

**TOWN OF PROSPECT, CONNECTICUT**

**ANNUAL FINANCIAL REPORT**

June 30, 2020

# TOWN OF PROSPECT, CONNECTICUT

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## INDEPENDENT AUDITOR'S REPORT

Town Council  
Town of Prospect  
Prospect, CT 06712

### **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, 2020, 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 the 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 governmental activities, each major fund and the aggregate remaining fund information of the Town of Prospect, Connecticut as of June 30, 2020, and the respective changes in the financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3a through 3f and the required supplementary information relating to pension on pages 37-39, 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 schedules, the statement of changes in fund balance – by project, the schedule of property taxes levied, collected and outstanding, and the schedule of debt limitation are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules, the statement of changes in fund balance – by project, the schedule of property taxes levied, collected and outstanding, and the schedule of debt limitation 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 nonmajor fund financial statements and schedules described in the above paragraph are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2021, 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, Connecticut'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 Town of Prospect, Connecticut's internal control over financial reporting and compliance.

**CLERMONT & ASSOCIATES, LLC**  
Prospect, Connecticut



January 27, 2021

## **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 four major governmental funds (general fund, capital and non-recurring fund, town aid roads, and housing rehabilitation fund), five 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 three 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

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, 2020. 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 \$20,366,177 (net position). Of this amount, \$1,013,898 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$160,187 primarily due to a decrease in fund balances of \$55,562.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,381,560 a net decrease of \$55,562 in comparison with the prior year. Of the total fund balance, \$2,557,657, or 58.4%, is available for spending at the government's discretion (unassigned fund balance).

- The fund balance for the general fund increased \$514,476 from \$2,751,966 to \$3,266,442. The June 30, 2020 balance is 10.14% of total general fund expenditures of \$32,209,277. Of this fund balance, \$250,000 is committed to balance the next year budget, \$20,618 is assigned for various other purposes, and the remainder of \$3,046,274 is unassigned.
- Prospect's total bonded debt increased by \$495,000. \$900,000 of bond anticipation notes were issued for the 2019 Road Safety program.

### 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 \$20,366,177 at the close of the most recent fiscal year.

**Table 1. Net Position**

	<b>Total Primary Government 2020</b>	<b>Total Primary Government 2019</b>
Current and Other Assets.....	\$ 6,174,025	\$ 6,152,279
Capital Assets, net of depreciation .....	21,908,380	21,335,867
Total Assets.....	28,082,405	27,488,146
Deferred Outflows of Resources.....	372,354	497,350
Long-Term Obligations Outstanding	7,234,266	6,715,115
Other Liabilities.....	854,316	744,017
Total Liabilities .....	8,088,582	7,459,132
Net Position:		
Net Investment in Capital Assets	18,158,859	17,742,705
Restricted.....	1,193,420	1,146,413
Unrestricted .....	1,013,898	1,637,246
Total Net Position .....	\$ 20,366,177	\$ 20,526,364

By far the largest portion of the Town's net position, \$18,158,859, or 89.2%, 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 \$139,658 of the Housing Rehabilitation Fund, which may be used to carry out the objectives of that program, \$272,045 for capital expenditures of the library in accordance with the donors' bequests, and \$61,495 of Town Aid Road unexpended grant proceeds.

*Unrestricted net position* of \$3,443,001 (assigned and unassigned) may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities accounted for the entire net position decrease of \$160,187 during the current fiscal year. Key elements of this decrease are as follows:

**Table 2. Changes in Net Position**

	Total Primary Government 2020	Total Primary Government 2019
Revenues:		
Program Revenues:		
Charges for Services.....	\$ 1,002,609	\$ 1,047,914
Operating Grants and Contributions.....	5,052,829	5,295,493
Capital Grants and Contributions .....	198,172	152,871
General Revenues:		
Property Taxes.....	26,993,097	26,713,694
Grants and Contributions not Restricted to Specific Purpose..	160,585	163,405
Investment Earnings .....	17,258	19,864
Other General Revenues.....	227,632	100,806
Total Revenues .....	<u>\$ 33,652,182</u>	<u>\$ 33,494,047</u>
Program Expenses:		
General Government .....	\$ 2,942,195	\$ 2,899,918
Public Safety .....	2,521,675	2,276,152
Public Works .....	3,043,214	2,893,803
Parks and Recreation .....	916,861	881,317
Health and Human Services .....	442,832	445,400
Education.....	23,709,145	23,600,523
Other Expenditures.....	145,031	154,667
Interest on Long-Term Debt.....	91,416	106,200
Total Governmental Activities.....	<u>33,812,369</u>	<u>33,257,980</u>
Increase (Decrease) in Net Position .....	<u>\$ (160,187)</u>	<u>\$ 236,067</u>

The Town brought in net general revenues of \$27,398,572, which were exceeded by its net operating expenditures of \$27,558,759. Gross revenues amounted to \$33,652,182. Gross expenses of \$33,812,369 were offset by \$1,002,609 in charges for services, \$5,052,829 in operating grants and contributions, and \$198,172 in capital grants. Of the net expenditures, \$18,775,264 was accounted for by Regional School District No. 16 assessments. Net public safety of \$2,238,221, net public works expenditures of \$3,067,583, net general government outlays of \$2,092,663, and net parks and recreation costs of \$880,163 accounted for almost all of the remaining balance. The Town's general revenues derived from \$26,993,097 in tax collections, \$160,585 of unrestricted grants and contributions, and \$244,890 in other general revenues and investment income.

- Property tax revenue increased by \$279,403 (+1.05%) over FY 2019. Actual collections of property tax, interest, and lien fees during FY 2020, \$26,944,169, exceeded the budgeted figure by \$152,243.
- Charges for services decreased by \$45,305 (-4.3%). Increases in police special duty revenue (\$73,861, 22.6%), building inspections (\$52,845, 56.3%) and conveyance tax (\$16,100, 11.6%) were offset by a \$93,737 (-45.0%) decrease in recreation revenue due to cancellations and

closures from the pandemic. Also, \$41,936 of insurance and damage claims and \$35,700 of donated land were reported in FY19.

- General revenue operating grants decreased \$242,664 (-4.6%) primarily due to a decrease in Education Cost Sharing grants.
- Other general revenues include \$121,500 for a 1998 Pierce Pumper fire truck sold in FY20.
- Net education expenditures increased \$108,622 (+0.46%). The Regional School District refunded \$177,807 for FY20 as compared to \$17,657 for FY19.

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.

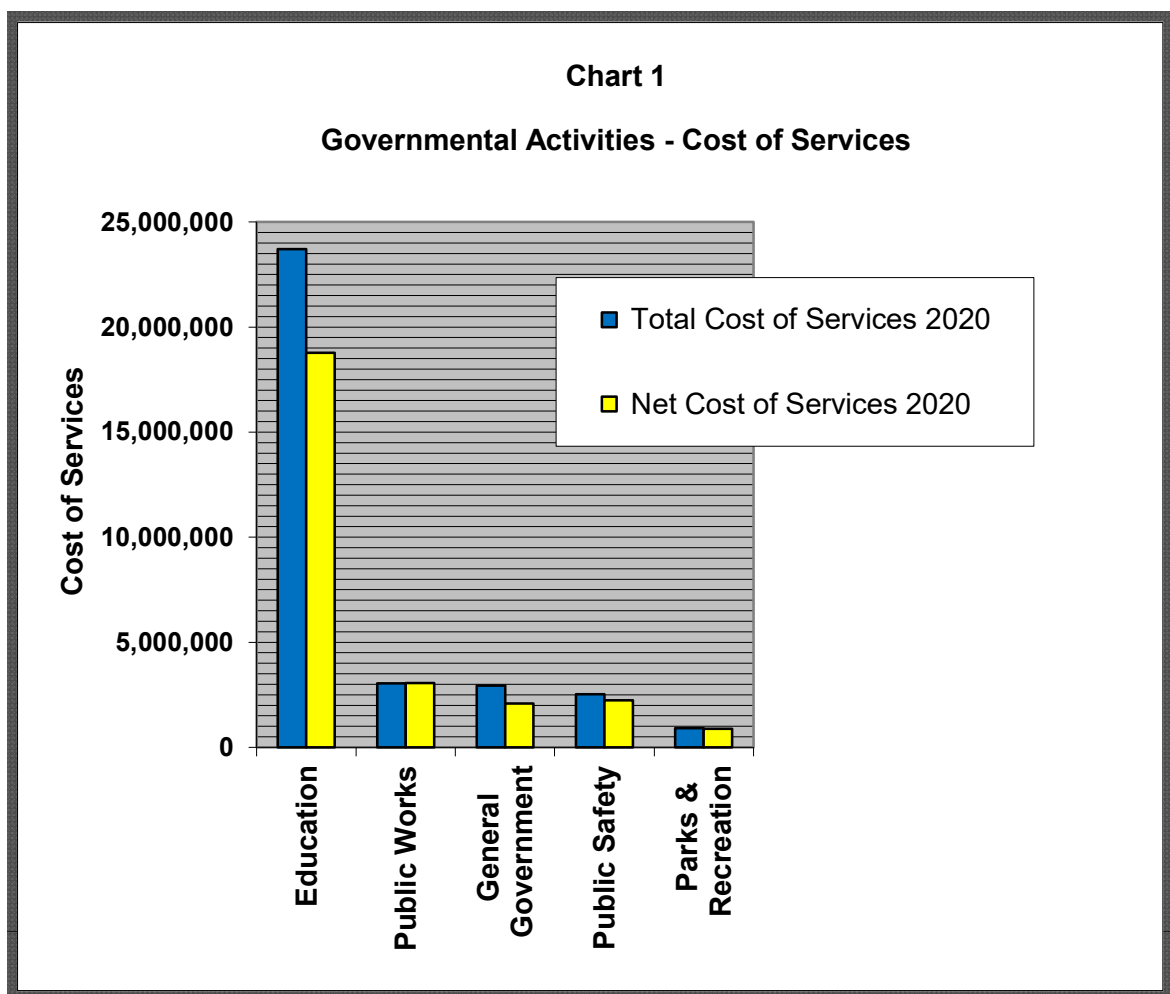
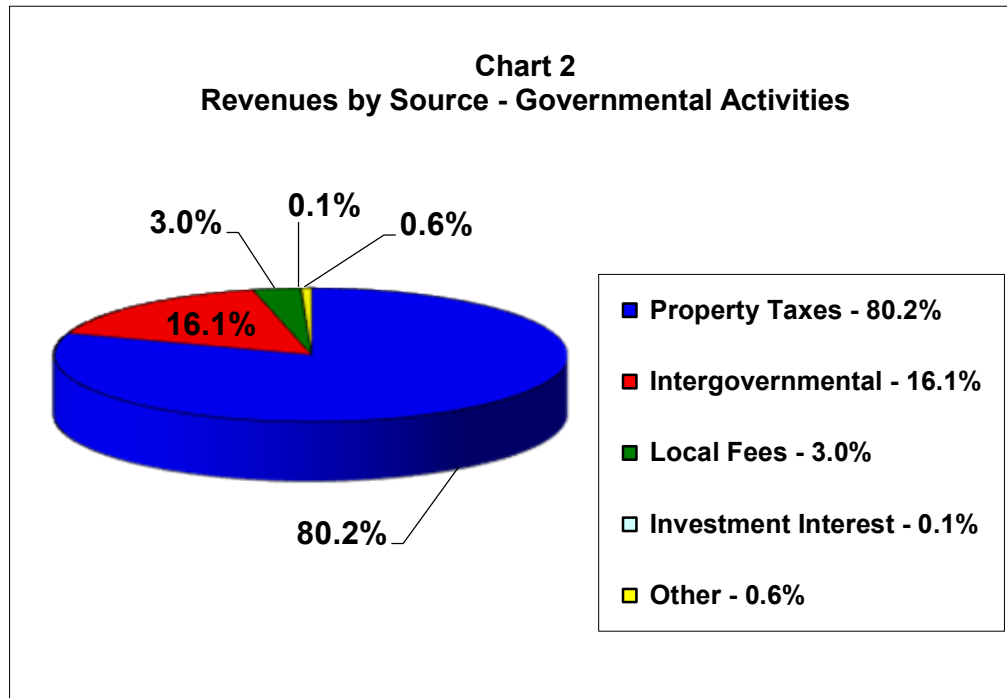


Chart 2 below reflects what percentage of our total revenue is contributed by each of five primary sources. As with most local governments in Connecticut, Prospect relies heavily on the property tax to fund education and other town services.



### Financial Analysis of the Government's Funds

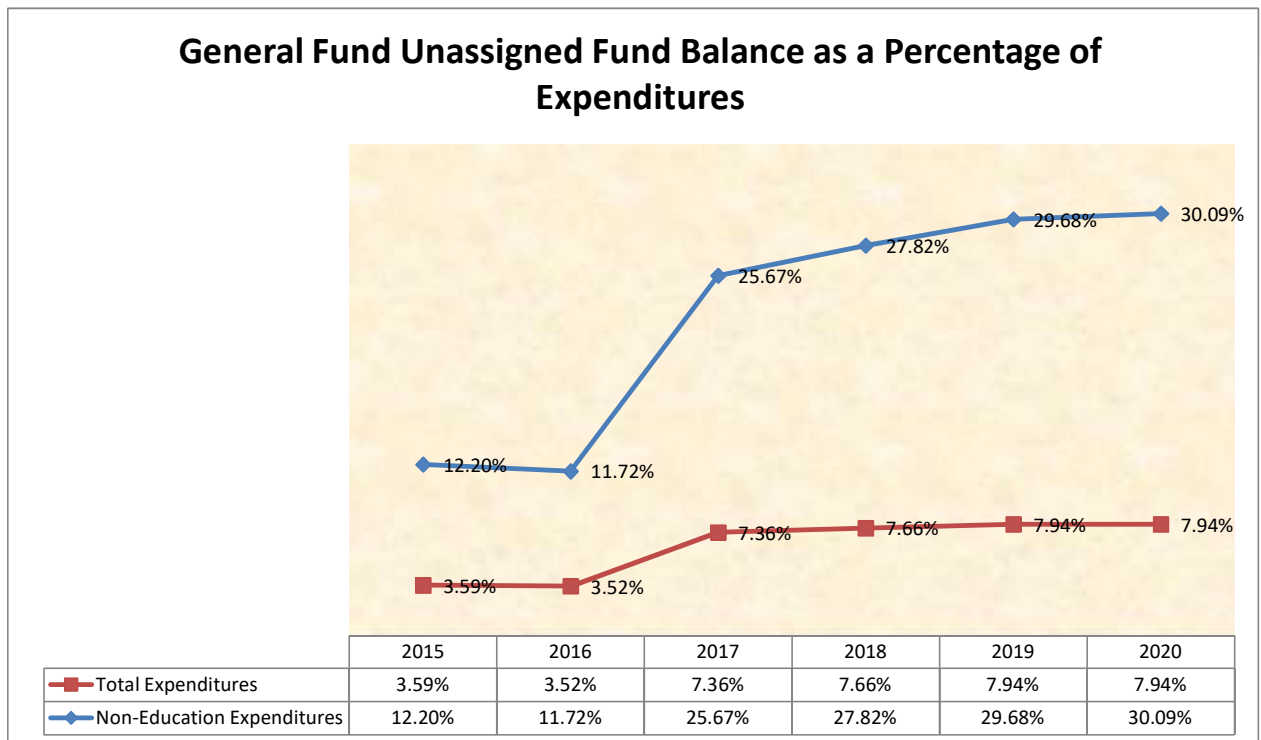
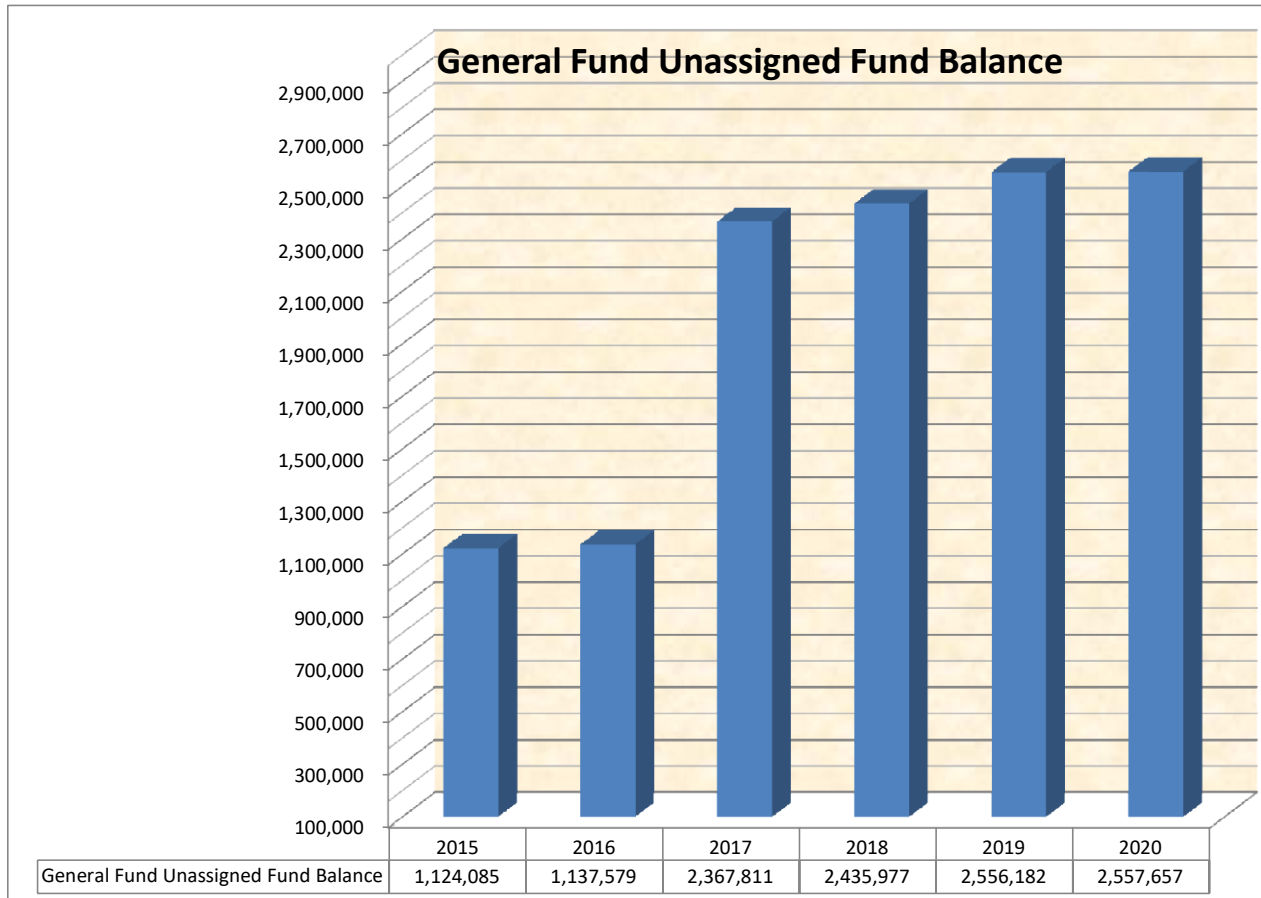
As noted earlier, Prospect uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**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 \$4,381,560, a decrease of \$55,562 in comparison with the prior year. About 77% of fund balance, \$3,391,927, constitutes *unrestricted fund balance* (assigned plus unassigned) which is available for spending at the government's discretion. The remainder of the fund balance is committed for future capital expenditures (\$516,435) or restricted for other purposes (\$473,198).

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 \$2,557,657. 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 \$32,209,277 and 30.09% of non-education expenditures of \$8,500,132.

The Town's total general fund balance increased by \$514,476 to a total of \$3 during the current fiscal year. \$250,000 of total fund balance has been assigned to balance the FY21 general fund budget.



## **General Fund Budgetary Highlights**

The original budget contemplated total revenue and transfers in of \$32,814,852 and \$32,981,517 of total expenditures and transfers out. It was anticipated that \$166,665 of general fund balance would be used to balance the budget. The significant differences in the original and final budget can be explained as follows:

- \$232,634 transferred to capital and non-recurring fund. An additional commitment of general fund balance was made to be used to ease the burden on the FY21 budget due to the anticipated increase for Region 16 education expenditures
- \$232,634 transferred to capital and non-recurring fund projects including the Community Center generator and fuel tanks, sidewalks and the Canfield Park tennis courts
- \$40 thousand increase in legal fees
- \$75 thousand decrease to medical benefits
- \$54 thousand decrease to public works overtime
- \$51 thousand decrease to resident trooper expense
- \$50 thousand decrease to ice and snow related expenses

Actual revenues compared to the original budget were favorable by \$313,108 excluding transfers in and other financing sources.

- Tax collections overall were \$152,243 greater than anticipated. Collections on the current grand list and automobile supplement were \$104,464 favorable at a collection rate of 98.9% of the original assessment. Unfavorable collection of previous years tax in the amount of \$12,692 was offset by \$60,471 favorable collection of interest and lien fees.
- Revenue exceeded budgeted amounts for building inspections by \$66,646 (+83.3%) and for property conveyance tax by \$65,414 (+72.7%).
- An anticipated STEAP grant in the amount of \$125,000 was not received during FY20.
- An unbudgeted refund of education funds was returned by Region 16 in the amount of \$177,807.

## **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 \$1,452,425 and after dispositions of \$996,239) was \$2,024,939 for governmental activities. After accounting for accumulated depreciation, capital assets increased by \$572,513, to \$21,908,380.

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

- We expended \$1,424,534 for road infrastructure which included regular road reconstruction, sidewalks and repair.

- We purchased a new public works heavy-duty dump truck in the amount of \$203,616.
- We purchased a new Ford Expedition for the police department in the amount of \$54,450.
- We purchased a generator for the Community Center in the amount of \$93,787.
- \$18,917 was expended toward replacing traditional lighting with energy-efficient LED.

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

	Total Primary Government	
	2020	2019
Land	\$ 1,571,754	\$ 1,571,754
Construction in progress	12,200	5,000
Buildings and Improvements	5,655,606	5,765,730
Infrastructure	11,892,129	11,312,205
Vehicles	2,090,387	2,110,517
Furnishings and Equipment	686,304	570,661
Totals	<u>\$21,908,380</u>	<u>\$21,335,867</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 \$2,898,000 of bond anticipation notes outstanding. The BAN issue refinanced \$1,998,000 of existing BAN and added \$900,000 for Road Safety 2019. 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 \$20,275,000 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 2020, Prospect's ADM percentage was calculated to be 61.78%, and the Town's share of the District net debt at the ADM rate amounts to \$12,525,895.

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, 2020, the maximum amount of borrowing permitted under the formula is \$187,538,421. Net direct borrowings of \$2,898,000 and the Town's net share of overlapping regional school district net debt of \$12,525,895 totals \$15,423,895 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 \$2,507,895 and is reflected as a long-term liability in the Statement of Net Position. The annual service cost for fiscal year 2020 was \$253,000 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, 2020, \$795,267 was recognized as a long-term liability in the government-wide Statement of Net Position and \$235,052 was included as the Town's proportionate share of pension expense in the Statement of Activities.

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

- Due to the Covid-19 pandemic, the unemployment rate for the Town of Prospect was 7.5% as of June 30, 2020, an increase from an adjusted rate of 3.4% twelve months ago. This compares favorably to the state's average unemployment rate of 10.2% and the national average rate of 11.1%.
- Inflationary trends in the region compare favorably to the national indices.
- Prospect's total budget for FY 2020-21 reflects a \$1,546,080 increase (+4.69%) from \$32,981,517 to \$34,527,597.
- The Town budget (excluding education) increased \$6,445 from the FY 2020 budget figure of \$9,094,565 to \$9,101,010, an increase of 0.07%.
- The total cost of education for Prospect at Regional School District No. 16 increased \$1,539,635, (+6.45%), from \$23,886,952 to \$25,426,587. The ADM rate for Prospect increased from 61.78% to 63.25%.
- The net cost of education for Prospect at Regional School District No. 16 increased \$1,411,032, (+7.37%), from \$19,153,432 to \$20,564,464.
- The Town tax levy for FY 2020-21 increased \$890,865 (+3.38%) from \$26,344,926 to \$27,235,791. The projected rate of tax collections remains at 98.5% of the grand list. The mill rate increased 2.42% from 30.95 to 31.70 mills.

Other significant municipal revenue and expenditure changes from the FY20 budget are as follows:

### **Revenues**

- ❖ \$90,903 decrease (-1.8%) for State Education Cost Sharing for Regional School District #16.
- ❖ \$175,000 decrease in sales and recycling income due to the sale of a fire truck in FY19.
- ❖ \$20,000 increase in property conveyance tax (+22.2%) and \$15,000 increase in building inspections (+18.8%).
- ❖ An amount of \$550,000 was budgeted for the anticipated refund from Region #16.

### **Expenditures**

- ❖ A 2.25% increase in salaries in accordance with negotiated union contracts.
- ❖ For FY21, the Community Center budget has been included in Town Hall Buildings. The combined budget increases \$46,588 (+8.0%).
- ❖ \$70,571 decrease in medical benefits (-12.3%).
- ❖ \$22,966 increase in Fire Protection (+5.1%).

- ❖ \$126,784 decrease in the Resident Trooper Program (-54.4%).
- ❖ \$13,000 decrease in street lighting (-22.4%) resulting from the installation of energy-efficient LED in FY20.
- ❖ Debt service will increase \$92,550 with the first principal and interest payment for Road Safety 2019 and \$38,169 with the first lease payment for the public works dump truck.
- ❖ A new budget line item has been created in FY21 for funding an OPEB trust. The initial contribution will be \$50,000.

All of these factors contributed to preparing Prospect's budget for the 2021 fiscal year.

At the close of the 2020 fiscal year, unassigned fund balance in the general fund was \$3,266,442 after the Town appropriated \$250,000 of fund balance for spending in the 2021 fiscal year budget.

### **Requests for Information**

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

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## STATEMENT OF NET POSITION

June 30, 2020

	Governmental Activities *
<b>Assets:</b>	
Cash and cash equivalents	\$ 3,935,765
Investments	696,965
Receivables, net	1,541,295
Capital assets:	
Capital assets, not being depreciated	1,583,954
Capital assets, being depreciated, net	20,324,426
<b>Total assets</b>	<b>\$ 28,082,405</b>
<b>Deferred outflows on resources:</b>	
Deferred pension expenses	\$ 372,354
<b>Total deferred outflows on resources</b>	<b>\$ 372,354</b>
<b>Liabilities:</b>	
Accounts payable and other current liabilities	\$ 854,316
Noncurrent liabilities:	
Due within one year	589,339
Due in more than one year	6,644,927
<b>Total liabilities</b>	<b>\$ 8,088,582</b>
<b>Net position:</b>	
Invested in capital assets, net of related debt	\$ 18,158,859
Restricted	1,193,420
Unrestricted	1,013,898
<b>Total net position</b>	<b>\$ 20,366,177</b>

\* After internal balances have been eliminated

*The notes to the financial statements are an integral part of this statement.*

TOWN OF PROSPECT, CONNECTICUT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

Functions/programs	Expenses	Indirect Expense Allocation
<b>Primary government:</b>		
<b>Governmental activities:</b>		
General government	\$ 2,942,195	(447,490)
Public safety	2,521,675	129,886
Public works	3,043,214	405,347
Culture and recreation	916,861	86,671
Health and human services	442,832	62,033
Education	23,709,145	-
Other	145,031	(145,031)
Interest on long-term debt	91,416	(91,416)
<b>Total governmental activities</b>	<b>\$ 33,812,369</b>	<b>-</b>

The notes to the financial statements are an integral part of this statement.

**EXHIBIT B**

Program Revenues			Net (Expenses) Revenue and Changes in Net Position Primary Government	
Subtotal	Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
2,494,705	402,042	-		(2,092,663)
2,651,561	412,325	1,015		(2,238,221)
3,448,561	65,429	117,377	198,172	(3,067,583)
1,003,532	122,813	556		(880,163)
504,865				(504,865)
23,709,145		4,933,881		(18,775,264)
-				-
-				-
33,812,369	1,002,609	5,052,829	198,172	(27,558,759)

**General revenues:**

Property taxes	\$ 26,993,097
Grants and contributions not restricted for specific programs	160,585
Unrestricted investment earnings	17,258
Other unrestricted income	<u>227,632</u>
<b>Total general revenues</b>	<b>\$ <u>27,398,572</u></b>
<b>Change in net position</b>	<b>\$ (160,187)</b>
<b>Net position, beginning of year</b>	<b><u>20,526,364</u></b>
<b>Net position, end of year</b>	<b>\$ <u><u>20,366,177</u></u></b>

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2020**

	General	Capital & Nonrecurring	Housing Rehabilitation	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 2,987,673	414,122	139,658	394,312	3,935,765
Investments	56,010			640,955	696,965
Receivables, net	771,411		720,222	60,864	1,552,497
Due from other funds	561,944	166,243		23,351	751,538
Prepaid expenses				711	711
<b>Total assets</b>	<b>\$ 4,377,038</b>	<b>580,365</b>	<b>859,880</b>	<b>1,120,193</b>	<b>6,937,476</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts and other payables	\$ 608,877	11,276		150,863	771,016
Due to other funds	189,135	488,167		74,792	752,094
<b>Total liabilities</b>	<b>\$ 798,012</b>	<b>499,443</b>	<b>-</b>	<b>225,655</b>	<b>1,523,110</b>
<b>Deferred inflows of resources:</b>					
Unavailable receipts	\$ 312,584		720,222		1,032,806
<b>Total deferred inflows of resources</b>	<b>\$ 312,584</b>	<b>-</b>	<b>720,222</b>	<b>-</b>	<b>1,032,806</b>
<b>Fund balances:</b>					
Nonspendable	\$			711	711
Restricted			139,658	333,540	473,198
Committed	250,000	138,961		125,689	514,650
Assigned	20,168			434,598	454,766
Unassigned	2,996,274	(58,039)			2,938,235
<b>Total fund balances</b>	<b>\$ 3,266,442</b>	<b>80,922</b>	<b>139,658</b>	<b>894,538</b>	<b>4,381,560</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,377,038</b>	<b>580,365</b>	<b>859,880</b>	<b>1,120,193</b>	

Amounts reported for governmental activities in the statement of net position (**Exhibit A**) are different because:

<b>Capital assets</b> used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	21,908,380
<b>Other long-term assets</b> are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,021,449
<b>Long-term liabilities</b> , including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(7,317,566)
<b>Pension costs</b> , including differences between expected and actual pension experiences, change in pension assumptions and net difference between projected and actual pension earnings.	372,354
Net position of governmental activities ( <b>Exhibit A</b> )	<u>\$ 20,366,177</u>

The notes to the financial statements are an integral part of this statement.

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)

## GOVERNMENTAL FUNDS

For the Year Ended June 30, 2020

	General	Capital Projects	Housing Rehabilitation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes and assessments	\$ 26,944,169				26,944,169
Intergovernmental	5,169,428			242,158	5,411,586
Charges for services	403,617			637,573	1,041,190
Investment income	9,430			7,828	17,258
Miscellaneous	230,509		98,730	3,561	332,800
<b>Total revenues</b>	<u>\$ 32,757,153</u>	<u>-</u>	<u>98,730</u>	<u>891,120</u>	<u>33,747,003</u>
<b>Expenditures:</b>					
Current:					
General government	\$ 2,640,302	15,658			2,655,960
Public safety	1,938,694			388,224	2,326,918
Public works	2,087,016	7,405		217,640	2,312,061
Public health	678,652				678,652
Culture and recreation	372,701			166,961	539,662
Education	23,709,145				23,709,145
Other	176,967			28,051	205,018
Capital outlay		1,419,349			1,419,349
Debt service	605,800	250,000			855,800
<b>Total expenditures</b>	<u>\$ 32,209,277</u>	<u>1,692,412</u>	<u>-</u>	<u>800,876</u>	<u>34,702,565</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>\$ 547,876</u>	<u>(1,692,412)</u>	<u>98,730</u>	<u>90,244</u>	<u>(955,562)</u>
<b>Other financing sources (uses):</b>					
Proceeds from debt obligations	\$ 199,234	900,000		2,015	1,101,249
Transfer from other funds	(232,634)	232,634		(201,249)	(201,249)
<b>Total other financing sources (uses)</b>	<u>\$ (33,400)</u>	<u>1,132,634</u>	<u>-</u>	<u>(199,234)</u>	<u>900,000</u>
<b>Net changes in fund balances</b>	<u>\$ 514,476</u>	<u>(559,778)</u>	<u>98,730</u>	<u>(108,990)</u>	<u>(55,562)</u>
<b>Fund balances (deficits) - beginning</b>	<u>2,751,966</u>	<u>640,700</u>	<u>40,928</u>	<u>1,003,528</u>	<u>4,437,122</u>
<b>Fund balances (deficits) - ended</b>	<u>\$ 3,266,442</u>	<u>80,922</u>	<u>139,658</u>	<u>894,538</u>	<u>4,381,560</u>

The notes to the financial statements are an integral part of this statement.



**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2020**

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Differences in amounts reported for government-wide activities in the Statement of Activities are due to:

Net change in fund balances - total governmental funds ( <b>Exhibit D</b> )	\$ (55,562)
Governmental funds report <b>capital outlays</b> as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as a depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	572,513
<b>Revenues</b> previously recognized in the statement of activities that provided current financial resources in the current year.	(49,802)
The issuance of <b>long-term debt</b> (e.g., bonds, leases) provide 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(502,340)
<b>Pension</b> expenses and credits as a result of changes in assumptions and expectation are recognized in the government-wide financial statements but are not included in the fund financial statements.	<u>(124,996)</u>
Change in net position of governmental activities ( <b>Exhibit B</b> )	\$ <u><u>(160,187)</u></u>

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNASSIGNED FUND BALANCE -  
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive/ (Negative)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 26,791,926	26,791,926	26,944,169	(152,243)
Intergovernmental	5,291,092	5,291,092	5,169,428	121,664
Charges for services	252,050	252,050	403,617	(151,567)
Investment income	12,000	12,000	9,430	2,570
Other revenues	274,784	274,784	230,509	44,275
<b>Total revenues</b>	<b>\$ 32,621,852</b>	<b>32,621,852</b>	<b>32,757,153</b>	<b>(135,301)</b>
<b>Expenditures:</b>				
Current:				
General government	\$ 2,837,032	2,865,171	2,640,302	224,869
Public safety	2,053,238	2,033,296	1,938,694	94,602
Public works	2,230,256	2,163,759	2,087,016	76,743
Health and welfare	757,237	750,044	678,652	71,392
Culture and recreation	404,037	404,159	372,701	31,458
Education	23,886,952	23,886,952	23,709,145	177,807
Other	206,405	216,208	176,967	39,241
Debt services	606,360	606,360	605,800	560
<b>Total expenditures</b>	<b>\$ 32,981,517</b>	<b>32,925,949</b>	<b>32,209,277</b>	<b>716,672</b>
<b>Revenues over (under) expenditures</b>	<b>\$ (359,665)</b>	<b>(304,097)</b>	<b>547,876</b>	<b>(851,973)</b>
<b>Other financing sources (uses):</b>				
Transfer from other funds	\$ 193,000	193,000	199,234	(6,234)
Proceeds from surplus	166,665	111,097	195,784	(84,687)
<b>Total other financing sources (uses)</b>	<b>\$ 359,665</b>	<b>304,097</b>	<b>395,018</b>	<b>(90,921)</b>
<b>Revenues over expenditures and other financing sources (uses)</b>	<b>\$ -</b>	<b>-</b>	<b>942,894</b>	<b>(942,894)</b>
<b>Less:</b>				
General fund surplus transferred to capital projects			(232,634)	
Assigned for special projects			(20,168)	
Committed for subsequent fiscal year			(250,000)	
Net change in unassigned fund balance			\$ 440,092	
Unassigned fund balance, July 1, 2019			2,556,182	
Unassigned fund balance, June 30, 2020			<u>\$ 2,996,274</u>	

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2020**

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	Employee Retirement Plan	Private Purpose Trust Funds	Agency Funds
<b>Assets:</b>			
Cash and cash equivalents	\$	51,457	7,846
Investments, at fair value	2,153,195		
Receivables	32,942		
<b>Total assets</b>	<b>\$ 2,186,137</b>	<b>51,457</b>	<b>7,846</b>
<b>Liabilities:</b>			
Payables	\$ -	-	-
<b>Total liabilities</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>
<b>Net position:</b>			
Held in trust for benefits and other purposes	<b>\$ 2,186,137</b>	<b>51,457</b>	<b>7,846</b>

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2020**

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	Employee Retirement Plans	Private Purpose Trust Funds
<b>Additions:</b>		
<b>Contributions:</b>		
Employer contributions	\$ 67,252	
Employee contributions	95,566	
Charitable contributions		45,150
<b>Total contributions</b>	<u>\$ 162,818</u>	<u>45,150</u>
<b>Investment earnings:</b>		
Net increase in fair value of investments	\$ 77,396	
<b>Total investment earnings</b>	<u>\$ 77,396</u>	<u>-</u>
<b>Total additions</b>	<u>\$ 240,214</u>	<u>45,150</u>
<b>Deductions:</b>		
Administrative	\$ 309,943	
Benefits	3,895	
Other expenses		36,671
<b>Total deductions</b>	<u>\$ 313,838</u>	<u>36,671</u>
<b>Change in net position</b>	<u>\$ (73,624)</u>	<u>8,479</u>
<b>Net position - beginning of year</b>	<u>2,259,761</u>	<u>42,978</u>
<b>Net position - end of year</b>	<u><u>\$ 2,186,137</u></u>	<u><u>51,457</u></u>

*The notes to the financial statements are an integral part of this statement.*

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Note 1 - Summary of Significant Accounting Policies

##### Reporting Entity

The Town of Prospect, Connecticut (the Town) was incorporated in 1827, under the provisions of the State of Connecticut's General Statutes, as amended. The Town is governed by Charter, last revised in November 2000, and operates under a Mayor/Town Council form of government. The Town provides services as authorized by its Charter including public safety (police and fire), highways and streets, sanitation health and human services, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements exclude certain agencies from its financial report for which it may exhibit some limited form of oversight responsibilities. These agencies and the reasons for exclusion are summarized below:

*Regional 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 Regional School District. The Town's control over finances is limited to approval of annual budget.

*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.

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting board for governmental accounting financial reporting principles. These principles require that the Town report government-wide and fund financial statements.

The following is a summary of the Town's more significant accounting principles.

#### **Government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. *Government activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately than *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment of, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary fund and fiduciary fund financial statements. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity, or internal balances, has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the business-type funds and the various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

#### **Fund financial statements**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the later are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability has occurred, as under accrual accounting. However, expenditures related to long-term liabilities, such as debt service payments and compensated absences, are recorded only when payment is due.

Property taxes are levied on all taxable assessed property on the grand list of October 1 prior to the beginning of the fiscal year. Real estate taxes are payable in two installments (July 1 and January 1). Personal property taxes are payable annually (July 1) and motor vehicle taxes are due in one single payment on July 1. Liens are filed on delinquent real estate taxes within one year. Revenues from property taxes are recognized when they become available. Available means due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if they are collected within 60 days of the end of the fiscal year.

Those revenues susceptible to accrual are property taxes, special assessments and interest revenue. Fines, permits and charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

Intergovernmental revenue grants and similar items are recognized as soon as all eligible requirements imposed by the provider have been met and are collected soon enough to pay liabilities of the current period. For this purpose, grants may be recognized and received after 60 days of the fiscal year end.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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The Town reports the following major governmental funds:

The **general fund** is the general operating fund of the Town's government. All unrestricted resources, except those required to be accounted for in other funds, are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt and capital improvement costs of the Town, which were not paid through a special fund.

The **capital and nonrecurring fund** is used to account for resources used for capital expenditures or for the acquisition or construction of capital facilities, improvements and equipment. Sources of revenue include current tax revenues and government grants.

The **housing and rehabilitation** accounts for a program to provide long-term loans to eligible recipients and was funded by the U.S. Department of Housing and Urban Development program.

Additionally, the Town reports the following fund type:

The **private purpose trust fund** is used to account for assets held by the Town in a trustee capacity or as an agent on behalf of others. An example includes the Morris Public Library, which maintains the assets received through contributions, fees and charges of the library.

#### Assets, Liabilities and Net Assets or Equity

##### **Cash and cash equivalents**

The Town considers cash on hand, deposits and short-term investments, with an original maturity of three months or less from the date of acquisition.

##### **Receivables and payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion of interfund loans) or "advances to/from other funds" (noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

All trade and property tax receivables, including those for Sewer Authority funds (W.P.C.A.), are shown net of an allowance for uncollectible accounts. Trade account receivables allowance for uncollectible accounts is estimated based on the inherent risk associated with the accounts.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2020

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#### Property taxes

Property taxes on real estate, motor vehicles and personal property are assessed on the Town's grand list as of October 1 of the previous year and billed on the following July 1 and January 1. The billings are considered due on those dates; however the actual due dates are 31 days after the tax bill date. On these days, (February 1 and August 1) the unpaid bill is considered delinquent at which time the applicable property is subject to lien and penalties, and interest is assessed. Property tax assessments are made at 70% of the assessed value for all taxable real estate and personal property located within the Town of Prospect on October 1.

#### Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the net assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives with a capitalization threshold of \$5,000:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	5-40
Land improvements	50
Infrastructure (including sewer system)	30-50
Machinery and equipment	5-20

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

#### Deferred outflows/inflows of resources

The statement of net position (Exhibit A) reports a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until a future period. The Town reports borrowing costs as well as a deferred charge on refunding as a result from the differences in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the related debt. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs, and the net difference between projected and actual pension investment earnings.



## **TOWN OF PROSPECT, CONNECTICUT**

### **NOTES TO THE FINANCIAL STATEMENTS, Continued**

**June 30, 2020**

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The statement of net position (Exhibit A) and the balance sheet for the governmental funds (Exhibit C) report a separate section for deferred inflows of resources. This separate financial element represents the addition of net position or fund balance that applies to future periods and will not be recognized as revenue until that time. The Town reports advance tax collections in the statement of net position and the balance sheet for the governmental funds. The Town reports a deferred inflow of resources related to pensions in the statement of net position.

A deferred inflow of resources related to pension results from differences between expected and actual experience. These amounts are deferred and included in pension expense in a systematic and rational manner. The government funds report unavailable revenue, which arises only under the modified accrual basis of accounting because it does not meet the measurable and available criteria for the recognition in the current period.

#### **Compensated absences**

Under the terms of its various union contracts, Town employees are granted vacation and sick time in varying amounts based on length of service. Certain employees may also carry over a limited number of unused vacation days to subsequent years based on the terms of an employment or union contract. In the event of termination, these employees are reimbursed for accumulated vacation. The Town recognizes a liability in the government-wide financial statements for the vested portion, as well as the unvested portion to the extent expected to be paid, as compensated absences.

#### **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**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the terms of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Fund equity and net position

In the government-wide financial statements, net position is classified in the following categories:

***Investment in capital assets, net of related debt*** - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

The ***unrestricted net position*** represents the net position of the Town which is not restricted for any project or other purpose.

In the fund financial statements, fund balances of governmental funds are classified into five separate categories. The five categories and their general meanings are as follows:

**Nonspendable** are those net assets that are not in expendable form or are legally or contractually required to be maintained.

**Restricted fund balances** are defined in the same manner as for the restricted government-wide net assets.

**Committed fund balances** are those balances that can only be used for a specific purpose as a result of constraints imposed by formal action of the government's highest level of decision-making authority. For the Town of Prospect, that was considered to be the Town Council.

**Assigned fund balances** are amounts that are contained by the government's intent to be used as a specific purpose.

**Unassigned fund balance** is defined as the residual classification for the general fund and includes those remaining balances that cannot be categorized in the above four categories.

#### Note 2 - Budgets and Budgetary Accounting

An annual budget is prepared and employed for management control for the general fund adopted on a basis consistent with general accepted accounting principles (modified basis).

The Town established its budget in accordance with provisions of the Connecticut General Statutes and the Town Charter. Transfers and supplemental appropriations were approved during the year in accordance with provisions of the Town Charter and are reported in the financial budget.

The Town Council is empowered to appropriate up to an amount equal to 2.5 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 Council. Total supplemental appropriations in any one fiscal year in excess of 2.5 percent require a Town meeting approval.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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Supplemental appropriations may be drawn from the unreserved surplus or any available un-appropriated and unencumbered general fund cash balance. In the absence of a balance in the unreserved surplus or of an available un-appropriated 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 percent (5%) 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 Council. In the absence of the Mayor, the Council may act alone.

#### Special Revenue Funds

The Town does not have legally adopted annual budgets for the Special Revenue Funds. Budgets for the various special revenue funds which are utilized to account for specific grant programs are established in accordance with the requirements of the grantor agencies. Such budgets carry over until completion of the grants and, therefore, may comprise more than one fiscal year.

#### Capital Projects Funds

Legal authorization for expenditures of the Capital Projects Funds is provided by the related bond ordinances and/or intergovernmental grant agreements or Connecticut State Statutes. Capital appropriations do not lapse until the purpose for which the appropriation was made has been accomplished or abandoned.

### **Note 3 - Reconciliation of Government-Wide and Fund Financial Statements**

#### Explanation of Certain Differences Between the Government Fund Balance Sheet and the Government-Wide Statement of Net Position

The details of the components included in Exhibit C are as follows:

**Capitalized assets** are expensed in the fund financial statements in the period the expense is incurred while the expense is incurred over the useful life of the related asset in the government-wide financial statements:

Land	\$	1,571,754
Construction in progress		12,200
Net capital assets being depreciated		<u>20,324,426</u>
Net adjustment to increase fund balance to arrive at net position of governmental activities	\$	<u><u>21,908,380</u></u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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**Long-term liabilities**, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The detail of this difference is as follows:

Debt	\$ (3,749,521)
Accrued interest	(83,300)
Net pension obligation	(3,388,745)
Compensated absences	<u>(96,000)</u>
Net adjustment to reduce fund balance to arrive at net position of governmental activities	\$ <u><u>(7,317,566)</u></u>

**Other long-term assets** are not available to pay for current period expenditures and, therefore, are deferred in the funds. This amount includes the following:

Delinquent property tax and interest	\$ 301,227
Long-term notes receivable	<u>720,222</u>
Net adjustment to increase fund balance to arrive at net position of governmental activities	\$ <u><u>1,021,449</u></u>

#### Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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 a depreciation expense." The details of this difference are as follows:

Acquisitions	\$ 2,024,938
Depreciation	<u>(1,452,425)</u>
Net adjustment to increase net changes in fund balances to arrive at changes in net position of governmental activities	\$ <u><u>572,513</u></u>

Revenues previously recognized in the statement of activities that provide current financial resources in the current year include the following:

Net change of delinquent taxes	\$ 48,928
Payments on long-term notes	<u>(98,730)</u>
Total previously recognized revenues	\$ <u><u>(49,802)</u></u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) 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 issuance costs, 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 this difference are as follows:

New borrowings	\$ (900,000)
Payments on borrowing	743,641
Net change in net pension obligation	(281,792)
Net change in compensated absences	(81,000)
Interest payable on long-term liabilities	<u>16,811</u>
Net adjustment to reduce net changes in fund balances to arrive at changes in net position of governmental activities	\$ <u>(502,340)</u>

#### Note 4 - Deposits and Investments

##### Deposits

As of June 30, 2020, total deposits of \$3,995,068 represent cash and cash equivalents of \$3,935,765 as reported on the statement of net position and \$59,303 reported on the statement of fiduciary net assets.

*Custodial credit risk on deposits* – Custodial credit risk is the possibility that in the event of a bank failure, the Town deposits may not be returned. The Town Charter does not specifically authorize or prohibit the types of investments or deposits that may be made. The treasurer is generally restricted to investing funds in accordance with the Connecticut General Statutes (Section 7-402). Deposits may be placed with any "qualifying public depository", as defined by state 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.

*Concentration of credit risk* – Concentration of credit risk attributed to the magnitude of a government's deposit in a single financial institution. 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.

The carrying amount of the Town's cash deposits with financial institutions was \$3,995,068 and the bank balance was \$4,234,355. Of the bank balances, \$571,153 was covered by Federal Depository Insurance and \$3,663,202 is unissued and uncollateralized. All of the deposits were maintained in institutions considered to be qualified public depositories and are protected under the provisions of Section 36a-33 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 ratios.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Investments

The Town's investments consist of the following at June 30, 2020:

	Governmental	Retirement Trust	Total
Certificates of deposit	\$ 510,642		510,642
U.S. government bonds	99,192		99,192
Fixed income annuity	85,091		85,091
Mutual funds:			
Bonds and fixed income		631,421	631,421
Equities	2,040	1,243,179	1,245,219
International		278,595	278,595
Total	\$ 696,965	2,153,195	2,850,160

The Connecticut General Statutes authorize the investment of funds in the obligations of the United States, or may be invested in any state to other tax exempt political sub division 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 certain funds, such as the municipal pension funds, do not specify permitted investments. Therefore, investments of such funds are generally controlled by laws applicable to fiduciaries and regulations applicable to those funds.

*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 market 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.

#### **Investments**

The Town is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

**Level 1:** Quoted market prices for identical assets or liabilities to which an entity has access to at the measurement date.

**Level 2:** Inputs and information other than quoted market indices included in Level 1 are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the assets or liabilities;
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2020

**Level 3:** Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

*Observable inputs* reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and *unobservable inputs* reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances

Investments are summarized as follows:

	Fair Value	Maturities (in years)			
		<1	1-5	6-10	>10
Fixed income	\$ 595,733	510,642	85,091		
U.S. Treasuries	99,192		99,192		
	\$ 694,925	510,642	184,283	-	-
Mutual funds	2,155,235				
Total	\$ 2,850,160				

### Note 5 - Receivables

#### Receivables

The receivables reported in the Statement of Net Position and Governmental Funds Balance Sheet consists of the following:

Current receivables:	
Property taxes	\$ 384,139
Interest and fees on delinquent taxes	75,993
Accounts	432,322
Other receivables:	
Loans	<u>720,222</u>
Gross receivables	\$ 1,612,676
Less: allowance	<u>(71,381)</u>
<b>Net total receivables</b>	<b>\$ <u>1,541,295</u></b>

#### Deferred payments and unavailable receipts

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the fiscal year, \$312,584 of delinquent taxes and interest, and \$720,222 of outstanding loans were unavailable to liquidate current liabilities.

# TOWN OF PROSPECT, CONNECTICUT

## NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

### Note 6 - Inter-fund Receivables, Payables and Transfers

#### Inter-fund Receivables and Payables

Inter-fund receivables and payables at June 30, 2020 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor funds	\$ 21,892
General fund	Capital and non-recurring	166,243
Nonmajor funds	General fund	66,543
Nonmajor funds	Nonmajor funds	9,249
Total		<u>\$ 263,927</u>

#### Inter-fund Transfers

The Town made the following transfers between funds during the fiscal year:

General fund to capital and non-recurring fund	\$ 232,634
Nonmajor funds to general fund	199,234
Nonmajor funds (W.P.C.A.) fund to nonmajor fund (W.P.C.A. capital)	2,015
	<u>\$ 433,883</u>

### Note 7 - Capital Assets

Capital assets activity for the year ended June 30, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,571,754			1,571,754
Construction in progress	5,000	7,200		12,200
Total capital assets, not being deprec.	<u>\$ 1,576,754</u>	<u>7,200</u>		<u>1,583,954</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 8,914,589	68,168		8,982,757
Infrastructure	24,530,929	1,487,623	440,419	25,578,133
Vehicles	5,549,736	258,065	555,820	5,251,981
Furnishing and equipment	2,423,845	203,882		2,627,727
Total capital assets being depreciated	<u>\$ 41,419,099</u>	<u>2,017,738</u>	<u>996,239</u>	<u>42,440,598</u>
Less: accumulated depreciation:				
Buildings and improvements	\$ 3,148,859	178,292		3,327,151
Infrastructure	13,218,724	907,699	440,419	13,686,004
Vehicles	3,439,219	278,195	555,820	3,161,594
Furnishing and equipment	1,853,184	88,239		1,941,423
Total accumulated depreciation	<u>\$ 21,659,986</u>	<u>1,452,425</u>	<u>996,239</u>	<u>22,116,172</u>
<b>Net capital assets, being depreciated</b>	<u>\$ 19,759,113</u>	<u>565,313</u>	<u>-</u>	<u>20,324,426</u>
<b>Total capital assets, governmental</b>	<u>\$ 21,335,867</u>	<u>572,513</u>	<u>-</u>	<u>21,908,380</u>



# TOWN OF PROSPECT, CONNECTICUT

## NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

Depreciation expense was charged to functions of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 59,327
Public safety	272,405
Public works	947,456
Recreation	115,106
Health and social services	58,131
<b>Total depreciation expense</b>	<b>\$ 1,452,425</b>

### Note 8 - Long-Term Liabilities

Long-term debt liabilities activity for the year ended June 30, 2020 was as follows:

	<b>Balance July 1, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2020</b>	<b>Due Within 1 year</b>
Short-term debt, expected to be refinanced:					
Band anticipation notes	\$ 2,403,000	900,000	405,000	2,898,000	450,000
Capital leases	1,190,162		338,641	851,521	139,339
Total long-term debt	\$ 3,593,162	900,000	743,641	3,749,521	589,339
Net pension liability	762,543	32,724		795,267	
Unfunded MERS pens.	89,515		3,932	85,583	
Net OPEB obligation	2,254,895	253,000		2,507,895	
Compensated absences	15,000	81,000		96,000	
Total long-term liabilities	\$ 6,715,115	1,266,724	747,573	7,234,266	589,339

### Short-Term, Debt Expected to be Refinanced – Bond Anticipation

The following bond anticipation notes are included in long-term obligations intends to refinance the notes until maturity.

<b>Project</b>	<b>Balance July 1, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2020</b>	<b>Due Within 1 year</b>
Road safety 2014	\$ 200,000		75,000	125,000	75,000
3 Center street purch	30,000		30,000	-	
Road safety 2015	375,000		75,000	300,000	75,000
Community school purch	223,000		75,000	148,000	75,000
Road safety 2017	675,000		75,000	600,000	75,000
Road safety 2018	900,000		75,000	825,000	75,000
Road safety 2019		900,000		900,000	75,000
Total	\$ 2,403,000	900,000	405,000	2,898,000	450,000

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### 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, 2020, the District had \$20,275,000 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 61.78% for the fiscal year ending June 30, 2020. The overlapping debt to the Town is calculated to be \$12,525,895.

#### 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 immediately preceding fiscal year, as defined in the Statute, or \$187,538,421. 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, 2020.

#### Capital Lease

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:

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, 3.40%, 6 years to August 2025		<u>207,986</u>
Total equipment	\$	1,439,274
Less: accumulated depreciation		<u>262,134</u>
Net book value	\$	<u><u>1,177,140</u></u>

The annual requirement to amortize the leases as of June 30, 2020 is as follows:

Year Ended June 30,	Present Value of Minimum Lease Payment	Interest	Total Minimum Lease Payments
2021	\$ 139,339	32,211	171,550
2022	140,567	30,983	171,550
2023	86,623	25,557	112,180
2024	90,324	21,856	112,180
2025	94,187	17,992	112,179
2026-2029	<u>300,481</u>	<u>33,762</u>	<u>334,243</u>
Total	\$ <u>851,521</u>	<u>162,361</u>	<u>1,013,882</u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Note 9 - Commitments and Contingencies

##### Risk Management

The Town is exposed to various risks of loss including torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; employee health; and natural disasters. The Town generally obtains commercial insurance for these risks. For all types of commercial coverage, settled claims have not exceeded coverage in any of the past three years.

The Town is a member of the Connecticut Interlock Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a. 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.

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 probabilities 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, will not materially adversely affect the financial statements for these contingencies.

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, 2020, It is the opinion of management that this amount will be recoverable through a combination of involved third parties and/or an insurance claim.

The Town received federal and state grants for specific purposes and is subject to review and audit by the grantor agency for compliance and disallowed expenses under the grant. Management believes that such disallowances, if any, will not be material to the financial position of the Town.

The spread of the COVID-19 virus has caused business disruption throughout the United States and in the State of Connecticut specifically through the State of Connecticut Executive Orders. While disruption is expected to be temporary, there is a considerable uncertainty concerning the duration and financial impact of this disruption. Although the Town does not expect this matter to negatively impact its financial condition, results of operation, or cash flow, the extent of the financial impact and duration cannot be reasonably estimated.

## **TOWN OF PROSPECT, CONNECTICUT**

### **NOTES TO THE FINANCIAL STATEMENTS, Continued** **June 30, 2020**

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#### **Note 10 - Employee Retirement 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, 2020). 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, 2020, the Town contributed \$67,252 on covered payroll of \$840,648.

The Town of Prospect also offers an IRS Section 457 Deferred Compensation Program to its employees. At June 30, 2020, net assets of the Town of Prospect Profit Sharing Plan and Trust totaled \$1,489,278 and net assets of the Deferred Compensation Program totaled \$696,860.

##### Connecticut Municipal Employees' Retirement System – Defined Benefit Plan

#### **Plan description**

The Town's full-time employees participate in Connecticut's Municipal Employees' Retirement System (CMERS), a cost-sharing multiple-employer Public Employee Retirement System (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide retirement, disability, and death benefits to the employees and beneficiaries of participating municipalities. Title 7, Chapter 113 of the General Statutes of Connecticut, which can be amended by legislative action, establishes PERS benefits, member contribution rates and other plan provisions.

CMERS is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106, by calling 860-702-3480, or by visiting the State's website [www.ct.gov](http://www.ct.gov).

#### **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 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, Continued June 30, 2020

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#### **Benefit provisions**

*General Employees:* Employees are eligible to retire at age 55 with 5 years of continuous service, or 15 years of active aggregate 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:* Members not covered by social security receive a benefit of 2% of average final compensation times years of service. Members covered by social security receive a benefit of 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.

*Early Retirement:* Employees are eligible after 5 years of active continuous service or 15 years of active aggregate service. The benefit is calculated based on 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. Benefits are calculated based on compensation and service to the date of the disability with a minimum benefit of 50% of compensation at the time of disability. Non-service related disability benefits are provided to employees with 10 years of service and being permanently or totally disabled from engaging in gainful employment in the service of the municipality. Disability benefits are calculated based on compensation and service to the date of the disability.

*Pre-Retirement Death Benefit:* The Plan also offers a lump-sum return of contributions with interest or if vested and married, the surviving spouse will receive a lifetime benefit.

#### **Contribution requirements**

##### Employer

The Town, as a participating municipality, 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 members.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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For the year ended June 30, 2020, the Town's required contribution to CMERS was \$70,841, calculated at 13.73% of \$515,958 covered payroll. The annual prior service amortization payment for thirty years is \$7,093 (effective July 1, 2006). A balance of \$85,583 is included in the Town's long-term debt as of June 30, 2020.

#### Employee

Plan members not covered by social security are required to contribute 5% of compensation. Employees covered by social security are 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.

#### **Pension liabilities (assets), pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions**

At June 30, 2020, the Town reported a liability for its proportionate share of the net pension liability in the government-wide statement of net position. The amount recognized by the Town for its proportionate share of the net pension liability was \$36,502,937 based on the Town's proportionate share of 4.736344% for service employees and 0.158554% for police.

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The changes in assumptions that affected the measurement of the total pension liability since the prior measurement date, were updating rates of inflation, real investment return mortality, withdrawal, disability, retirement and salary increase to more closely reflect actual and anticipated experience.

The Town recognized its proportionate share of the collective pension expense in the government-wide statement of activities in the amount of \$795,267 for the year ended June 30, 2020.

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to CMERS pension benefits as follows:

		<b>Deferred Outflows of Resources</b>
Net difference between projected and actual earnings on plan investments	\$	32,375
Changes of assumptions		210,041
Change in proportional share		44,173
Net difference between employer expected and actual experience		14,924
Payment subsequent to measurement date		70,841
	\$	<u>372,354</u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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Net deferred outflows and inflows of resources for pensions is amortized and recognized as an increase/decrease to the net pension expense/liability each year as follows:

<b>Year Ended June 30,</b>	
2020	\$ 110,225
2021	92,055
2022	103,728
2023	(4,495)
2024	-
Thereafter	-
	<u>\$ 301,513</u>

#### Actuarial assumptions

The total pension liability is based upon the June 30, 2019 actuarial valuation. The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2017. The key actuarial assumptions used in the valuation were as follows:

Inflation	2.5%
Salary increase	3.50-10.00%, including inflation
Long-term investment rate of Return	7.00%, net of pension plan investment expense, including inflation

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 and the RP-2014 Blue Collar Mortality Table adjusted to 2006 and projected to 2015 with Scale MP-2017 and projected to 2022 with Scale BB for Police and Fire. 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 (COLA) 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%, and the maximum is 6%.

#### Long-term rate of return

The long-term expected rate of return on pension plan investments was determined using 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. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

# TOWN OF PROSPECT, CONNECTICUT

## NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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 fund	5.0%	1.3%
Emerging market debt	5.0%	2.9%
High yield bonds	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	100.0%	

### Discount rate

The discount rate used to measure the total pension liability was 7.0%. 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 net pension liability to changes in the discount rate

The following presents the net pension liability of the Town calculated using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Proportionate share of the net pension liability	\$ 1,133,257	\$ 795,267	\$ 510,594



## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Other Post Employment Benefits

**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, 2020:

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

**Total OPEB Liability** - The Town's total OPEB liability was \$2,507,895 as of June 30, 2020 and was determined by a valuation as of June 30, 2020 with a measurement date of June 30, 2020.

**Schedule of Funding Progress** - There is no requirement for funding the Retiree Health Plan and the plan has not been funded. The Town is establishing a formal funding plan and a trust. An initial contribution in the amount of \$50,000 has been budgeted for the year ending June 30, 2021.

**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.

The net OPEB liability for the fiscal year ended June 30, 2020 is calculated as follows:

Service cost	\$	196,543
Interest on net OPEB obligations		<u>78,921</u>
Net change	\$	275,464
Contributions		<u>(22,464)</u>
Increase in net OPEB obligations	\$	253,000
Net OPEB liability – beginning of year		<u>2,254,895</u>
Net OPEB liability – end of year	\$	<u><u>2,507,895</u></u>

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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

#### Three-year trend information

Fiscal year ended	Annual OPEB Cost	Actual Contributions	Percentage if Annual OPEB Cost Contributed	Net OPEB Liability
6/30/2020	\$ 275,464	\$ 22,464	0%	\$ 2,507,895
6/30/2019	236,321	26,669	0%	2,225,895
6/30/2018	83,375	20,725	0%	2,045,243

The covered payroll (annual payroll of active employees covered by the plan) was \$1,166,528, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 215.0%.

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.

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 the 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.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued

June 30, 2020

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*Health insurance premiums* - 2020 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 2.25%.

The following changes of assumptions were effective as of July 1, 2019:

- The expected long-term payroll growth rate was increased from 2.00% to 2.25%.

#### 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 2.50%	Discount Rate 3.50%	1% Increase 4.50%
Total OPEB liability	\$	2,270,954	2,068,335	1,867,883

#### 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 or 1-percentage-point higher than the current healthcare cost trend rates:

		Healthcare trend -1%	Health Cost Trend Assumed	Healthcare trend +1%
Total OPEB liability	\$	1,821,817	2,068,355	2,360,630

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$253,000 on the government-wide statement of activities. At June 30, 2020, the Town reported no deferred outflows of resources or deferred inflows of resources related to OPEB.

## TOWN OF PROSPECT, CONNECTICUT

### NOTES TO THE FINANCIAL STATEMENTS, Continued June 30, 2020

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#### Note 11 - Fund Balances

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 below:

	<u>General Fund</u>	<u>Capital and Nonrecurring</u>	<u>Housing Rehab.</u>	<u>Nonmajor Funds</u>
Restricted:				
Grant requirements	\$		139,658	61,495
Committed:				
Subsequent fiscal year	250,000			
Capital projects		138,961		
Land acquis./open space				397,734
Total	\$ <u>250,000</u>	<u>138,961</u>	<u>139,658</u>	<u>459,229</u>

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**CONNECTICUT MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM**  
**Last Five Fiscal Years**

	2020	2019	2018	2017	2016
Town's portion of the net pension liability (asset)	0.215472%	0.199379%	0.166945%	0.166945%	0.207775%
Town's proportionate share of the net pension liability (asset)	\$ 795,267	762,543	275,962	327,675	284,466
Town's covered-employee payroll	\$ 515,958	553,919	482,729	476,273	429,940
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	154.13%	137.66%	57.17%	68.80%	66.16%
Plan fiduciary net position as a percentage of the total pension liability (asset)	72.69%	73.60%	91.68%	88.29%	92.72%

**Notes to Schedule**

Changes in benefit terms	None
Changes in assumptions	In 2013, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2012.
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Single equivalent amortization period	25 years
Asset valuation method	5-year smoothed market (20% write up)

*This schedule is intended to show information for ten years. Additional information will be added as it becomes available.*

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**CONNECTICUT MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM**  
**Last Five Fiscal Years**

	2020	2019	2018	2017	2016
Contractually required contribution	\$ 70,841	65,030	56,672	54,200	48,927
Contributions in relation to the contractually required contribution	70,841	65,030	56,672	54,200	48,927
Contribution deficiency (excess)	\$ -	-	-	-	-
Town's covered-employee payroll	\$ 515,958	553,919	482,729	476,273	429,940
Contributions as a percentage of covered employee payroll	13.73%	11.74%	11.74%	11.38%	11.38%

Notes to Schedule

The actuarially determined contributions in the schedule of employer contributions are calculated as of June 30 each biennium for the fiscal years ending two and three years after the valuation date.

Changes in benefit terms                      None

Changes in assumptions                      In 2013, rates of withdrawal, disability, retirement, mortality and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2012.

Actuarial cost method                      Entry age  
Amortization method                      Level dollar, closed  
Single equivalent amortization period                      25 years

*This schedule is intended to show information for ten years. Additional information will be added as it becomes available.*

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**OTHER POST EMPLOYMENT BENEFITS (OPEB)**  
**Last Three Fiscal Years**

	2020	2019	2018
<b>Total OPEB liability:</b>			
Service costs	\$ 196,543	164,737	80,995
Interest	78,921	71,584	2,380
Effect of economic / demographic gains or losses	-	-	-
Benefit payments, including refunds of member contributions	(22,464)	(26,669)	(20,725)
Net change in total OPEB liability	\$ 253,000	209,652	62,650
Total OPEB liability - beginning	2,254,895	2,045,243	1,982,593
Total OPEB liability - ended	\$ 2,507,895	2,254,895	2,045,243
<b>Plan fiduciary net position:</b>			
Contributions - employer	\$ 22,464	26,669	20,725
Contributions - member			
Net investment income (loss)			
Administrative expenses			
Benefit payments, including refunds of member contributions	(22,464)	(26,669)	(20,725)
Net change in plan fiduciary net position	\$ -	-	-
Plan fiduciary net position, beginning			
Plan fiduciary net position, ending	\$ -	-	-
Net OPEB liability - ended	\$ 2,507,895	2,254,895	2,045,243
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%
Covered payroll	\$ 1,166,528	1,096,915	1,069,551
Net OPEB liability as a percentage of covered payroll	\$ 215.0%	205.6%	191.2%

Notes To Schedule

Changes in benefit terms None  
Changes in assumptions None

*This schedule is intended to show information for ten years. Additional information will be added as it becomes available.*

**GENERAL FUND REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**For the Year Ended June 30, 2020**

	<b>Budgeted Amounts</b>		<b>Actual Amounts - Budgetary Basis</b>	<b>Variance With Final Budget Positive/ (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Property taxes:</b>				
Current year's levy	\$ 26,212,926	26,212,926	26,277,939	(65,013)
Prior year's levy	189,000	189,000	176,308	12,692
Interest and penalties	80,000	80,000	140,471	(60,471)
Supplement	310,000	310,000	349,451	(39,451)
<b>Total property taxes</b>	<b>\$ 26,791,926</b>	<b>26,791,926</b>	<b>26,944,169</b>	<b>(152,243)</b>
<b>Intergovernmental grants:</b>				
State grants for education	\$ 4,933,881	4,933,881	4,933,881	-
Other state grants	357,211	357,211	235,547	121,664
<b>Total intergovernmental</b>	<b>\$ 5,291,092</b>	<b>5,291,092</b>	<b>5,169,428</b>	<b>121,664</b>
<b>Licences, permits and fees:</b>				
Building inspection	\$ 80,000	80,000	146,646	(66,646)
Vendor and other permits			625	(625)
Raffles and bazaar	300	300	240	60
Pistol permits	2,500	2,500	3,780	(1,280)
Fingerprinting	750	750	2,758	(2,008)
Planning and zoning	6,000	6,000	10,550	(4,550)
Zoning Board of Appeals	1,000	1,000	250	750
Inland wetlands	1,500	1,500	2,374	(874)
Town Clerk fees	70,000	70,000	80,980	(10,980)
Property conveyance	90,000	90,000	155,414	(65,414)
<b>Total charges for services</b>	<b>\$ 252,050</b>	<b>252,050</b>	<b>403,617</b>	<b>(151,567)</b>
<b>Investment income</b>	<b>\$ 12,000</b>	<b>12,000</b>	<b>9,430</b>	<b>2,570</b>
<b>Miscellaneous</b>	<b>\$ 274,784</b>	<b>274,784</b>	<b>230,509</b>	<b>44,275</b>
<b>Other financial resources:</b>				
Transfer from other funds	\$ 193,000	193,000	199,234	(6,234)
General fund surplus	166,665	111,097	195,784	(84,687)
<b>Total revenue &amp; other financing resources</b>	<b>\$ 359,665</b>	<b>304,097</b>	<b>395,018</b>	<b>(90,921)</b>
<b>Total revenues &amp; other financing resources</b>	<b>\$ 32,981,517</b>	<b>32,925,949</b>	<b>33,152,171</b>	<b>(226,222)</b>



## TOWN OF PROSPECT, CONNECTICUT

## SCHEDULE 2

Page 1 of 2

GENERAL FUND EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES -  
BUDGETARY BASIS - BUDGET AND ACTUAL

For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts - Budgetary Basis	Variance With Final Budget Positive/ (Negative)
	Original	Final		
<b>General government:</b>				
Office of the Mayor	\$ 238,175	238,175	224,773	13,402
Probate Court	4,500	3,727	3,727	-
Zoning Board of Appeals	2,225	2,225	900	1,325
Elections and registrars	76,300	77,283	55,785	21,498
Auditor	18,500	21,300	19,780	1,520
Assessor	107,936	109,813	109,592	221
Board of Assessment Appeals	400	400	200	200
Tax Collector	116,657	116,726	97,168	19,558
Treasurer	10,000	10,000	10,000	-
Legal fees	100,000	140,068	139,183	885
Town Clerk	114,929	123,983	121,597	2,386
Planning and Zoning Commission	8,150	8,150	5,045	3,105
Economic development	150	150		150
Advertising and printing	22,850	22,850	20,470	2,380
Social security	238,714	238,714	234,085	4,629
Automatted processing of records	75,000	75,000	73,776	1,224
Building Department	75,061	75,866	75,418	448
Water Pollution Authority	160,504	160,504	152,598	7,906
Municipal organization fees	10,026	10,026	9,813	213
Town Council	15,999	17,499	16,900	599
Town buildings	477,145	497,845	475,601	22,244
Unemployment compensation tax	4,000	18,000	15,934	2,066
Benefits - Town employees	824,971	761,180	650,919	110,261
Postage	22,500	22,500	19,737	2,763
Anti-blight commission	1,550	1,550	765	785
Conservation commission	50	50		50
Inland wetlands	3,550	3,550	2,497	1,053
Land Use Inspector	100,890	101,737	100,416	1,321
Historic preservation	6,300	6,300	3,623	2,677
<b>Total general government</b>	<b>\$ 2,837,032</b>	<b>2,865,171</b>	<b>2,640,302</b>	<b>224,869</b>
<b>Public safety:</b>				
Fire protection	\$ 447,092	447,092	442,646	4,446
Fire Marshal	57,689	62,916	53,541	9,375
Police	1,126,564	1,080,610	1,022,332	58,278
Insurance	338,275	359,060	340,200	18,860
Emergency management	2,530	2,530	721	1,809
Household hazardous waste	7,509	7,509	5,675	1,834
911 services	73,579	73,579	73,579	-
<b>Total public safety</b>	<b>\$ 2,053,238</b>	<b>2,033,296</b>	<b>1,938,694</b>	<b>94,602</b>

(Continued)

**GENERAL FUND EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES -  
BUDGETARY BASIS - BUDGET AND ACTUAL  
For the Year Ended June 30, 2020**

	<b>Budgeted Amounts</b>		<b>Actual Amounts - Budgetary Basis</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Public works:</b>				
Solid waste	\$ 538,667	566,817	526,307	40,510
Town roads	179,417	192,692	190,018	2,674
Ice and snow	295,000	245,378	218,834	26,544
Street lighting	58,000	46,000	45,208	792
Town trucks	260,000	261,000	256,581	4,419
Public works labor	668,773	621,473	620,741	732
Road reconstruction	230,399	230,399	229,327	1,072
<b>Total public works</b>	<b>\$ 2,230,256</b>	<b>2,163,759</b>	<b>2,087,016</b>	<b>76,743</b>
<b>Culture and recreation:</b>				
Town parks	\$ 74,100	92,440	84,772	7,668
Library	326,124	326,124	299,157	26,967
Recreation Department	294,513	268,880	245,889	22,991
Holiday observances	19,900	20,000	18,100	1,900
Youth - summer activities	42,600	42,600	30,734	11,866
<b>Total culture and recreation</b>	<b>\$ 757,237</b>	<b>750,044</b>	<b>678,652</b>	<b>71,392</b>
<b>Health and welfare:</b>				
Health	\$ 100,998	100,998	95,998	5,000
Commission on aging	303,039	303,161	276,703	26,458
<b>Total health and welfare</b>	<b>\$ 404,037</b>	<b>404,159</b>	<b>372,701</b>	<b>31,458</b>
<b>Education:</b>				
Board of Education	\$ 23,886,952	23,886,952	23,709,145	177,807
<b>Total education</b>	<b>\$ 23,886,952</b>	<b>23,886,952</b>	<b>23,709,145</b>	<b>177,807</b>
<b>Other:</b>				
Region 1 animal control	\$ 17,505	17,505	16,499	1,006
Community center	105,900	149,703	119,912	29,791
Contingency	50,000	16,000	12,848	3,152
Capital expenditures	33,000	33,000	27,708	5,292
<b>Total other</b>	<b>\$ 206,405</b>	<b>216,208</b>	<b>176,967</b>	<b>39,241</b>
<b>Debt service:</b>				
Interest	\$ 60,874	60,874	60,314	560
Principal	405,000	405,000	405,000	-
Capital leases	133,393	133,393	133,393	-
MERS payment	7,093	7,093	7,093	-
<b>Total debt service</b>	<b>\$ 606,360</b>	<b>606,360</b>	<b>605,800</b>	<b>560</b>
<b>Total encumbrances and financial uses</b>	<b>\$ 32,981,517</b>	<b>32,925,949</b>	<b>32,209,277</b>	<b>716,672</b>

TOWN OF PROSPECT, CONNECTICUT

COMBINING BALANCE SHEET  
NONMAJOR FUNDS  
June 30, 2020

		Special Revenue Funds		
	Public Library Fund	Town Road Aid	Dog Fund	Police Special Duty
<b>Assets:</b>				
Cash and cash equivalents	\$ 71,096	175,282	6,071	25,020
Investments	270,506			2,040
Receivables, net	557			60,307
Prepaid expenses				
Due from other funds			3,679	
<b>Total assets</b>	<b>\$ 342,159</b>	<b>175,282</b>	<b>9,750</b>	<b>87,367</b>
<b>Liabilities:</b>				
Accounts payable	\$	113,787	2,901	17,216
Accrued expenses				1,008
Due to other funds				65,543
<b>Total liabilities</b>	<b>\$ -</b>	<b>113,787</b>	<b>2,901</b>	<b>83,767</b>
<b>Fund balance (deficit):</b>				
Nonspendable	\$			
Restricted	272,045	61,495		
Committed				
Assigned	70,114		6,849	3,600
<b>Total fund balance (deficit)</b>	<b>\$ 342,159</b>	<b>61,495</b>	<b>6,849</b>	<b>3,600</b>

**SCHEDULE 3**

Special Revenue Funds			Capital Projects				Total
Board of Recreation	Sewer Use Fund	Total Special Revenue	Land Acquisition Fund	Open Space	W.P.C.A. Capital Improvement	Total Capital Projects	
38,059	69,131	<b>384,659</b>			9,653	<b>9,653</b>	394,312
		<b>272,546</b>	12,524	355,885		<b>368,409</b>	640,955
		<b>60,864</b>				-	60,864
711		<b>711</b>				-	711
		<b>3,679</b>	17,657		2,015	<b>19,672</b>	23,351
<u>38,770</u>	<u>69,131</u>	<u><b>722,459</b></u>	<u>30,181</u>	<u>355,885</u>	<u>11,668</u>	<u><b>397,734</b></u>	<u>1,120,193</u>
14,509	1,442	<b>149,855</b>				-	149,855
		<b>1,008</b>				-	1,008
	9,249	<b>74,792</b>				-	74,792
<u>14,509</u>	<u>10,691</u>	<u><b>225,655</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>225,655</u>
711		<b>711</b>				-	711
		<b>333,540</b>				-	333,540
		-	30,181	355,885	11,668	<b>397,734</b>	397,734
<u>23,550</u>	<u>58,440</u>	<u><b>162,553</b></u>				<u>-</u>	<u>162,553</u>
<u>24,261</u>	<u>58,440</u>	<u><b>496,804</b></u>	<u>30,181</u>	<u>355,885</u>	<u>11,668</u>	<u><b>397,734</b></u>	<u>894,538</u>

TOWN OF PROSPECT, CONNECTICUT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICITS) - NONMAJOR FUNDS  
For the Year Ended June 30, 2020

	Special Revenue Funds			
	Public Library Fund	Town Road Aid	Dog Fund	Police Special Duty
<b>Revenues:</b>				
Intergovernmental	\$ 556	241,602		
Charges for services	6,770		4,729	402,012
Investment income	6,678			459
Other				3,419
<b>Total revenues</b>	<u>\$ 14,004</u>	<u>241,602</u>	<u>4,729</u>	<u>405,890</u>
<b>Expenditures:</b>				
Public safety	\$			388,224
Public works		160,877		
Culture and recreation	9,361			
Other			4,933	
<b>Total expenditures</b>	<u>\$ 9,361</u>	<u>160,877</u>	<u>4,933</u>	<u>388,224</u>
<b>Revenue over (under) expenditures</b>	<u>\$ 4,643</u>	<u>80,725</u>	<u>(204)</u>	<u>17,666</u>
<b>Other financial resources (uses):</b>				
Transfer in from other funds	\$			
Transfer out to other funds		(36,000)	(1,000)	(155,000)
<b>Total other financial resources (uses)</b>	<u>\$ -</u>	<u>(36,000)</u>	<u>(1,000)</u>	<u>(155,000)</u>
<b>Changes in fund balances</b>	<u>\$ 4,643</u>	<u>44,725</u>	<u>(1,204)</u>	<u>(137,334)</u>
<b>Fund balances - beginning</b>	<u>337,516</u>	<u>16,770</u>	<u>8,053</u>	<u>140,934</u>
<b>Fund balances - ended</b>	<u>\$ 342,159</u>	<u>61,495</u>	<u>6,849</u>	<u>3,600</u>

**SCHEDULE 4**

Special Revenue Funds			Capital Projects				Total
Board of Recreation	Sewer Use Fund	Total Special Revenue	Land Acquisition Fund	Open Space	W.P.C.A. Capital Improvement	Total Capital Projects	
		<b>242,158</b>				-	242,158
114,775	109,287	<b>637,573</b>				-	637,573
		<b>7,137</b>	37	654		<b>691</b>	7,828
	142	<b>3,561</b>				-	3,561
114,775	109,429	<b>890,429</b>	37	654	-	<b>691</b>	891,120
		<b>388,224</b>					388,224
	54,981	<b>215,858</b>			1,782	<b>1,782</b>	217,640
157,599		<b>166,960</b>				-	166,960
23,119		<b>28,052</b>				-	28,052
180,718	54,981	<b>799,094</b>	-	-	1,782	<b>1,782</b>	800,876
(65,943)	54,448	<b>91,335</b>	37	654	(1,782)	<b>(1,091)</b>	90,244
		-			2,015	<b>2,015</b>	2,015
	(9,249)	<b>(201,249)</b>				-	(201,249)
-	(9,249)	<b>(201,249)</b>	-	-	2,015	<b>2,015</b>	(199,234)
(65,943)	45,199	<b>(109,914)</b>	37	654	233	<b>924</b>	(108,990)
90,204	13,241	<b>606,718</b>	30,144	355,231	11,435	<b>396,810</b>	1,003,528
24,261	58,440	<b>496,804</b>	30,181	355,885	11,668	<b>397,734</b>	894,538

## TOWN OF PROSPECT, CONNECTICUT

## SCHEDULE 5

COMBINING STATEMENT OF FIDUCIARY NET POSITION  
EMPLOYEE RETIREMENT PLANS

June 30, 2020

	Profit Sharing Plan	Deferred Compensation	Total Trust Funds
<b>Assets:</b>			
Investments at fair value	\$ 1,456,335	696,860	2,153,195
Receivables	32,942		32,942
<b>Total assets</b>	<u>\$ 1,489,277</u>	<u>696,860</u>	<u>2,186,137</u>
<b>Liabilities:</b>			
Accrued expenses	\$		-
<b>Net position:</b>			
Held in trust for specific purposes	<u>\$ 1,489,277</u>	<u>696,860</u>	<u>2,186,137</u>

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**EMPLOYEE RETIREMENT PLANS**  
**For the Year Ended June 30, 2020**

---

	Profit Sharing Plan	Deferred Compensation	Total Trust Funds
<b>Additions:</b>			
Employer's contributions	\$ 67,252		67,252
Employees' contributions		95,567	95,567
<b>Total contributions</b>	<u>\$ 67,252</u>	<u>95,567</u>	<u>162,819</u>
<b>Investment earnings:</b>			
Net increase (decrease) in fair value	\$ 39,171	38,225	77,396
Interest and dividends			-
Less: investment expense			-
<b>Total investment earnings</b>	<u>\$ 39,171</u>	<u>38,225</u>	<u>77,396</u>
<b>Deductions:</b>			
Administrative	\$ 110	3,786	3,896
Benefits	123,600	186,343	309,943
<b>Total deductions</b>	<u>\$ 123,710</u>	<u>190,129</u>	<u>313,839</u>
<b>Change in net position</b>	\$ (17,287)	(56,337)	(73,624)
<b>Net position - beginning</b>	<u>1,506,564</u>	<u>753,197</u>	<u>2,259,761</u>
<b>Net position - ending</b>	<u>\$ 1,489,277</u>	<u>696,860</u>	<u>2,186,137</u>



TOWN OF PROSPECT, CONNECTICUT

COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUST FUNDS  
June 30, 2020

---

	Emergency Fuel Fund	Prospect Children Fund	Prospect Food Bank
<b>Assets:</b>			
Cash and cash equivalents	\$ 5,964	740	12,958
<b>Total assets</b>	<u>\$ 5,964</u>	<u>740</u>	<u>12,958</u>
<b>Net position:</b>			
Held deposits for others	\$ 5,964	740	12,958
<b>Total net position</b>	<u>\$ 5,964</u>	<u>740</u>	<u>12,958</u>

SCHEDULE 7

---

<u>Flag Account</u>	<u>Senior Center</u>	<u>Miscellaneous Fund</u>	<u>Total</u>
<u>9,801</u>	<u>1,893</u>	<u>20,101</u>	<u>51,457</u>
<u>9,801</u>	<u>1,893</u>	<u>20,101</u>	<u>51,457</u>
<u>9,801</u>	<u>1,893</u>	<u>20,101</u>	<u>51,457</u>
<u>9,801</u>	<u>1,893</u>	<u>20,101</u>	<u>51,457</u>

TOWN OF PROSPECT, CONNECTICUT

COMBINING STATEMENT OF CHANGES IN NET POSITION  
PRIVATE PURPOSE TRUST FUNDS  
June 30, 2020

---

	Emergency Fuel Fund	Prospect Children Fund	Prospect Food Bank
<b>Additions:</b>			
Contributions	\$ 5,014	400	20,917
<b>Total additions</b>	<u>\$ 5,014</u>	<u>400</u>	<u>20,917</u>
<b>Deductions:</b>			
Other	\$ 6,503	1,600	12,637
<b>Total deductions</b>	<u>\$ 6,503</u>	<u>1,600</u>	<u>12,637</u>
<b>Changes in net position</b>	\$ (1,489)	(1,200)	8,280
<b>Net position - beginning</b>	<u>7,453</u>	<u>1,940</u>	<u>4,678</u>
<b>Net position - ended</b>	<u>\$ 5,964</u>	<u>740</u>	<u>12,958</u>

**SCHEDULE 8**

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<u>Flag Account</u>	<u>Senior Center</u>	<u>Miscellaneous Fund</u>	<u>Total</u>
<u>3,394</u>	<u>12,925</u>	<u>2,500</u>	<u>45,150</u>
<u>3,394</u>	<u>12,925</u>	<u>2,500</u>	<u>45,150</u>
<u>2,774</u>	<u>11,032</u>	<u>2,125</u>	<u>36,671</u>
<u>2,774</u>	<u>11,032</u>	<u>2,125</u>	<u>36,671</u>
620	1,893	375	8,479
<u>9,181</u>	<u>-</u>	<u>19,726</u>	<u>42,978</u>
<u>9,801</u>	<u>1,893</u>	<u>20,101</u>	<u>51,457</u>

TOWN OF PROSPECT, CONNECTICUT

STATEMENT OF CHANGES IN FUND BALANCE - BY PROJECT  
CAPITAL AND NONRECURRING FUND

For the Fiscal Year Ended June 30, 2020

	Beginning Fund Balance	Current Year Capital Funding	Transfers
<b>Committed fund balance:</b>			
Community School repairs	\$ 29,628		
New truck	3,616		(3,616)
Sidewalk design	(114,439)	88,474	
Road safety	108,998		
Full-size truck	200,000		3,616
Street scape (Rte 69/Center Street)	18,700		
Fire Department gas tank	108		
Revaluation	54		
Town Hall digitizing maps	60,000		1,356
Telephone systems upgrade:	14,635		
Town Hall	266		(266)
Library	807		(807)
Police Station	18		(18)
Senior Center	265		(265)
PW backup generator	5,389		(4,900)
PVFD pierce velocity pumper	250,000		
Meeting place	10,000		
Cement fuel tank - Community Center		24,740	4,900
Community Center generator		93,787	
Confield Park tennis courts		25,633	
<b>Total committed fund balance</b>	<b>\$ 588,045</b>	<b>232,634</b>	<b>-</b>
<b>Assigned (unassigned) fund balance:</b>			
Assigned	\$ 52,654		
Unassigned			
<b>Total assigned (unassigned) fund balance</b>	<b>\$ 52,654</b>	<b>-</b>	<b>-</b>

SCHEDULE 9

Other Revenues	Total Available	Current Year Expenditures	Ended Fund Balance	Eliminating Deficit Balances GASB 54	Reported Fund Balance
	29,628	12,940	16,688		16,688
	-		-		-
	(25,965)	84,728	(110,693)	110,693	-
900,000	1,008,998	991,742	17,256		17,256
	203,616	203,616	-		-
	18,700	9,383	9,317		9,317
	108		108		108
	54	10	44		44
	61,356	10,368	50,988		50,988
	14,635	917	13,718		13,718
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	489		489		489
	250,000	250,000	-		-
	10,000	5,280	4,720		4,720
	29,640	29,640	-		-
	93,787	93,787	-		-
	25,633		25,633		25,633
900,000	1,720,679	1,692,411	28,268	110,693	138,961
	52,654		52,654		52,654
	-		-	(110,693)	(110,693)
-	52,654	-	52,654	(110,693)	(58,039)

**TOWN OF PROSPECT, CONNECTICUT**

**SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING**  
**For the Year Ended June 30, 2020**

<b>Grand List Year</b>	<b>Uncollected Balance &amp; New Levy July 1, 2019</b>	<b>Lawful Corrections</b>		<b>Transfers To (Recoveries From) Suspense</b>	<b>Balance to be Collected</b>
		<b>Increases</b>	<b>Decreases</b>		
Suspense	\$			5,614	5,614
2003					-
2004					-
2005					-
2006					-
2007					-
2008					-
2009					-
2010					-
2011					-
2012					-
2013	3,572	212			3,784
2014	5,062	213	(608)		4,667
2015	15,747	103	(699)	(130)	15,021
2016	50,826	86	(1,492)	(908)	48,512
2017	239,847	940	(8,447)	(2,361)	229,979
Total	\$ 315,054	1,554	(11,246)	2,215	307,577
2018	26,544,176	431,734	(105,054)	(2,783)	26,868,073
Total	\$ 26,859,230	433,288	(116,300)	(568)	27,175,650

Collections				Uncollected Balance June 30, 2020
Taxes	Interest	Lien Fees	Total	
5,614	5,779	26	11,419	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
			-	-
1,138	963	61	2,162	2,646
(36)	374	24	362	4,703
7,342	3,604	116	11,062	7,679
30,102	11,904	337	42,343	18,410
181,952	37,722	1,113	220,787	48,027
226,112	60,346	1,677	288,135	81,465
26,564,247	72,422	572	26,637,241	303,826
26,790,359	132,768	2,249	26,925,376	385,291



TOWN OF PROSPECT, CONNECTICUT

SCHEDULE OF DEBT LIMITATION  
For the Year Ended June 30, 2020

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	<u>General Purpose</u>
<b>Debt limitation:</b>	
2 1/4 times base	\$ 60,582,096
4 1/2 times base	
3 3/4 times base	
3 1/4 times base	
3 times base	
7 times base	
	<hr/>
<b>Total debt limitation</b>	<b>\$ <u>60,582,096</u></b>
<b>Indebtedness:</b>	
Bonds payable	\$
Bonds authorized and unissued	
	<hr/>
<b>Total indebtedness</b>	<b>\$ -</b>
<b>Less: School construction grants receivable</b>	<b><hr/> -</b>
<b>Total indebtedness of the Town</b>	<b>\$ <hr/> -</b>
<b>Debt limitation in excess of outstanding and authorized debt</b>	<b>\$ <u><u>60,582,096</u></u></b>

Total tax collections (including interest and lien fees)  
for the year ended June 30, 2020 \$ 26,925,376

Reimbursement for revenue loss on:  
Elderly Tax Relief - Freeze -

**Base** \$ 26,925,376

<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Bonding</u>	<u>Total Debt</u>
121,164,192	100,970,160	87,507,472	80,776,128	188,477,632
<u>121,164,192</u>	<u>100,970,160</u>	<u>87,507,472</u>	<u>80,776,128</u>	<u>188,477,632</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>121,164,192</u>	<u>100,970,160</u>	<u>87,507,472</u>	<u>80,776,128</u>	<u>188,477,632</u>

**TOWN OF PROSPECT, CONNECTICUT**

**STATE SINGLE AUDIT  
REPORTS**

**June 30, 2020**

**TOWN OF PROSPECT, CONNECTICUT**

**STATE SINGLE AUDIT  
REPORTS**

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**INDEPENDENT AUDITOR'S 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**

To The Town Council  
Town of Prospect, Connecticut  
Prospect, Connecticut 06712

We have audited, in accordance with the 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, the business-type 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, 2020, 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 29, 2021.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Prospect, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Prospect, Connecticut's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

## **CLERMONT & ASSOCIATES, LLC**

Prospect, Connecticut

A handwritten signature in black ink that reads "Clermont & Associates, LLC". The signature is written in a cursive, flowing style.

January 29, 2021

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

Independent Auditor's Report

To The Town Council  
Town of Prospect, Connecticut  
Prospect, Connecticut 06712

**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, 2020. The Town of Prospect, Connecticut's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**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, 2020.

## 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, the business-type 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, 2020, 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 29, 2021, which contained unmodified opinions on those financial statements. 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 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 taken as a whole.

### **CLERMONT & ASSOCIATES, LLC**

Prospect, Connecticut

A handwritten signature in cursive script that reads "Clermont & Associates, LLC".

January 29, 2021

**TOWN OF PROSPECT, CONNECTICUT**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**For The Year Ended June 30, 2020**

State Grantor/Pass-Through Grantor/Program Title	State Grant Program Core-CT Number	Expenditures	Passed Through to Subrecipient
<b>Office of Policy and Management:</b>			
Payment In Lieu of Taxes (PILOT) on State Owned Property	11000-OPM20600-17004	\$ 1,038	
Reimbursement of Property Taxes Disability Exemption	11000-OPM20600-17011	918	
Property Tax Relief for Veterans	11000-OPM20600-17024	12,102	
Municipal Purpose and Projects Grant	11000-OPM20600-43587	70,942	
Local Capital Improvements Programs	11000-OPM20600-40254	65,399	
<b>Total Office of Policy and Management</b>		<b>\$ 150,399</b>	<b>-</b>
<b>Connecticut State Library:</b>			
Connecticard Program	11000-CLS66051-17010	\$ 556	
<b>Total Connecticut State Library</b>		<b>\$ 556</b>	<b>-</b>
<b>Department of Transportation:</b>			
Town Road Aid Grant Municipal	13033-DOT57131-43459	\$ 120,801	
Town Road Aid Grant STO	12052-DOT57131-43455	120,801	
<b>Total Department of Transportation</b>		<b>\$ 241,602</b>	<b>-</b>
<b>Total Expenditures of State Financial Assistance Before Exempt Programs</b>		<b>\$ 392,557</b>	<b>-</b>
<b><u>Exempt Programs</u></b>			
<b>Office of Policy and Management:</b>			
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	\$ 1,085	
Municipal Stabilization	11000-OPM20600-17104	73,271	
<b>Department of Education:</b>			
Educational Cost Sharing	11000-SDE64370-17041	4,933,881	
<b>Total Exempt Programs</b>		<b>\$ 5,008,237</b>	<b>-</b>
<b>Total Expenditures of State Financial Assistance</b>		<b>\$ 5,400,794</b>	<b>-</b>

See Notes to Schedule of Expenditures of State Financial Assistance

## **TOWN OF PROSPECT, CONNECTICUT**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020. 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, public safety, and general government services.

#### **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 financial statements contained in the Town's annual audit report are prepared on the modified accrual basis. The following is a summary of such basis:

Revenues are recognized when earned and available. Certain grants are recognized based on grant award since they are considered entitlement grants; other grants, such as grants that are dependent upon expenditure factor for determining eligibility, recognize grant revenue to the extent of expenditures.

Expenditures are recorded when the related liability is incurred. Encumbrances are reflected as a reserve against fund balance and accordingly are not reflected as expenditures.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. 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**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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

***Financial Statements***

Type of auditor's report issued: **Unmodified**

Internal Control Over Financial Reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   x   no

***State Financial Assistance***

Internal Control Over Major Programs:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

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?

\_\_\_\_\_ yes   x   no

**TOWN OF PROSPECT, CONNECTICUT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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

<u>State Grantor and Program</u>	<u>State Core – CT Number</u>	<u>Expenditures</u>
<b>Department of Transportation:</b>		
Town Road Aid – STO	12052-DOT57131-43455	\$ 120,801
Town Road Aid – Municipal	13033-DOT57131-43459	120,801

Dollar threshold used to distinguish type A and type B programs: \$ 200,000

**II. FINANCIAL STATEMENT FINDINGS**

- We issued reports, dated January 29, 2021 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 no significant deficiencies or material weaknesses.

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

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