657	-	1,890	19,547
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	17,657	-	1,890	19,547
NET CHANGE IN FUND BALANCES	17,692	678	1,890	20,260
FUND BALANCES, BEGINNING	12,452	354,553	9,545	376,550
FUND BALANCES, ENDING	\$ 30,144	\$ 355,231	\$ 11,435	\$ 396,810

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, 2019

	Fund Balance Activity				
	Beginning Balance	Appropriations	Revenues & Other Financing Sources	Capital Expenditures	Ending Balance
Committed Fund Balance:	\$	\$	\$	\$	\$
Community School repairs	41,177	-	-	(11,549)	29,628
New truck	3,616	-	-	-	3,616
Sidewalk design	(112,938)	-	-	(1,500)	(114,438)
Road safety	19,551	-	900,000	(810,553)	108,998
Full-size truck	200,000	-	-	-	200,000
Street Scape (Rte 69/Center Street)	20,000	-	-	(1,300)	18,700
Fire Dept gas tank	108	-	-	-	108
Revaluation	60,000	-	-	-	60,000
Revaluation technology	12,000	-	-	(11,946)	54
Town Hall digitizing maps	20,000	-	-	(5,365)	14,635
Telephone system upgrade:					
Town Hall	15,045	-	-	(14,779)	266
Library	7,649	-	-	(6,842)	807
Police station	9,829	-	-	(9,811)	18
Firehouse	9,898	-	-	(9,898)	-
Senior Center	7,673	-	-	(7,408)	265
Public Works backup generator	14,075	-	-	(8,686)	5,389
Parks & Recreation gym floor replacement	26,985	-	-	(26,985)	-
PVFD Pierce Velocity Pumper	-	250,000	815,109	(815,109)	250,000
Meeting Place	-	10,000	-	-	10,000
Dump Body Truck	-	-	207,983	(207,983)	-
Total Committed Fund Balance	354,668	260,000	1,923,092	(1,949,714)	588,046
Assigned/(Unassigned):					
Available for other projects	52,654	-	-	-	52,654
Total Fund Balance	\$ 407,322	\$ 260,000	\$ 1,923,092	\$ (1,949,714)	\$ 640,700

See accompanying Independent Auditor's Report.

TOWN OF PROSPECT, CONNECTICUT

**REPORT OF THE TAX COLLECTOR
FOR THE YEAR ENDED JUNE 30, 2019**

Grand List October 1:	Taxes Receivable July 1, 2018	Lawful Corrections		Transfers (To)/From Suspense	Adjusted Taxes Receivable	Collections During the Year			Taxes Receivable June 30, 2019
		Additions	Deductions			Taxes, Net of Refunds	Interest and Lien Fees	Total Collections	
2017	\$ 26,641,295	\$ 51,583	\$ (79,523)	\$ (2,911)	\$ 26,610,444	\$ 26,375,777	\$ 73,188	\$ 26,448,965	\$ 234,667
2016	241,580	1,588	(9,966)	(6,913)	226,289	175,463	35,314	210,777	50,826
2015	63,602	1,164	(2,720)	(11,854)	50,192	34,445	13,513	47,958	15,747
2014	19,379	270	-	-	19,649	14,587	5,203	19,790	5,062
2013	4,497	-	-	-	4,497	925	369	1,294	3,572
2012	637	-	-	-	637	637	339	976	-
Suspense	-	241	-	4,931	5,172	5,172	3,834	9,006	-
TOTALS	\$ 26,970,990	\$ 54,846	\$ (92,209)	\$ (16,747)	\$ 26,916,880	\$ 26,607,006	\$ 131,760	\$ 26,738,766	\$ 309,874

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, 2019**

Total tax collections (including interest and lien fees) for the year ended June 30, 2019	\$ 26,738,766
Reimbursement for revenue loss on: Tax relief for elderly (CGS 12-129d)	<u>-</u>
Total Receipts for Determination of Base	<u>\$ 26,738,766</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	\$ 60,162,224	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	120,324,447	-	-	-
3 3/4 times base	-	-	100,270,373	-	-
3 1/4 times base	-	-	-	86,900,990	-
3 times base	-	-	-	-	80,216,298
Total Debt Limitation	<u>60,162,224</u>	<u>120,324,447</u>	<u>100,270,373</u>	<u>86,900,990</u>	<u>80,216,298</u>
<u>Indebtedness:</u>					
General obligation bonds	-	-	-	-	-
Bond anticipation notes	2,403,000	-	-	-	-
Net Overlapping Regional School District 16 Bonds Payable - Note 5	<u>-</u>	<u>14,339,941</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Indebtedness	<u>2,403,000</u>	<u>14,339,941</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 57,759,224</u>	<u>\$ 105,984,506</u>	<u>\$ 100,270,373</u>	<u>\$ 86,900,990</u>	<u>\$ 80,216,298</u>

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation or \$187,171,362.

See accompanying Independent Auditors Report.



Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

**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, 2019 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 21, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiency in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

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.

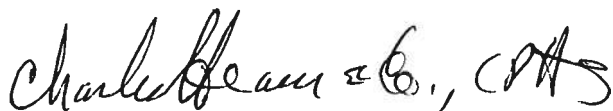
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-01 to be a significant deficiency.

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 black ink that reads "Charles Heaven & Co., CPA". The signature is written in a cursive, flowing style.

Charles Heaven & Co.
Waterbury, Connecticut
January 21, 2020

TOWN OF PROSPECT, CONNECTICUT

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*

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

2019-01 Significant Deficiency

Condition: The Town does not have a formal written Accounting Policy and Procedures Manual.

Recommendation: We recommend the development and implementation of a formal written Accounting Policy and Procedures Manual. A complete accounting procedure manual will define systems and procedures to be followed for each of the fund types. At a minimum the manual should contain:

- Accounting procedures and guidelines for:
 - General Ledger
 - Cash receipts journal
 - Cash disbursements journal
 - Bank reconciliation procedures
 - Journal entry register with sample accounting entries
 - Budgetary procedures
- Supporting data required
- Internal controls
- Required internal management reports
- Required external reports
- Procedures for updating the manual
- Capitalization and depreciation policies and procedures

The manual would facilitate accounting procedures used by various personnel, assist in training new personnel and provide a guide for existing personnel to continue accounting for ongoing programs.

Management's Response: The Town is currently developing and implementing a formal Accounting Policy and Procedures Manual.

STATE FINANCIAL ASSISTANCE



Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

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, 2019. 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, 2019.

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, 2019, 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 21, 2020, 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 21, 2020

TOWN OF PROSPECT, CONNECTICUT

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2019**

<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 (Reimbursement) for:		
State Owned Property	11000-OPM20600-17004	\$ 1,038
Disability Exemption	11000-OPM20600-17011	984
Veterans	11000-OPM20600-17024	14,880
Local Capital Improvement Program	12050-OPM20600-40254	76,134
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	4,602
Department of Transportation		
Town Aid Road Grant	12052-DOT57131-43455-34005	300,932
Elderly Persons Disability Grant (Mini-Bus)	12062-DOT57931-21361	52,437
Department of Public Safety		
State Homeland Security	12060-DPS32160-21877	1,000
Connecticut State Library		
Connecticard Payments	11000-CSL66051-17010	634
Connecticut Education Network	12052-CSL66011-43649	27,825
Judicial Branch		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	<u>1,258</u>
Total State Financial Assistance Before Exempt Programs		<u>566,666</u>
Exempt Programs		
State Department of Education		
Education Cost Sharing	11000-SDE64370-17041	5,024,784
Office of Policy and Management		
Municipal Stabilization	11000-OPM20600-17104	73,271
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	<u>1,085</u>
Total Exempt Programs		<u>5,099,140</u>
Total State Financial Assistance		<u>\$ 5,665,806</u>

See Note to Schedule.

TOWN OF PROSPECT, CONNECTICUT

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2019

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, 2019. 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, 2019**

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?	Yes
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	\$ 300,932

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

TOWN OF PROSPECT, CONNECTICUT

STATE FINANCIAL ASSISTANCE PROGRAMS – SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

II. SUMMARY OF FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

We issued reports, dated January 21, 2020, on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

Our report on compliance indicated no reportable instances of noncompliance.

Our report on internal control over financial reporting indicated one finding as described on page 80.

III. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

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