



TOWN OF PROSPECT, CONNECTICUT

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2013



**TOWN OF PROSPECT, CONNECTICUT
ANNUAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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Independent Auditor's Report

Mayor Robert Chatfield
Town Council
Town of Prospect
Prospect, Connecticut

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town'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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut, as of June 30, 2013, and the respective changes in financial position thereof 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 (pages 7 – 20) and budgetary comparison information (page 51) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Connecticut's basic financial statements. The combining and individual nonmajor fund financial statements, Report of the Tax Collector, and Statement of Debt Limitation are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State of Connecticut Single Audit Act

(C.G.S. Sections 4-230 to 4-236) and is also not a required part of the basic financial statements of the Town of Prospect, Connecticut.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 my opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 12, 2013, on my consideration of the Town of Prospect's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Prospect's internal control over financial reporting and compliance.

Michael J. Battista
Certified Public Accountant

Northford, Connecticut
December 12, 2013

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, capital projects, debt service, and permanent funds and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements with similar information presented for *governmental funds* in the long-term impact of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The Town of Prospect maintains four major governmental funds (general fund, library fund, land acquisition fund, and open space fund), seven non-major special revenue funds, and 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 other three major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. Prospect adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

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

We present separate fiduciary fund statements used to report assets held in a trustee or agency capacity for others and which cannot be used for our own programs. We must show a statement of fiduciary net 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)
 - Consists of MD&A and budgetary comparison schedules;
 - Includes a budgetary comparison schedule for the general fund to demonstrate whether resources were obtained and used in accordance with the legally adopted budget;
 - The Town of Prospect's progress in funding its obligation to provide pension benefits to its employees.

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

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

As management of the Town of Prospect, we offer readers of the Town's financial statements this narrative overview and analysis of our financial activities for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished elsewhere in this report.

Financial Highlights

- The assets of the Town of Prospect exceeded its liabilities at the close of the most recent year by \$16,966,114 (net position). Of this amount, \$1,252,050 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$397,462 primarily due to increased governmental fund balances.

- As of the close of the current fiscal year, the Town’s governmental funds reported combining ending fund balances of \$1,668,422, an increase of \$490,232 in comparison with the prior year. Of the total fund balance, \$1,434,233, or 86.0%, is available for spending at the government’s discretion (unrestricted fund balance).
- The unassigned fund balance for the general fund increased \$439,345 from \$317,987 to \$757,332. The June 30, 2013 balance is 2.7% of total general fund expenditures of \$28,080,535.
- Prospect’s total bonded debt decreased by \$315,000 (20.0%) to \$1,260,000 as we made scheduled principal payments on our outstanding bonded debt.

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 \$16,966,114 at the close of the most recent fiscal year.

By far the largest portion of the Town’s net position, \$15,479,875, or 91.2%, 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.

Table 1. Net Position

	Total Primary Government 2013	Total Primary Government 2012
Current and Other Assets.....	\$ 2,415,833	\$ 2,055,651
Capital Assets, net of depreciation	17,317,925	17,666,394
Total Assets.....	19,733,758	19,722,045
Long-Term Obligations Outstanding.....	1,893,112	2,154,302
Other Liabilities.....	874,532	999,091
Total Liabilities	2,767,644	3,153,393
Net Position:		
Net Investment in Capital Assets	15,479,875	15,485,395
Restricted.....	234,189	228,879
Unrestricted	1,252,050	854,378
Total Net Position	\$ 16,966,114	\$ 16,568,652

Restricted net position (\$234,189) may be used for capital expenditures of the library in accordance with the donor’s bequest.

Unrestricted net position (\$1,252,050) may be used to meet the government’s ongoing obligations to citizens and creditors.

The government's net position increased by \$397,462 during the current fiscal year. The Town brought in net general revenues of \$22,506,085, which exceeded its net operating expenditures of \$22,108,623. Gross revenues amounted to \$29,067,268. Gross expenses of \$28,669,806 were offset by \$493,964 in charges for services, \$5,615,077 in operating grants and contributions, and \$452,142 in capital grants. Of the net expenditures, \$15,369,257 was accounted for by Regional School District No. 16 assessments. Net public works expenditures of \$2,189,835, net general government outlays of \$1,699,100, net public safety of \$1,547,107, and net parks and recreation costs of \$674,329 accounted for almost all of the remaining balance. The Town's general revenues derived from \$21,780,687 in tax collections, \$272,775 of unrestricted grants and contributions, and \$452,623 in other general revenues and investment income.

Governmental activities. Governmental activities accounted for the entire net position increase of \$397,462. Key elements of this increase are as follows:

Table 2. Changes in Net Position

	Total Primary Government 2013	Total Primary Government 2012
Revenues:		
Program Revenues:		
Charges for Services.....	\$ 493,964	\$ 635,096
Operating Grants and Contributions.....	5,615,077	5,752,247
Capital Grants and Contributions	452,142	223,601
General Revenues:		
Property Taxes.....	21,780,687	21,068,007
Grants and Contributions not Restricted to Specific Purpose..	272,775	178,032
Investment Earnings.....	11,224	11,497
Other General Revenues.....	441,399	129,392
Total Revenues	\$ 29,067,268	\$ 27,997,872
Program Expenses:		
General Government	\$ 2,454,408	\$ 2,524,160
Public Safety	1,566,164	1,619,712
Public Works	2,473,120	2,795,702
Parks and Recreation	601,129	630,693
Health and Social Services	333,067	299,562
Education.....	20,746,911	20,218,427
Other Expenditures.....	402,228	227,449
Interest on Long-Term Debt.....	92,779	105,250
Total Governmental Activities.....	28,669,806	28,420,955
Increase (Decrease) in Net Position	\$ 397,462	\$ (423,083)

- Property taxes collected increased by \$712,680 (3.4%) over FY 2012. Actual collections of property tax, interest, and lien fees during FY 2013 exceeded the budgeted figure of \$21,698,443 by \$142,932.
- Charges for services decreased by 22.2% due to a \$136,992 reduction in police overtime revenue from FY 2012. Public safety expenditures decreased in FY 2013 as a result of less police overtime wages.
- Operating grants and contributions decreased by \$137,170 due to storm damage assistance of \$208,842 from FEMA in FY 2013 as compared to \$406,097 relief recognized in FY 2012.

Educational assistance from the State Department of Education increased \$58,453 from FY 2012.

- Capital grants increased \$228,541 from FY 2012 reflecting a \$200,000 Small Town Economic Assistance Programs (STEAP) grant from the Connecticut Department of Economic Development to construct a four bay town garage for the public works department.
- Grants not restricted to a specific purpose increased 53.2% due to Municipal Revenue Sharing received from the State Office of Policy and Management (OPM) in the amount of \$142,668 for FY 2013 as compared to \$42,225 received in FY 2012.
- Other general revenues and other program expenses increased in FY 2013 due to the assessment of sewer fees and related expenditures.
- Education expenditures increased \$528,484 (2.6%) from FY 2012. The Region 16 expenditure budget increased 2.2% from \$33,531,079 to \$34,262,966. There was no increase in the State Education Cost Sharing grant. Our share of the Region’s budget, based on the Average Daily Membership (ADM), increased from 60.298% to 60.552%. Accordingly, our net cost increased 3.5% from \$14,899,226 to \$15,427,710. There was no refund of prior year unspent Region 16 budgeted expenditures in FY 2013 or FY 2012.
- Public works and General Government expenditures were lower in FY 2013 as compared to FY 2012 due to the damage and clean up related to Hurricane Irene in August 2011 and Snow Storm Alfred in October 2011. Total recognized storm expense for FY 2012 was \$541,463.

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

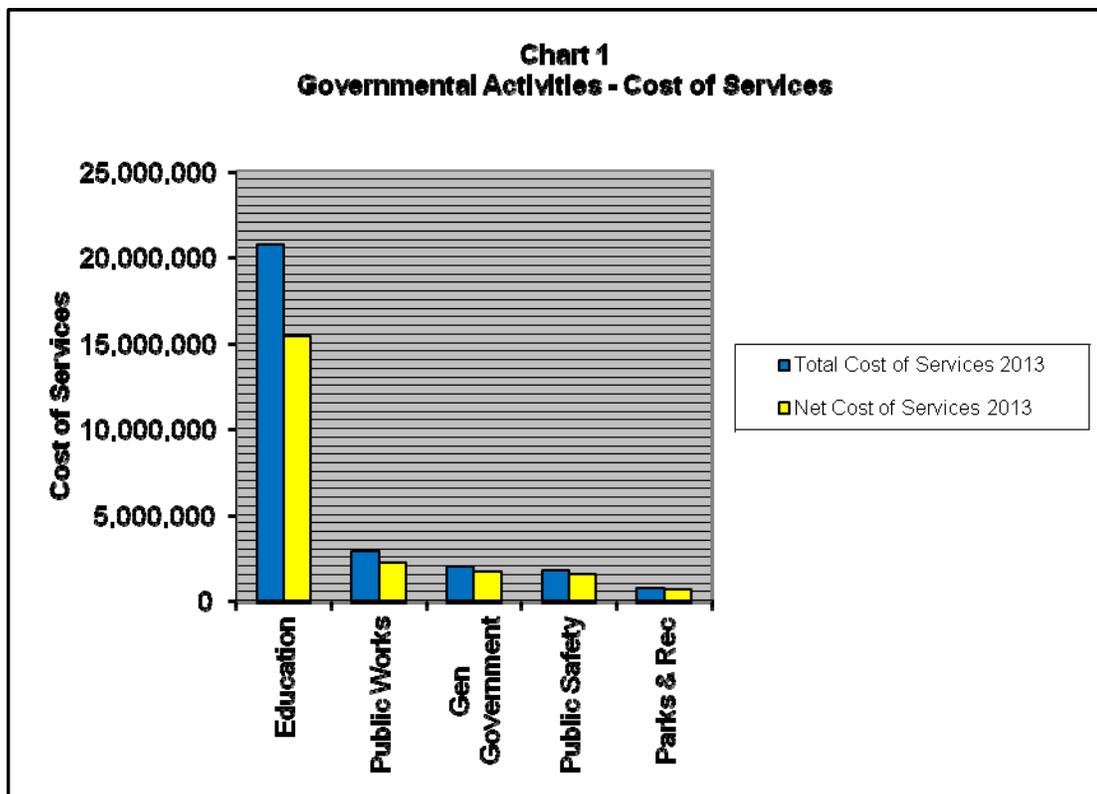
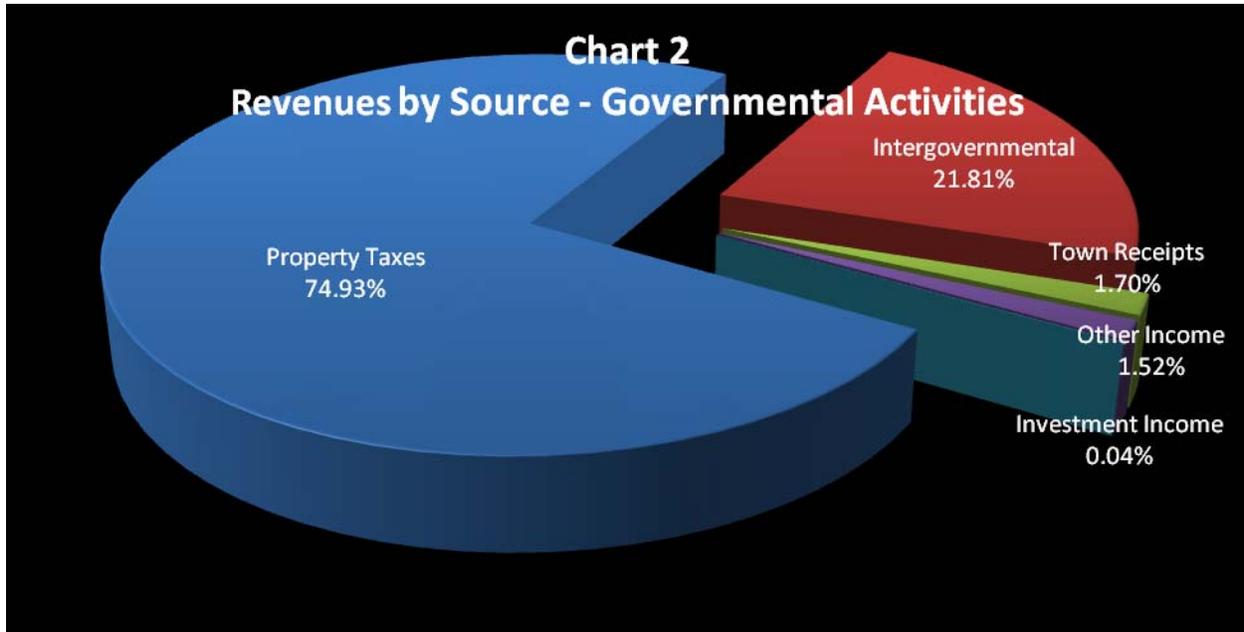


Chart 2 below reflects what percentage of our total revenue is contributed by each of five primary sources. As with most local governments in Connecticut, Prospect relies heavily on the property tax to fund education and other town services.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,668,422, an increase of \$490,232 in comparison with the prior year. Almost 86% of fund balance, or \$1,434,233, constitutes *unrestricted fund balance* (assigned plus unassigned) which is available for spending at the government's discretion. The remainder of the fund balance is restricted for future capital expenditures (\$234,189).

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 \$757,332, the same as total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare the unassigned general fund balance (and total fund balance) to total general fund expenditures. Unreserved (and total) fund balance represents 2.7% of total general fund expenditures of \$28,080,535.

The Town's general fund balance increased by \$439,345 to a total of \$757,332 during the current fiscal year. In essence, our revenues exceeded our expectations while expenditures were only moderately higher than anticipated.

General Fund Budgetary Highlights

The original budget contemplated total revenues of \$27,691,419 and total expenditures of \$27,727,419 with an operating deficit of \$36,000 being covered by net transfers. The final revenue budget reflected a \$101,066 increase in total revenues to \$27,792,485 and a \$474,374 increase in total expenditures to \$28,201,793 to produce an expected operating deficit of \$409,308; balanced by \$221,614 of net transfers and the use of \$187,694 general fund surplus. The significant differences in the original and final budget can be explained as follows:

- \$121 thousand additional net appropriation to general government primarily to cover \$83 thousand of town hall building operating expense;
- \$112 thousand increase in the public safety budget for police wages which was offset by transfers from the police overtime special revenue fund;
- \$136 thousand increase in the public works budget for storm damage which was reimbursed 75% from FEMA relief grants.
- \$98 thousand increase in capital expenditures for a road side mower for the Public Works department financed by a lease-purchase.

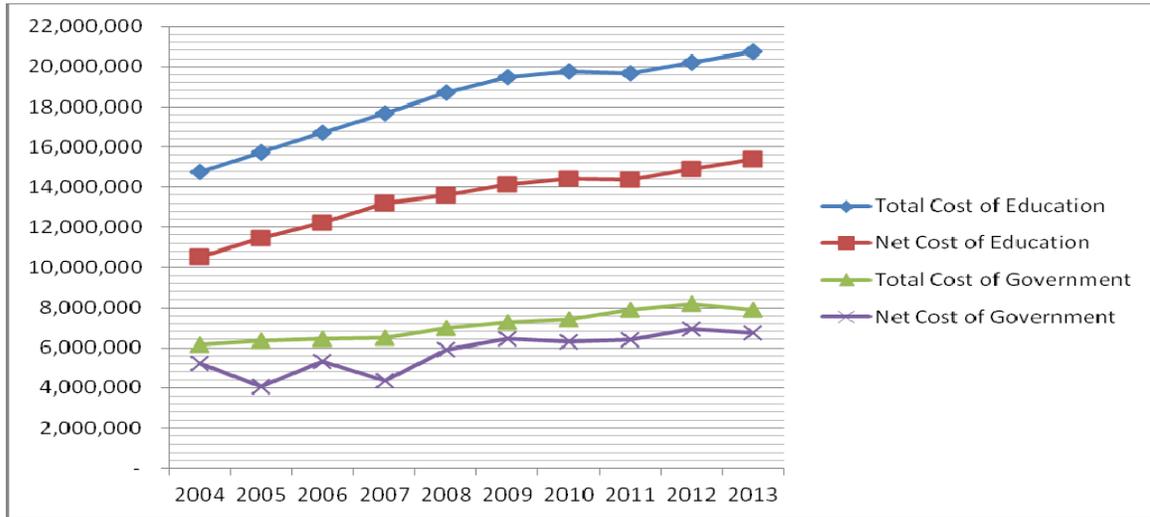
During the year, favorable revenue budgetary variances from the original budget totaling \$572,103 and unfavorable expenditure variances of \$353,116 produced a net operating excess of revenues over expenditures of \$218,987. The favorable operating budget variance combined with additional positive net transfers of \$220,358 resulted in an overall favorable budget variance of \$439,345.

Actual revenues compared to the original budget were favorable in all categories. Tax collections were \$142,932 greater than anticipated, with favorable variances of \$80,525 for the current grand list, \$51,137 for automobile supplement and \$33,743 for interest and lien fees. Collections on prior year taxes were \$22,473 less than budgeted.

Grant revenue exceeded expectations by \$297,573 due to the receipt of additional FEMA funds totaling \$208,842 and \$100,443 greater than anticipated State Municipal Revenue Sharing.

Other income included a favorable variance of \$79,273, primarily due to \$60,809 received from BRRFOC (Bristol Resource Recovery Facility Operating Committee) and Tunxis Recycling. This money represents the first of a number of fund balance distributions to the BRRFOC participating towns upon the closing of the facility and termination of the town's contract as of June 30, 2014. The town has signed a new 20-year agreement with COVANTA for its solid waste disposal.

**Chart 3
Cost of Education vs. Cost of Government**



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 increase in the Town’s investment in capital assets for the current fiscal year (before depreciation and dispositions of \$891,048) was \$695,057, or 2.0%, for governmental activities. After accounting for accumulated depreciation, capital assets decreased by \$348,469, or 2.0% to \$17,317,925.

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

- We expended \$342,353 for infrastructure which consisted primarily of road reconstruction and repair. We wrote off \$869,448 of infrastructure that was fully depreciated and 15 years old or more;
- We built a four bay Town Garage which was financed by a \$200,000 Small Town Economic Assistance Program (STEAP) from the State Department of Economic Development.





We lease-purchased a John Deere Road Side Mower for the Public Works Department for \$98,322.

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

	Total Primary Government	
	2013	2012
Land	\$ 1,343,153	\$ 1,343,153
Buildings and Improvements	5,255,766	5,184,007
Infrastructure	9,254,698	9,588,623
Vehicles	1,114,193	1,170,016
Furnishings and Equipment	350,115	380,595
Totals	\$17,317,925	\$17,666,394

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

Long-term debt. At the end of the current fiscal year, the Town of Prospect had \$1,260,000 of long-term bonded debt outstanding and no short-term debt. We reduced our long-term debt by \$315,000 (20.0%) through the payment of regularly scheduled principal amortizations. 100% of the Town's debt is general obligation backed by the full faith and credit of the government.

Prospect is a member town of Regional School District No. 16 along with the Town of Beacon Falls. As such, Region 16's \$22,704,000 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 2013, Prospect's ADM percentage was calculated to be 60.552%, and the Town's share of the District net debt of \$13,723,943 at the ADM rate amounts to \$8,310,122, which debt constitutes overlapping debt to the Town.

Table 4. Long-Term Term Debt

<u>Bonds</u>			<u>Original</u>	<u>Debt</u>	<u>Date of</u>
<u>Date</u>	<u>Purpose</u>	<u>Rate %</u>	<u>Issue</u>	<u>Outstanding</u>	<u>Fiscal</u>
					<u>Year</u>
					<u>Maturity</u>
07/15/98	Public Improvement	4.75-4.625	\$ 4,310,000	\$ 800,000	2017
08/15/06	Public Improvement	3.70-5.00	1,155,000	460,000	2017
			<u>\$ 5,465,000</u>	<u>\$ 1,260,000</u>	

The Town of Prospect’s bonded debt decreased by \$315,000 (20.0%) during the current fiscal year. See Note 5, Long-Term Debt, of this report for more information.

State statutes limit the amount of general obligation debt a governmental entity may issue to seven times its tax collections plus interest and lien fees. For June 30, 2013, the maximum amount of borrowing permitted under the formula would be \$153,189,141. Net direct borrowings of \$1,260,000 and the Town’s net share of overlapping regional school district net debt of \$8,310,122 totals \$9,570,122 and represent the Town of Prospect’s outstanding general obligation net debt. This debt is \$143,619,019 below the maximum debt limitation (see “Statement of Statutory Debt Limitation” on page 60 of this report).

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

The annual required contribution (ARC) for fiscal year 2013 was calculated to be \$77,759 and is reported as an expense net of current year contributions in the Statement of Activities. At June 30, 2013, the Town’s net OPEB obligation is \$359,348 and is reflected as a long-term liability in the Statement of Net Position.

Economic Factors and Next Year’s Budget

- The unemployment rate for the Town of Prospect was 7.0% as of June 30, 2013, which is a decrease from a rate of 7.8% twelve months ago. This compares favorably to the state’s average unemployment rate of 8.2% and the national average rate of 7.6% (not seasonally adjusted).
- Inflationary trends in the region compare favorably to the national indices.
- Prospect’s total budget for FY 2013-14 reflects a \$1,039,355 increase (3.75%) from \$27,729,419 to \$28,768,774.

- The Town budget (excluding education) increased \$299,881 from the FY 2013 budget figure of \$6,982,508 to \$7,282,389, an increase of 4.29%.
- The cost of education for Prospect at Regional School District No. 16 increased \$785,995 (5.11%) to \$16,155,252 at the ADM rate of 60.636% after expected grants, fees, and expected State of Connecticut Educational Cost Sharing (ECS) grants of \$5,385,360.
- The Town tax levy for FY 2013-14 increased \$1,028,855 (4.83%) from \$21,287,443 to \$22,316,298. The projected rate of tax collections remains at 98.5% of the grand list.
- Except as noted below, municipal revenue and expenditure changes from the FY 2013 budget were modest adjustments.

Significant municipal revenue and expenditure changes from the FY 13 budget are as follows:

Revenues

- ❖ \$1,028,855 increase in property taxes
- ❖ \$10,000 increase in Town Clerk fees;
- ❖ \$15,000 increase in police grants/overtime;
- ❖ \$59,500 *decrease* in municipal revenue sharing;
- ❖ \$56,300 elimination of manufacturing grant;
- ❖ \$66,721 creation of “Hold Harmless” (replaces manufacturing grant)

Expenditures

- ❖ \$739,474 increase for education;
- ❖ \$26,500 increase in town building maintenance and utilities;
- ❖ \$10,750 increase in unemployment compensation tax;
- ❖ \$80,000 increase in employee medical benefits;
- ❖ \$39,300 increase for fire protection;
- ❖ \$50,267 increase in police protection;
- ❖ \$12,500 increase in household hazardous waste;
- ❖ \$40,000 increase in ice and snow;
- ❖ \$20,888 *decrease* for lease payments due to payoff.

All of these factors contributed to preparing Prospect’s budget for the 2014 fiscal year.

At the close of the 2013 fiscal year, unreserved fund balance in the general fund stood at \$757,332. The Town has not appropriated any fund balance for spending in the 2014 fiscal year budget.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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

JUNE 30, 2013

	Primary Government
	Governmental Activities
ASSETS	
Cash and cash equivalents - Note 2	\$ 999,391
Investments - Note 2	697,220
Receivables, net of allowance for collection losses - Note 3	702,706
Bond issuance expenses, net of amortization	16,516
Capital Assets - Note 4:	
Not being depreciated	1,343,153
Being depreciated, net of accumulated depreciation	<u>15,974,772</u>
TOTAL ASSETS	<u>19,733,758</u>
LIABILITIES	
Accounts payable	358,731
Accrued interest payable	45,161
Deferred revenue	30,639
Noncurrent Liabilities - Note 5:	
Due within one year	440,001
Due in more than one year	<u>1,893,112</u>
TOTAL LIABILITIES	<u>2,767,644</u>
NET ASSETS	
Invested in capital assets, net of related debt	15,479,875
Restricted net assets - Expendable	234,189
Unrestricted	<u>1,252,050</u>
TOTAL NET ASSETS	<u>\$ 16,966,114</u>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

				Program Revenues			Net (Expense) Revenue and Changes in Net Assets
<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Subtotal</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Primary Government Governmental Activities</u>
Primary Government:							
Governmental Activities:							
General government	\$ 2,454,408	\$ (502,327)	\$ 1,952,081	\$ 251,781	\$ 1,200	\$ -	\$ (1,699,100)
Public safety	1,566,164	196,772	1,762,936	209,362	6,467	-	(1,547,107)
Public works	2,473,120	377,699	2,850,819	-	208,842	452,142	(2,189,835)
Parks and recreation	601,129	126,935	728,064	32,821	20,914	-	(674,329)
Health and human services	333,067	47,320	380,387	-	-	-	(380,387)
Education	20,746,911	-	20,746,911	-	5,377,654	-	(15,369,257)
Other expenditures	402,228	(153,620)	248,608	-	-	-	(248,608)
Interest on long-term debt	92,779	(92,779)	-	-	-	-	-
Total Governmental Activities	\$ 28,669,806	\$ -	\$ 28,669,806	\$ 493,964	\$ 5,615,077	\$ 452,142	(22,108,623)
General Revenues:							
Property taxes, interest and lien fees							21,780,687
Grants and contributions not restricted to specific programs							272,775
Investment income							11,224
Other income							441,399
Total General Revenues							22,506,085
Change in Net Assets							397,462
Net Assets - Beginning of the Year							16,568,652
Net Assets - End of the Year							\$ 16,966,114

See accompanying notes to the basic financial statements.

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

JUNE 30, 2013

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 746,148	\$ 54,089	\$ -	\$ -	\$ 199,154	\$ 999,391
Investments	50,940	234,189	73,858	338,233	-	697,220
Taxes receivable	454,864	-	-	-	-	454,864
Other receivables	238,121	-	-	-	35,020	273,141
Due from other funds	18,779	-	1,000	15,367	-	35,146
TOTAL ASSETS	<u>\$ 1,508,852</u>	<u>\$ 288,278</u>	<u>\$ 74,858</u>	<u>\$ 353,600</u>	<u>\$ 234,174</u>	<u>\$ 2,459,762</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 352,825	\$ -	\$ -	\$ -	\$ 5,906	\$ 358,731
Due to other funds	16,367	-	-	-	18,779	35,146
Deferred revenue - Note 8	382,328	-	-	-	15,135	397,463
TOTAL LIABILITIES	<u>751,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,820</u>	<u>791,340</u>
FUND BALANCES:						
Restricted	-	234,189	-	-	-	234,189
Assigned	-	54,089	74,858	353,600	194,354	676,901
Unassigned	757,332	-	-	-	-	757,332
TOTAL FUND BALANCES	<u>757,332</u>	<u>288,278</u>	<u>74,858</u>	<u>353,600</u>	<u>194,354</u>	<u>1,668,422</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,508,852</u>	<u>\$ 288,278</u>	<u>\$ 74,858</u>	<u>\$ 353,600</u>	<u>\$ 234,174</u>	<u>\$ 2,459,762</u>

See accompanying notes to the basic financial statements.

**TOWN OF PROSPECT, CONNECTICUT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES**

JUNE 30, 2013

Fund Balance - Total Governmental Funds **\$ 1,668,422**

Total Net Assets reported for governmental activities in the Statement of Net Assets is different because:

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

Governmental capital assets	\$ 34,932,758	
Less accumulated depreciation	<u>(17,614,833)</u>	17,317,925

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

Bond issue costs	78,938	
Less accumulated amortization	<u>(62,422)</u>	16,516

Interest payable used in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds. (45,161)

Deferred revenues reported in the governmental funds are susceptible to full accrual in the governmental activities. 357,029

Bond premium reported in governmental activities does not provide current resources and therefore is not reported in the governmental funds. (15,504)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (2,333,113)

Net Assets of Governmental Activities **\$ 16,966,114**

See accompanying notes to the basic financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes, interest & lien fees	\$ 21,841,375	\$ -	\$ -	\$ -	\$ -	\$ 21,841,375
Federal, state and other grants	5,999,797	2,026	-	-	338,171	6,339,994
Licenses, permits and fees	246,871	-	-	-	473,439	720,310
Investment income	5,504	5,311	99	228	82	11,224
Region 16 - overassessment refund	-	-	-	-	-	-
Other income	169,975	9,683	-	-	35,396	215,054
TOTAL REVENUES	<u>28,263,522</u>	<u>17,020</u>	<u>99</u>	<u>228</u>	<u>847,088</u>	<u>29,127,957</u>
EXPENDITURES						
Current:						
General government	2,406,770	-	-	-	-	2,406,770
Public safety	1,397,564	-	-	-	-	1,397,564
Public works	1,978,529	-	-	-	-	1,978,529
Parks and recreation	584,724	8,073	-	-	-	592,797
Health and social services	281,481	-	-	-	-	281,481
Education	20,746,911	-	-	-	-	20,746,911
Other expenditures	26,349	-	-	-	419,844	446,193
Capital Expenditures	113,322	1,255	-	-	226,340	340,917
Debt Service:						
Principal payments	444,959	-	-	-	-	444,959
Interest and other	99,926	-	-	-	-	99,926
TOTAL EXPENDITURES	<u>28,080,535</u>	<u>9,328</u>	<u>-</u>	<u>-</u>	<u>646,184</u>	<u>28,736,047</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>182,987</u>	<u>7,692</u>	<u>99</u>	<u>228</u>	<u>200,904</u>	<u>391,910</u>

See accompanying notes to the basic financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Public Library	Land Acquisition	Open Space	Other Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	182,987	7,692	99	228	200,904	391,910
OTHER FINANCING SOURCES (USES)						
Proceeds from lease-purchase financing	98,322	-	-	-	-	98,322
Transfers in	175,376	-	1,000	-	21,340	197,716
Transfers out	(17,340)	-	-	-	(180,376)	(197,716)
TOTAL OTHER FINANCING SOURCES (USES)	256,358	-	1,000	-	(159,036)	98,322
NET CHANGE IN FUND BALANCES	439,345	7,692	1,099	228	41,868	490,232
FUND BALANCE, BEGINNING	317,987	280,586	73,759	353,372	152,486	1,178,190
FUND BALANCE, ENDING	\$ 757,332	\$ 288,278	\$ 74,858	\$ 353,600	\$ 194,354	\$ 1,668,422

See accompanying notes to the basic financial statements.

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

JUNE 30, 2013

Net Change in Fund Balances - Total Governmental Funds		\$ 490,232
The change in Net Assets reported for governmental activities in the Statement of Activities is different because:		
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.		(33,053)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		2,429
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$ 695,057	
Less current year depreciation	<u>(1,043,526)</u>	(348,469)
Lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities.		(98,878)
Recognition of post-employment benefits as a long-term liability in the governmental activities is not payable from current financial resources and is therefore not reported in the governmental funds.		(66,905)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		444,959
In a previous year, the government issued bonds and incurred bond issue costs and realized bond premium. Amortization is not recognized in the governmental funds:		
Amortization of bond issue costs		(4,129)
Amortization of bond premium		3,876
Accrued interest payable used in the governmental activities is not payable from current financial resources and is therefore not reported in the governmental funds.		<u>7,400</u>
Change in Net Assets of Governmental Activities		<u>\$ 397,462</u>

See accompanying notes to the basic financial statements.

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

JUNE 30, 2013

	Employee Retirement Plans	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 38,741	\$ 39,554
Investments, at fair value	1,746,060	-	-
Receivables	<u>29,309</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>1,775,369</u>	<u>38,741</u>	<u>39,554</u>
 LIABILITIES			
Payables	<u>-</u>	<u>-</u>	<u>2,445</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>2,445</u>
 NET ASSETS			
Held in trust for retirement benefits and other purposes	<u>\$ 1,775,369</u>	<u>\$ 38,741</u>	<u>\$ 37,109</u>

See accompanying notes to the basic financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2013

	Employee Retirement Plan	Private Purpose Trusts
	<u> </u>	<u> </u>
ADDITIONS		
Employer contributions	\$ 57,973	\$ -
Plan member contributions	59,180	-
Charitable contributions	<u>-</u>	<u>24,279</u>
Total contributions	117,153	24,279
Investment earnings:		
Net increase (decrease) in fair value of investments	<u>167,696</u>	<u>-</u>
TOTAL ADDITIONS	<u>284,849</u>	<u>24,279</u>
DEDUCTIONS		
Benefits	105,880	-
Administrative fees	3,974	-
Charitable expenditures	<u>-</u>	<u>20,039</u>
TOTAL DEDUCTIONS	<u>109,854</u>	<u>20,039</u>
CHANGE IN NET ASSETS	174,995	4,240
NET ASSETS, BEGINNING OF THE YEAR	<u>1,600,374</u>	<u>34,501</u>
NET ASSETS, END OF THE YEAR	<u>\$ 1,775,369</u>	<u>\$ 38,741</u>

See accompanying notes to the basic financial statements.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. FINANCIAL REPORTING ENTITY

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

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

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

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

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

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Financial Statements:

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

Governmental funds are comprised of the following fund types:

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. ASSETS, LIABILITIES, AND EQUITY

Cash and Cash Equivalents – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Nonparticipating, interest-earning investment contracts are generally reported at cost plus accrued earnings.

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

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

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund Equity:

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

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

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

E. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

F. PROPERTY TAXES

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

G. COMPENSATED ABSENCES

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

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

A. CASH AND CASH EQUIVALENTS

Total deposits of \$1,077,686 represent cash and cash equivalents of \$999,391 as reported on the statement of net assets and \$78,295 as reported on the statement of fiduciary net assets.

B. DEPOSITS

At June 30, 2013, the carrying amount of the Town’s cash deposits with financial institutions was \$1,077,686 and the bank balance was \$1,240,917. Of the bank balance, \$818,572 was covered by Federal Depository Insurance and \$422,345 was uninsured and uncollateralized. All of the deposits were maintained in institutions considered to be “qualified public depositories” and are protected under the provisions of Chapter 656, sections 36a-333 of the Connecticut General Statutes, which provide for protection against loss in excess of any deposit insurance by providing individual bank collateral pledge requirements tiered to risk-based capital ratio.

C. INVESTMENTS

At June 30, 2013, investments reported at fair value include \$616,860 collateralized by investments held by the Town or by its agent in the Town’s name and \$1,826,420 collateralized by investments held by the financial institution’s trust department in the Town’s name. The Town’s investments consisted of the following at June 30, 2013:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Retirement Trusts</u>	<u>Total Investments</u>
Certificates of deposit	\$ 50,940	\$ 78,638	\$ 412,090	\$ -	\$ 541,668
U.S. Government Bonds	-	75,192	-	-	75,192
Fixed Income Annuity	-	80,360	-	-	80,360
Mutual Funds:					
Bond & Fixed Income	-	-	-	649,983	649,983
Equities	-	-	-	951,174	951,174
International	-	-	-	144,903	144,903
Total	\$ 50,940	\$ 234,190	\$ 412,090	\$ 1,746,060	\$ 2,443,280

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 3 – RECEIVABLES

Receivables reported in the Statement of Net Assets consist of the following at June 30, 2013:

Current Receivables:	
Taxes	\$ 454,864
Interest and fees on delinquent taxes	252,256
Other	<u>272,635</u>
Gross Receivables	979,755
Less: Allowance for uncollectibles	<u>(277,049)</u>
 Net Receivables	 <u>\$ 702,706</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2013</u>
<u>Governmental Activities:</u>				
Non-Depreciable Assets:				
Land	\$ 1,343,153	\$ -	\$ -	\$ 1,343,153
Depreciable Assets:				
Buildings and improvements	7,229,058	216,340	-	7,445,398
Infrastructure	21,045,436	342,353	869,448	20,518,341
Vehicles	3,533,883	108,323	21,600	3,620,606
Furnishings and equipment	<u>1,977,219</u>	<u>28,041</u>	<u>-</u>	<u>2,005,260</u>
Totals at Historical Cost	<u>35,128,749</u>	<u>695,057</u>	<u>891,048</u>	<u>34,932,758</u>
Less Accumulated Depreciation for:				
Buildings and improvements	2,045,051	144,581	-	2,189,632
Infrastructure	11,456,813	676,278	869,448	11,263,643
Vehicles	2,363,867	164,146	21,600	2,506,413
Furnishings and equipment	<u>1,596,624</u>	<u>58,521</u>	<u>-</u>	<u>1,655,145</u>
Total Accumulated Depreciation	<u>17,462,355</u>	<u>1,043,526</u>	<u>891,048</u>	<u>17,614,833</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 17,666,394</u>	<u>\$ (348,469)</u>	<u>\$ -</u>	<u>\$ 17,317,925</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 24,188
Public Safety	171,771
Public Works	696,738
Parks and Recreation	99,243
Health and Social Services	<u>51,586</u>

Total Depreciation Expense \$ 1,043,526

NOTE 5 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
GENERAL OBLIGATION BONDS:					
\$4,310,000 issue dated 07/15/98, interest from 4.25% to 6.00%, matures 07/15/16	\$ 1,000,000	\$ -	\$ 200,000	\$ 800,000	\$ 200,000
\$1,155,000 issue dated 08/15/06, interest from 3.70% to 5.00%, matures 08/15/16	<u>575,000</u>	<u>-</u>	<u>115,000</u>	<u>460,000</u>	<u>115,000</u>
TOTAL BOND INDEBTEDNESS	1,575,000	-	315,000	1,260,000	315,000
DIRECT FINANCING LEASES	607,264	98,322	126,524	579,062	111,151
UNFUNDED MERS PENSION LIABILITY – NOTE 6	112,583	-	2,880	109,703	2,996
NET OPEB OBLIGATION – NOTE 7	292,443	77,759	10,854	359,348	10,854
COMPENSATED ABSENCES – NOTE 1G	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
TOTAL GENERAL LONG-TERM DEBT	<u>\$ 2,612,290</u>	<u>\$ 176,081</u>	<u>\$ 455,258</u>	<u>\$ 2,333,113</u>	<u>\$ 440,001</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 – LONG-TERM DEBT (Continued)

For the fiscal year ended June 30, 2013, the Town expended \$ 555,184 for debt service consisting of principal payments totaling \$ 455,258 and interest payments totaling \$ 99,926.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 315,000	\$ 52,425	\$ 367,425
2015	315,000	37,475	352,475
2016	315,000	22,500	337,500
2017	<u>315,000</u>	<u>7,500</u>	<u>322,500</u>
Total	<u>\$ 1,260,000</u>	<u>\$ 119,900</u>	<u>\$ 1,379,900</u>

The Town is contingently liable for its share of Regional School District No. 16 general obligation school bonds. The District’s operating budget provides for annual retirement of principal and interest. The Town’s share is based on student enrollment attending the regional facility on October 1 of the preceding year and is calculated at 60.552% for the fiscal year ending June 30, 2013. The State of Connecticut reimburses the District for principal and interest on its long-term debt at about 72% for bonds authorized prior to 1996. At June 30, 2013, Region 16’s net debt is \$13,723,943 and based on the average daily membership (ADM), the overlapping debt to the Town is calculated to be \$8,310,122.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,924,000	\$ 802,242	\$ 3,726,242
2015	2,780,000	689,275	3,469,275
2016	2,725,000	579,475	3,304,475
2017	2,290,000	466,175	2,756,175
2018	2,275,000	377,713	2,652,713
2019-2023	5,655,000	838,762	6,493,762
2024-2028	2,055,000	354,650	2,409,650
2029-2033	<u>2,000,000</u>	<u>130,300</u>	<u>2,130,300</u>
Total	<u>\$ 22,704,000</u>	<u>\$ 4,238,592</u>	<u>\$ 26,942,592</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 – LONG-TERM DEBT (Continued)

The Town has entered into lease-purchase agreements for the acquisition of (1) a front-end loader in the amount of \$147,351 (\$105,351 after a down payment of \$42,000) with an imputed interest rate of 5.12%; the lease will be amortized by annual payments of \$20,888 extending to fiscal year 2013, (2) a dump truck totaling \$242,510 (\$212,510 after a down payment of \$30,000) with an imputed interest rate of 5.34%; the lease will be amortized by annual payments of \$36,879 extending to fiscal year 2017, (3) a fire pumper truck in the amount of \$537,840 with an imputed interest rate of 3.50%; the lease will be amortized by annual payments of \$69,989 extending to fiscal year 2019 and (4) a road side mower in the amount of \$98,322 with an imputed interest rate of 4.55%; amortized by annual payments of \$27,500 extending to fiscal year 2016.

The annual requirement to amortize the leases as of June 30, 2013 is as follows:

Fiscal Year Ending <u>June 30</u>	Present Value of Minimum <u>Lease Payments</u>	<u>Interest</u>	Total Minimum <u>Lease Payments</u>
2014	\$ 111,151	\$ 23,217	\$ 134,368
2015	115,821	18,547	134,368
2016	120,696	13,673	134,369
2017	98,283	8,585	106,868
2018	65,437	4,552	69,989
2019	<u>67,674</u>	<u>2,314</u>	<u>69,988</u>
Total	<u>\$ 579,062</u>	<u>\$ 70,888</u>	<u>\$ 649,950</u>

NOTE 6 – RETIREMENT PLANS

The Town of Prospect maintains a defined contribution money purchase pension plan for all full time employees of the Town (excluding union employees, who are covered separately as discussed below), including elected officials. Contributions to the Plan are made annually at the discretion of the retirement board (8% of eligible wages for the year ended June 30, 2013). 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.

Public Works employees, covered by union contract, participate in the Municipal Employees' Retirement System (MERS), a cost sharing multiple employer public employee retirement system established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. Each covered municipality

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 6 – RETIREMENT PLANS (Continued)

is required by State statute to pay an actuarially determined percentage of covered payroll (11.79% of eligible wages for the year ended June 30, 2013) to provide for benefits based on current service. The statute also requires each municipality to pay an annual amount for benefits based on service prior to the unit's date of participation. This amount is a level dollar amortization (including interest and principal) over varying time periods depending upon the unit's date of participation and other factors. Effective July 1, 2006, the Town of Prospect's annual accrued liability payment is \$ 7,384 for thirty years and a balance of \$109,703 is included in the Town's long-term debt as of June 30, 2013.

Actuarial accrued liability, value of assets and unfunded actuarial accrued liability of the Connecticut Municipal Employees' Retirement System as of July 1, 2012 follows:

Total Actuarial Accrued Liability	\$ 2,150,812,895
Actuarial Value of Assets	<u>1,828,762,443</u>
 Unfunded Actuarial Accrued Liability	 \$ <u>322,050,452</u>

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

In lieu of a full valuation, updated asset information was provided and plan liabilities were rolled forward to determine the funding requirements and status of the system. The unfunded actuarial accrued liability as of July 1, 2012 was approximately \$322.1 million as compared to \$231.9 million as of July 1, 2011. The funded percentage of the System, calculated as the valuation assets divided by the accrued liability, is 85.03% as of July 1, 2012, as compared to 88.32% as of July 1, 2011.

The following disclosures for the Town are for the year ended June 30, 2013:

	<u>Total Payroll</u>	<u>"Covered Payroll"</u>	<u>Town Contribution</u>
Town non-union employees	\$ 2,024,487	\$ 724,665	\$ 57,973
Town union employees	<u>438,551</u>	<u>438,551</u>	<u>51,705</u>
Total	<u>\$ 2,463,038</u>	<u>\$ 1,163,216</u>	<u>\$ 109,678</u>

The Town of Prospect also offers an IRS Section 457 Deferred Compensation Program to its employees. At June 30, 2013, net assets of the Town of Prospect Profit Sharing Plan and Trust totaled \$969,292 and net assets of the Deferred Compensation Program totaled \$806,077.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

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

Annual required contribution	\$ 77,759
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	77,759
Contributions made	10,854
Increase in net OPEB obligation	66,905
Net OPEB obligation – beginning of year	292,443
 Net OPEB obligation – end of year	 \$ 359,348

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution Made</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/13	\$ 77,759	\$ 10,854	14.0%	\$ 359,348
06/30/12	\$ 91,007	\$ 23,345	25.7%	\$ 292,443
06/30/11	\$ 74,927	\$ 0	0.0%	\$ 224,781

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

Funded Status and Funding Progress – As of June 30, 2013, the actuarial accrued liability for benefits was \$618,172. There is no requirement for funding the Retiree Health Plan and the plan has not been funded. The Town has not yet established a formal funding plan or a trust at this time. The covered payroll (annual payroll of active employees covered by the plan) was \$624,506, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 99.0 percent.

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

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

The following simplifying assumptions were made:

Retirement age for active employees – Active plan members were assumed to retire at age 64, or at the first subsequent year in which the member would qualify for benefits.

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

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

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

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

Health insurance premiums – 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

Based on the historical and expected returns of the town’s short-term investment portfolio, a discount rate of 2.0% was used. In addition, a simplified version of the projected unit credit actuarial cost method was used with the present value of future normal costs amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was twenty-six years.

NOTE 8 – DEFERRED REVENUE

Deferred revenue, as presented in the governmental funds balance sheet at June 30, 2013, is comprised of the following elements:

General Fund:	
Property taxes:	
Delinquent	\$ 382,328
Collected in advance	-
Special Revenue -	
Youth Services – Summer Programs	<u>15,135</u>
 Total	 <u>\$ 397,463</u>

NOTE 9 – INTERFUND ACCOUNTS

Balances due to/from other funds, as presented in the governmental funds balance sheet at June 30, 2013, consist of the following:

	<u>Due from</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>
General Fund:		
Special Revenue Funds:		
Police Overtime	\$ 18,779	\$ -
Capital Projects Funds:		
Land Acquisition	-	1,000
Open Space	-	15,367
Special Revenue Funds	-	18,779
Capital Projects Funds	<u>16,367</u>	<u>-</u>
Total	<u>\$ 35,146</u>	<u>\$ 35,146</u>

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 10 – TRANSFERS

Transfers, as presented in the other financing sources and uses of the governmental funds, at June 30, 2013, consist of the following:

Transfers authorized by adopted budget:

From town aid roads special revenue to the general fund	\$ 36,000
From the Dog Fund special revenue to the general fund	2,500
From the general fund to the Land Acquisition capital projects fund	1,000

Other transfers:

From the Police Overtime special revenue fund to the general fund to reimburse for wages and benefits paid	133,491
From the Sewer Use Fees special revenue fund to the general fund	3,385
From the Sewer Use Fees special revenue fund to the WPCA Capital Improvement capital projects fund	5,000
From the general fund to the Town Garage STEAP Grant capital projects fund	<u>16,340</u>

Total Transfers	\$ <u>197,716</u>
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NOTE 11 – RISK MANAGEMENT

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

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

TOWN OF PROSPECT, CONNECTICUT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 12 – CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		with Original <u>Budget</u>
REVENUE				
Property taxes, interest and lien fees	\$ 21,698,443	\$ 21,698,443	\$ 21,841,375	\$ 142,932
Federal, state and other grants	5,702,224	5,803,290	5,999,797	297,573
Licenses, permits and fees	198,050	198,050	246,871	48,821
Investment income	2,000	2,000	5,504	3,504
Region 16 overassessment	-	-	-	-
Other income	<u>90,702</u>	<u>90,702</u>	<u>169,975</u>	<u>79,273</u>
TOTAL REVENUE	<u>27,691,419</u>	<u>27,792,485</u>	<u>28,263,522</u>	<u>572,103</u>
EXPENDITURES				
Current:				
General government	2,315,456	2,437,163	2,406,770	(91,314)
Public safety	1,294,402	1,406,397	1,397,564	(103,162)
Public works	1,884,877	2,021,289	1,978,529	(93,652)
Parks and recreation	611,512	611,512	584,724	26,788
Health and human services	288,510	288,510	281,481	7,029
Education	20,746,911	20,746,911	20,746,911	-
Other expenditures	32,165	30,165	26,349	5,816
Capital expenditures	16,000	114,322	113,322	(97,322)
Debt Service:				
Principal payments	441,524	444,959	444,959	(3,435)
Interest and other	<u>96,062</u>	<u>100,565</u>	<u>99,926</u>	<u>(3,864)</u>
TOTAL EXPENDITURES	<u>27,727,419</u>	<u>28,201,793</u>	<u>28,080,535</u>	<u>(353,116)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES				
	<u>(36,000)</u>	<u>(409,308)</u>	<u>182,987</u>	<u>218,987</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from lease-purchase financing	-	98,322	98,322	98,322
Transfers in	38,000	140,632	175,376	137,376
Transfers out	<u>(2,000)</u>	<u>(17,340)</u>	<u>(17,340)</u>	<u>(15,340)</u>
TOTAL OTHER SOURCES (USES)	<u>36,000</u>	<u>221,614</u>	<u>256,358</u>	<u>220,358</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (187,694)</u>	439,345	<u>\$ 439,345</u>
FUND BALANCE, JULY 1, 2012			<u>317,987</u>	
FUND BALANCE, JUNE 30, 2013			<u>\$ 757,332</u>	

OTHER SUPPLEMENTARY INFORMATION

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

JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 131,085	\$ 68,069	\$ 199,154
Other receivables	35,020	-	35,020
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 166,105</u>	<u>\$ 68,069</u>	<u>\$ 234,174</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 5,906	\$ -	\$ 5,906
Due to other funds	18,779	-	18,779
Deferred revenue	<u>15,135</u>	<u>-</u>	<u>15,135</u>
TOTAL LIABILITIES	<u>39,820</u>	<u>-</u>	<u>39,820</u>
 FUND BALANCES:			
Assigned	<u>126,285</u>	<u>68,069</u>	<u>194,354</u>
TOTAL FUND BALANCES	<u>126,285</u>	<u>68,069</u>	<u>194,354</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 166,105</u>	 <u>\$ 68,069</u>	 <u>\$ 234,174</u>

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

FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Federal, state and other grants	\$ 138,171	\$ 200,000	\$ 338,171
Licenses, permits and fees	473,439	-	473,439
Investment income	52	30	82
Other income	35,396	-	35,396
TOTAL REVENUES	<u>647,058</u>	<u>200,030</u>	<u>847,088</u>
EXPENDITURES			
Services and project expenditures	419,718	126	419,844
Capital expenditures	10,000	216,340	226,340
TOTAL EXPENDITURES	<u>429,718</u>	<u>216,466</u>	<u>646,184</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>217,340</u>	<u>(16,436)</u>	<u>200,904</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	21,340	21,340
Transfers out	(180,376)	-	(180,376)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(180,376)</u>	<u>21,340</u>	<u>(159,036)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	36,964	4,904	41,868
FUND BALANCES, BEGINNING	<u>89,321</u>	<u>63,165</u>	<u>152,486</u>
FUND BALANCES, ENDING	<u>\$ 126,285</u>	<u>\$ 68,069</u>	<u>\$ 194,354</u>

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

JUNE 30, 2013

	Town Aid Road	Dog Fund	Police Overtime Fund	Housing Rehabilitation	Youth Services	Police Programs	Sewer Use Fees	Total Nonmajor Special Revenue Funds
ASSETS								
Cash and cash equivalents	\$ 14,638	\$ 2,083	\$ 29,633	\$ 44,005	\$ 16,310	\$ 2,121	\$ 22,295	\$ 131,085
Accounts receivable	-	7,478	25,512	-	-	2,030	-	35,020
Due from other funds	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 14,638</u>	<u>\$ 9,561</u>	<u>\$ 55,145</u>	<u>\$ 44,005</u>	<u>\$ 16,310</u>	<u>\$ 4,151</u>	<u>\$ 22,295</u>	<u>\$ 166,105</u>
LIABILITIES								
Accounts payable	\$ 651	\$ 4,268	\$ -	\$ 700	\$ 287	\$ -	\$ -	\$ 5,906
Due to other funds	-	-	18,779	-	-	-	-	18,779
Deferred revenue	-	-	-	-	15,135	-	-	15,135
TOTAL LIABILITIES	<u>651</u>	<u>4,268</u>	<u>18,779</u>	<u>700</u>	<u>15,422</u>	<u>-</u>	<u>-</u>	<u>39,820</u>
FUND BALANCE								
Assigned	<u>13,987</u>	<u>5,293</u>	<u>36,366</u>	<u>43,305</u>	<u>888</u>	<u>4,151</u>	<u>22,295</u>	<u>126,285</u>
TOTAL FUND BALANCES	<u>13,987</u>	<u>5,293</u>	<u>36,366</u>	<u>43,305</u>	<u>888</u>	<u>4,151</u>	<u>22,295</u>	<u>126,285</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,638</u>	<u>\$ 9,561</u>	<u>\$ 55,145</u>	<u>\$ 44,005</u>	<u>\$ 16,310</u>	<u>\$ 4,151</u>	<u>\$ 22,295</u>	<u>\$ 166,105</u>

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

FOR THE YEAR ENDED JUNE 30, 2013

	Town Aid Road	Dog Fund	Police Overtime	Housing Rehabilitation	Youth Services	Police Programs	Sewer Use Fees	Total Nonmajor Special Revenue Funds
REVENUE								
Federal and State grants	\$ 119,283	\$ -	\$ -	\$ -	\$ 18,888	\$ -	\$ -	\$ 138,171
Licenses, permits and fees	-	7,978	199,417	-	-	-	266,044	473,439
Investment income	-	2	27	23	-	-	-	52
Other income	-	-	25	11,600	20,210	3,395	166	35,396
TOTAL REVENUE	<u>119,283</u>	<u>7,980</u>	<u>199,469</u>	<u>11,623</u>	<u>39,098</u>	<u>3,395</u>	<u>266,210</u>	<u>647,058</u>
EXPENDITURES								
Services and project expenditures	71,619	7,302	51,147	3,187	39,246	1,796	245,421	419,718
Capital expenditures	-	-	10,000	-	-	-	-	10,000
TOTAL EXPENDITURES	<u>71,619</u>	<u>7,302</u>	<u>61,147</u>	<u>3,187</u>	<u>39,246</u>	<u>1,796</u>	<u>245,421</u>	<u>429,718</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>47,664</u>	<u>678</u>	<u>138,322</u>	<u>8,436</u>	<u>(148)</u>	<u>1,599</u>	<u>20,789</u>	<u>217,340</u>
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(36,000)	(2,500)	(133,491)	-	-	-	(8,385)	(180,376)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(36,000)</u>	<u>(2,500)</u>	<u>(133,491)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,385)</u>	<u>(180,376)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	11,664	(1,822)	4,831	8,436	(148)	1,599	12,404	36,964
FUND BALANCE, BEGINNING	<u>2,323</u>	<u>7,115</u>	<u>31,535</u>	<u>34,869</u>	<u>1,036</u>	<u>2,552</u>	<u>9,891</u>	<u>89,321</u>
FUND BALANCE, ENDING	<u>\$ 13,987</u>	<u>\$ 5,293</u>	<u>\$ 36,366</u>	<u>\$ 43,305</u>	<u>\$ 888</u>	<u>\$ 4,151</u>	<u>\$ 22,295</u>	<u>\$ 126,285</u>

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

JUNE 30, 2013

	Capital and Non-Recurring Expenditures	WPCA Capital Improvement	Town Garage STEAP Grant	Total Nonmajor Capital Projects Funds
ASSETS				
Cash and cash equivalents	\$ 37,474	\$ 30,595	\$ -	\$ 68,069
Other receivables	-	-	-	-
Due from general fund	-	-	-	-
TOTAL ASSETS	\$ 37,474	\$ 30,595	\$ -	\$ 68,069
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to general fund	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Assigned	37,474	30,595	-	68,069
TOTAL FUND BALANCES	37,474	30,595	-	68,069
TOTAL LIABILITIES AND FUND BALANCES	\$ 37,474	\$ 30,595	\$ -	\$ 68,069

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

FOR THE YEAR ENDED JUNE 30, 2013

	Capital and Non-Recurring Expenditures	WPCA Capital Improvement	Town Garage STEAP Grant	Total Nonmajor Capital Projects Funds
REVENUE				
Federal and State grants	\$ -	\$ -	\$ 200,000	\$ 200,000
Investment income	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
TOTAL REVENUE	<u>30</u>	<u>-</u>	<u>200,000</u>	<u>200,030</u>
EXPENDITURES				
Project expenditures	-	126	-	126
Capital expenditures	<u>-</u>	<u>-</u>	<u>216,340</u>	<u>216,340</u>
TOTAL EXPENDITURES	<u>-</u>	<u>126</u>	<u>216,340</u>	<u>216,466</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>30</u>	<u>(126)</u>	<u>(16,340)</u>	<u>(16,436)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	5,000	16,340	21,340
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>5,000</u>	<u>16,340</u>	<u>21,340</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	30	4,874	-	4,904
FUND BALANCE, BEGINNING	<u>37,444</u>	<u>25,721</u>	<u>-</u>	<u>63,165</u>
FUND BALANCE, ENDING	<u>\$ 37,474</u>	<u>\$ 30,595</u>	<u>\$ -</u>	<u>\$ 68,069</u>

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

FOR THE YEAR ENDED JUNE 30, 2013

Grand List October 1:	Uncollected Taxes at July 1, 2012 & Current List	Lawful Corrections		Transfers (To)/From Suspense	Net Taxes Collectible	Collections During the Year			Total Collections	Uncollected Taxes June 30, 2013
		Additions	Deductions			Taxes, Net of Refunds	Interest	Lien Fees		
2011	\$21,684,543	\$ 51,193	\$ (55,304)	\$ (4,504)	\$21,675,928	\$21,446,315	\$ 72,475	\$ 474	\$ 21,519,264	\$ 229,613
2010	243,013	1,385	(7,536)	(4,329)	232,533	153,921	31,215	961	186,097	78,612
2009	87,056	181	(2,603)	(4,575)	80,059	34,310	20,420	348	55,078	45,749
2008	44,141	229	(153)	(3,268)	40,949	26,076	7,909	245	34,230	14,873
2007	14,997	-	-	(3,158)	11,839	1,635	64	48	1,747	10,204
2006	8,298	-	-	(729)	7,569	-	-	-	-	7,569
2005	2,033	-	-	(459)	1,574	-	-	-	-	1,574
2004	1,732	-	-	(261)	1,471	-	183	17	200	1,471
2003	1,425	-	-	(252)	1,173	-	-	-	-	1,173
2002	1,275	-	-	(236)	1,039	-	-	-	-	1,039
2001	12,035	-	-	(233)	11,802	-	-	-	-	11,802
2000	10,004	-	-	(220)	9,784	-	-	-	-	9,784
1999	15,188	-	-	(332)	14,856	-	-	-	-	14,856
1998	14,075	-	-	-	14,075	-	750	-	750	14,075
1997	13,158	-	-	-	13,158	688	138	24	850	12,470
1996	11,503	-	-	(11,503)	-	-	-	-	-	-
Suspense	-	-	-	5,140	5,140	5,140	4,077	-	9,217	-
TOTALS	\$22,164,476	\$ 52,988	\$ (65,596)	\$ (28,919)	\$22,122,949	\$21,668,085	\$ 137,231	\$ 2,117	\$ 21,807,433	\$ 454,864

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

FOR THE YEAR ENDED JUNE 30, 2013

Total tax collections (including interest and lien fees)	
for current fiscal year	\$ 21,807,433
Reimbursement for revenue loss on:	
Tax relief for elderly (CGS 12-129d)	<u>76,730</u>
Total Receipts for Determination of Base	<u>\$ 21,884,163</u>

<u>Debt Limitation:</u>	<u>General Purposes</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban Renewal</u>	<u>Pension Deficit (1)</u>
2 1/4 times base	\$ 49,239,367	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	98,478,734	-	-	-
3 3/4 times base	-	-	82,065,611	-	-
3 1/4 times base	-	-	-	71,123,530	-
3 times base	-	-	-	-	65,652,489
Total Debt Limitation	<u>49,239,367</u>	<u>98,478,734</u>	<u>82,065,611</u>	<u>71,123,530</u>	<u>65,652,489</u>
<u>Indebtedness:</u>					
Bonds Payable	1,260,000	-	-	-	-
Net Overlapping Regional School District No. 16 Bonds Payable - Note 5	<u>-</u>	<u>8,310,122</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Indebtedness	<u>1,260,000</u>	<u>8,310,122</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Limitation in Excess of Outstanding and Authorized Debt	<u>\$ 47,979,367</u>	<u>\$ 90,168,612</u>	<u>\$ 82,065,611</u>	<u>\$ 71,123,530</u>	<u>\$ 65,652,489</u>

Note: In no case shall total indebtedness exceed seven times annual receipts from taxation or \$153,189,141.

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

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

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government
Auditing Standards* (No Material Weaknesses Identified, No Significant Deficiencies Identified,
No Reportable Instances of Noncompliance or Other Matters Identified)**

Independent Auditor's Report

Mayor Robert Chatfield
Town Council
Town of Prospect
Prospect, Connecticut

I have audited, 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, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Prospect's basic financial statements, and have issued my report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Prospect's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Prospect's internal control.

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

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Michael J. Battista
Certified Public Accountant

Northford, Connecticut
December 12, 2013

STATE FINANCIAL ASSISTANCE

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

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

Mayor Robert Chatfield
Town Council
Town of Prospect
Prospect, Connecticut

Report on Compliance for Each Major State Program

I 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, 2013. The Town of Prospect, Connecticut's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major State Program

In my 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, 2013.

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 my audit of compliance, I 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 my 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, I do not express an opinion on the effectiveness of the Town of Prospect, Connecticut's internal control over compliance.

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

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

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Connecticut as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. I have issued my report thereon dated December 12, 2013, which contained unmodified opinions on those financial statements. My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Connecticut's 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 my opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Michael J. Battista
Certified Public Accountant

Northford, Connecticut
December 12, 2013

**TOWN OF PROSPECT, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013**

State Grantor/Pass-Through Grantor/ Program Title	State Grant Program Core-CT Number	Expenditures
Office of Policy and Management		
Property Tax Relief for:		
Elderly Homeowners	11000-OPM20600-17018	\$ 76,730
Disability Exemption	11000-OPM20600-17011	1,195
Veterans	11000-OPM20600-17024	18,601
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	132,859
Payment in Lieu of Taxes - State Property	11000-OPM20600-17004	2,016
State Department of Education		
Youth Services Bureau	11000-SDE64370-17052	14,000
Youth Services Bureau Enhancement	11000-SDE64370-16201	4,888
Department of Transportation		
Town Aid Road Grant	12001-DOT57131-17036	119,283
Alcohol Open Container Requirements	12062-DOT57513-22091	4,129
Department of Economic Development		
Small Town Economic Assistance Program	12052-ECD46400-42411	200,000
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	1,207
Connecticard Payments	11000-CSL66051-17010	819
Historic Document Preservation	12060-CSL66094-35150	4,000
Judicial Branch		
Non-Budgeted Operating Appropriator	34001-JUD95162-40001	<u>2,701</u>
Total State Financial Assistance Before Exempt Programs		<u>582,428</u>
Exempt Programs		
State Department of Education		
Education Cost Sharing	11000-SDE64370-17041	5,377,654
Office of Policy and Management		
Municipal Revenue Sharing	12062-OPM20600-35458	142,668
Mashantucket Pequot/Mohegan Fund	12009-OPM20600-17005	31,079
Municipal Video Competition	12060-OPM20600-35362	<u>410</u>
Total Exempt Programs		<u>5,551,811</u>
Total State Financial Assistance		<u>\$ 6,134,239</u>

TOWN OF PROSPECT, CONNECTICUT
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including education, general government, public works and capital improvement.

Note 1 – Summary of Significant Accounting Policies

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

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

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

In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Financial Assistance.

**TOWN OF PROSPECT, CONNECTICUT
STATE FINANCIAL ASSISTANCE PROGRAMS -
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

State Financial Assistance

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?	No

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

<u>State Grantor and Program</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management:		
Local Capital Improvement Program	12050-OPM20600-40254	\$ 132,859
Department of Economic Development:		
Small Town Economic Assistance Program	12052-ECD46400-42411	\$ 200,000

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