

TOWN OF PROSPECT, MAINE

*FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS*

*FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2018*

**TOWN OF PROSPECT
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

March 8, 2019

Members of the Board of Selectmen
Town of Prospect
Prospect, ME 04981

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Maine (the Town) as of and for the fiscal year ended December 31, 2018, and 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Prospect, Maine as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prospect, Maine's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate 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 our opinion the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

TOWN OF PROSPECT, MAINE
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Management of the Town of Prospect, Maine provides this *Management's Discussion and Analysis* of the Town's financial performance for readers of the Town's financial statements. This narrative overview and analysis of the financial activities of the Town is for the year ended December 31, 2018. We encourage readers to consider this information in conjunction with the financial statements and accompanying notes that follow.

The financial statements herein include all of the activities of the Town of Prospect, Maine (the Town) using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34 and related subsequent statements.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights:

Net position – The assets of the Town exceeded its liabilities at year ending December 31, 2018 by \$1,308,546 (presented as “net position”). Of this amount, \$683,184 was reported as “unrestricted net position”. Unrestricted net position represents the amount available to be used to meet the Town's ongoing obligations to citizens and creditors.

Changes in Net position – The Town's total net position decreased by \$46,473 (a 3% decrease) for the year ended December 31, 2018.

Fund Highlights:

Governmental Funds – Fund Balances – As of the close of the year ended December 31, 2018; the Town's governmental funds reported a combined ending fund balance of \$579,442 with \$321,154 being general unassigned fund balance. This unassigned fund balance represents approximately 30% of the total general fund expenditures for the year.

Long-term Debt:

The Town has no outstanding debt as of December 31, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary comparison) and other supplementary information. These components are described below:

Government-wide Financial Statements

The Government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain elimination entries have occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

The fund financial statements include statements for the governmental activities. The governmental activities are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Reconciliation of the fund financial statements to the Government-wide financial statements is provided to explain the differences created by the integrated approach.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 13-21 of this report.

Required Supplementary Information

This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the general fund as presented in the governmental fund financial statements (if necessary). Required supplementary information can be found on page 22 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

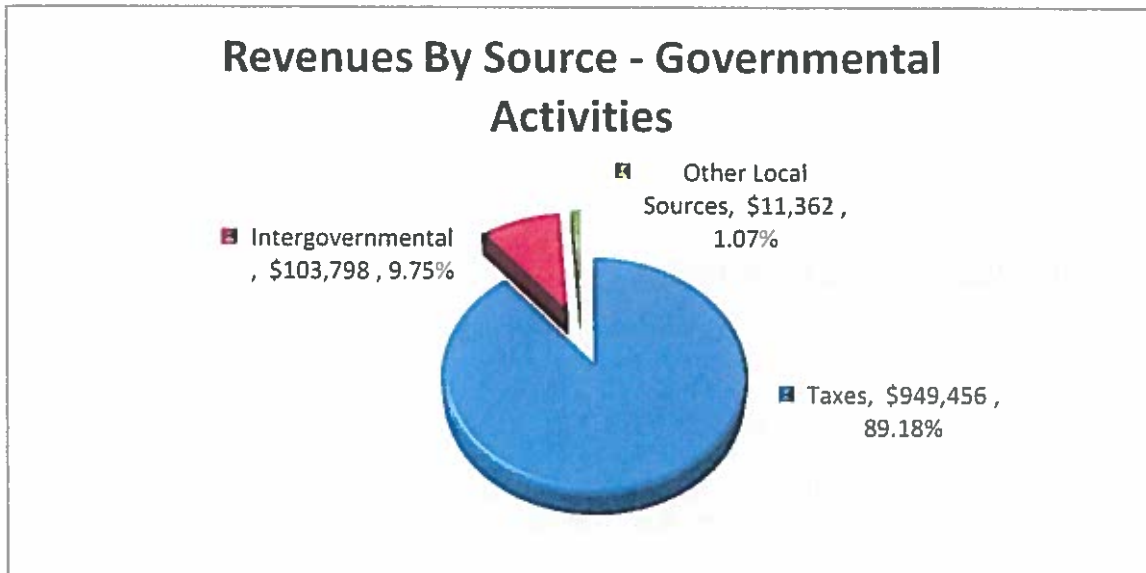
A large portion of the Town's net position (45%) reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges and other immovable assets); less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide 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.

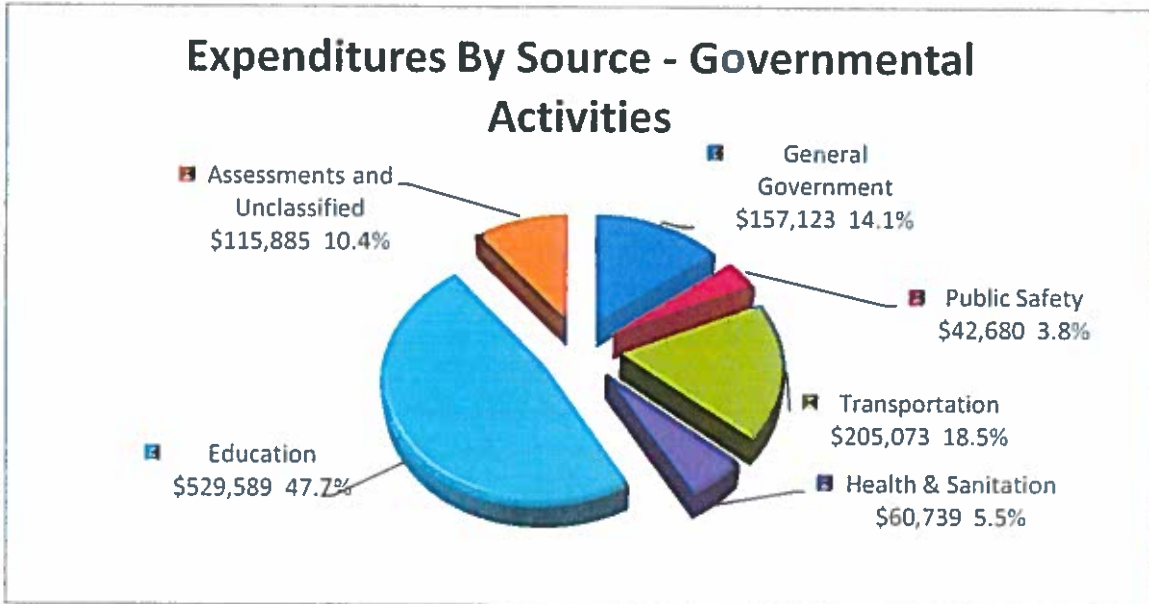
	Governmental Activities	
	Total 2018	Total 2017
Current Assets	725,333	737,802
Capital Assets	591,114	622,200
Total Assets	1,316,447	1,360,002
Current Liabilities	7,879	4,927
Other Liabilities	-	-
Total Liabilities	7,879	4,927
Deferred Inflows of Resources	22	56
Net Position:		
Invested in Capital Assets	591,114	622,200
Restricted	34,248	19,145
Unrestricted	683,184	713,674
Total Net Position	1,308,546	1,355,019
Total Liabilities , Deferred Inflows of Resources, and Net Position	1,316,447	1,360,002

Changes in Net position

Approximately 89% of the Town's total revenue came from property and excise taxes, approximately 10% came from State subsidies and grants, and approximately 1% came from services, investment earnings and other sources. Depreciation expense on the Town's governmental activity assets represents \$81,920 of the total expenses for the year.

	Governmental Activities	
	Total 2018	Total 2017
Revenues:		
Taxes	949,456	928,479
Intergovernmental Revenues	103,798	85,553
Other Local Sources	11,362	5,993
Total	1,064,616	1,020,025
Expenses:		
General Government	157,123	117,243
Public Safety	42,680	31,075
Public Transportation	205,073	219,736
Health and Sanitation	60,739	61,293
Unclassified	16,326	9,102
Education	529,589	482,812
Assessments	99,559	90,638
Total	1,111,089	1,011,899
Changes in Net Position	(46,473)	8,126





FINANCIAL ANALYSIS OF THE TOWN'S INDIVIDUAL FUNDS

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town'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 year.

At the end of the year, the Town's governmental funds reported ending fund balances of \$579,442, a decrease of \$47,157 in comparison with the prior year. Approximately 55% of this total amount constitutes unassigned fund balance. The remainder is reserved to indicate that it is not available for spending because it has been committed to liquidate contracts and commitments of the prior year or for a variety of other purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

Variances between actual General Fund revenues and expenditures and the final amended budget included the following:

- \$31,769 negative variance in property taxes. The variance is due taxpayers having a hard time paying taxes.
- \$60,325 positive variance in auto excise. The variance is due to car sales increase.
- \$3,174 negative variance in administration. The variance is due to increase costs in office supplies and computer software fees.
- \$7,209 positive variance in officer's salaries. The total expenditure was not needed.
- \$6,031 negative variance in municipal buildings. The variance is due to cost of tearing down old building.
- \$5,000 negative variance in ambulance services. The prior and current year ambulance payments were made in the current year.
- \$9,706 positive variance in overlay. The total expenditure was not needed.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities amounts to \$1,424,519, net of accumulated depreciation of \$81,920, leaving a net book value of \$591,114. Current year additions include \$63,869 for paving and road improvements.

Additional information on the Town's capital assets can be found in Note 3E of the notes to the financial statements on page 20 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all citizens, taxpayers, investors and creditors. This financial report seeks to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Town of Prospect, 958 Bangor Road, Prospect, ME 04463.

**TOWN OF PROSPECT
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and Equivalents	561,933
Receivables	
Taxes	113,795
Tax Liens	49,605
Accounts	
Capital Assets:	
Land	3,152
Other Capital Assets, Net of Depreciation	587,962
Total Assets	<u><u>1,316,447</u></u>
Liabilities	
Accounts Payable	5,614
Due to Other Governments	2,265
Total Liabilities	<u>7,879</u>
Deferred Inflows of Resources:	
Property Taxes Collected in Advance	22
Total Deferred Inflows of Resources	<u>22</u>
Net Position	
Net Investment in Capital Assets	591,114
Restricted	34,248
Unrestricted	683,184
Total Net Position	<u>1,308,546</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>1,316,447</u></u>

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

**TOWN OF PROSPECT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit B

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants</u>	
<u>Primary Government</u>				
<u>Governmental Activities</u>				
General Government	157,123			(157,123)
Public Safety	42,680			(42,680)
Public Transportation	205,073		18,716	(186,357)
Health & Sanitation	60,739			(60,739)
Unclassified	16,326			(16,326)
Education	529,589			(529,589)
Assessments	99,559			(99,559)
<u>Total Governmental Activities</u>	<u>1,111,089</u>	<u>-</u>	<u>-</u>	<u>(1,092,373)</u>
<u>Total Primary Government</u>	<u>1,111,089</u>	<u>-</u>	<u>-</u>	<u>(1,092,373)</u>
<u>General Revenues:</u>				
Property Taxes				796,764
Auto Excise				151,525
Boat Excise				1,167
Intergovernmental Revenues				85,082
Other Local Sources				11,362
<u>Total Revenues, Special Items and Transfers</u>				<u>1,045,900</u>
<u>Changes in Net Position</u>				<u>(46,473)</u>
<u>Net Position - Beginning</u>				<u>1,355,019</u>
<u>Net Position - Ending</u>				<u>1,308,546</u>

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

**TOWN OF PROSPECT
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

Exhibit C

	<i>General Fund</i>
Assets	
Cash and Equivalents	<u>561,933</u>
Receivables	
Taxes	113,795
Tax Liens	49,605
Total Assets	<u><u>725,333</u></u>
Liabilities	
Accounts Payable	5,614
Due to Other Governments	<u>2,265</u>
Total Liabilities	<u>7,879</u>
Deferred Inflows of Resources:	
Property Taxes Collected in Advance	22
Unavailable Property Tax Revenue	<u>137,990</u>
Total Deferred Inflows of Resources	<u>138,012</u>
Fund Balances	
Restricted	34,248
Committed	224,040
Unassigned	<u>321,154</u>
Total Fund Balances	<u>579,442</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>725,333</u></u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Fund Balance	579,442
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$833,405	<u>591,114</u>
	<u>591,114</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Unavailable Property Tax Revenue	<u>137,990</u>
	<u>137,990</u>
Net Position of Governmental Activities	<u><u>1,308,546</u></u>

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

TOWN OF PROSPECT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<i>General Fund</i>
Revenues	
Taxes	917,686
Intergovernmental Revenues	103,798
Other Local Sources	11,362
	<hr/>
Total Revenues	1,032,846
	<hr/>
Expenditures	
General Government	142,022
Public Safety	32,156
Public Transportation	199,612
Health & Sanitation	60,739
Unclassified	16,326
Education	529,589
Assessments	99,559
	<hr/>
Total Expenditures	1,080,003
	<hr/>
Excess of Revenues Over (Under) Expenditures	(47,157)
	<hr/>
Fund Balance - January 1	626,599
	<hr/>
Fund Balance - December 31	579,442
	<hr/> <hr/>

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

**TOWN OF PROSPECT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - total governmental funds	(47,157)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	63,869
Capital assets disposed	(13,035)
Depreciation expense	(81,920)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Unavailable Property Tax Revenue	<u>31,770</u>
Change in net position of governmental activities	<u><u>(46,473)</u></u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Prospect have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Governmental Reporting Entity

The Town of Prospect operates under an elected Board of Selectmen form of government. The Town's major operations include public works, public safety, and general government.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the Town. Fiduciary activities, whose resources are not available to finance the Town's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and various intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Revenues are recognized when transactions occur and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds, reporting only assets and liabilities, have no measurement focus but use the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditure related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, interdepartmental charges and intergovernmental revenues are considered susceptible to accrual. Special assessments are recorded as revenues in the year the assessment become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

The General Fund is used to account for all or most of the Town's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the servicing of general long-term debt (debt service fund). The General Fund is used to account for all activities of the general government not accounted in some other fund.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net position or Fund Equity

1. Deposits and Investments

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. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The Town may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Maine Statute 5705 Title 30-A and as provided in the authorized investment guidelines of the Maine Statutes 5711 through 5719 in effect on the date the investment is made.

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net position or Fund Equity (continued)

2. Receivables and Payables

Transactions between funds that results in outstanding balances are reported as due to/from other funds.

Property taxes receivable not expected to be collected within 60 days from year's end are classified as unavailable property tax revenue. At December 31, \$137,990 has been so classified and reported on the general fund balance sheet.

Property taxes were levied on August 21 on property values assessed on April 1. Taxes were due on October 31, with interest at 7% beginning November 1.

Tax liens are placed on real property within 12 months following the tax commitment date if taxes remain delinquent.

The Town has the authority to foreclose on property eighteen months after the filing of the liens if the lien amount and associated costs remain unpaid.

3. Capital Assets

Capital assets, which property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Infrastructure	10-50
Equipment	5-20

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net position or Fund Equity (continued)

5. Compensated Absences

In the fund financial statements, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave in the government-wide financial statements is recorded as an expense and liability of the fund as the benefits accrue to employees. In accordance with GASB Statement No. 16, no liability is recorded for nonvesting accumulated right to receive sick pay benefits.

6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Under State Law, no municipality can incur debt, which would cause its total outstanding debt, exclusive of debt incurred for school, storm or sanitary sewer, energy facilities, or municipal airports, to exceed 7.50% of its last full state valuation. A municipality may incur debt for schools not exceeding 10%, storm or sanitary sewers 7.50%, and municipal airports, water districts and special purpose districts 3% of its last full state valuation. In no event can the total debt exceed 15% of its last full valuation. Full state valuation is the valuation of taxable property as certified by the State Tax Assessor, adjusted to 100%.

At December 31, the Town of Prospect is in compliance with the above requirements.

7. Deferred Inflows/Outflows of Resources

In addition to assets and liabilities, the statement of net position and the governmental fund balance sheet will report a separate section for deferred outflows and/or inflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and therefore will not be recognized as revenue until that time. The School Department has an item that qualifies as deferred outflows of resources, and it has an item that qualifies as a deferred inflow. Both items are related to pensions. These amounts are considered unavailable and will be recognized as an outflow of resources (expenditure) and an inflow of resources (revenue) in the period that the amounts become available.

8. Fund Balances/Net position

Fund Balances

In accordance with Government Accounting Standards Board 54, fund balance reporting and governmental fund type definitions, the Town classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net position or Fund Equity (continued)

8. Fund Balances/Net position (continued)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through town meeting voting and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Selectmen.

Unassigned – includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balance in other governmental funds.

The Town considers restricted, committed, assigned, and unassigned amounts to be spent in that order when expenditures for which any of those amounts are available.

The Town does not have a formal minimum fund balance policy.

The Town has identified December 31, 2018 fund balances on the balance sheet as follows:

	<i>General Fund</i>
<i>Restricted</i>	
Revenue Sharing	7,714
Septic Grant	638
Town Road Resurfacing Reserve	25,896
<i>Committed</i>	
Municipal Building Reserve	2,666
Fire Department Reserve	13,850
Fire Truck Reserve	113,147
Cemetery Reserve	3,014
Culvert Reserve	75,033
Town Road Reconstruction	16,330
<i>Unassigned</i>	
General Fund	321,154
<i>Total Fund Balance</i>	<u>579,442</u>

Net position

Net position are required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net position or Fund Equity (continued)

8. Fund Balances/Net position (continued)

Net Investment in capital assets— This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portions of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted – This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the government’s general fund and school department operating fund except the Town does not budget for the revenues and expenditures associated with the employer’s teacher retirement contribution made by the State of Maine on behalf of the town to the Maine Public Employees Retirement System; and encumbrances which are considered to be expenditures for budgetary purposes.

Management may transfer appropriations between operating categories as they deem necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at fiscal year-end to the extent that they have not been encumbered.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In 2018, \$164,700 of the beginning General Fund fund balance was applied for this purpose.

Reserve funds, once established by the Town Meeting, may be expended with approval of management for the purpose for which the reserve was established.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments are carried forward to supplement appropriations of the subsequent year.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The Town’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

**TOWN OF PROSPECT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits (continued)

State Statute 5706 require banks to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the Town Treasurer in the amount of the Town's deposits. The Statutes allow pledged securities to be reduced by the amount of Federal Deposit Insurance Corporation (FDIC).

One or more of the financial institutions holding the Town's cash accounts are participating in the FDIC Transaction Account Guarantee Program. All time and savings deposits owned by the Town's official custodian are insured up to \$250,000 by the FDIC. Separately, all demand deposits owned by the Town's official custodian are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposits in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the Town and thus no custodial risk exists.

At December 31, the carrying amount of the Town's deposits was \$561,933 and the bank balance was \$566,365. Of the bank balance, \$566,365 was covered by federal depository.

B. Property Taxes

Property taxes were levied for the fiscal year as follows:

Assessed Value		50,383,200
Tax Rate (per \$1,000)		15.75
Commitment		<u>793,535</u>
Appropriations		989,152
Less:		
State Municipal Revenue Sharing	31,740	
Homestead Reimbursement	43,877	
Other Revenue	<u>120,000</u>	
		195,617
Net Assessment for Commitment		<u>793,535</u>

Uncollected 2018 taxes at December 31 totaled \$114,456. Uncollected liens at December 31 totaled \$49,605.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised is referred to as overlay, and amounted to \$12,229 for the year ended December 31, 2018.

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
Governmental Activities;				
<i>Capital assets not being depreciated</i>				
Land	3,152			3,152
<i>Capital assets being depreciated</i>				
Buildings	116,325		(13,035)	103,290
Equipment	193,300			193,300
Infrastructure	1,060,908	63,869		1,124,777
<i>Total capital assets being depreciated</i>	<u>1,370,533</u>	<u>63,869</u>	<u>(13,035)</u>	<u>1,421,367</u>
<i>Less accumulated depreciation for</i>				
Buildings	20,229	2,066		22,295
Equipment	134,818	10,524		145,342
Infrastructure	596,438	69,330		665,768
<i>Total accumulated depreciation</i>	<u>751,485</u>	<u>81,920</u>	<u>-</u>	<u>833,405</u>
<i>Net capital assets being depreciated</i>	<u>619,048</u>	<u>(18,051)</u>	<u>(13,035)</u>	<u>587,962</u>
 Governmental Activities				
Capital Assets, net	<u>622,200</u>	<u>(18,051)</u>	<u>(13,035)</u>	<u>591,114</u>

Depreciation expense was charged to functions/programs of the primary government as follows;

Governmental Activities

General Government	2,066
Public Safety	10,524
Public Transportation	69,330
Total Depreciation Expense - Governmental Activities	<u><u>81,920</u></u>

**TOWN OF PROSPECT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Debt

1. Legal Debt Limit

Under State Law, no municipality can incur debt which would cause its total outstanding debt, exclusive of debt incurred for school, storm or sanitary sewer, energy facilities, or municipal airports, to exceed 7.50% of its last full state valuation. A municipality may incur debt for schools not exceeding 10%, storm or sanitary sewers 7.50%, and municipal airports, water districts and special purpose districts 3% of its last full state valuation. In no event can the total debt exceed 15% of its last full state valuation. Full state valuation is the valuation of taxable property as certified by the State Tax Assessor, adjusted to 100%.

At December 31, the Town of Prospect is in compliance with the above requirements.

NOTE 4 - CONTINGENT LIABILITIES

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

There are various claims and suits pending against the Town which arise in the normal course of the Town's activities. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the management that resolution of these matters will not have a material adverse effect on the financial condition of the government.

TOWN OF PROSPECT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - UNASSIGNED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018

Exhibit E

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues				
Taxes	884,735	884,735	917,686	32,951
Intergovernmental Revenues	94,333	94,333	102,611	8,278
Other Local Sources	-	-	8,139	8,139
Total Revenues	<u>979,068</u>	<u>979,068</u>	<u>1,028,436</u>	<u>49,368</u>
Expenditures (Net of Departmental Revenues)				
General Government	144,200	144,200	138,927	5,273
Public Safety	31,000	31,000	37,156	(6,156)
Public Transportation	248,716	248,716	248,037	679
Health & Sanitation	63,925	63,925	60,739	3,186
Unclassified	17,066	17,066	16,826	240
Assessments	638,861	638,861	629,148	9,713
Total Expenditures	<u>1,143,768</u>	<u>1,143,768</u>	<u>1,130,833</u>	<u>12,935</u>
Excess Revenues Over Expenditures	<u>(164,700)</u>	<u>(164,700)</u>	<u>(102,397)</u>	<u>62,303</u>
Unassigned Fund Balance - January 1			<u>423,551</u>	
Unassigned Fund Balance - December 31			<u><u>321,154</u></u>	

GENERAL FUND

STATEMENT OF ESTIMATED AND ACTUAL REVENUES - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Taxes			
Property	793,535	761,766	(31,769)
Auto Excise	91,200	151,525	60,325
Boat Excise		1,167	1,167
Interest and Costs on Taxes and Liens		3,228	3,228
	<u>884,735</u>	<u>917,686</u>	<u>32,951</u>
Intergovernmental Revenues			
State Road Assistance	18,716	18,716	-
Municipal Revenue Sharing	31,740	31,740	-
State Park Refund		3,839	3,839
Homestead Reimbursement	43,877	42,102	(1,775)
Veterans Reimbursement		780	780
Disaster Relief		4,500	4,500
BETE Reimbursement		2	2
Tree Growth Reimbursement		932	932
	<u>94,333</u>	<u>102,611</u>	<u>8,278</u>
Local Sources			
Interest Earned		1	1
Agent & Clerk Fees		3,912	3,912
Miscellaneous		4,226	4,226
	<u>-</u>	<u>8,139</u>	<u>8,139</u>
	979,068	<u>1,028,436</u>	<u>49,368</u>
Fund Balance Used to Reduce Tax Rate	<u>164,700</u>		
Total Revenues and Use of Fund Balance	<u>1,143,768</u>		

**TOWN OF PROSPECT
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Encumbered from 2017	Appropriation	Receipts and Reimbursements	Expenditures	Balances	
					Lapsed	(Over) Under Encumbered
General Government						
Administration		22,000	2,748	27,922	(3,174)	
Officer's Salaries		83,000	347	76,138	7,209	
Assessing		8,200		8,200	-	
Municipal Building		11,000		17,031	(6,031)	
Municipal Building Reserve	2,661		5		-	2,666
Town Contingency		5,000			5,000	
Planning Board		500			500	
Insurances		12,000		9,230	2,770	
Legal Fees		2,500		3,501	(1,001)	
	2,661	144,200	3,100	142,022	5,273	2,666
Public Safety						
Fire Department		21,000		22,156	(1,156)	
Fire Department Reserve	13,816		34		-	13,850
Fire Truck Reserve	108,089	5,000	58		-	113,147
Ambulance Services		5,000		10,000	(5,000)	
	121,905	31,000	92	32,156	(6,156)	126,997
Public Transportation						
Town Road Repairs		22,000	(12,778)	9,222	-	
Town Road Resurfacing		65,000	(1,131)	63,869	-	
Town Road Resurfacing Reserve	11,980		13,916		-	25,896
Snow Removal		118,000		117,321	679	
Culvert Reserve	50,011	25,000	22		-	75,033
Town Roads Reconstruction	6,814	18,716		9,200	-	16,330
	68,805	248,716	29	199,612	679	117,259
Health & Sanitation						
Solid Waste		55,000		52,294	2,706	
Recycling		7,200		6,720	480	
Septic Grant	638				-	638
Septic Waste		1,725		1,725	-	
	638	63,925	-	60,739	3,186	638

**TOWN OF PROSPECT
GENERAL FUND
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Encumbered from 2017	Appropriation	Receipts and Reimbursements	Expenditures	Balances	
					Lapsed	(Over) Under Encumbered
Unclassified						
General Assistance		1,500			1,500	
Recreation		1,100		1,035	65	
WCAP Programs		1,795		3,120	(1,325)	
Charitable Organizations		2,671		2,671	-	
Prospect Community Center Repairs		2,500		2,500	-	
Prospect Community Concerns heating fund		2,500		2,500	-	
Prospect Historical Society		500		500	-	
Cemeteries		4,000		4,000	-	
Cemeteries Reserve	2,512	500	502		-	3,014
Veterans and nonveteran graves		(500)			-	
	<u>2,512</u>	<u>17,066</u>	<u>2</u>	<u>16,326</u>	<u>240</u>	<u>3,014</u>
Assessments						
Education		529,596		529,589	7	
County Tax		97,036		97,036	-	
Overlay		12,229		2,523	9,706	
		<u>638,861</u>		<u>629,148</u>	<u>9,713</u>	
TOTALS	<u>196,521</u>	<u>1,143,768</u>	<u>3,223</u>	<u>1,080,003</u>	<u>12,935</u>	<u>250,574</u>

**TOWN OF PROSPECT
GENERAL FUND
STATEMENT OF CHANGES IN UNASSIGNED FUND BALANCE
BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit A-3

Unassigned Fund Balance January 1	423,551	
Unassigned Fund Balance December 31	<u>321,154</u>	
Increase / (Decrease)		<u><u>(102,397)</u></u>

Analysis of Change

Budget Summary		
Revenue Surplus (Exhibit A-1)	49,368	
Unexpended Balance of Appropriations (Exhibit A-2)	<u>12,935</u>	
Budget Surplus		62,303
Deductions		
Beginning Fund Balance Used to Reduce Tax Rate		<u>(164,700)</u>
Increase / (Decrease)		<u><u>(102,397)</u></u>

**TOWN OF PROSPECT
ALL GENERAL RESERVES
BALANCE SHEET
DECEMBER 31, 2018**

Exhibit A-4

	<i>Municipal Revenue Sharing</i>
<i>Assets</i>	
Due from Other Funds	<u>7,714</u>
Total Assets	<u><u>7,714</u></u>
<i>Liabilities & Fund Balances</i>	
Liabilities	
Due to Other Funds	<u>-</u>
Total Liabilities	<u>-</u>
Fund Balances	
Restricted	<u>7,714</u>
Committed	<u>-</u>
Total Fund Balances	<u><u>7,714</u></u>
Total Liabilities & Fund Balances	<u><u>7,714</u></u>

**TOWN OF PROSPECT
 ALL GENERAL RESERVES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2018**

Exhibit A-5

	<i>Municipal Revenue Sharing</i>
Revenues	
Intergovernmental	32,927
Total Revenues	<u>32,927</u>
Expenditures	
Budgeted Appropriation	<u>31,740</u>
Total Expenditures	<u>31,740</u>
Excess of Revenues Over (Under) Expenditures	1,187
Fund Balance - January 1	<u>6,527</u>
Fund Balance - December 31	<u><u>7,714</u></u>