

***TOWN OF PROSPECT, MAINE***

***FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT***

***FOR THE FISCAL YEAR  
ENDED DECEMBER 31, 2017***

**TOWN OF PROSPECT  
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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# James W. Wadman

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**CERTIFIED PUBLIC ACCOUNTANT**

James W. Wadman, C.P.A.  
Ronald C. Bean, C.P.A.  
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Wanese L. Lynch, C.P.A.  
Amy E. Atherton, C.P.A.

## ***INDEPENDENT AUDITOR'S REPORT***

March 25, 2018

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

## ***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, 2017**

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, 2017. 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, 2017 by \$1,355,019 (presented as “net position”). Of this amount, \$713,674 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 increased by \$8,126 (a .6% increase) for the year ended December 31, 2017.

**Fund Highlights:**

*Governmental Funds* – Fund Balances – As of the close of the year ended December 31, 2017; the Town's governmental funds reported a combined ending fund balance of \$626,599 with \$423,551 being general unassigned fund balance. This unassigned fund balance represents approximately 43% of the total general fund expenditures for the year.

**Long-term Debt:**

The Town has no outstanding debt as of December 31, 2017.

**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**

The largest portion of the Town's net position (50%) 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.

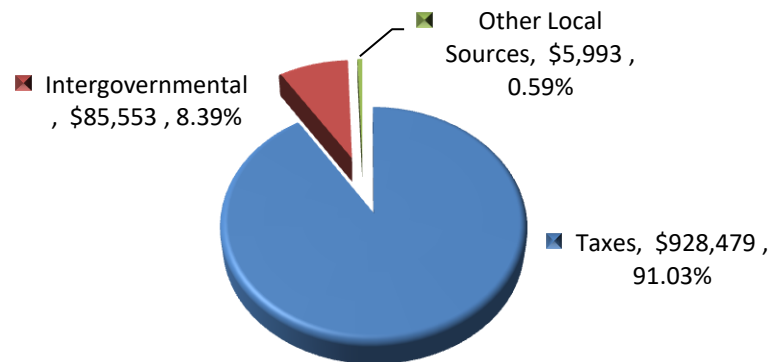
	<b>Governmental Activities</b>	
	<b>Total 2017</b>	<b>Total 2016</b>
Current Assets	737,802	700,978
Capital Assets	622,200	651,879
<b>Total Assets</b>	<b>1,360,002</b>	<b>1,352,857</b>
Current Liabilities	4,927	4,755
Other Liabilities	-	-
<b>Total Liabilities</b>	<b>4,927</b>	<b>4,755</b>
<b>Deferred Inflows of Resources</b>	<b>56</b>	<b>1,209</b>
<b>Net Position:</b>		
Invested in Capital Assets	622,200	651,879
Restricted	19,145	19,764
Unrestricted	713,674	675,250
<b>Total Net Position</b>	<b>1,355,019</b>	<b>1,346,893</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>1,360,002</b>	<b>1,352,857</b>

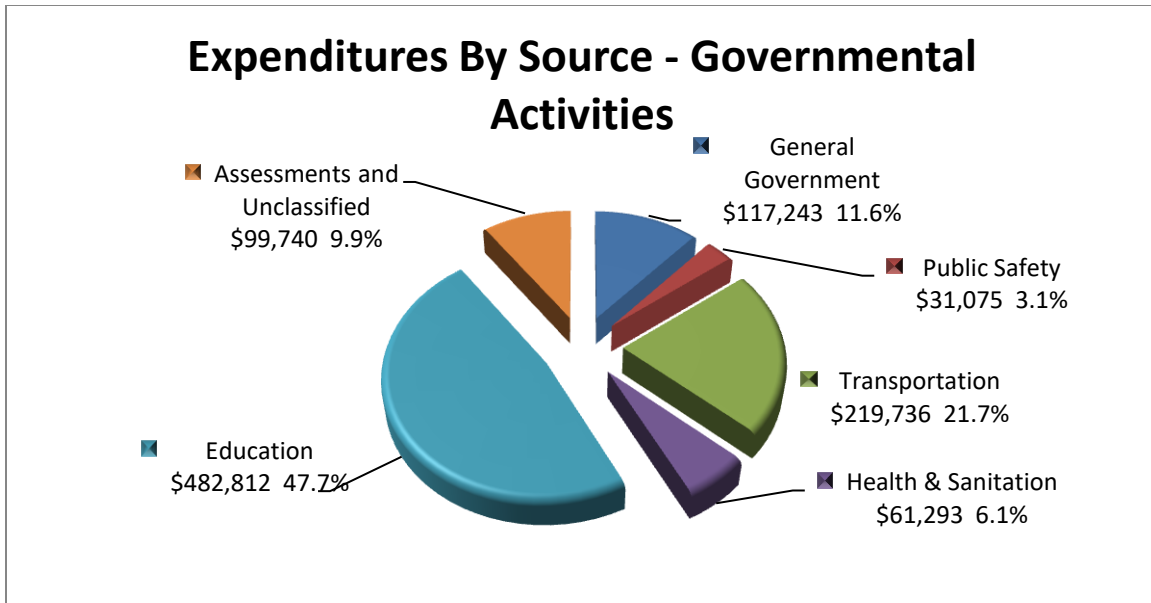
### Changes in Net position

Approximately 91% of the Town's total revenue came from property and excise taxes, approximately 8% 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 \$84,673 of the total expenses for the year.

	Governmental Activities	
	Total 2017	Total 2016
<b>Revenues:</b>		
Taxes	928,479	906,930
Intergovernmental Revenues	85,553	80,093
Other Local Sources	5,993	13,112
<b>Total</b>	<b>1,020,025</b>	<b>1,000,135</b>
<b>Expenses:</b>		
General Government	117,243	114,910
Public Safety	31,075	29,285
Public Transportation	219,736	185,052
Health and Sanitation	61,293	59,356
Unclassified	9,102	15,215
Education	482,812	455,732
Assessments	90,638	84,040
<b>Total</b>	<b>1,011,899</b>	<b>943,590</b>
<b>Changes in Net Position</b>	<b>8,126</b>	<b>56,545</b>

### Revenues By Source - Governmental Activities





## **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 \$626,599, an increase of \$54,144 in comparison with the prior year. Approximately 68% 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:

- \$68,438 positive variance in revenues. Excise taxes are budgeted conservatively while several other revenues categories are not budgeted.
- \$10,399 positive variance in officer's salaries. The total expenditure was not needed.
- \$6,805 positive variance in snow removal. The total expenditure was not needed.
- \$7,400 positive variance in education. The school adjusted their budget after town budget approved.
- \$10,082 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 \$1,373,685, net of accumulated depreciation of \$751,485, leaving a net book value of \$622,200. Current year additions include \$54,994 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, P.O. Box 218, Prospect, ME 04463.

**TOWN OF PROSPECT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

**Exhibit A**

	<b><i>Governmental Activities</i></b>
<b><i>Assets</i></b>	
Cash and Equivalents	600,519
Receivables	
Taxes	96,586
Tax Liens	38,335
Accounts	2,362
Capital Assets:	
Land	3,152
Other Capital Assets, Net of Depreciation	619,048
<b><i>Total Assets</i></b>	<b><u>1,360,002</u></b>
<b><i>Liabilities</i></b>	
Accounts Payable	2,507
Due to Other Governments	2,420
<b><i>Total Liabilities</i></b>	<b><u>4,927</u></b>
<b><i>Deferred Inflows of Resources:</i></b>	
Property Taxes Collected in Advance	56
<b><i>Total Deferred Inflows of Resources</i></b>	<b><u>56</u></b>
<b><i>Net Position</i></b>	
Net Investment in Capital Assets	622,200
Restricted	19,145
Unrestricted	713,674
<b><i>Total Net Position</i></b>	<b><u>1,355,019</u></b>
<b><i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i></b>	<b><u>1,360,002</u></b>

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

**TOWN OF PROSPECT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Exhibit B**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Revenue and Changes in Net Position</u>
<u>Primary Government</u>					
<u>Governmental Activities</u>					
General Government	117,243				(117,243)
Public Safety	31,075				(31,075)
Public Transportation	219,736			18,880	(200,856)
Health & Sanitation	61,293				(61,293)
Unclassified	9,102				(9,102)
Education	482,812				(482,812)
Assessments	90,638				(90,638)
<u>Total Governmental Activities</u>	<u>1,011,899</u>	<u>-</u>	<u>-</u>	<u>18,880</u>	<u>(993,019)</u>
<u>Total Primary Government</u>	<u>1,011,899</u>	<u>-</u>	<u>-</u>	<u>18,880</u>	<u>(993,019)</u>
<u>General Revenues:</u>					
Property Taxes					782,533
Auto Excise					145,022
Boat Excise					924
Intergovernmental Revenues					66,673
Other Local Sources					5,993
<u>Total Revenues, Special Items and Transfers</u>					<u>1,001,145</u>
<u>Changes in Net Position</u>					8,126
<u>Net Position - Beginning</u>					<u>1,346,893</u>
<u>Net Position - Ending</u>					<u>1,355,019</u>

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

**TOWN OF PROSPECT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

**Exhibit C**

	<b>General Fund</b>
<b>Assets</b>	
Cash and Equivalents	600,519
Receivables	
Taxes	96,586
Tax Liens	38,335
Accounts	2,362
<b>Total Assets</b>	<b>737,802</b>
<b>Liabilities</b>	
Accounts Payable	2,507
Due to Other Governments	2,420
<b>Total Liabilities</b>	<b>4,927</b>
<b>Deferred Inflows of Resources:</b>	
Property Taxes Collected in Advance	56
Unavailable Property Tax Revenue	106,220
<b>Total Deferred Inflows of Resources</b>	<b>106,276</b>
<b>Fund Balances</b>	
Nonspendable	
Restricted	19,145
Committed	183,903
Assigned	
Unassigned	423,551
<b>Total Fund Balances</b>	<b>626,599</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>737,802</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total Fund Balance	626,599
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$751,485	622,200
	622,200
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	106,220
	106,220
Net Position of Governmental Activities	1,355,019

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, 2017**

**Exhibit D**  
**Page 1 of 2**

	<b><i>General Fund</i></b>
Revenues	
Taxes	944,818
Intergovernmental Revenues	85,553
Other Local Sources	5,993
	<hr/>
Total Revenues	1,036,364
	<hr/>
Expenditures	
General Government	115,177
Public Safety	20,551
Public Transportation	202,647
Health & Sanitation	61,293
Unclassified	9,102
Education	482,812
Assessments	90,638
	<hr/>
Total Expenditures	982,220
	<hr/>
Excess of Revenues Over (Under)	
Expenditures	54,144
Fund Balance - January 1	572,455
	<hr/>
<b>Fund Balance - December 31</b>	<b>626,599</b>
	<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, 2017**

**Exhibit D**  
**Page 2 of 2**

Net change in fund balances - total governmental funds	54,144
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	54,994
Depreciation expense	(84,673)
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	(16,339)
Change in net position of governmental activities	8,126

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

**TOWN OF PROSPECT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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, 2017**

**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, 2017**

**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, \$106,220 has been so classified and reported on the general fund balance sheet.

Property taxes were levied on August 1 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:

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

**TOWN OF PROSPECT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017**

**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, 2017 fund balances on the balance sheet as follows:

		<b>General</b>			
		<b>Fund</b>			
<u>Restricted</u>					
Revenue Sharing		6,527			
Septic Grant		638			
Town Road Resurfacing Reserve		11,980			
<u>Committed</u>					
Municipal Building Reserve		2,661			
Fire Department Reserve		13,816			
Fire Truck Reserve		108,089			
Cemetery Reserve		2,512			
Culvert Reserve		50,011			
Town Road Reconstruction		6,814			
<u>Unassigned</u>					
General Fund		423,551			
<u>Total Fund Balance</u>		<u>626,599</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, 2017**

**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 2017, \$105,300 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, 2017**

**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. For all accounts, the Town's cash deposits, including certificates of deposits, are insured up to \$250,000 per custodian 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 \$600,519 and the bank balance was \$599,983. Of the bank balance, \$599,983 was covered by federal depository.

**B. Property Taxes**

Property taxes were levied for the fiscal year as follows:

Assessed Value	49,598,630	
Tax Rate (per \$1,000)	15.65	
Commitment	<u>776,219</u>	
Appropriations	933,851	
Less:		
State Municipal Revenue Sharing	38,230	
Homestead Reimbursement	34,382	
BETE Reimbursement	20	
Other Revenue	<u>85,000</u>	
	157,632	
Net Assessment for Commitment	<u>776,219</u>	

Uncollected 2017 taxes at December 31 totaled \$98,366. Uncollected liens at December 31 totaled \$38,335.

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 \$11,151 for the year ended December 31, 2017.

**TOWN OF PROSPECT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 3 - DETAILED NOTES ON ALL FUNDS (continued)**

**C. Capital Assets**

Capital asset activity for the year ended December 31, 2017 was as follows:

	<b><i>Beginning Balance</i></b>	<b><i>Increases</i></b>	<b><i>Decreases</i></b>	<b><i>Ending Balance</i></b>
<b><i>Governmental Activities;</i></b>				
<i>Capital assets not being depreciated</i>				
Land	3,152			3,152
<i>Capital assets being depreciated</i>				
Buildings	116,325			116,325
Equipment	193,300			193,300
Infrastructure	1,005,914	54,994		1,060,908
<i>Total capital assets being depreciated</i>	<u>1,315,539</u>	<u>54,994</u>	<u>-</u>	<u>1,370,533</u>
<i>Less accumulated depreciation for</i>				
Buildings	18,163	2,066		20,229
Equipment	124,294	10,524		134,818
Infrastructure	524,355	72,083		596,438
<i>Total accumulated depreciation</i>	<u>666,812</u>	<u>84,673</u>	<u>-</u>	<u>751,485</u>
<i>Net capital assets being depreciated</i>	<u>648,727</u>	<u>(29,679)</u>	<u>-</u>	<u>619,048</u>
 <b><i>Governmental Activities</i></b>				
<b><i>Capital Assets, net</i></b>	<u>651,879</u>	<u>(29,679)</u>	<u>-</u>	<u>622,200</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	72,083
Total Depreciation Expense - Governmental Activities	<u>84,673</u>

**TOWN OF PROSPECT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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****Exhibit E****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL - UNASSIGNED FUND BALANCE****FOR THE YEAR ENDED DECEMBER 31, 2017**

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
<b>Revenues</b>				
Taxes	879,219	879,219	944,818	65,599
Intergovernmental Revenues	91,512	91,512	90,152	(1,360)
Other Local Sources	-	-	4,199	4,199
<b>Total Revenues</b>	<u>970,731</u>	<u>970,731</u>	<u>1,039,169</u>	<u>68,438</u>
<b>Expenditures (Net of Departmental Revenues)</b>				
General Government	131,500	131,500	116,144	15,356
Public Safety	35,000	35,000	30,000	5,000
Public Transportation	245,880	245,880	239,075	6,805
Health & Sanitation	60,925	60,925	61,293	(368)
Unclassified	11,794	11,794	9,102	2,692
Assessments	590,932	590,932	573,450	17,482
<b>Total Expenditures</b>	<u>1,076,031</u>	<u>1,076,031</u>	<u>1,029,064</u>	<u>46,967</u>
<b>Excess Revenues Over Expenditures</b>	<u>(105,300)</u>	<u>(105,300)</u>	10,105	<u>115,405</u>
<b>Unassigned Fund Balance -January 1</b>			<u>413,446</u>	
<b>Unassigned Fund Balance - December 31</b>			<u><b>423,551</b></u>	



## TOWN OF PROSPECT

Exhibit A-1

## GENERAL FUND

STATEMENT OF ESTIMATED AND ACTUAL REVENUES - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<i>Budget</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Taxes			
Property	801,219	794,428	(6,791)
Auto Excise	78,000	145,022	67,022
Boat Excise		924	924
Interest and Costs on Taxes and Liens		4,444	4,444
	<u>879,219</u>	<u>944,818</u>	<u>65,599</u>
Intergovernmental Revenues			
State Road Assistance	18,880	18,880	-
Municipal Revenue Sharing	38,230	38,230	-
Snowmobile Refund		152	152
Homestead Reimbursement	34,382	30,822	(3,560)
Veterans Reimbursement		789	789
General Assistance		270	270
BETE Reimbursement	20	22	2
Tree Growth Reimbursement		987	987
	<u>91,512</u>	<u>90,152</u>	<u>(1,360)</u>
Local Sources			
Interest Earned		380	380
Agent & Clerk Fees		3,697	3,697
Miscellaneous		122	122
	<u>-</u>	<u>4,199</u>	<u>4,199</u>
	970,731	<u><b>1,039,169</b></u>	<u><b>68,438</b></u>
Fund Balance Used to Reduce Tax Rate	<u>105,300</u>		
<b>Total Revenues and Use of Fund Balance</b>	<u><b>1,076,031</b></u>		

**TOWN OF PROSPECT**

**GENERAL FUND**

**STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Exhibit A-2**

**Page 1 of 2**

	<i>Encumbered from 2016</i>	<i>Appropriation</i>	<i>Receipts and Reimbursements</i>	<i>Expenditures</i>	<i>Balances (Over) Under</i>	<i>Lapsed</i>	<i>Encumbered</i>
General Government							
Administration		21,000	1,554	25,382	(2,828)		
Officer's Salaries		70,000		59,601	10,399		
Animal Control		2,500	133	2,694	(61)		
Assessing		8,000		8,000	-		
Municipal Building		11,000	(2,654)	8,346	-		
Municipal Building Reserve			2,661		-		2,661
Town Contingency		5,000			5,000		
Planning Board		500		30	470		
Insurances		12,000		10,124	1,876		
Legal Fees		1,500		1,000	500		
	<u>-</u>	<u>131,500</u>	<u>1,694</u>	<u>115,177</u>	<u>15,356</u>		<u>2,661</u>
Public Safety							
Fire Department		25,000	(4,449)	20,551	-		
Fire Department Reserve	13,779		37		-		13,816
Fire Truck Reserve	98,595	5,000	4,494		-		108,089
Ambulance Services		5,000			5,000		
	<u>112,374</u>	<u>35,000</u>	<u>82</u>	<u>20,551</u>	<u>5,000</u>		<u>121,905</u>
Public Transportation							
Town Road Repairs		22,000	(13,555)	8,445	-		
Town Road Resurfacing		65,000		65,000	-		
Town Road Resurfacing Reserve	7,033		13,559	8,612	-		11,980
Snow Removal		115,000		108,195	6,805		
Culvert Reserve	25,000	25,000	11		-		50,011
Town Roads Reconstruction	329	18,880		12,395	-		6,814
	<u>32,362</u>	<u>245,880</u>	<u>15</u>	<u>202,647</u>	<u>6,805</u>		<u>68,805</u>
Health & Sanitation							
Solid Waste		52,000		52,848	(848)		
Recycling		7,200		6,720	480		
Septic Grant	638				-		638
Septic Waste		1,725		1,725	-		
	<u>638</u>	<u>60,925</u>	<u>-</u>	<u>61,293</u>	<u>(368)</u>		<u>638</u>

**TOWN OF PROSPECT****GENERAL FUND****STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES - BUDGETARY BASIS****FOR THE YEAR ENDED DECEMBER 31, 2017****Exhibit A-2****Page 2 of 2**

	<i>Encumbered from 2016</i>	<i>Appropriation</i>	<i>Receipts and Reimbursements</i>	<i>Expenditures</i>	<i>Balances (Over) Under</i>	<i>Lapsed</i>	<i>Encumbered</i>
Unclassified							
General Assistance		1,500		180	1,320		
Recreation		1,100		1,553	(453)		
WCAP Programs		1,325			1,325		
Charitable Organizations		2,869		2,869	-		
Prospect Historical Society		500		500	-		
Cemeteries		4,000		4,000	-		
Cemeteries Reserve	2,509		3		-		2,512
Veterans and nonveteran graves		500			500		
	<u>2,509</u>	<u>11,794</u>	<u>3</u>	<u>9,102</u>	<u>2,692</u>		<u>2,512</u>
Assessments							
Education		490,212		482,812	7,400		
County Tax		89,569		89,569	-		
Overlay		11,151		1,069	10,082		
		<u>590,932</u>		<u>573,450</u>	<u>17,482</u>		
<b>TOTALS</b>	<u><b>147,883</b></u>	<u><b>1,076,031</b></u>	<u><b>1,794</b></u>	<u><b>982,220</b></u>	<u><b>46,967</b></u>		<u><b>196,521</b></u>

**TOWN OF PROSPECT**  
**GENERAL FUND**  
**STATEMENT OF CHANGES IN UNASSIGNED FUND BALANCE**  
**BUDGETARY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Exhibit A-3**

Unassigned Fund Balance January 1	413,446	
Unassigned Fund Balance December 31	<u>423,551</u>	
<b>Increase / (Decrease)</b>		<b><u><u>10,105</u></u></b>

***Analysis of Change***

Budget Summary		
Revenue Surplus (Exhibit A-1)	68,438	
Unexpended Balance of Appropriations (Exhibit A-2)	<u>46,967</u>	
Budget Surplus		115,405
Deductions		
Beginning Fund Balance Used to Reduce Tax Rate		<u>(105,300)</u>
<b>Increase / (Decrease)</b>		<b><u><u>10,105</u></u></b>

**TOWN OF PROSPECT**  
**ALL GENERAL RESERVES**  
**BALANCE SHEET**  
**DECEMBER 31, 2017**

**Exhibit A-4**

<i>Assets</i>	<i>Municipal Revenue Sharing</i>
Due from Other Funds	<u>6,527</u>
<b>Total Assets</b>	<b><u>6,527</u></b>
<i>Liabilities &amp; Fund Balances</i>	
Liabilities	
Due to Other Funds	<u>                    </u>
Total Liabilities	<u>-</u>
Fund Balances	
Restricted	6,527
Committed	<u>                    </u>
Total Fund Balances	<u>6,527</u>
<b>Total Liabilities &amp; Fund Balances</b>	<b><u>6,527</u></b>

**TOWN OF PROSPECT**  
**ALL GENERAL RESERVES**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Exhibit A-5**

	<b><i>Municipal Revenue Sharing</i></b>
Revenues	
Intergovernmental	33,631
Total Revenues	<u>33,631</u>
Expenditures	
Budgeted Appropriation	<u>38,230</u>
Total Expenditures	<u>38,230</u>
Excess of Revenues Over (Under) Expenditures	(4,599)
Fund Balance - January 1	<u>11,126</u>
Fund Balance - December 31	<u><u>6,527</u></u>