

Town of Sprague, Connecticut

Financial Statements and
Supplementary Information

Year Ended June 30, 2015

Town of Sprague, Connecticut

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Independent Auditors' Report

**The Board of Finance
Town of Sprague, Connecticut**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut ("Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, budgetary comparison information, the Schedules of Funding Progress and Contributions for Other Post-Employment Benefits and the Pension schedules 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 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining fund financial statements and supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the 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 financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

O'Connor Davies, LLP

December 21, 2015

Town of Sprague, Connecticut

Management's Discussion and Analysis
June 30, 2015

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

Our discussion and analysis of the Town of Sprague, Connecticut's (the "Government") financial performance provides an overview of the Government's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Government's financial statements, which begin with Exhibit 1.

FINANCIAL HIGHLIGHTS

- Net Position (Exhibits 1 and 2) increased from fiscal year 2014 by \$1,223,737 which includes a \$482,315 increase in governmental activities and a \$741,422 increase in business-type activities.
- Fund Balance (Exhibits 3 and 4) in the governmental funds decreased from fiscal year 2014 by \$30,649.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the Government as a whole and present a longer-term view of the Government's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. The remaining statements provide financial information about activities for which the Government acts solely as a trustee or agent for the benefit of those outside of the Government.

Reporting the Government as a Whole

Our analysis of the Government as a whole begins with Exhibit 1. One of the most important questions asked about the Government's finances is, "Is the Government as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Government's *net position* and changes in them. You can think of the Government's net position—the difference between assets and liabilities—as one way to measure the Government's financial health, or *financial position*. Over time, *increases or decreases* in the Government's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Government's property tax base and the condition of the Government's roads, to assess the *overall health* of the Government.

Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015

In the Statement of Net Position and the Statement of Activities, the Government shows the following activity:

- **Governmental activities**—The Government's basic services are reported here, including the education, public works, and general administration. Property taxes, state and federal grants and local revenues such as fees and licenses finance most of these activities.
- **Business-type activities**—The Government charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Government's Water and Sewer Fund's operations are reported here.

Reporting the Government's Most Significant Funds

Our analysis of the Government's major funds begins in the section titled "The Government's Funds". The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds—not the Government as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Finance establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Government's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- **Governmental funds**—The Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Government's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Government's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds**—When the Government charges customers for the services it provides—whether to outside customers or to other units of the Government—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Government's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

The Government as Trustee

The Government is the trustee, or *fiduciary*, for the activity funds at the school. These funds do not belong to the Government. The Government's fiduciary activities are reported in separate Statements of Fiduciary Net Position in Exhibits 8. We exclude these activities from the Government's other financial statements because the Government cannot use these assets to finance its operations. The Government is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE GOVERNMENT AS A WHOLE

The Government's *combined* net position increased by \$1,223,737 from a year ago—*increasing* from \$20,921,544 to \$22,145,281. Last year net position *increased* by \$1,992,058. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Government.

Net Position

	Governmental Activities		Business-Type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,856,838	\$ 1,901,255	\$ 399,803	\$ 392,199	\$ 2,256,641	\$ 2,293,454
Capital assets	25,741,791	24,788,293	3,925,818	3,205,199	29,667,609	27,993,492
Total assets	27,598,629	26,689,548	4,325,621	3,597,398	31,924,250	30,286,946
Long-term debt outstanding	9,145,775	8,657,968	9,108	8,463	9,154,883	8,666,431
Other liabilities	616,128	677,169	7,958	21,802	624,086	698,971
Total liabilities	9,761,903	9,335,137	17,066	30,265	9,778,969	9,365,402
Net position						
Net investment in capital assets	17,029,832	16,535,067	3,925,818	3,205,199	20,955,650	19,740,266
Restricted						
Expendable	317,543	400,609	-	-	317,543	400,609
Nonexpendable	1,250	1,250	-	-	1,250	1,250
Unrestricted	488,101	417,485	382,737	361,934	870,838	779,419
Total net position	\$ 17,836,726	\$ 17,354,411	\$ 4,308,555	\$ 3,567,133	\$ 22,145,281	\$ 20,921,544

Governmental capital assets increased by \$953,498 from last year. The majority of this change is due to capital asset additions for the reconstruction of roads, including \$574,874 for the reconstruction of roads and sidewalks on First, Second and Third Streets. Business-type capital assets increased by \$720,619 from last year. The majority of this change is due to capital asset additions of \$831,75 for the Hanover Pump Station.

Governmental long-term debt increased \$487,807 from last year. The majority of this change is due to a net \$477,755 increase in general obligation bonds. Two new bond anticipation notes totaling \$1,077,755 were issued this year for general purposes, including roadway management, fire station upgrades and security equipment and \$600,000 of principal was paid off during the year, for a net increase in long-term debt of \$477,755.

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

The changes in capital assets and long-term debt discussed above caused the \$1,215,384 increase in net investment in capital assets. The changes in capital assets and long-term debt are discussed further in "Capital Assets and Debt Administration."

**Table 2
Change in Net Position (on Exhibit 2)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 322,226	\$ 398,946	\$ 530,934	\$ 524,542	\$ 853,160	\$ 923,488
Operating grants and contributions	4,707,242	4,886,000	-	-	4,707,242	4,886,000
Capital grants and contributions	1,358,901	858,310	854,813	1,166,374	2,213,714	2,024,684
General revenues:						
Property taxes	5,233,363	5,004,858	-	-	5,233,363	5,004,858
Grants and contributions	-	-	-	-	-	-
Interest and investment earnings	1,425	1,241	162	135	1,587	1,376
Gain (loss) on disposal of equipment	-	(7,558)	-	-	-	(7,558)
Other revenues	-	106,801	-	-	-	106,801
Total revenues	11,623,157	11,248,598	1,385,909	1,691,051	13,009,066	12,939,649
Program expenses						
General government	2,683,596	1,784,931	-	-	2,683,596	1,784,931
Public safety	449,186	431,462	-	-	449,186	431,462
Public works	626,975	669,389	-	-	626,975	669,389
Education	7,196,893	7,261,704	-	-	7,196,893	7,261,704
Interest on long-term debt	306,554	305,876	-	-	306,554	305,876
Water and sewer	-	-	522,125	494,229	522,125	494,229
Total expenses	11,263,204	10,453,362	522,125	494,229	11,785,329	10,947,591
Excess (deficiency) before transfers	359,953	795,236	863,784	1,196,822	1,223,737	1,992,058
Transfers	122,362	(73,303)	(122,362)	73,303	-	-
Increase (decrease) in net position	\$ 482,315	\$ 721,933	\$ 741,422	\$ 1,270,125	\$ 1,223,737	\$ 1,992,058

Governmental capital grants and contributions are \$500,591 higher than last year. This change is mainly related to projects in the Capital Non-recurring Fund.

For general government projects, in the prior year, \$100,905 and \$110,627 was received for the Grist Mill and LaCroix Road Bridge projects. At the end of fiscal year 2014, the Grist Mill project was nearly complete and the LaCroix Road Bridge project was complete, so no grant funds were received this year. In the current year, \$650,000 in grant revenue was received for road projects. The \$650,000 includes a \$500,000 STEAP grant and a \$150,000 Municipal Aid Adjustment grant.

For public works projects, a \$317,848 grant was received for the Hanover Pump Station in the prior year and \$487,747 was received in the current year. This is a combination of STEAP, USDA, and FEMA grants.

For education projects, a \$77,332 grant was received for Sayles School security and boiler replacement in the prior year.

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

Prior year general revenues were a net premium received on bonds which included a \$219,926 premium net with \$113,125 bonding expense.

General government expenditures increased \$898,665 from the prior year. \$317,848 of this change was from prior year construction in progress that was recorded as Water and Sewer fixed asset this year. \$513,927 of this is an expenditure in the Capital and Non-recurring Fund in the current year for the Hanover Pump Station project which was recorded in the Water and Sewer Fund as a capital contribution.

Business-type capital grants and contributions decreased \$311,561 from last year. Both the current year and the prior year capital contributions relate to the Hanover Pump Station which was paid for out of the Capital and Non-recurring Fund. The project was finished during the current year.

Governmental Activities

Table 3 presents the cost of each of the Government's governmental programs as well as each governmental program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Government's taxpayers by each of these functions.

**Table 3
Governmental Type Activities**

	Total Cost of Services			Incr. Decr.	Net Cost of Services		
	2015	2014			2015	2014	Incr. Decr.
Governmental Activities							
General government	\$ 2,683,596	\$ 1,784,931	50.35%	\$ 836,494	\$ 287,764	190.69%	
Public safety	\$ 449,186	\$ 431,462	4.11%	\$ 357,566	\$ 347,962	2.76%	
Public works	\$ 626,975	\$ 669,389	-6.34%	\$ (96,131)	\$ 27,733	-446.63%	
Education	\$ 7,196,893	\$ 7,261,704	-0.89%	\$ 3,470,352	\$ 3,340,771	3.88%	
Interest on LTD	\$ 306,554	\$ 305,876	0.22%	\$ 306,554	\$ 305,876	0.22%	
Totals	\$ 11,263,204	\$ 10,453,362	7.75%	\$ 4,874,835	\$ 4,310,106	13.10%	

The net cost of general government services increased \$548,730 or 190.69%. This was due to the increase in expenditures for Water and Sewer capital assets paid for out of the Capital and Non-recurring fund discussed above. The \$349,935 increase in general government revenues discussed above was not enough to cover the increase in expenditures.

The net cost of public works services decreased \$123,864 or 446.63%. There was no significant change in expenditures from the prior year, however \$170,718 more in grant revenues was received for the pump station.

Business-type Activities

The only business-type activity in Sprague is the Water and Sewer Fund. Table 4 presents the cost of the Government's business-type programs as well as the business-type program's net cost (total cost less revenues generated by the activities).

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

**Table 4
Business-Type Activities**

	Total Cost of Services		Incr. Decr.	Net Cost of Services		Incr. Decr.
	2015	2014		2015	2014	
Business-Type Activities						
Water and Sewer	522,125	494,229	5.64%	(863,622)	(1,196,687)	-27.83%
Totals	\$ 522,125	\$ 494,229	5.64%	\$ (863,622)	\$ (1,196,687)	-27.83%

The \$333,065 or 27.83% decrease in the net cost of services is due to the decrease in capital contributions from the Capital and Non-recurring fund discussed above.

THE GOVERNMENT'S FUNDS

While the year showed an increase in governmental funds net position of \$482,315, it showed a decrease in fund balance in the governmental funds of \$30,649 as presented in Exhibits 3 and 4. The difference for this is primarily the treatment of long-term debt and capital assets. In the fund balance principal payments on long-term debt are a reduction in fund balance when the payments on the debt are made. Debt payments are never a direct reduction in net position on the government-wide statements. Likewise, purchases of capital assets are a reduction in fund balance when the purchase is made. Capital asset purchases are never a direct reduction in net position on the government-wide statements.

Capital outlay exceeded depreciation expense by \$953,498 in the current year. Proceeds from general obligation bonds exceeded principal payments on long-term debt by \$458,733 in the current year.

In addition, these other changes in fund balances should be noted:

- The General Fund's fund balance decreased by \$213,149. This is mainly due to a deficiency of revenues over expenditures of \$319,412. This is discussed further in "General Fund Budgetary Highlights."
- The Capital Non-recurring Fund's fund balance increased \$145,768. This change in fund balance included:
 - Issuance of short-term notes of \$1,077,755 which were used to cover expenditures on the reconstruction of Pautipaug Hill Road and First, Second and Third Streets, security cameras, sidewalk rehabilitation on 1st, 2nd, and 3rd Streets, various road improvements and repair, Baltic Fire Department building improvements, and other small items.
 - Grant and other revenues totaling \$1,431,580. This included \$612,138 received for the Hanover Pump Station and \$650,350 for road improvements. Pump station grant revenues included STEAP, USDA and FEMA grants. Road improvement grant revenues included \$500,000 from STEAP and \$150,000 from Municipal Aid Adjustment.

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

- Current year expenditures totaled \$2,402,086. This included:
 - \$1,372,880 spent on reconstruction of Pautipaug Hill Road and other road improvements, funded by bonding and grant revenues
 - \$484,546 spent on the Hanover Pump Station, funded by grant revenues
 - \$141,333 spent on reconstruction of roads and sidewalks for First, Second and Third Streets, funded by bonding and grant revenues

General Fund Budgetary Highlights

Over the course of the year, the Board of Finance can revise the Government budget with additional appropriations and budget transfers. Additional appropriations increase the total budget. The Board of Finance is allowed by State Statute to make one additional appropriation up to \$20,000 per line item or department. A second additional appropriation or an appropriation over \$20,000 requires a Town Meeting. Transfers do not increase the total budget, but instead pull appropriations from one department that needs additional funding from other departments that might have excess funding. State Statutes allow these transfers to be made by the Board of Finance without a Town Meeting. Below is a summarized view of the final budget and actual results for the General Fund:

**Table 5
General Fund - Budget Summary**

Revenues	Final Budget	Actual	Variance
Property Taxes	\$ 5,221,054	\$ 5,043,815	\$ (177,239)
State Grants - School	2,699,293	2,654,311	(44,982)
State Grants - Local	621,882	598,082	(23,800)
Local Revenues	223,540	218,871	(4,669)
Total Revenues	8,765,769	8,515,079	(250,690)
Expenditures			
General Government	1,856,003	1,864,422	(8,419)
Capital Budget	920,319	920,318	1
Education	6,027,331	6,009,968	17,363
Total Expenditures	8,803,653	8,794,708	8,945
Increase (Decrease) in Fund Balance	\$ (37,884)	\$ (279,629)	\$ (241,745)

Both the original and final budgets planned for a decrease in fund balance of \$37,884. The actual change in fund balance was a decrease of \$279,629. This was a change of \$241,745 from the budget.

**Town of Sprague, Connecticut
Management's Discussion and Analysis
June 30, 2015**

Significant variances are summarized as follows:

- Property taxes were \$177,239 under the budgeted amount. Prior year taxes and interest and lien fees were \$184,353 and \$45,658 higher than expected. Current year taxes were \$407,250 lower than expected, mainly due to non-payment by one large taxpayer in the town.
- State grants related to the school were \$44,982 lower than expected, mainly due to a \$36,715 decrease in the Education Cost Sharing grant.
- State grants related to the town were \$23,800 under budget, mainly due to budgeting \$11,507 for the Municipal Revenue Sharing grant which was not received.
- General government expenditures were over budget by \$8,419. The highway line item was \$20,953 over budget mainly due to storm materials. This was somewhat offset by various line items being under budget and FEMA revenue received in the next fiscal year.
- Board of education expenditures were \$17,363 under budget due to a number of factors, the most notable being medical benefits were \$76,543 under budget and total tuition was \$63,673 over budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of this year, the Government had \$25,741,791 invested in governmental capital assets. This amount represents a net increase (including additions and deductions) of \$953,498 from last year. This is primarily due to net additions of \$1,664,252 and depreciation expense of \$710,754. Additions included a transfer of \$1,290,619 of assets from construction in progress to buildings and improvements and infrastructure for the town garage project and road and sidewalk rehabilitation. This also included a \$317,878 capital contribution to the Water and Sewer Fund for the Hanover Pump Station. Other additions included \$601,564 to construction in progress for road and sidewalk rehabilitation and \$1,229,996 for road improvements. More detailed information about the Government's capital assets is presented in Note 3D to the financial statements.

Debt

At year end, the Government had \$8,711,959 in bonds and notes outstanding. This is an increase of \$458,733 from last year. During the year, bond anticipation notes totaling \$1,077,755 were issued and \$600,000 in principal on general obligation bonds was paid off. The Clean Water loan decreased \$19,022 from \$753,226 to \$734,204. The Government's general obligation bond rating continues to carry an A2 rating. More detailed information about the Government's long-term liabilities is presented in Note 3E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Government's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget and tax rate including the state and local economy, anticipated tax collections and any uncertainty regarding the levels of state funding to be received.

The State of Connecticut's Office of Policy and Management ("OPM") has adopted new laws that will affect the Government's budgets in subsequent years. The motor vehicle mill rate will be capped at 32 mills in fiscal-year 2017 and 29.36 mills in fiscal-year 2018 and annually thereafter. Beginning in fiscal-year 2018, a cap will be imposed on municipal spending to limit general budget expenditures to 2.5 percent above the previous year or the rate of inflation, whichever is greater. Exemptions from the cap include debt service, special education expenditures, and expenditures related to major disaster or emergency declaration. The Minimum Budget Requirement ("MBR") for education expenditures has been relaxed effective July 1, 2015. The change allows the Government more flexibility in lowering its MRB.

CONTACTING THE GOVERNMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Government's finances and to show the Government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Finance at the Town of Sprague, Connecticut, 1 Main Street, P.O. Box 677, Baltic, CT 06330.

Town of Sprague, Connecticut

Basic Financial Statements
June 30, 2015

Town of Sprague, Connecticut

Statement of Net Position
June 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and equivalents	\$ 649,534	\$ 285,896	\$ 935,430
Receivables			
Taxes, net	537,486	-	537,486
Accounts	84,989	-	84,989
Usage	-	109,228	109,228
Loans	234,916	-	234,916
Intergovernmental	262,696	-	262,696
Due from governmental activities	-	1,236	1,236
Prepaid expenses	78,016	1,175	79,191
Inventories	9,201	2,268	11,469
Capital assets			
Nondepreciable	7,728,010	-	7,728,010
Depreciable, net of accumulated depreciation	18,013,781	3,925,818	21,939,599
Total Assets	<u>\$ 27,598,629</u>	<u>\$ 4,325,621</u>	<u>\$ 31,924,250</u>
LIABILITIES			
Accounts payable	\$ 466,260	\$ 3,599	\$ 469,859
Accrued payroll and related	22,437	4,359	26,796
Accrued interest payable	95,075	-	95,075
Due to business type activities	1,236	-	1,236
Due to others	22,749	-	22,749
Unearned revenues	8,371	-	8,371
Non-current liabilities			
Due within one year	1,706,259	-	1,706,259
Due in more than one year	7,439,516	9,108	7,448,624
Total Liabilities	<u>9,761,903</u>	<u>17,066</u>	<u>9,778,969</u>
NET POSITION			
Net investment in capital assets	17,029,832	3,925,818	20,955,650
Restricted			
Expendable	317,543	-	317,543
Nonexpendable	1,250	-	1,250
Unrestricted	488,101	382,737	870,838
Total Net Position	<u>\$ 17,836,726</u>	<u>\$ 4,308,555</u>	<u>\$ 22,145,281</u>

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

Town of Sprague, Connecticut

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities							
General government	\$ (2,683,596)	\$ 147,057	\$ 991,801	\$ 708,244	\$ (836,494)		\$ (836,494)
Public safety	(449,186)	71,113	16,787	3,720	(357,566)		(357,566)
Public works	(626,975)	49,823	26,346	646,937	96,131		96,131
Education	(7,196,893)	54,233	3,672,308	-	(3,470,352)		(3,470,352)
Interest on long-term debt	(306,554)	-	-	-	(306,554)		(306,554)
Total Governmental Activities	<u>(11,263,204)</u>	<u>322,226</u>	<u>4,707,242</u>	<u>1,358,901</u>	<u>(4,874,835)</u>		<u>(4,874,835)</u>
Business-type activities							
Water and Sewer Enterprise Fund	<u>(522,125)</u>	<u>530,934</u>	<u>-</u>	<u>854,813</u>		<u>863,622</u>	<u>863,622</u>
Total Primary Government	<u>\$ (11,785,329)</u>	<u>\$ 853,160</u>	<u>\$ 4,707,242</u>	<u>\$ 2,213,714</u>		<u>863,622</u>	<u>(4,011,213)</u>
General Revenues							
Property taxes, payments in lieu of taxes, interest and lien:					5,233,363	-	5,233,363
Unrestricted interest and investment earnings					1,425	162	1,587
Transfers in (transfers out)					<u>122,362</u>	<u>(122,362)</u>	<u>-</u>
Total General Revenues					<u>5,357,150</u>	<u>(122,200)</u>	<u>5,234,950</u>
Change in Net Position					482,315	741,422	1,223,737
Net Position - Beginning of Year					<u>17,354,411</u>	<u>3,567,133</u>	<u>20,921,544</u>
Net Position - End of Year					<u>\$ 17,836,726</u>	<u>\$ 4,308,555</u>	<u>\$ 22,145,281</u>

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

Town of Sprague, Connecticut

Balance Sheet
 Governmental Funds
 June 30, 2015

	General	Capital Nonrecurring Fund	Small Cities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents	\$ 470,357	\$ 25,992	\$ 9,755	\$ 143,430	\$ 649,534
Taxes receivable, net of allowance for uncollectible amounts	537,486	-	-	-	537,486
Other receivables					
Accounts	84,914	-	-	75	84,989
Loans	-	-	234,916	-	234,916
Intergovernmental	-	52,923	209,773	-	262,696
Due from other funds	-	99,561	-	25,573	125,134
Prepaid expenditures	78,016	-	-	-	78,016
Inventories	6,802	-	-	2,399	9,201
Total Assets	<u>\$ 1,177,575</u>	<u>\$ 178,476</u>	<u>\$ 454,444</u>	<u>\$ 171,477</u>	<u>\$ 1,981,972</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 49,085	\$ 202,615	\$ 214,054	\$ 506	\$ 466,260
Accrued payroll and related	22,204	-	-	233	22,437
Due to other funds	116,485	5,202	4,683	-	126,370
Due to others	22,749	-	-	-	22,749
Unearned revenues	-	-	-	8,371	8,371
Total Liabilities:	<u>210,523</u>	<u>207,817</u>	<u>218,737</u>	<u>9,110</u>	<u>646,187</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenues - not available	<u>476,406</u>	<u>4,020</u>	<u>-</u>	<u>-</u>	<u>480,426</u>
Fund balances (deficits)					
Nonspendable	84,818	-	-	3,649	88,467
Restricted	-	79,206	234,916	3,421	317,543
Committed	-	194,141	-	-	194,141
Assigned	131	164,834	791	155,340	321,096
Unassigned	405,697	(471,542)	-	(43)	(65,888)
Total Fund Balances (Deficits)	<u>490,646</u>	<u>(33,361)</u>	<u>235,707</u>	<u>162,367</u>	<u>855,359</u>
Total Liabilities, Deferred inflows c					
Resources and Fund Balances (Deficits)	<u>\$ 1,177,575</u>	<u>\$ 178,476</u>	<u>\$ 454,444</u>	<u>\$ 171,477</u>	<u>\$ 1,981,972</u>

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

Town of Sprague, Connecticut
 Reconciliation of Governmental Funds Balance Sheet
 to the Government Wide Statement of Net Position - Governmental Activities
 June 30, 2015

Fund Balances - Total Governmental Funds	\$ <u>855,359</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>25,741,791</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u>480,426</u>
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds	(7,977,755)
Loans payable	(734,204)
Compensated absences	(50,453)
Post-closure landfill costs	(10,800)
Other post employment benefit obligations	(372,563)
Accrued interest	<u>(95,075)</u>
	<u>(9,240,850)</u>
Net Position of Governmental Activities	<u>\$17,836,726</u>

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

Town of Sprague, Connecticut

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	General	Capital Nonrecurring Fund	Small Cities Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property tax, interest and lien fees	\$5,043,815	\$ -	\$ -	\$ -	\$ 5,043,815
Intergovernmental revenues	3,841,555	1,370,562	499,035	491,188	6,202,340
Local revenues	134,442	61,018	-	133,389	328,849
Total Revenues	<u>9,019,812</u>	<u>1,431,580</u>	<u>499,035</u>	<u>624,577</u>	<u>11,575,004</u>
EXPENDITURES					
Current expenditures					
General government	997,136	9,359	53,573	7,527	1,067,595
Public service	293,887	-	-	60,529	354,416
Public works	540,502	-	-	-	540,502
Education	6,544,087	-	-	519,789	7,063,876
Debt service					
Principal	641,442	-	-	-	641,442
Interest	305,674	-	-	-	305,674
Capital outlay	16,496	2,355,941	445,462	-	2,817,899
Total Expenditures	<u>9,339,224</u>	<u>2,365,300</u>	<u>499,035</u>	<u>587,845</u>	<u>12,791,404</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(319,412)</u>	<u>(933,720)</u>	<u>-</u>	<u>36,732</u>	<u>(1,216,400)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	135,063	32,028	-	-	167,091
Transfers out	(28,800)	(15,929)	-	-	(44,729)
Issuance of long term bonds and notes	-	1,100,175	-	-	1,100,175
Discount on financing	-	(36,786)	-	-	(36,786)
Total Other Financing Sources	<u>106,263</u>	<u>1,079,488</u>	<u>-</u>	<u>-</u>	<u>1,185,751</u>
Net Change in Fund Balances	(213,149)	145,768	-	36,732	(30,649)
Fund Balances (Deficits) - Beginning of Year	<u>703,795</u>	<u>(179,129)</u>	<u>235,707</u>	<u>125,635</u>	<u>886,008</u>
Fund Balances (Deficits) - End of Year	<u>\$ 490,646</u>	<u>\$ (33,361)</u>	<u>\$ 235,707</u>	<u>\$ 162,367</u>	<u>\$ 855,359</u>

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

Town of Sprague, Connecticut
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 Year Ended June 30, 2015

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Net Change in Fund Balances - Total Governmental Fund \$ (30,649)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital outlay expenditures	1,664,252
Depreciation expense	<u>(710,754)</u>
	<u>953,498</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Real property taxes and other revenues in the General Fund	211,185
Revenues in the Capital Nonrecurring Fun	<u>(163,032)</u>
	<u>48,153</u>

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Proceeds from long-term debt - general obligation bonds	(1,100,175)
Principal payments on long-term deb	<u>641,442</u>
	<u>(458,733)</u>

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, including the change in

Accrued interest	(880)
Change in compensated absences	10,180
Pollution remediation obligation - landfill	1,200
Change in pension and other post employment benefits asset/liabili	<u>(40,454)</u>
	<u>(29,954)</u>

Change in Net Position of Governmental Activities \$ 482,315

Town of Sprague, Connecticut

Statement of Net Position
 Proprietary Funds
 June 30, 2015

	Business-type Activities- Enterprise Funds <u>Water and Sewer Fund</u>
ASSETS	
Current Assets	
Cash and equivalents	\$ 285,896
Receivables	
Usage	109,228
Due from other funds	1,236
Prepaid expenses	1,175
Inventory and other assets	<u>2,268</u>
Total Current Assets	<u>399,803</u>
Noncurrent Assets	
Capital assets	
Machinery and equipment	6,244,715
Less - Accumulated depreciation	<u>(2,318,897)</u>
Total Capital Assets, net of accumulated depreciation	<u>3,925,818</u>
Total Assets	<u>4,325,621</u>
LIABILITIES	
Current Liabilities	
Accounts payable	3,599
Accrued payroll and related	<u>4,359</u>
Total Current Liabilities	7,958
Noncurrent Liabilities	
Compensated absences	<u>9,108</u>
Total Liabilities	<u>17,066</u>
NET POSITION	
Net investment in capital assets	3,925,818
Unrestricted	<u>382,737</u>
Total Net Position	<u>\$ 4,308,555</u>

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

Town of Sprague, Connecticut

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2015

	<u>Business-type Activities- Enterprise Funds Water and Sewer Fund</u>
Operating Revenues	
Charges for services	\$ 530,930
Miscellaneous	<u>4</u>
Total Operating Revenues	<u>530,934</u>
Operating Expenses	
Employee expenses	167,862
Contractual services	13,879
Utilities	78,540
Repairs and maintenance	8,752
Other supplies and expenses	112,958
Depreciation	<u>134,194</u>
Total Operating Expenses	<u>516,185</u>
Income from Operations	<u>14,749</u>
Non-Operating Revenues (Expenses)	
Interest income	162
Capital contributions from the Town	854,813
Bond issue costs	<u>(5,940)</u>
Total Non-Operating Revenues (Expenses)	<u>849,035</u>
Income Before Transfers	863,784
Transfers in	15,929
Transfers out	<u>(138,291)</u>
Change in Net Position	741,422
Net Position - Beginning of Year	<u>3,567,133</u>
Net Position - End of Year	<u>\$ 4,308,555</u>

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

Town of Sprague, Connecticut

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2015

	Business-type Activities- Enterprise Funds <u>Water and Sewer Fund</u>
Cash Flows From Operating Activities	
Cash received from customers and users	\$ 542,874
Cash payments to employees	(166,181)
Cash payments to suppliers	<u>(228,503)</u>
Net Cash From Operating Activities	<u>148,190</u>
Cash Flows From Capital and Related Financing Activities	
Bond issue costs	<u>(5,940)</u>
Cash Flows From Non-Capital Financing Activities	
Transfers in	15,929
Transfers out	<u>(138,291)</u>
Net Cash From Non-Capital Financing Activities	<u>(122,362)</u>
Cash Flows From Investing Activities	
Interest income	<u>162</u>
Net Increase in Cash and Equivalents	20,050
Cash and Equivalents - Beginning of Year	<u>265,846</u>
Cash and Equivalents - End of Year	<u>\$ 285,896</u>
Reconciliation of Income from Operations to Net Cash from Operating Activities	
Income from operations	\$ 14,749
Adjustments to reconcile income from operations to net cash provided by operating activities	
Depreciation	134,194
Changes in operating assets and liabilities	
Accounts receivable	11,940
Due from other funds	(1,236)
Prepaid expenses	1,666
Inventory and other assets	77
Accounts payable	(14,880)
Accrued payroll and related	1,035
Compensated absences	645
Net Cash From Operating Activities	<u>\$ 148,190</u>
Noncash Transactions	
Contribution of Capital Asset	<u>\$ 854,813</u>

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

Town of Sprague, Connecticut

Statement of Net Position
Fiduciary Funds
June 30, 2015

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 19,755</u>
LIABILITIES	
Due to students	<u>\$ 19,755</u>

Town of Sprague, Connecticut

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies

The Town of Sprague, Connecticut ("Town") is a municipal corporation governed by a selectmen–town meeting form of government. Under this form of government the town meeting is the legislative body. A town meeting is required to make appropriations, levy taxes and borrow money. The administrative branch is led by an elected three-member board of selectmen. The selectmen oversee most of the activities not assigned specifically to another body. An elected board of education oversees the public school system. The elected Board of Finance is the budget making authority and supervises the town financial matters.

The accounting policies conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town's more significant accounting policies:

A. Financial Reporting Entity

The financial reporting entity consists of: a) the primary government; b) organizations for which the primary government is financially accountable and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the financial reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in this reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. The criterion has been considered and there are no agencies or entities which should be presented with this government.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (if any), which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the financial position of the Town at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Town maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. The Town maintains proprietary and fiduciary funds, which are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the pages following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

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 and enterprise funds are reported as separate columns in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the enterprise funds and the Internal Service funds are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, depreciation costs and benefit costs. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

The Town's resources are reflected in the fund financial statements in three broad fund categories, in accordance with generally accepted accounting principles as follows:

Fund Categories

- a. Governmental Funds - Governmental funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the Town's major governmental funds:

General Fund - The General Fund constitutes the primary operating fund of the Town and is used to account for and report all financial resources not accounted for and reported in another fund.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

Capital and Nonrecurring Fund - The Capital and Nonrecurring Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

Small Cities Fund - The Small Cities Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for the Federal community development block grants for both program income and the Elm and Maple project.

The Town also reports the following non-major governmental funds:

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purpose other than debt service or capital projects. The non-major Special Revenue Funds of the Town are:

- The Library Fund is used to account for the transactions of the Sprague Public Library.
- The Dog Fund is used to collect fees from dog licenses and to spend for related costs.
- The Child Nutrition Fund is used to account for the cafeteria at the elementary school.
- The Education Grants Fund is used to account for State, Federal, and private grants to be used for educational purposes.
- The Recreation Fund is used for the transactions of the Parks & Recreation Committee.
- The Scholarship Fund is used to account for donations for and expenditures of fund for Sprague student scholarships.
- The Senior Smile Fund is used to account for transactions related to the Senior Center.

The Town's permanent fund is the Lovett Cemetery Fund – The Lovett Cemetery Fund is used to maintain the principal endowment of the cemetery fund and accounts for the financial transactions of the Lovett Cemetery.

- b. Proprietary Funds - Proprietary funds include enterprise and internal service funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability. Enterprise funds are used to account for those operations that provide services to the public. Internal Service funds are used to account for those operations that provide services to the Town. The following are the Town's major proprietary funds:

Water and Sewer Fund – The Water and Sewer Fund accounts for transactions through the Sprague Water and Sewer Authority. The authority has the responsibility to plan and direct the water and sewage supply, systems, disposal and distribution facilities for certain sections of the town.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

- c. Fiduciary Funds (Not Included in Government-Wide Financial Statements) - The Fiduciary Funds are used to account for assets held by the Town in an agency capacity on behalf of others. These include Agency funds. The Agency Fund is primarily utilized to account for monies held as custodian for outside student groups.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. The Agency Fund has no measurement focus, but utilizes the accrual basis of accounting. Revenues are recorded when earned 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 imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property taxes and certain other revenues are considered to be available if collected within sixty days of the fiscal year end. Property taxes associated with the current fiscal period, as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures, when applicable, related to early retirement incentives, compensated absences, capital leases, post-closure landfill costs, pollution remediation obligations, other post-employment benefit obligations, certain pension obligations and certain claims payable are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position or Fund Balances

Deposits and Risk Disclosure

Cash and Equivalents - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts, certificates of deposit, money market funds, State of Connecticut Treasurer's Short-Term Investment Fund, Tax Exempt Proceeds Funds and treasury bills with original maturities of less than three months.

The Town's custodial credit risk policy is to only allow the Town to use banks that are in the State of Connecticut. The State of Connecticut requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk-based capital ratio.

The Short-Term Investment Fund ("STIF"), is a money market investment pool managed by the Cash Management Division of the State Treasurer's Office created by Section 3-27 of the Connecticut General Statutes ("CGS"). Pursuant to CGS 3-27a through 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the fund. The fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Security and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use the amortized cost to report net assets. The pool is rated AAAM by Standard & Poor. This is the highest rating for money market funds and investment pools. The pooled investment funds' risk category cannot be determined since the Town does not own identifiable securities but invests as a shareholder of the investment pool.

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Town does not invest in any long-term investment obligations.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial credit risk is to invest in obligations allowable under the Connecticut General Statutes as described previously.

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Town does not have a formal credit risk policy other than restrictions to obligations allowable under the Connecticut General Statutes.

Concentration of Credit Risk – Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Town follows the limitations specified in the Connecticut General Statutes. Generally, the Town's deposits cannot be 75% or more of the total capital of any one depository.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

Taxes Receivable - Property taxes are assessed on property values as of October 1st. The tax levy is divided into two billings; the following July 1st and January 1st. This is used to finance the fiscal year from the first billing (July 1st) to June 30th of the following year. The billings are considered due on those dates; however, the actual due date is based on a period ending 31 days after the tax bill. On these dates (August 1st and February 1st), the bill becomes delinquent at which time the applicable property is subject to lien, and penalties and interest are assessed.

Under State Statute, the Town has the right to impose a lien on a taxpayer if any personal property tax, other than a motor vehicle tax, due to the Town is not paid within the time limited by any local charter or ordinance. The lien shall be effective for a period of fifteen years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than two years from the date of assessment for the taxes claimed to be due.

Other Receivables - Other receivables include amounts due from other governments and individuals for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

Prepaid Expenses/Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Reported amounts are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

Inventories - Inventories in the governmental and business-type funds are valued at cost on a first-in, first-out basis. The cost is recorded as inventory at the time individual items are purchased. The Town uses the consumption method to relieve inventory. In the fund financial statements, reported amounts are equally offset by nonspendable fund balance in governmental funds, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets. Purchases of other inventoriable items are recorded as expenditures/expenses at the time of purchase and year-end balances are not material.

Due From/To Other Funds - During the course of its operations, the Town has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (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 the capitalization threshold for that asset type and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

Intangible assets lack physical substance, is nonfinancial in nature and its useful life extends beyond a single reporting period. These are reported at historical cost if identifiable. Intangible assets with no legal, contractual, regulatory, technological or other factors limiting their useful life are considered to have an indefinite useful life and are not amortized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land is considered inexhaustible and, therefore, not depreciated. Property, plant, and equipment of the Town is depreciated or amortized using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ 50,000
Construction in progress	N/A	\$ 5,000
Buildings	50	\$ 30,000
Building improvements	50	\$ 15,000
Machinery and equipment	5 – 20	\$ 5-15,000
Infrastructure	25 – 50	\$ 5-100,000

Unearned Revenues - Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenue received in advance and/or amounts from grants received before the eligibility requirements have been met.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Also, deferred revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts in the fund financial statements have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

As of June 30, 2015, \$480,426 was reported as deferred inflows of resources in the fund financial statements.

1. Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

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

Compensated Absences - Town employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement.

Net Position - Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position on the Statement of Net Position includes, net investment in capital assets and restricted. The balance is classified as unrestricted.

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

- Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).
- Restricted fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and other items contained in the Connecticut statutes.
- Committed fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the Town's highest level of decision making authority. A motion at a Town Meeting is the highest level of decision making authority for the Town that can, by the adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the Town removes or changes the purpose by taking the same action that was used to establish the commitment.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

- Assigned fund balance, in the General Fund, represents amounts constrained either by policies of the Board of Finance for amounts assigned for balancing the subsequent year's budget or management for amounts assigned for encumbrances. Unlike commitments, assignments generally only exist temporarily, in that additional action does not normally have to be taken for the removal of an assignment. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.
- Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred outflows.

In order to calculate the amounts to report as restricted and unrestricted fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Town's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Town's policy to use fund balance in the following order: committed, assigned, and unassigned.

F. Encumbrances

In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is generally employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are generally reported as assigned fund balance since they do not constitute expenditures or liabilities.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

H. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 21, 2015.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

2. Stewardship, Compliance and Accountability

A. Budget Basis

A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions:

- **Teachers' Retirement** - The Town does not recognize as income or expenditures payments made for the teachers' retirement by the State of Connecticut on the Town's behalf in its budget. The Governmental Accounting Standards Board's Statement 24 requires that the employer government recognize payments for salaries and fringe benefits paid on behalf of its employees.
- **Encumbrances** - Unless committed through a formal encumbrance (e.g., purchase orders, signed contracts), all annual appropriations lapse at fiscal year-end. Encumbrances outstanding at year end are reported on the budgetary basis statements as expenditures.
- **Excess Cost and Certain Other Grant** - The State reimburses the Town for certain costs incurred for special educational needs of students that exceed a set multiple of a student in the regular program. This reimbursement is the Excess Cost Grant – Student Based. Connecticut General Statute 10-76g states that this grant should reduce the education expenditures instead of being reported as a revenue.
- **Long-Term Debt and Lease Financing** - Revenues and expenditures from refunding or renewing long-term debt or issuing lease financing are included in the budget as the net revenues or expenditures expected.
- **Cash Basis Payroll** – The general government payroll is budgeted based on when it is expected to be paid. On the statements prepared under Generally Accepted Accounting Principles, payroll is charged to the fiscal year in which it is earned.
- **Police Overtime and FEMA Reimbursements** – Police overtime reimbursement grants and FEMA grants are net with the related expenditures.

B. Budget Calendar

The Boards of Selectmen and Education submit requests for appropriation(s) to the Board of Finance. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations of the next fiscal year.

The Board of Finance holds a public hearing, at which itemized estimates of the expenditures of the Town for the next fiscal year are presented. At this time, individuals are able to recommend any appropriations, which they desire the Board of Finance to consider. The Board of Finance then considers the estimates and any other matters brought to their attention at a public meeting held subsequent to the public hearing and prior to the annual meeting. The Board of Finance prepares the proposed budget.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

2. Stewardship, Compliance and Accountability (Continued)

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on this budget. After the Annual Town Meeting the Board of Finance meets to levy a tax on the grand list which will be sufficient to cover, together with other income or revenue surplus which is appropriated, the amounts appropriated and any revenue deficit of the Town.

C. Budget Control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level except expenditures for education, which are, by State Statutes, appropriated as one department.

The governing body may amend the annual budget subject to the requirements of the Connecticut General Statutes. The Board of Finance may make a one-time additional appropriation up to \$20,000 to any appropriations. A Town meeting must be called to make appropriations over \$20,000 or additional changes to a previously adjusted appropriation.

No additional appropriations were made during the fiscal year.

D. Expenditures in Excess of Budget

The following appropriations were over expended by the amount indicated:

General Government Operating Budget

Highways	\$	20,953
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E. Application of Accounting Standards

For the year ended June 30, 2015, the Town implemented:

- GASB Statement 68 - *Accounting and Financial Reporting for Pensions* – This statement, and GASB Statement 67 applicable to pension plans, improves information provided by state and local government employers for better decision making, accountability, interperiod equity, and creating additional transparency.
- GASB Statement 69 – *Government Combinations and Disposals of Government Operations* - This statement establishes accounting and financial reporting standards related to a variety of transactions such as mergers, acquisitions, and transfers of operations.
- GASB Statement 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* – This statement is an amendment of GASB Statement 68 and should be applied simultaneously with the provisions of Statement 68.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

2. Stewardship, Compliance and Accountability (Continued)

F. Fund Deficit

The Capital Nonrecurring Fund and Lovett Cemetery Fund have unassigned deficits of \$471,542 and \$43 at June 30, 2015. The Town will address these deficits next year.

3. Detailed Notes on All Funds

A. Cash, Cash Equivalents and Investments

Cash and investments of the Town consist of the following at June 30, 2015:

Statement of Net Position	
Cash and equivalents	<u>\$ 935,430</u>
Fiduciary Funds	
Cash and equivalents	<u>19,755</u>
Total Cash and Investments	<u><u>\$ 955,185</u></u>

Cash and Cash Equivalents - As of June 30, 2015 the carrying amount of the Town's deposits with financial institutions was:

Cash and Cash Equivalents	
Deposits with financial institutions	\$ 933,156
Plus external investment pools	<u>22,029</u>
	<u><u>\$ 955,185</u></u>

The bank balance of the deposits was \$1,154,028 and exposed to custodial credit risk as follows:

Covered by Federal Depository Insurance	\$ 810,745
Uninsured and uncollateralized	<u>343,283</u>
	<u><u>\$ 1,154,028</u></u>

B. Receivables, Deferred Revenue and Unearned Revenue

Of the \$537,486 net property tax receivables, 37.5% was owed by one taxpayer.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. The following were reported as *deferred revenue* because they were not received within 60 days of the year end:

	General Fund	Capital Non-Recurring
Property taxes	\$ 454,769	\$ -
Intergovernmental revenue	21,382	4,020
Other	255	-
	<u><u>\$ 476,406</u></u>	<u><u>\$ 4,020</u></u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. This is recorded as the liability *unearned revenue* at June 30, 2015

	Other Governmental Funds
Advances on grants	<u>\$ 8,371</u>

C. Interfund Transactions

The outstanding balances between funds result mainly from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made. At June 30, 2015 these were summarized as follows

Receivable fund	Payable Fund	Amount
Capital Non-Recurring	General Fund	\$ 94,878
Capital Non-Recurring	Small Cities	4,683
Water and Sewer	General Fund	1,236
Other Funds	General Fund	20,371
Other Funds	Capital Non-Recurring	<u>5,202</u>
		<u>\$ 126,370</u>

Fund transfers are generally used to fund special projects with general fund revenues. Transfers during the year ended June 30, 2015 were as follows:

	Transfers into:			
	General Fund	Capital Non-Recurring	Water and Sewer Fund	Total
Transfers out of:				
General Fund	\$ -	\$ 28,800	\$ -	\$ 28,800
Capital Non-Recurring	-	-	15,929	15,929
Water and Sewer Fund	135,063	3,228	-	138,291
	<u>\$ 135,063</u>	<u>\$ 32,028</u>	<u>\$ 15,929</u>	<u>\$ 183,020</u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

D. Capital Assets

Changes in the Town's capital assets used in the governmental activities are as follows

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	7,114,287	\$ -	\$ -	\$ 7,114,287
Construction in progress	1,302,778	601,564	(1,290,619)	613,723
	<u>8,417,065</u>	<u>601,564</u>	<u>(1,290,619)</u>	<u>7,728,010</u>
Capital assets being depreciated				
Buildings and systems	9,789,731	490,366	(19,065)	10,261,032
Machinery and equipment	3,515,629	85,587	-	3,601,216
Infrastructure	12,125,162	1,889,322	(92,904)	13,921,580
	<u>25,430,522</u>	<u>2,465,275</u>	<u>(111,969)</u>	<u>27,783,828</u>
Less accumulated depreciation	<u>(9,059,293)</u>	<u>(710,754)</u>	<u>-</u>	<u>(9,770,047)</u>
	<u>\$ 24,788,294</u>	<u>\$ 2,356,085</u>	<u>\$ (1,402,588)</u>	<u>\$ 25,741,791</u>

Depreciation and amortization expense was charged to functions/programs of the governmental activities as follows:

	Depreciation Expense
General Government	540,940
Public Works	27,972
Public Safety	69,742
Education	72,100
	<u>\$ 710,754</u>

Changes in the Town's capital assets used in the business-type activities are as follows

	Beginning Balance	Increases	Ending Balance
Capital assets being depreciated			
Buildings and systems	4,669,739	854,813	5,524,552
Machinery and equipment	720,163	-	720,163
Total	<u>5,389,902</u>	<u>854,813</u>	<u>6,244,715</u>
Less Accumulated Depreciation	<u>(2,184,703)</u>	<u>(134,194)</u>	<u>(2,318,897)</u>
	<u>\$ 3,205,199</u>	<u>\$ 720,619</u>	<u>\$ 3,925,818</u>

Depreciation and amortization expense was charged to functions/programs of the business-type activities as follows:

	Depreciation Expense
Water and sewer	<u>\$ 134,194</u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

3. Detailed Notes on All Funds (Continued)

E. Long-Term Liabilities

The following table summarizes changes in the Town's long-term indebtedness for the year ending June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 7,500,000	\$ 1,077,755	\$ (600,000)	\$ 7,977,755	\$ 1,667,755
Notes and loans	753,226	22,420	(41,442)	734,204	32,259
Compensated absences	60,633	-	(10,180)	50,453	5,045
Post closure landfill costs	12,000	-	(1,200)	10,800	1,200
OPEB obligations	332,109	57,229	(16,775)	372,563	-
	<u>\$ 8,657,968</u>	<u>\$ 1,157,404</u>	<u>\$ (669,597)</u>	<u>\$ 9,145,775</u>	<u>\$ 1,706,259</u>

Each governmental funds liability is liquidated by the respective fund, primarily the General Fund. Interest on these obligations is expensed to the respective fund, primarily the General Fund.

General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the Town and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds outstanding as of June 30, 2015 consisted of the following:

Purpose	Year of Issue	Original Amount	Final Maturity	Interest Rates	Amount Outstanding
General	2006	\$ 1,600,000	4/1/2025	2.50 - 4.00%	\$ 835,000
General	2009	\$ 1,810,000	12/1/2020	2.50 - 4.00%	1,160,000
General	2013	\$ 5,290,000	6/30/2034	3.50 - 4.375%	4,905,000
Fire	2015	\$ 827,755	9/15/2015	2.00%	827,755
General	2015	\$ 250,000	9/15/2015	2.07%	250,000
					<u>\$ 7,977,755</u>

Payments to maturity on the general obligation bonds are as follows

Year End	Governmental Activities General Obligation Bonds		Year End	Governmental Activities General Obligation Bonds	
	Principal	Interest		Principal	Interest
2016	\$ 1,667,755	\$ 291,099	2026	250,000	65,394
2017	500,000	247,013	2027	250,000	56,175
2018	475,000	228,372	2028	250,000	46,644
2019	730,000	209,919	2029	250,000	36,800
2020	475,000	178,325	2030	150,000	28,800
2021	460,000	159,625	2031	150,000	22,650
2022	615,000	143,225	2032	150,000	16,313
2023	355,000	116,175	2033	150,000	9,844
2024	355,000	101,975	2034	150,000	3,281
2025	595,000	88,400		<u>\$ 7,977,755</u>	<u>\$ 2,050,029</u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

3. Detailed Notes on All Funds (Continued)

Interest incurred and expensed on general obligation bonds for the year ended June 30, 2015 totaled \$291,518 and \$292,398 respectively.

Loans and Notes Payable

The Town has a loan from the Clean Water Fund with an original amount of \$775,645. The note is payable in monthly installments of \$3,887 beginning in fiscal year 2015 when the final project obligation was signed. This loan includes interest at a rate of 2 percent per year.

Annual debt service requirements to maturity for the loans and notes payable are as follows

Year End	Governmental Activities		Year End	Governmental Activities	
	Notes and Loans			Notes and Loans	
	Principal	Interest		Principal	Interest
2016	32,259	14,389	2026	39,394	7,254
2017	32,909	13,739	2027	40,190	6,458
2018	33,575	13,073	2028	41,001	5,647
2019	34,252	12,396	2029	41,828	4,820
2020	34,943	11,705	2030	42,673	3,975
2021	35,649	10,999	2031	43,534	3,114
2022	36,368	10,280	2032	44,413	2,235
2023	37,102	9,546	2033	45,310	1,338
2024	37,851	8,797	2034	42,337	425
2025	38,616	8,032		<u>\$ 734,204</u>	<u>\$ 148,222</u>

Interest incurred and expensed on loans and notes payable for the year ended June 30, 2015 totaled \$14,156.

Compensated Absences

Vacation time earned during the fiscal year can be carried over to the succeeding year, subject to limitations as provided in the respective collective bargaining agreements. Employees are entitled to accumulate sick leave up to a maximum amount stipulated in each contract. Payment for accumulated sick leave is dependent upon the length of service and accumulated days. Additionally, certain vacation and sick leave expenses will be paid out of the pension funds upon retirement. The value of all compensated absences has been reflected in the government-wide financial statements.

Post Closure Landfill Costs

The Town has a closed landfill with no further capacity or estimated useful life. State and federal laws and regulations require that the Town perform certain maintenance and monitoring functions on its closed landfill site for thirty years after closure. These costs will be paid through the General Fund each year as part of the annual budget. Total estimated costs based on the current actual costs are included in the long-term debt. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. During the year the actual costs amounted to \$796.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

3. Detailed Notes on All Funds (Continued)

Prior Year Defeasance of Debt

In prior years, the Town defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2015, \$501,199 of bonds outstanding are considered defeased.

Long-term Liabilities – Enterprise Fund

The following table summarizes changes in the Town's long-term indebtedness in the enterprise fund for the year ending June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated absences	\$ 8,463	\$ 645	\$ -	\$ 9,108

Legal Debt Limit

Connecticut General Statutes Section 7-374 sets limits on the debt, as defined by the statutes, which can be incurred by the Town and other governmental agencies within the Town. The limitations for the Town of Sprague, Connecticut are as follows:

Total tax collections (including interest and lien fees) for the year - primary government					5,043,815
Reimbursement for revenue loss on tax relief for the elderly (C.G.S. 12-129d)					8,744
Debt limitation base					<u>\$ 5,052,559</u>
	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt limitation					
2 1/4 times base	\$ 11,368,258	\$ -	\$ -	\$ -	\$ -
4 1/2 times base	-	22,736,516	-	-	-
3 3/4 times base	-	-	18,947,096	-	-
3 1/4 times base	-	-	-	16,420,817	-
3 times base	-	-	-	-	15,157,677
Total debt limitation	<u>11,368,258</u>	<u>22,736,516</u>	<u>18,947,096</u>	<u>16,420,817</u>	<u>15,157,677</u>
Indebtedness					
Bonds payable	<u>6,886,630</u>	<u>127,409</u>	<u>963,716</u>	<u>-</u>	<u>-</u>
Debt limitation in excess of debt outstanding and authorized	<u>\$ 4,481,628</u>	<u>\$ 22,609,107</u>	<u>\$ 17,983,380</u>	<u>\$ 16,420,817</u>	<u>\$ 15,157,677</u>
In no case shall total indebtedness exceed seven times the annual receipts from taxation					<u>\$ 35,367,913</u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
 June 30, 2015

3. Detailed Notes on All Funds (Continued)

F. Net Position

The components of net position are detailed below:

Net Investment in Capital Assets - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position- Nonexpendable - the component of net position that reflects funds set aside in accordance with laws, regulations, grants, and other agreements that must be kept intact and cannot be spent. This is made up of \$1,250 in trust principal.

Restricted Net Position – Expendable - the component of net position that reflects funds that can only be spent subject to the laws, regulations, grants, and other agreements relating to these funds. This is made up of:

General Government	\$ 234,916
Education	3,421
Capital Projects	79,206
	<u>\$ 317,543</u>

Unrestricted - all other amounts that do not meet the definition of "restricted" or "net investment in capital assets".

G. Fund Balances

As discussed in Note 1, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These are summarized below:

	General Fund	Capital Nonrecurring Fund	Small Cities Fund	Other Governmental Funds
Nonspendable				
Not in spendable form				
Prepaid expenditures	\$ 78,016	\$ -	\$ -	\$ -
Inventories	6,802	-	-	2,399
Required to be maintained				
Trust principal	-	-	-	1,250
	<u>\$ 84,818</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,649</u>
Restricted				
General government	\$ -	\$ -	\$ 234,916	\$ -
Education	-	-	-	3,421
Capital projects	-	79,206	-	-
	<u>\$ -</u>	<u>\$ 79,206</u>	<u>\$ 234,916</u>	<u>\$ 3,421</u>

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

3. Detailed Notes on All Funds (Continued)

	General Fund	Capital Nonrecurring Fund	Small Cities Fund	Other Governmental Funds
Committed				
Capital projects	\$ -	\$ 194,141	\$ -	\$ -
Assigned				
General government	\$ -	\$ -	\$ 791	\$ 9,414
Education	-	-	-	115,947
Public safety	-	-	-	29,979
Capital projects	-	164,834	-	-
To balance next year's budget	131	-	-	-
	<u>\$ 131</u>	<u>\$ 164,834</u>	<u>\$ 791</u>	<u>\$ 155,340</u>

4. Pension and Other Post Retirement Plans

A. Teachers' Retirement System

Plan Description

Teachers and certain other certified personnel in the Town are eligible to participate in the Connecticut State Teachers' Retirement System, a cost-sharing multiple employer public employee retirement system described in the Connecticut General Statutes, Chapter 167a. The TRS has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. The Teachers' Retirement System is administered by the Teachers' Retirement Board.

Plan Membership – All teachers, principals, superintendents or supervisors engaged in service of public schools are eligible for participation.

Plan Benefits – Plan provisions are set by statute of the State of Connecticut. Teachers' Retirement System provides retirement benefits, as well as death and disability benefits. A member is eligible to receive a normal retirement benefit who (1) has reached the age of sixty and has accumulated twenty years of credited service in the public schools of Connecticut or (2) has attained any age and has accumulated thirty-five years of credited service, at least twenty-five years of which are service in the public schools of Connecticut.

The normal retirement benefit is two percent times the number of years of credited service multiplied by their average annual salary received during the three years of highest salary. In no event will such benefit exceed seventy-five percent of the average annual salary. A minimum monthly benefit of \$1,200 is provided for teachers who retire under the normal retirement provisions and who have completed at least twenty-five years of full time Connecticut service.

A member is eligible to receive an early retirement benefit who (1) has attained any age and has accumulated twenty-five years of credited service, at least twenty years of which are service in the public schools of Connecticut or (2) has reached the age of fifty-five and has accumulated twenty years of credited service, at least fifteen years of which are service in the public schools of Connecticut.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)

June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

The early retirement benefit is reduced six percent per year for the first five years preceding normal retirement age and four percent per year for the next five years preceding normal retirement age. Effective July 1, 1999, the reductions for individuals with 30 or more years of service is three percent per year by which retirement precedes normal retirement date.

Benefits are fully vested after ten years of service. Benefits are payable at age sixty and early retirement reductions are based on the number of years of service the member would have had if they had continued to work until age sixty.

Funding Policy – In accordance with the Connecticut General Statutes, Section 10-183z, contribution requirements of active employees and the State of Connecticut is amended and certified by the Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an *amount* that, when combined with employee contributions and investment earning, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

The Town is not required to make contributions to the plan. The statutes require the State of Connecticut to make contributions on-behalf of the Town in an actuarially determined amount.

Members are required to contribute six percent of their annual salary for the pension benefit.

The Town's proportionate share has been determined on the same basis as that used by the plan as has the basis of accounting, including policies with respect to benefit payments (including refunds of employee contributions) and the valuation of plan investments.

Actuarial Methods and Significant Assumptions – The following assumptions were used in the pension valuations, prepared as of June 30, 2014 (the Valuation Date and Measurement Date) for use in the June 30, 2015 financial statements (Reporting Date):

Experience study dates	July 1, 2005 - June 30, 2010
Inflation	3.00%
Salary increases	3.75-7.00%, including inflation
Investment rate of return	8.50%, net of investment related expense, including inflation
Discount rate	8.50%, the projection of cash flows assumed that plan member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between the actuarially determined rate and the member rate.
Cost of living adjustment	Annually compounded increases vary based on member age and date of retirement and range from 2.00% to 6.00%
Post-retirement mortality	RP-2000 Combined Mortality Table projected 19 years

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Changes in Assumptions – In 2011, rates of withdrawal, retirement and assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the five year period ended June 30, 2010.

Target Asset Allocation and Rates of Return – The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. The table below shows the target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are to be provided by the Fiduciary of the Plan:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equities	21.00%	7.30%
Developed Non-U.S. Equities	18.00%	7.50%
Emerging Markets (Non-U.S.)	9.00%	8.60%
Core Fixed Income	7.00%	1.70%
Inflation Linked Bond Fund	3.00%	1.30%
Emerging Market Bond	5.00%	4.80%
High Yield Bonds	5.00%	3.70%
Real Estate	7.00%	5.90%
Private Equity	11.00%	10.90%
Alternative Investments	8.00%	0.70%
Liquidity Fund	6.00%	0.40%

Town's Proportionate Share of the Collective Net Pension Liability

Employer Net Pension Liability	\$	-
Nonemployer Contributing Entity (State) Net Pension Liability		5,120,815
Net Pension Liability	\$	<u>5,120,815</u>
Net Pension Liability percentage of the total		0.050494%
Deferred outflows of resources		
Contributions subsequent to the Measurement Date	\$	-
Deferred inflows of resources		
Net difference projected and actual earnings on investments	\$	420,792
Pension expense	\$	384,208
Proportion Basis		Employee contributions
Change in proportion since prior measurement date		None for 2015

Other amounts reported at deferred inflows of resources will be recognized in pension expense by the State as follows:

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

2015	\$	105,198
2016		105,198
2017		105,198
2018		105,198
	<u>\$</u>	<u>420,792</u>

Sensitivity Analysis – The following presents the net pension liability (asset) of the Town of Sprague, Connecticut's proportionate share of the plan, calculated using the current discount rate, as well as what the Town's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 7.50%	Current Discount Rate 8.50%	1% Increase 9.50%
Net Pension Liability (Asset)	<u>\$ 6,534,897</u>	<u>\$ 5,120,815</u>	<u>\$ 3,918,824</u>

Support Provided by Nonemployer Contributing Entity (State) – The Town has recognized \$384,208 as revenue in support provided by the State of Connecticut's contributions to the plan on behalf of the Town's employees.

Obtaining a Report of the Plan – Teachers' Retirement System is considered to be a part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. The reports include information on the plan's assets, deferred outflows of resource, liabilities, deferred inflows of resources, and fiduciary net position. The stand-alone financial report may be obtained through the Teachers' Retirement Board at www.ct.gov/trb.

B. Deferred Compensation Plan

The Town of Sprague, Connecticut Employee Savings Plan was established under Internal Revenue Code Section 457 and is administered by AETNA. This was established and can be amended with a change in the personnel policies and union contracts. This plan provides a non-contributory employer-contributed non-elective contribution for certain full-time employees. The contribution percentage is based on the employee's years of service. Employer contributions during the year totaled \$14,048.

C. Other Post-Employment Benefits

Plan Description - The Town provides certain health care benefits for retired employees through a single-employer defined benefit plan administered by the Town of Sprague, Connecticut in accordance with various collective bargaining agreements. The plan does not issue a separate financial statement.

Funding Policy - Retired teachers and their spouses must be allowed to continue their health insurance benefits, in the same health insurance plan offered to active teachers, through their last employing Town. The Town does not contribute to the retirees' health insurance. The retirees pay 100% of the premiums in accordance with the Connecticut General Statutes and the various collective bargaining agreements.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

Annual OPEB Cost (“AOC”) and Net OPEB Obligation (“NOO”)

Amortization Component	
Actuarial Accrued Liability as of July 1, 2012	\$ 659,399
Assets at Market Value	-
Unfunded Actuarial Accrued Liability	\$ 659,399
Funded Ratio	0.00%
Covered Payroll (Active plan members)	\$ 1,945,663
UAAL as a Percentage of Covered Payroll	33.89%
Annual Required Contribution	\$ 61,797
Interest on Net OPEB Obligation	14,945
Adjustment to Annual Required Contribution	(19,513)
Annual OPEB Cost	57,229
Contributions made	(16,775)
Increase in net OPEB Obligation	40,454
Net OPEB Obligation - Beginning of the year	332,109
	\$ 372,563

Three year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 57,229	\$ 16,775	29.3%	\$ 372,563
June 30, 2014	56,859	14,307	25.2%	332,109
June 30, 2013	56,439	20,561	36.4%	289,557

Actuarial Methods and Significant Assumptions - The Town’s annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB. GASB establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees’ medical insurance. As a result, reporting of expenses and liabilities is using a per capita claims cost will be determined, which will be used to determine a “normal cost”, an “actuarial accrued liability”, and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

4. Pension and Other Post Retirement Plans (Continued)

The Town is required to accrue on the government-wide financial statements the amounts necessary to finance the plan as actuarially determined, which is equal to the balance not paid by plan members. Funding for the Plan has been established on a pay-as-you-go basis.

Other actuarial methods and significant assumptions are summarized as follows:

Latest Actuarial Date	July 1, 2012
Actuarial Cost Method	Projected Unit Credit
Discount Rate	4.50%
Payroll Growth Rate	N/A
Medical Inflation	9% for 2012, decreasing 0.5% per year, to an ultimate rate of 5% for 2020 and later.
Amortization Method	30 years, level dollar, open
Asset Valuation Method	N/A
Mortality	RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, combined table for non-annuitants and annuitants, projected to the valuation date with Scale AA (changed from CT State TRS 2010 OPEB Valuation Mortality).
Retirement	As used in the Connecticut State Teachers' Retirement System 2010 OPEB Valuation
Future Retiree Coverage	100% of all actives eligible at retirement are assumed to elect coverage. 20% of non-Medicare eligible teachers continue coverage after age 65.
Future Dependent Coverage	50% of males and 50% of females assumed married with wives assumed to be three years younger than their husbands

Schedule of Funding Progress

As of the last valuation date, July 1, 2012, the actuarial valuation of the plan assets was \$0. The actuarial accrued liability was \$659,399. The schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There is no requirement for funding and the plan has not been funded.

5. Other Information

A. Litigation

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

B. Contingencies

Grants - The Town participates in various Federal and State grant programs. These programs are subject to program compliance audits pursuant to the Federal and State Single Audit Acts. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town anticipates such amounts, if any, to be immaterial.

School Building Grants - Section 10-283(a)(3)(A) of the Connecticut General Statutes states that if the Town abandons, sells, leases, demolishes or otherwise redirects the use of a school building project authorized on or after July 1, 1996, paid partially with State funding, to other than a public school, will owe a portion of the State funding back to the State.

For projects with a cost of over two million dollars or over, the contingency will be amortized over twenty years. For smaller projects, the contingency will be amortized over ten years.

C. Risk Management

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

The Town currently is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), a public entity risk pool established under the provisions of Connecticut General Statutes section 7-479a et. seq. for some of its insurance. The Town is liable only for contributions to the pool. Members do not retain the risk of loss, as they have transferred the risk by purchasing coverage with no deductible retention. A separate agreement states limits on the member's obligation to pay indemnification obligations and expenses should CIRMA be unable to do so.

D. Jointly Governed Organizations

The Towns of Sprague, Bozrah, Franklin, Lebanon and Lisbon entered into an agreement effective July 1, 2010 to operate a regional animal control service. The Animal Control Service's Board of Directors has oversight responsibility over the entity. The board is composed of the First Selectman of each of the five towns. The animal control services net costs are funded on a per capita basis. The Town of Sprague maintains the financial records and financial reports are prepared and presented by the Town of Sprague at the regular meetings of their Board of Directors.

E. Motor Vehicle Tax Cap

Beginning in fiscal year 2017, the State of Connecticut Office of Policy and Management ("OPM") capped the mill rate for motor vehicle taxes. The motor vehicle mill rate cap for fiscal year 2017 will be 32 mills. The rate cap in fiscal year 2018 and thereafter will be 29.36 mills.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

F. Municipal Spending Cap

Beginning in fiscal year 2018, OPM will impose a cap on municipal spending to limit general budget expenditures to 2.5 percent above the previous year or the rate of inflation, whichever is greater. Exemptions to the cap include debt service, special education expenditures, expenditures for implementing court orders, arbitration awards, expenditures related to major disaster or emergency declaration, and MRSA grant distributed to a special taxing district under certain circumstances.

Effective July 1, 2015, the Minimum Budget Requirement ("MBR") for education expenditures imposed by OPM will become more flexible. The new law gives the Town a greater ability to lower their MBR by allowing for larger reductions for declining enrollment, raising the cap on how much a town can reduce its MBR, and removing the limit on how many ways a town can qualify for MBR flexibility.

G. GASB Pronouncements Issued, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) is the standard setting board for governmental entities. The following are statements which have been approved by GASB, but are not yet effective:

- GASB Statement 72 – *Fair Value Measurement and Application* – This statement, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement is effective for fiscal years beginning after June 15, 2015.
- GASB Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68* – This Statement establishes requirements for defined benefit and contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. This is effective for fiscal years beginning after June 15, 2016.
- GASB Statement 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pensions* – This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with Other Post-Employment Benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This is effective for fiscal years beginning after June 15, 2016.
- GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions* – This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) and applies to all governments whose employees are provided with OPEB. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.

Town of Sprague, Connecticut

Notes to Financial Statements (Continued)
June 30, 2015

5. Other Information (Continued)

- GASB Statement 76 – *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments* – This statement identifies the current hierarchy of GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.
- GASB Statement 77 – *Tax Abatement Disclosures* – This Statement requires governments to disclose information about their tax abatements and agreements and is effective for periods beginning after December 15, 2015.

Town of Sprague, Connecticut

Required Supplementary Information
June 30, 2015

Town of Sprague, Connecticut

Required Supplementary Information
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis)
 General Fund
 Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
REVENUES					
Property Taxes					
Current Year Taxes	\$ 5,021,054	\$ -	\$ 5,021,054	\$ 4,613,804	\$ (407,250)
Prior Year Taxes	145,000	-	145,000	329,353	184,353
Interest and Lien Fees	55,000	-	55,000	100,658	45,658
	<u>5,221,054</u>	<u>-</u>	<u>5,221,054</u>	<u>5,043,815</u>	<u>(177,239)</u>
State Grants - School					
Education Cost Sharing (ECS)	2,641,208	-	2,641,208	2,604,493	(36,715)
Pupil Transportation (public)	51,786	-	51,786	49,818	(1,968)
Pupil Transportation (nonpublic)	6,299	-	6,299	-	(6,299)
	<u>2,699,293</u>	<u>-</u>	<u>2,699,293</u>	<u>2,654,311</u>	<u>(44,982)</u>
State Grants - Local					
Manufacturing Equipment Tax	363,529	-	363,529	363,529	-
Town Aid Roads (TAR)	151,353	-	151,353	151,371	18
Mashantucket Pequot Grant	29,244	-	29,244	31,144	1,900
PILLOT, State Property	11,935	-	11,935	12,257	322
State Police Overtime Reimbursement	15,000	-	15,000	9,629	(5,371)
Elderly and Disabled Transportation	9,900	-	9,900	8,744	(1,156)
Elderly Property Exemption/Freeze	8,800	-	8,800	8,543	(257)
Telecommunication Property Grant	13,639	-	13,639	8,021	(5,618)
Emergency Management Agency	3,000	-	3,000	2,812	(188)
Veterans Tax Relief	3,472	-	3,472	1,257	(2,215)
Judicial 10th Circuit	100	-	100	405	305
Disability Exemption Reimbursement	403	-	403	370	(33)
Municipal Revenue Sharing	11,507	-	11,507	-	(11,507)
	<u>621,882</u>	<u>-</u>	<u>621,882</u>	<u>598,082</u>	<u>(23,800)</u>
Local Revenues					
Waste Management	52,000	-	52,000	49,823	(2,177)
Landfill Receipts	25,000	-	25,000	25,207	207
Conveyance Tax	17,000	-	17,000	14,108	(2,892)
Building Permit Fees	20,000	-	20,000	10,513	(9,487)
Land Records, Maps, Etc.	10,000	-	10,000	10,200	200
Copies and Fax Machine	4,500	-	4,500	5,817	1,317
Transportation Subsidy SCRRRA	2,000	-	2,000	4,964	2,964
License and Permit Fees	5,000	-	5,000	3,906	(1,094)
Dog License Fees	3,750	-	3,750	1,603	(2,147)
Interest Income	1,000	-	1,000	1,422	422
Newsletter	2,000	-	2,000	1,365	(635)
Farmland Preservation	1,400	-	1,400	939	(461)
Marriage Licenses	125	-	125	242	117
Sundry Receipts	150	-	150	232	82
Sportsmans Licenses	150	-	150	153	3
Miscellaneous Local Revenue	-	-	-	8,912	8,912
Intergovernmental Transfers	79,465	-	79,465	79,465	-
	<u>223,540</u>	<u>-</u>	<u>223,540</u>	<u>218,871</u>	<u>(4,669)</u>
Total Revenues	<u>8,765,769</u>	<u>-</u>	<u>8,765,769</u>	<u>8,515,079</u>	<u>(250,690)</u>

(Continued)

Town of Sprague, Connecticut

Required Supplementary Information
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis)
 General Fund
 Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
EXPENDITURES					
General Government Operating Budget					
Board of Selectmen	\$ 91,268	\$ -	\$ 91,268	\$ 90,954	\$ 314
Elections	15,745	(2,259)	13,486	13,486	-
Board of Finance	300	-	300	236	64
Auditing	18,000	9,115	27,115	27,115	-
Board of Assessors	23,959	(1,044)	22,915	22,830	85
Tax Collector	29,064	-	29,064	29,052	12
Town Treasurer	2,400	-	2,400	2,400	-
Town Counsel	31,750	(14,873)	16,877	16,877	-
Town Clerk	49,956	-	49,956	49,814	142
Telephone Services	11,450	-	11,450	11,365	85
Pool Secretaries	52,385	-	52,385	51,953	432
Town Office Building	36,875	-	36,875	36,328	547
Planning and Zoning Commission	23,058	(3,693)	19,365	19,365	-
Land Use Miscellaneous	800	-	800	796	4
Economic Development Commission	1,500	-	1,500	972	528
Conservation Commission	1,100	-	1,100	517	583
Conservation/Wetlands Enforcement	7,178	-	7,178	7,131	47
Highways	368,576	-	368,576	389,529	(20,953) *
Tree Maintenance	10,550	967	11,517	11,517	-
Street Lighting	23,500	1,766	25,266	25,266	-
Social Security	55,513	-	55,513	53,912	1,601
Deferred Compensation	14,312	-	14,312	14,048	264
Regional Planning Agencies	40,083	-	40,083	39,999	84
Insurance	200,693	-	200,693	199,066	1,627
Police Department	149,540	(3,921)	145,619	145,619	-
Fire Department	105,000	-	105,000	104,111	889
Emergency Management	4,030	-	4,030	4,016	14
Fire Marshal	10,223	-	10,223	10,170	53
Enforcement Officer, Building Code	19,722	-	19,722	19,361	361
Sanitation and Waste Removal	38,500	17,748	56,248	56,248	-
Waste Management	57,942	-	57,942	57,942	-
Commission on Aging	74,879	(4,709)	70,170	70,170	-
Capital Projects	14,000	2,496	16,496	16,496	-
Parks and Playground	2,000	-	2,000	1,436	564
Summer Maintenance	8,481	-	8,481	8,264	217
Recreation Facilities	2,000	-	2,000	1,758	242
Recreation Events	8,833	-	8,833	8,831	2
Other Recreation Programs	1,250	-	1,250	1,250	-
Grist Mill	11,746	-	11,746	10,894	852
Library	65,015	-	65,015	64,159	856
Miscellaneous	22,751	547	23,298	23,298	-
Sprague Water and Sewer	7,000	820	7,820	7,820	-
Computer Service and Supplies	44,629	(2,898)	41,731	41,731	-
Bookkeeper	25,034	(2,461)	22,573	22,573	-
Grant Writer	40,618	(5,002)	35,616	35,616	-
Blight Enforcement Officer	3,596	-	3,596	3,452	144
Historical Musuem	200	-	200	200	-
Shared Services with School	29,000	-	29,000	27,079	1,921
Unemployment Compensation	-	7,400	7,400	7,400	-
	<u>1,856,004</u>	<u>(1)</u>	<u>1,856,003</u>	<u>1,864,422</u>	<u>(8,419)</u>

(Continued)

Town of Sprague, Connecticut

Required Supplementary Information
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis)
 General Fund
 Year Ended June 30, 2015

	Budgeted Amounts			Actual Budgetary Basis	Variance with Final Budget
	Original	Additional Appropriations and Transfers	Final		
Capital Budget					
Redemption of Debt - Principal	\$ 600,000	\$ -	\$ 600,000	\$ 600,000	\$ -
Interest Payment - Bonds	291,518	1	291,519	291,518	1
Capital and Non Recurring	28,800	-	28,800	28,800	-
	<u>920,318</u>	<u>1</u>	<u>920,319</u>	<u>920,318</u>	<u>1</u>
Total General Government	<u>2,776,322</u>	<u>-</u>	<u>2,776,322</u>	<u>2,784,740</u>	<u>(8,418)</u>
Board of Education Expenditures	<u>6,027,331</u>	<u>-</u>	<u>6,027,331</u>	<u>6,009,968</u>	<u>17,363</u>
TOTAL EXPENDITURES	<u>8,803,653</u>	<u>-</u>	<u>8,803,653</u>	<u>8,794,708</u>	<u>8,945</u>
Excess (Deficiency) of Revenues					
Over Expenditures - Budgetary Basis	\$ (37,884)	\$ -	\$ (37,884)	(279,629)	\$ (241,745)
Adjustments to Generally Accepted Accounting Principles (GAAP):					
On Behalf Revenues from Teacher's Retirement Netted in Budget				384,208	
On Behalf Expenditures from Teacher's Retirement Netted in Budget				(384,208)	
Revenues from Education Grants Netted in Budget				192,832	
Expenditures from Education Grants Netted in Budget				(192,832)	
Revenues from Other Grants Netted in Budget				7,158	
Expenditures from Other Grants Netted in Budget				(7,158)	
Transfers in from Water and Sewer Fund				55,598	
Payment of Water and Sewer Debt				(55,598)	
Encumbrances at Year End				70,000	
Change in Accrued Payroll				(3,520)	
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing (Uses) - GAAP Basis (Exhibit 4)				<u>\$ (213,149)</u>	

Notes to Required Supplementary Information: A formal, legally approved, annual budget is adopted for the General Fund only. This budget is adopted on a basis consistent with Generally Accepted Accounting Principles (modified accrual basis) with the following exceptions: 1. The Town does not recognize as income or expenditures payments made for the teacher's retirement by the State of Connecticut on the Town's behalf; 2. The Town recognizes encumbrances payable as an expenditure in the year they were committed; 3. The budget for the General Fund's Board of Education expenditures are net with the "excess cost grant" received from the State of Connecticut as per Connecticut General Statutes 10-7g the expenses are further net with the Adult Education, Services for the Blind Grant, and out of town tuition; 4. General government payroll is recorded on a cash basis; 5. Police overtime grants and FEMA grants are net with the related expenditures; 6. Revenues and expenditures from rolling over of debt and new capital leases are net in the budget.

* Indicates amount is over budget by the amount indicated.

Town of Sprague, Connecticut

Required Supplementary Information
 Schedule of Funding Progress
 Other Post Employment Benefits
 Since Inception

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess (Unfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	Excess AAL/ UAAL as a % of Covered Payroll
7/1/2012	\$ -	\$ 659,399	\$ (659,399)	0.00%	\$ 1,945,663	-33.89%
7/1/2009	\$ -	\$ 1,222,687	\$ (1,222,687)	0.00%	\$ 1,852,797	-65.99%

Town of Sprague, Connecticut

Required Supplementary Information
Schedule of Employer Contributions
Other Post Employment Benefits
Last Six Fiscal years

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
6/30/2015	\$ 61,797	\$ 16,775	27.15%
6/30/2014	\$ 60,842	\$ 14,307	23.52%
6/30/2013	\$ 59,928	\$ 20,561	34.31%
6/30/2012	\$ 137,966	\$ 39,179	28.40%
6/30/2011	\$ 135,188	\$ 56,581	41.85%
6/30/2010	\$ 132,529	\$ 52,990	39.98%

Town of Sprague, Connecticut

Required Supplementary Information
 Connecticut Teachers' Retirement System
 June 30, 2015

**Schedule of Changes in Net Pension Liability and Related Ratios
 Last 10 Fiscal Years or Since Inception of GASB 68**

	<u>2015</u>
Town's percentage of collective net	0.050494%
Town's proportionate share of the collective net pension liability	<u>\$ -</u>
State's proportionate share of the collective net pension liability associated with the Town	<u>\$ 5,120,815</u>
Total proportionate share of the collective net pension liability	<u>\$ 5,120,815</u>
Town's covered payroll	<u>\$ 1,905,034</u>
Town's proportionate share of the collective net pension liability as a % of covered payroll	0.00%
Plan fiduciary net position as a % of total pension liability	61.51%

**Schedule of Employer Contributions
 Last 10 Fiscal Years or Since Inception of GASB 68**

Contractually required Town contribution	\$ -
--	------

The Town is not required to contribute to the plan. The State contributes on behalf of the Town.

Notes to Schedule

Changes in benefit term	None
Changes in assumptions	In 2011, rates of withdrawal, retirement
Actuarial cost method	Entry Age
Amortization method	Level percent of salary, closed
Remaining amortization period	22.4 years
Asset valuation method	4 year smoothed market
Investment rate of return	8.5% net of investment expense, including inflation

Town of Sprague, Connecticut

Combining and Individual Fund Financial Statements
June 30, 2015

Town of Sprague, Connecticut

Combining Balance Sheet
 Other Governmental Funds
 June 30, 2015

	Special Revenue Funds	Permanent Fund - Lovett Cemetery	Total Other Governmental Funds
ASSETS			
Cash and equivalents	\$ 142,223	\$ 1,207	\$ 143,430
Other receivables			
Accounts	75	-	75
Due from other funds	25,573	-	25,573
Inventories	2,399	-	2,399
Total Assets	<u>\$ 170,270</u>	<u>\$ 1,207</u>	<u>\$ 171,477</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 506	\$ -	\$ 506
Accrued payroll and related	233	-	233
Unearned revenues	8,371	-	8,371
Total Liabilities	<u>9,110</u>	<u>-</u>	<u>9,110</u>
Fund balances (deficits)			
Nonspendable	2,399	1,250	3,649
Restricted	3,421	-	3,421
Assigned	155,340	-	155,340
Unassigned	-	(43)	(43)
Total Fund Balances	<u>161,160</u>	<u>1,207</u>	<u>162,367</u>
Total Liabilities and Fund Balances	<u>\$ 170,270</u>	<u>\$ 1,207</u>	<u>\$ 171,477</u>

Town of Sprague, Connecticut

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Other Governmental Funds
 Year Ended June 30, 2015

	Special Revenue Funds	Permanent Fund - Lovett Cemetery	Total Other Governmental Funds
REVENUES			
Intergovernmental revenues	\$ 491,188	\$ -	\$ 491,188
Local revenues	<u>133,388</u>	<u>1</u>	<u>133,389</u>
Total Revenues	<u>624,576</u>	<u>1</u>	<u>624,577</u>
EXPENDITURES			
Current expenditures			
General government	7,527	-	7,527
Public safety	60,529	-	60,529
Education	<u>519,789</u>	<u>-</u>	<u>519,789</u>
Total Expenditures	<u>587,845</u>	<u>-</u>	<u>587,845</u>
Excess of Revenues Over Expenditures	36,731	1	36,732
Fund Balances - Beginning of Year	<u>124,429</u>	<u>1,206</u>	<u>125,635</u>
Fund Balances - End of Year	<u>\$ 161,160</u>	<u>\$ 1,207</u>	<u>\$ 162,367</u>

Town of Sprague, Connecticut

Combining Balance Sheet
 Special Revenue Funds
 June 30, 2015

	Library Fund	Dog Fund	Child Nutrition Fund	Education Grants Fund	Recreation Fund	Scholarship Fund	Senior Smile Fund	Total Special Revenue Funds
ASSETS								
Cash and equivalents	\$2,738	\$30,410	\$63,947	\$ 40,233	\$ -	\$ 3,421	\$1,474	\$142,223
Other receivables								
Accounts	-	75	-	-	-	-	-	75
Due from other funds	-	-	20,371	-	5,202	-	-	25,573
Inventories	-	-	2,399	-	-	-	-	2,399
Total Assets	<u>\$2,738</u>	<u>\$30,485</u>	<u>\$86,717</u>	<u>\$ 40,233</u>	<u>\$ 5,202</u>	<u>\$ 3,421</u>	<u>\$1,474</u>	<u>\$170,270</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ -	\$ 506	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 506
Accrued payroll and related	-	-	-	233	-	-	-	233
Unearned revenues	-	-	-	8,371	-	-	-	8,371
Total Liabilities	<u>-</u>	<u>506</u>	<u>-</u>	<u>8,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,110</u>
Fund balances								
Nonspendable	-	-	2,399	-	-	-	-	2,399
Restricted	-	-	-	-	-	3,421	-	3,421
Assigned	2,738	29,979	84,318	31,629	5,202	-	1,474	155,340
Total Fund Balances	<u>2,738</u>	<u>29,979</u>	<u>86,717</u>	<u>31,629</u>	<u>5,202</u>	<u>3,421</u>	<u>1,474</u>	<u>161,160</u>
Total Liabilities and Fund Balances	<u>\$2,738</u>	<u>\$30,485</u>	<u>\$86,717</u>	<u>\$ 40,233</u>	<u>\$ 5,202</u>	<u>\$ 3,421</u>	<u>\$1,474</u>	<u>\$170,270</u>

Town of Sprague, Connecticut

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Special Revenue Funds
 Year Ended June 30, 2015

	Library Fund	Dog Fund	Child Nutrition Fund	Education Grants Fund	Recreation Fund	Scholarship Fund	Senior Smile Fund	Total Special Revenue Funds
REVENUES								
Intergovernmental revenues	\$1,158	\$ -	\$109,324	\$380,706	\$ -	\$ -	\$ -	\$491,188
Local revenues	840	71,113	54,978	-	1,885	1	4,571	133,388
Total Revenues	<u>1,998</u>	<u>71,113</u>	<u>164,302</u>	<u>380,706</u>	<u>1,885</u>	<u>1</u>	<u>4,571</u>	<u>624,576</u>
EXPENDITURES								
Current expenditures								
General government	1,132	-	-	-	1,836	-	4,559	7,527
Public safety	-	60,529	-	-	-	-	-	60,529
Education	-	-	158,439	361,155	-	195	-	519,789
Total Expenditures	<u>1,132</u>	<u>60,529</u>	<u>158,439</u>	<u>361,155</u>	<u>1,836</u>	<u>195</u>	<u>4,559</u>	<u>587,845</u>
Net Change in Fund Balances	866	10,584	5,863	19,551	49	(194)	12	36,731
Fund Balances - Beginning of Year	<u>1,872</u>	<u>19,395</u>	<u>80,854</u>	<u>12,078</u>	<u>5,153</u>	<u>3,615</u>	<u>1,462</u>	<u>124,429</u>
Fund Balances - End of Year	<u>\$2,738</u>	<u>\$29,979</u>	<u>\$ 86,717</u>	<u>\$ 31,629</u>	<u>\$ 5,202</u>	<u>\$ 3,421</u>	<u>\$1,474</u>	<u>\$161,160</u>

See Independent Auditors' Report

Town of Sprague, Connecticut

Combining Statement of Net Position
 Agency Funds
 Year Ended June 30, 2015

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
Student Activity Fund				
ASSETS				
Cash	<u>\$ 16,386</u>	<u>\$ 34,443</u>	<u>\$ (31,074)</u>	<u>\$ 19,755</u>
LIABILITIES				
Due to students	<u>\$ 16,386</u>	<u>\$ 34,443</u>	<u>\$ (31,074)</u>	<u>\$ 19,755</u>

Town of Sprague, Connecticut

Supplementary Schedules
June 30, 2015

Town of Sprague, Connecticut

Statement of Changes in Fund Balance - By Project
Capital Nonrecurring Fund
For the Year Ended June 30, 2015

	Beginning Fund Balance	Internal Transfers	Transfers In	New Debt	Other Revenues	Total Available	Current Year Expenditures	Transfers Out	Ending Fund Balance	Eliminating Deficit Balances GASB 54	Reported Fund Balance
RESTRICTED FUND BALANCE											
General Government											
Town Hall Boilers	\$ 16,467	\$ -	\$ -	\$ -	\$ -	\$ 16,467	\$ -	\$ -	\$ 16,467	\$ -	\$ 16,467
Grist Mill Renovations Phase II	(25,333)	(4,000)	-	-	24,806	(4,527)	-	-	(4,527)	4,527	-
Grist Mill Renovations Phase III	(2,014)	-	-	-	-	(2,014)	-	-	(2,014)	2,014	-
Senior Center Bus	(588)	-	-	-	-	(588)	-	-	(588)	588	-
Senior Center Refridgerator	660	746	-	-	-	1,406	(1,406)	-	-	-	-
Town Hall Refurbishing	(7,009)	-	-	-	-	(7,009)	-	-	(7,009)	7,009	-
CT Urban Forest Council Grant	1,600	(1,600)	-	-	1,400	1,400	(1,400)	-	-	-	-
Historic Document Preservation Fi	1,471	-	-	-	5,408	6,879	(4,782)	-	2,097	-	2,097
Town Clerk - MERS Grantee	300	-	-	-	310	610	-	-	610	-	610
Agricultural Viability Grant	-	-	-	-	2,193	2,193	(1,103)	-	1,090	-	1,090
Solar Panels Project	-	2,867	-	-	-	2,867	-	-	2,867	-	2,867
LOCIP	-	(4,255)	-	-	-	(4,255)	-	-	(4,255)	4,255	-
Public Works											
Town Garage Refurbishing	(82,691)	-	-	-	-	(82,691)	(10,359)	-	(93,050)	93,050	-
I&I Rehabilitation	(2,728)	-	3,228	7,500	-	8,000	(8,000)	-	-	-	-
Maple & Elm Project	600	(600)	-	-	-	-	-	-	-	-	-
Beaver Brook Watermain	(10,761)	-	-	-	15,862	5,101	(5,101)	-	-	-	-
Pautipaug Hill Rd	-	-	-	250,000	-	250,000	(250,000)	-	-	-	-
Public Safety											
Pump Station #1	72,121	-	-	-	-	72,121	(72,121)	-	-	-	-
Pump Station #2 - Hanover	(127,592)	-	-	-	612,138	484,546	(484,546)	-	-	-	-
Generator System BFD	-	85	-	-	-	85	-	-	85	-	85
Baltic Reservoir	-	(12,278)	-	-	-	(12,278)	-	-	(12,278)	12,278	-
Education											
Sayles Fuel Tank	-	(1,768)	-	-	-	(1,768)	-	-	(1,768)	1,768	-
Sayles School Boiler	(24,148)	-	-	-	-	(24,148)	-	-	(24,148)	24,148	-
Door & Window Safety Film	39,610	-	-	-	-	39,610	-	-	39,610	-	39,610
Playground Equipment	16,380	-	-	-	-	16,380	-	-	16,380	-	16,380
	<u>(133,655)</u>	<u>(20,803)</u>	<u>3,228</u>	<u>257,500</u>	<u>662,117</u>	<u>768,387</u>	<u>(838,818)</u>	<u>-</u>	<u>(70,431)</u>	<u>149,637</u>	<u>79,206</u>

(Continued)

Town of Sprague, Connecticut

Statement of Changes in Fund Balance - By Project
 Capital Nonrecurring Fund
 For the Year Ended June 30, 2015

	Beginning Fund Balance	Internal Transfers	Transfers In	New Debt	Other Revenues	Total Available	Current Year Expenditures	Transfers Out	Ending Fund Balance	Eliminating Deficit Balances GASB 54	Reported Fund Balance
COMMITTED FUND BALANCE											
General Government											
Open Space	\$ (3,398)	\$ (5,850)	\$ -	\$ -	\$ 9,840	\$ 592	\$ (3,446)	\$ -	\$ (2,854)	\$ 2,854	\$ -
Watson Farm Survey	(24,600)	7,450	-	-	7,098	(10,052)	-	-	(10,052)	10,052	-
Library Technology 13-14	-	(222)	1,000	-	-	778	(475)	-	303	-	303
Plan of Conserv. & Dev.	10,375	22,625	8,000	-	-	41,000	-	-	41,000	-	41,000
Salary 27th Pay Period	2,000	4,000	2,000	-	-	8,000	-	-	8,000	-	8,000
Security Cameras	-	-	-	41,055	-	41,055	(41,055)	-	-	-	-
Tax Collector Folding Machine	-	-	3,000	-	-	3,000	(2,995)	-	5	-	5
Tax Collector Printer	-	-	800	-	-	800	(699)	-	101	-	101
Town Facilities Technology	-	-	2,000	-	-	2,000	(420)	-	1,580	-	1,580
Misc Technical Items	-	-	-	2,700	-	2,700	-	-	2,700	-	2,700
Robinson Property Survey	-	-	-	-	-	-	(2,820)	-	(2,820)	2,820	-
Senior Center DW & Grs trp	-	-	-	9,000	-	9,000	(7,882)	-	1,118	-	1,118
Revaluation	-	31,976	10,000	-	-	41,976	-	-	41,976	-	41,976
Town Hall File Cabinets FY13	-	(3,329)	-	-	-	(3,329)	-	-	(3,329)	3,329	-
Demo - 134/136 High Street	-	920	-	-	-	920	-	-	920	-	920
Demo - 23 West Main	-	(6,640)	-	-	-	(6,640)	-	-	(6,640)	6,640	-
150th Anniversary	-	11,650	-	-	-	11,650	-	-	11,650	-	11,650
Shetucket Village Upgrades	-	3,859	-	-	-	3,859	-	-	3,859	-	3,859
Town Hall Copy Machine FY12	-	21	-	-	-	21	-	-	21	-	21
Public Works											
Sidewalk Phase III	-	(9,718)	-	-	-	(9,718)	-	-	(9,718)	9,718	-
Sidewalk Phase IV (Maple/Elm)	(4,988)	1,126	-	-	-	(3,862)	4,462	-	600	-	600
Sidewalk Phase V (1st/2nd/3rd)	(12,159)	-	-	60,000	440	48,281	(48,281)	-	-	-	-
Sidewalk Phase VI	-	-	-	-	-	-	(60,000)	-	(60,000)	60,000	-
Tank Repairs	-	4,554	-	-	-	4,554	-	-	4,554	-	4,554
Public Works Equip. (11/12)	13,500	-	-	-	-	13,500	-	-	13,500	-	13,500
Public Works Equip. (13/14)	50,000	-	-	-	7,000	57,000	(41,258)	-	15,742	-	15,742
Water Supply Plan	22,386	-	-	-	36,000	58,386	(33,855)	-	24,531	-	24,531
Roads											
Cumulative Overlay	-	(35,314)	-	-	35,314	-	-	-	-	-	-
Overlay 2013-2014	(83,139)	-	-	-	83,139	-	-	-	-	-	-
CDBG Town Share 14-15	(17,904)	-	-	60,000	-	42,096	(37,514)	-	4,582	-	4,582
Overlay 2014-2015	(116,569)	(526)	-	400,000	531,897	814,802	(887,187)	-	(72,385)	72,385	-
Chip Seal 2014-2015	-	-	-	100,000	-	100,000	(100,000)	-	-	-	-
Drainage 2014-2015	-	-	-	50,000	-	50,000	(50,000)	-	-	-	-
Ribbon Rail 2014-2015	-	-	-	20,000	-	20,000	(20,000)	-	-	-	-
Tree Replacement 2014-2015	-	-	2,000	-	-	2,000	(2,000)	-	-	-	-
Roads 2015-2016	-	-	-	-	-	-	(62,954)	-	(62,954)	62,954	-
Signage	-	750	-	-	-	750	(739)	-	11	-	11

(Continued)

Town of Sprague, Connecticut

Statement of Changes in Fund Balance - By Project
Capital Nonrecurring Fund
For the Year Ended June 30, 2015

	Beginning Fund Balance	Internal Transfers	Transfers In	New Debt	Other Revenues	Total Available	Current Year Expenditures	Transfers Out	Ending Fund Balance	Eliminating Deficit Balances GASB 54	Reported Fund Balance
Public Safety											
BFD Building Impr. FY14	23,499	(1,371)	-	-	-	22,128	(22,128)	-	-	-	-
BFD Building Impr. FY15	-	-	-	40,000	3,720	43,720	(38,242)	-	5,478	-	5,478
Safety Equipment	2,520	-	-	-	-	2,520	(2,310)	-	210	-	210
Education											
Carpet Replacement	2,122	-	-	-	-	2,122	(5,377)	-	(3,255)	3,255	-
Door and Window Safety Film	-	-	-	-	-	-	(3,687)	-	(3,687)	3,687	-
Entry Door Additional Security	6,682	-	-	-	-	6,682	(6,990)	-	(308)	308	-
Interior Doors Lock Down	(19,657)	-	-	-	13,436	(6,221)	-	-	(6,221)	6,221	-
Water Heater Replacement	(4,593)	-	-	-	-	(4,593)	(10,841)	-	(15,434)	15,434	-
Emergency Access Box	7,000	-	-	-	-	7,000	-	-	7,000	-	7,000
Exit Door Monitors	4,700	-	-	-	-	4,700	-	-	4,700	-	4,700
	<u>(142,223)</u>	<u>25,961</u>	<u>28,800</u>	<u>782,755</u>	<u>727,884</u>	<u>1,423,177</u>	<u>(1,488,693)</u>	<u>-</u>	<u>(65,516)</u>	<u>259,657</u>	<u>194,141</u>
ASSIGNED FUND BALANCE											
Bond proceeds	67,652	63,493	-	59,920	-	191,065	(36,786)	-	154,279	-	154,279
Skateboard Park & Upgrades	-	1,566	-	-	-	1,566	-	-	1,566	-	1,566
Sprague Land Preserve	-	371	-	-	-	371	-	-	371	-	371
Christmas Families	62	-	-	-	1,471	1,533	(1,533)	-	-	-	-
Food Bank	4,412	-	-	-	708	5,120	(1,677)	-	3,443	-	3,443
Rental Property	16,594	(14,552)	-	-	30,090	32,132	(31,641)	(10,621)	(10,130)	10,130	-
Summer Concerts	4,075	-	-	-	4,000	8,075	(2,900)	-	5,175	-	5,175
Sprague Historical Society	-	(1)	-	-	-	(1)	-	-	(1)	1	-
Miscellaneous Expense	(292)	(7,567)	-	-	-	(7,859)	(38)	-	(7,897)	7,897	-
Assigned	4,246	(48,468)	-	-	5,310	(38,912)	-	(5,308)	(44,220)	44,220	-
	<u>96,749</u>	<u>(5,158)</u>	<u>-</u>	<u>59,920</u>	<u>41,579</u>	<u>193,090</u>	<u>(74,575)</u>	<u>(15,929)</u>	<u>102,586</u>	<u>62,248</u>	<u>164,834</u>
UNASSIGNED FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(471,542)</u>	<u>(471,542)</u>
TOTAL FUND BALANCE	<u>\$ (179,129)</u>	<u>\$ -</u>	<u>\$ 32,028</u>	<u>\$ 1,100,175</u>	<u>\$ 1,431,580</u>	<u>\$ 2,384,654</u>	<u>\$ (2,402,086)</u>	<u>\$ (15,929)</u>	<u>\$ (33,361)</u>	<u>\$ -</u>	<u>\$ (33,361)</u>

Town of Sprague, Connecticut

Schedule of Expenditures
 Budget and Actual (Budgetary Basis)
 General Fund - Details of Board of Education Expenditures
 For the Year Ended June 30, 2015

	Original and Final Budget	Actual Budgetary Basis	Variance with Final Budget
Salaries, Certified	\$ 1,818,759	\$ 1,793,319	\$ 25,440
Salaries, Non-Certified	757,569	714,465	43,104
Stipends	36,247	30,710	5,537
Referees	3,000	4,295	(1,295)
Summer / After School	10,000	4,575	5,425
Salaries, Homebound / Tutorial	6,000	35,585	(29,585)
Salaries, Substitutes	102,000	123,170	(21,170)
Taxes, FICA	93,839	84,876	8,963
Unemployment Compensation	2,000	27,536	(25,536)
Workmen's Compensation	20,272	27,204	(6,932)
Medical Benefits	620,870	544,327	76,543
Purchased / Pupil Services	231,672	209,793	21,879
Physician	450	-	450
Tuition, Staff	15,075	7,870	7,205
Conference / Travel	7,255	25,137	(17,882)
Graduation	500	759	(259)
Audit Services	9,000	16,247	(7,247)
Legal Costs	30,000	41,651	(11,651)
Water	2,600	2,428	172
Sewer	1,600	1,405	195
Rubbish & Snow Removal	1,100	1,090	10
Repairs, Equipment	2,270	631	1,639
Repairs, Building	-	966	(966)
Repairs, Other	-	6,462	(6,462)
Transp Cont	327,000	316,792	10,208
Transp Cont - High School Special Education	29,848	59,380	(29,532)
Transp Cont - Extra Curr	8,212	7,997	215
Transp Cont - Elementary Special Education	10,660	15,432	(4,772)
Transp Cont - Field Trip	5,000	2,778	2,222
Property / Liability Insurance	20,706	16,834	3,872
Advertising	3,500	4,036	(536)
Tuition, Adult	15,825	14,290	1,535
Tuition, High School Regular	1,024,927	972,713	52,213

(Continued)

Town of Sprague, Connecticut

Schedule of Expenditures
 Budget and Actual (Budgetary Basis)
 General Fund - Details of Board of Education Expenditures
 For the Year Ended June 30, 2015

	Original and Final Budget	Actual Budgetary Basis	Variance with Final Budget
Tuition, High School Special Education	\$ 284,729	\$ 413,485	\$ (128,757)
Tuition, Elementary Special Education	102,496	81,004	21,491
Tuition, Elementary Magnet	4,680	14,836	(10,156)
Software, Instructional	16,200	11,512	4,688
Software, Non-Instructional	19,000	32,768	(13,768)
Program Supplies	67,338	53,889	13,449
Petty Cash	1,300	800	500
Maintenance Supplies	12,000	14,123	(2,123)
Custodial Supplies	12,000	12,697	(697)
Telephone	9,600	11,611	(2,011)
Heat	65,000	58,860	6,140
Electricity	65,000	65,751	(751)
Fuel, Non-Public	22,200	-	22,200
Fuel, Public	52,500	47,651	4,849
Professional Periodicals	300	240	60
Textbooks	10,618	37,851	(27,234)
Library Books	1,000	-	1,000
Workbooks	24,960	7,671	17,289
Library Periodicals	500	-	500
Equipment, New Instructional	9,248	8,594	654
Furniture	3,220	4,825	(1,605)
Equipment, New Non-Instructional	14,400	10,649	3,751
Dues / Fees / Membership	11,288	6,398	4,890
	<u>\$ 6,027,331</u>	<u>\$ 6,009,968</u>	<u>\$ 17,363</u>

Town of Sprague, Connecticut

Internal Control and Compliance Reports
June 30, 2015

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditors' Report

**The Board of Finance
Town of Sprague, Connecticut**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut ("Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 21, 2015 December 21, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items (identified as MW-2013-1, MW-2015-01, MW-2015-02, MW-2015-03, MW-2015-04, MW-2015-05) to be material weaknesses.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Town in a separate letter dated December 21, 2015

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

O'Connor Davies, LLP

December 21, 2015

Town of Sprague, Connecticut

State Single Audit
June 30, 2015

Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

Independent Auditors' Report

**The Board of Finance
Town of Sprague, Connecticut**

Report on Compliance for Each Major State Program

We have audited the Town of Sprague, Connecticut's ("Town") compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2015. The Town's major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated December 21, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies, LLP

December 21, 2015

Town of Sprague, Connecticut

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	\$ 1,007
Connecticard Payments	11000-CSL66051-17010	125
Historic Documents Preservation Grants	12060-CSL66094-35150	4,782
Department of Agriculture		
Viability Grant	12060-DAG42710-90456	1,103
Department of Energy and Environmental Protection		
Clean Water Fund	21015-DEP43720-42318	7,500
Small Town Economic Assistance Program (DEP)	12052-DEP43720-40531	182,152
Environmental Conservation Fund	11000-DEP-44150-12491	35
Department of Transportation		
Transit District Grants and Loans Transportation Fund	12001-DOT57391-12175	6,407
Fix it First - Repair Bridges	13033-DOT57191-43123	13,957
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	151,371
Small Town Economic Assistance Program (DOT)	12052-DOT57191-40532	500,000
Department of Justice		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	540
Office of Policy and Management		
Reimbursement to Towns - Tax Loss on State Owned Property	11000-OPM20600-17004	12,257
Reimbursement of Property Tax - Disability Exemption	11000-OPM20600-17011	370
Property Tax Relief for Elderly Circuit Breaker	11000-OPM20600-17018	8,744
Property Tax Relief for Veterans	11000-OPM20600-17024	1,257
Municipal Aid Adjustment	11000-OPM20600-17099	150,000
Municipal Purposes and Projects	12052-OPM20600-43587	363,529
Office of Early Childhood		
School Readiness and Child Care	11000-OEC64845-12113	141,750
School Readiness Quality Enhancement	11000-OEC64845-17097	3,790

(continued)

Town of Sprague, Connecticut

Schedule of Expenditures of State Financial Assistance
 Year Ended June 30, 2015

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Department of Education		
Assessment Reduction Grant	11000-SDE64370-12171	10,000
Child Nutrition State Match	11000-SDE64370-16211	2,033
Health Foods Initiative	11000-SDE64370-16212	4,171
Adult Education	11000-SDE64370-17030	15,613
Health and Welfare - Private School Pupil	11000-SDE64370-17034	24,543
School Breakfast Program	11000-SDE64370-17046	3,171
Magnet Schools	11000-SDE64370-17057	<u>22,100</u>
Total State Financial Assistance before Exempt Programs		<u>1,632,307</u>
EXEMPT PROGRAMS		
Department of Education		
Education Cost Sharing	11000-SDE64370-17041	2,604,493
Public School Transportation	11000-SDE64370-17027	49,818
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	130,576
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	<u>31,144</u>
Total exempt programs		<u>2,816,031</u>
Total State Financial Assistance		<u><u>\$ 4,448,338</u></u>

Town of Sprague, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Town of Sprague, Connecticut ("Town") under programs of the State of Connecticut for the fiscal year ended June 30, 2015. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut.

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

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

Basis of Accounting

The financial statements for the governmental fund types contained in the Town's basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements and the financial statements for the business-type activities are prepared on the full accrual basis of accounting,

- Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

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

Town of Sprague, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

2. Loan Programs

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2015:

Department of Environmental Protection:

Clean Water Funds 21015-DEP43720-42318:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Issued	Retired	Ending Balance
564-CSL	7/31/2014	2%	\$ 775,645	\$768,145	\$ 7,500	\$ (41,441)	\$734,204

Town of Sprague, Connecticut

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

MW-2013-1: Internal Control Weakness in the Water and Sewer Authority

Condition: Presently, the administrative operations of the water and sewer authority lack an appropriate segregation of duties. The Administrative Assistant prepares and sends all customer billings; handles all collection efforts; receives funds and prepares and makes all deposits; posts all transactions in the accounting system; prepares payroll transactions; reconciles the bank statements and is also a check signer on the account.

Current Status: Repeated as finding number MW-2013-1.

Planned Corrective Action: See the response included in the current year Schedule of Findings and Questioned Costs.

MW-2013-3: Education Grant Funds

Condition: The Board of Education receives numerous grants for various educational activities. Many of the grants are awarded over multiple fiscal years. Unexpended grant funds (unearned revenues) as of June 30, 2010 (per the audit) have not been able to be reconciled to amounts expended during fiscal years ended June 30, 2011 and 2012 and 2013. Grant receivables and unearned grant revenues are not monitored or recorded by the Board of Education, accordingly such amounts, including the related revenues, cannot be relied upon as being accurate.

Current Status: The finding has been corrected.

MW-2014-1: Board of Education General Fund

Condition: The Board of Education's accounting records were incomplete, inaccurate and did not balance appropriately.

Current Status: The finding has been corrected.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

Internal control over financial reporting

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported
- Noncompliance material to financial statements noted yes X no

State Financial Assistance

Internal control over major programs

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? yes X no

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

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation (DOT)		
Small Town Economic Assistance Program	12052-DOT57191-40532	\$500,000
Office of Policy and Management		
Municipal Purposes and Projects	12052-OPM20600-43587	\$363,529

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

Section II - Financial Statement Findings

MW-2013-01: Integrated Framework: Control Activities: Internal Control Weakness in the Water and Sewer Authority

Criteria – The third integrated component of internal control is *Control Activities*. The integrated framework defines Control Activities as the actions established through policies and procedures that help ensure management's directives, to mitigate risks of the achievement of objectives are carried out. Control activities are performed at all levels of the entity and may include activities such as approvals, verifications, reconciliations and a segregation of duties.

An adequate system of internal controls relies on an adequate segregation of duties. There should be no one person who can control all aspects of a given transaction cycle.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Condition – Presently, the administrative operations of the water and sewer authority lack an appropriate segregation of duties. The Administrative Assistant prepares and sends all customer billings; handles all collection efforts; receives funds and prepares and makes all deposits; posts all transactions in the accounting system; prepares payroll transactions; reconciles the bank statements and is also a check signer on the account.

Context – The Water and Sewer Authority had over \$500,000 of operating revenues and expenses in fiscal year 2015 and a capital grant for over \$800,000. This condition has been present and reported for many years.

Effect – Material errors or irregularities could occur which would not be detected and/or corrected by management in a timely manner.

Recommendation – We recommend that the Town consider implementing additional controls such as having another Town employee reconcile the bank statements; having another Town employee physically make deposits and agreeing the deposit slip to deposit detail as entered into the accounting system. Additional internal control procedures should be considered and/or established to achieve a suitable internal control structure given the size of the Town. It must be noted that there were no errors and/or irregularities noted during our audit and the accounting records for the water and sewer authority were in good condition.

Views of Responsible Officials and Planned Corrective Actions – The Water and Sewer Authority continues to have an ongoing program with a local bank to accept and deposit payments on the Authority's behalf. The Authority also has implemented various review processes for bank reconciliations, cash disbursements, delinquent accounts and collection efforts with the Authority's Board Members, in conjunction with the Board of Finance. Beginning in FY 2016, an Authority Board Member will perform the monthly bank reconciliations and an individual outside of the Authority will process the delinquent statements and organize the mailing of them.

MW-2015-01: Integrated Framework: Risk Assessment

Criteria – In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its "Internal Control – Integrated Framework" for designing, implementing and conducting internal control and assessing effectiveness of internal controls. This internal control framework is widely accepted for all types of organizations and the United States' auditing rules require auditors to compare an entity's internal control against this framework to see how the entity is carrying out its fiduciary responsibility.

One integrated component of internal control is Risk Assessment. According to the Integrated Framework, this involves a dynamic and interactive process for identifying and assessing risks for the achievement of financial objectives. In other words, the board of finance and management should be reviewing significant financial systems and controls and then assessing what could go wrong.

Condition – Although there has been some assessment of risk in certain areas of the financial objectives, there has not been a thorough process to identify the significant systems, understand the policies and procedures in place, and assess risk.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Effect – There are a number of significant systems with poor controls (addressed later in the material weaknesses) which could have a material effect on the Town’s financial objectives.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Risk Assessment under the integrated framework. A joint effort to meet these responsibilities should be commenced by identifying significant systems, understanding the policies and procedures in place and assessing risk.

Views of Responsible Officials and Planned Corrective Actions – Views of Responsible Officials and Planned Corrective Actions: The Board of Finance and First Selectman have previously identified the significant systems and the risks associated with those systems. Proper policies and procedures have been established and are in place based on the associated risks. All policies and procedures will be reviewed with and signed off by employees in FY2016.

MW-2015-02: Integrated Framework: Control Activities: Internal Control Weakness in the Board of Education Payroll Processing

Criteria – The third integrated component of internal control is *Control Activities*. The integrated framework defines Control Activities as the actions established through policies and procedures that help ensure management’s directives, to mitigate risks of the achievement of objectives are carried out. Control activities are performed at all levels of the entity and may include activities such as approvals, verifications, reconciliations and a segregation of duties.

Condition – Time sheets, including notations when leave time is used, are not reviewed or approved by a supervisor. They are given to the IT Director. The IT Director summarizes them in Excel and reports them to the payroll company. Checks are direct deposited or, if manual, distributed by the IT Director. The IT Director receives the payroll register and enters the journal entry into the General Ledger. The journal entry is checked by the Finance Director.

Context – Payroll for the Board of Education is nearly \$3,000,000.

Cause – Because there has been no thorough identification of significant systems and risk assessment, there has been no thorough establishment of control activities for many of the significant systems.

Effect – Material errors or irregularities could occur which would not be detected and/or corrected by management in a timely manner.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Control Activities under the integrated framework. A joint effort to meet these responsibilities should be commenced. These should be formalized into policies and procedures and included in a formal policy manual.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education is reviewing the current system and making changes where appropriate.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

MW-2015-03 – Integrated Framework: Information and Communication

Criteria – The fourth integrated component of internal control is *Information and Communication*. This is necessary for the Town to carry out internal control responsibilities established to support the financial reporting objectives.

Condition – Complete, written policies and procedures manuals have not been documented of the internal control processes in light of the integrated framework. A few processes have been committed to writing but not all significant processes, for example, the controls noted in the above material weaknesses MW-2013-01 and MW-2015-02.

Effect – Controls are not likely to be adhered to when they are not written, individuals don't always understand all their responsibilities in the control system, the compliance with controls will deteriorate over time and people forget and new people have never been made aware of them.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Information and Communication under the integrated framework. A joint effort to meet these responsibilities should be commenced. Once risk is assessed and control activities are established, relevant and quality information should be documented to support the other components of internal control. Additionally, a continual process of providing, sharing and obtaining information should be established and disseminated internally throughout the organization and when appropriate, externally.

Views of Responsible Officials and Planned Corrective Actions – The Town is working on a manual to document the policies and procedures that are in place. All policies and procedures will be reviewed with and signed off by employees in FY2016.

MW-2015-04 – Integrated Framework: Monitoring Activities

Criteria – The fifth and final integrated component of internal control is *Monitoring Activities*. Monitoring Activities, according to the integrated framework, are the ongoing evaluations, separate evaluations, or some combination of the two, which are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning.

Condition – The Town has not established any monitoring activities over the controls that are currently in place. For example, a number of years ago the Town put in controls over the tax collections after an embezzlement occurred. Management and the Board were unaware that some of the key controls put in place at that time are no longer being followed.

Effect – Individuals within the board of finance and management do not know if many of the controls that are currently in place are being followed or working effectively. Our testing indicated that they are not.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Monitoring Activities under the integrated framework. A joint effort to meet these responsibilities should be commenced.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Views of Responsible Officials and Planned Corrective Actions – Town management is continuously monitoring the policies and procedures in place to ensure the lowest amount of risk. In FY2016, meetings and discussions have been held with Town employees regarding internal controls and the proper procedures to be performed.

MW-2015-05: Capital Nonrecurring Fund Accounting

Criteria – State Statutes require that projects being expended through the Capital Nonrecurring Fund be approved through a Town Meeting. The Town is not allowed to expend more than the approved amount.

Condition – There is no formal reporting of the budget verses actual expenditures for the projects in the Capital Nonrecurring Fund.

Effect – Expenditures could be exceeding the budgets and management and the Boards would not know in a timely manner. In addition, revenues expected to cover the expenditures may not have been received as expected.

Context – The revenues and expenditures in the Capital Nonrecurring Fund this year were approximately \$1,500,000 and were attributed to over 50 projects.

Recommendation – The Town should prepare budget verses actual revenue and expenditure reports for each of the projects approved at the Town Meeting. No expenditures should be made in excess of the budget.

Views of Responsible Officials and Planned Corrective Actions – Beginning in FY2016, the Bookkeeper will be preparing proper reports for all activity in the Capital Nonrecurring Fund to be presented to the Board of Finance for review.

Section III - State Financial Assistance Findings and Questioned Costs

No findings or questioned cost are reported relating to State financial assistance programs.

Town of Sprague, Connecticut

Federal Single Audit
June 30, 2015

**Report on Compliance for Each Major Federal Program; Report on Internal Control
Over Compliance; and Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

Independent Auditors' Report

**To the Board of Finance
Town of Sprague, Connecticut**

Report on Compliance for Each Major Federal Program

We have audited the Town of Sprague, Connecticut's ("Town") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2015. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities and the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2015, and have issued our report thereon dated December 21, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

O'Connor Davies, LLP

December 21, 2015

Town of Sprague, Connecticut

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal grantor/ Pass-Through grantor program title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Program
U.S. Department of Agriculture			
Direct Programs:			
Pre-Development Planning Grant - Dams Integrity Analysis Project	10.760	Not Applicable	\$ 3,403
Pre-Development Planning Grant - Water Quality Testing Project	10.761	Not Applicable	19,483
Water and Environmental Programs Grant for the Hanover Street Pump Station Project	10.770	Not Applicable	250,000
Rural Housing Service Grant for the Portable Generator Project	10.766	Not Applicable	16,300
Rural Housing Service Grant for the Brush Chipper Acquisition Project	10.766	Not Applicable	7,000
Rural Housing Service Grant for the Baltic Fire Dept Doors Project	10.766	Not Applicable	3,720
			<u>299,906</u>
Pass-Through programs from: Connecticut State Department of Education			
Child Nutrition Cluster			
National School Lunch	10.555	12060-SDE64370-20560	83,017
School Breakfast Program	10.553	12060-SDE64370-20508	23,583
<i>Total Child Nutrition Cluster</i>			<u>106,600</u>
Total U.S. Department of Agriculture			<u>406,506</u>
U.S. Department of Education:			
Direct Programs:			
Rural Education Achievement Program (REAP)	84.358	Not Applicable	<u>3,925</u>
Pass-Through programs from: Connecticut State Department of Education			
Special Education Cluster (IDEA)			
IDEA, Part B, Section 611, Handicapped - Current	84.027	12060-SDE64370-20977	77,773
IDEA, Part B, Section 611, Handicapped - Carryover	84.027	12060-SDE64370-20977	27,302
IDEA, Part B, Section 619, Preschool - Current	84.173	12060-SDE64370-20983	2,001
IDEA, Part B, Section 619, Preschool - Carryover	84.173	12060-SDE64370-20983	910
<i>Total Special Education Cluster (IDEA)</i>			<u>107,986</u>
Title I - Current	84.010	12060-SDE64370-20679	49,516
Title I - Carryover	84.010	12060-SDE64370-20679	17,414
Title II - Part A, Improving Teacher Quality - Carryover	84.367	12060-SDE64370-20858	12,910
Total U.S. Department of Education			<u>191,751</u>

(continued)

Town of Sprague, Connecticut

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal grantor/ Pass-Through grantor program title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Program
U.S. Department of Transportation:			
Pass-Through programs from:			
Connecticut Department of Transportation			
Alcohol Open Container Requirements	20.607	12062-DOT57313-22091	16,198
Highway Planning and Construction	20.205	12062-DOT57191-22108	1,905
Highway Planning and Construction	20.205	12062-DOT57513-22108	<u>7,158</u>
Total U.S. Department of Transportation			<u>25,261</u>
U.S. Department of Homeland Security:			
Pass-Through programs from:			
Connecticut Department of Emergency Services and Public Protection			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	12060-DPS32990-21891	22,618
Hazard Mitigation Grant	97.039	12060-DPS32983-22519	<u>39,295</u>
Total U.S. Department of Homeland Security			<u>61,913</u>
U.S. Department of Housing and Urban Development:			
Pass-Through programs from:			
Connecticut Department of Housing			
Community Development Block Grant/State's Program and Non-Entitlement Grants	14.228	12060-DOH46920-20730	466,953
Community Development Block Grant/State's Program and Non-Entitlement Grants	14.228	12060-DOH46930-20730	<u>32,082</u>
Total U.S. Department of Housing and Urban Development			<u>499,035</u>
Total Federal Financial Assistance			<u>\$ 1,184,466</u>

Town of Sprague, Connecticut

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

1. Summary Of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of Federal Awards presents activity of all federal award programs for the year ended June 30, 2015. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule.

Basis of Accounting

The financial statements for the governmental fund types contained in Town of Sprague, Connecticut's ("Town") basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements and the financial statements for the business-type activities are prepared on the full accrual basis of accounting,

- Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Town of Sprague, Connecticut

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

MW-2013-1: Internal Control Weakness in the Water and Sewer Authority

Condition: Presently, the administrative operations of the water and sewer authority lack an appropriate segregation of duties. The Administrative Assistant prepares and sends all customer billings; handles all collection efforts; receives funds and prepares and makes all deposits; posts all transactions in the accounting system; prepares payroll transactions; reconciles the bank statements and is also a check signer on the account.

Current Status: Repeated as finding number MW-2013-1.

Planned Corrective Action: See the response included in the current year Schedule of Findings and Questioned Costs.

MW-2013-3: Education Grant Funds

Condition: The Board of Education receives numerous grants for various educational activities. Many of the grants are awarded over multiple fiscal years. Unexpended grant funds (unearned revenues) as of June 30, 2010 (per the audit) have not been able to be reconciled to amounts expended during fiscal years ended June 30, 2011 and 2012 and 2013. Grant receivables and unearned grant revenues are not monitored or recorded by the Board of Education, accordingly such amounts, including the related revenues, cannot be relied upon as being accurate.

Current Status: The finding has been corrected.

MW-2014-1: Board of Education General Fund

Condition: The Board of Education's accounting records were incomplete, inaccurate and did not balance appropriately.

Current Status: The finding has been corrected.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

Internal control over financial reporting

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported
- Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of report issued on compliance for major programs: unmodified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

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

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant/State Program and Nonentitlement Special Education Cluster (IDEA)
84.027	Special Education – Grant to States (IDEA Part B)
84.173	Special Education – Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low risk auditee? yes X no

Section II - Financial Statement Findings:

MW-2013-01: Integrated Framework: Control Activities: Internal Control Weakness in the Water and Sewer Authority

Criteria – The third integrated component of internal control is *Control Activities*. The integrated framework defines Control Activities as the actions established through policies and procedures that help ensure management's directives, to mitigate risks of the achievement of objectives are carried out. Control activities are performed at all levels of the entity and may include activities such as approvals, verifications, reconciliations and a segregation of duties.

An adequate system of internal controls relies on an adequate segregation of duties. There should be no one person who can control all aspects of a given transaction cycle.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

Condition – Presently, the administrative operations of the water and sewer authority lack an appropriate segregation of duties. The Administrative Assistant prepares and sends all customer billings; handles all collection efforts; receives funds and prepares and makes all deposits; posts all transactions in the accounting system; prepares payroll transactions; reconciles the bank statements and is also a check signer on the account.

Context – The Water and Sewer Authority had over \$500,000 of operating revenues and expenses in fiscal year 2015 and a capital grant for over \$800,000. This condition has been present and reported for many years.

Effect – Material errors or irregularities could occur which would not be detected and/or corrected by management in a timely manner.

Recommendation – We recommend that the Town consider implementing additional controls such as having another Town employee reconcile the bank statements; having another Town employee physically make deposits and agreeing the deposit slip to deposit detail as entered into the accounting system. Additional internal control procedures should be considered and/or established to achieve a suitable internal control structure given the size of the Town. It must be noted that there were no errors and/or irregularities noted during our audit and the accounting records for the water and sewer authority were in good condition.

Views of Responsible Officials and Planned Corrective Actions – The Water and Sewer Authority continues to have an ongoing program with a local bank to accept and deposit payments on the Authority's behalf. The Authority also has implemented various review processes for bank reconciliations, cash disbursements, delinquent accounts and collection efforts with the Authority's Board Members, in conjunction with the Board of Finance. Beginning in FY 2016, an Authority Board Member will perform the monthly bank reconciliations and an individual outside of the Authority will process the delinquent statements and organize the mailing of them.

MW-2015-01: Integrated Framework: Risk Assessment

Criteria – In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its "Internal Control – Integrated Framework" for designing, implementing and conducting internal control and assessing effectiveness of internal controls. This internal control framework is widely accepted for all types of organizations and the United States' auditing rules require auditors to compare an entity's internal control against this framework to see how the entity is carrying out its fiduciary responsibility.

One integrated component of internal control is Risk Assessment. According to the Integrated Framework, this involves a dynamic and interactive process for identifying and assessing risks for the achievement of financial objectives. In other words, the board of finance and management should be reviewing significant financial systems and controls and then assessing what could go wrong.

Condition – Although there has been some assessment of risk in certain areas of the financial objectives, there has not been a thorough process to identify the significant systems, understand the policies and procedures in place, and assess risk.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

Effect – There are a number of significant systems with poor controls (addressed later in the material weaknesses) which could have a material effect on the Town's financial objectives.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Risk Assessment under the integrated framework. A joint effort to meet these responsibilities should be commenced by identifying significant systems, understanding the policies and procedures in place and assessing risk.

Views of Responsible Officials and Planned Corrective Actions – Views of Responsible Officials and Planned Corrective Actions: The Board of Finance and First Selectman have previously identified the significant systems and the risks associated with those systems. Proper policies and procedures have been established and are in place based on the associated risks. All policies and procedures will be reviewed with and signed off by employees in FY2016.

MW-2015-02: Integrated Framework: Control Activities: Internal Control Weakness in the Board of Education Payroll Processing

Criteria – The third integrated component of internal control is *Control Activities*. The integrated framework defines Control Activities as the actions established through policies and procedures that help ensure management's directives, to mitigate risks of the achievement of objectives are carried out. Control activities are performed at all levels of the entity and may include activities such as approvals, verifications, reconciliations and a segregation of duties.

Condition – Time sheets, including notations when leave time is used, are not reviewed or approved by a supervisor. They are given to the IT Director. The IT Director summarizes them in Excel and reports them to the payroll company. Checks are direct deposited or, if manual, distributed by the IT Director. The IT Director receives the payroll register and enters the journal entry into the General Ledger. The journal entry is checked by the Finance Director.

Context – Payroll for the Board of Education is nearly \$3,000,000.

Cause – Because there has been no thorough identification of significant systems and risk assessment, there has been no thorough establishment of control activities for many of the significant systems.

Effect – Material errors or irregularities could occur which would not be detected and/or corrected by management in a timely manner.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Control Activities under the integrated framework. A joint effort to meet these responsibilities should be commenced. These should be formalized into policies and procedures and included in a formal policy manual.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education is reviewing the current system and making changes where appropriate.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

MW-2015-03 – Integrated Framework: Information and Communication

Criteria – The fourth integrated component of internal control is *Information and Communication*. This is necessary for the Town to carry out internal control responsibilities established to support the financial reporting objectives.

Condition – Complete, written policies and procedures manuals have not been documented of the internal control processes in light of the integrated framework. A few processes have been committed to writing but not all significant processes, for example, the controls noted in the above material weaknesses MW-2013-01 and MW-2015-02.

Effect – Controls are not likely to be adhered to when they are not written, individuals don't always understand all their responsibilities in the control system, the compliance with controls will deteriorate over time and people forget and new people have never been made aware of them.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Information and Communication under the integrated framework. A joint effort to meet these responsibilities should be commenced. Once risk is assessed and control activities are established, relevant and quality information should be documented to support the other components of internal control. Additionally, a continual process of providing, sharing and obtaining information should be established and disseminated internally throughout the organization and when appropriate, externally.

Views of Responsible Officials and Planned Corrective Actions – The Town is working on a manual to document the policies and procedures that are in place. All policies and procedures will be reviewed with and signed off by employees in FY2016.

MW-2015-04 – Integrated Framework: Monitoring Activities

Criteria – The fifth and final integrated component of internal control is *Monitoring Activities*. Monitoring Activities, according to the integrated framework, are the ongoing evaluations, separate evaluations, or some combination of the two, which are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning.

Condition – The Town has not established any monitoring activities over the controls that are currently in place. For example, a number of years ago the Town put in controls over the tax collections after an embezzlement occurred. Management and the Board were unaware that some of the key controls put in place at that time are no longer being followed.

Effect – Individuals within the board of finance and management do not know if many of the controls that are currently in place are being followed or working effectively. Our testing indicated that they are not.

Recommendation – All individuals involved in Town management and governance should understand their fiduciary responsibilities for Monitoring Activities under the integrated framework. A joint effort to meet these responsibilities should be commenced.

Town of Sprague, Connecticut

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

Views of Responsible Officials and Planned Corrective Actions – Town management is continuously monitoring the policies and procedures in place to ensure the lowest amount of risk. In FY2016, meetings and discussions have been held with Town employees regarding internal controls and the proper procedures to be performed.

MW-2015-05: Capital Nonrecurring Fund Accounting

Criteria – State Statutes require that projects being expended through the Capital Nonrecurring Fund be approved through a Town Meeting. The Town is not allowed to expend more than the approved amount.

Condition – There is no formal reporting of the budget verses actual expenditures for the projects in the Capital Nonrecurring Fund.

Effect – Expenditures could be exceeding the budgets and management and the Boards would not know in a timely manner. In addition, revenues expected to cover the expenditures may not have been received as expected.

Context – The revenues and expenditures in the Capital Nonrecurring Fund this year were approximately \$1,500,000 and were attributed to over 50 projects.

Recommendation – The Town should prepare budget verses actual revenue and expenditure reports for each of the projects approved at the Town Meeting. No expenditures should be made in excess of the budget.

Views of Responsible Officials and Planned Corrective Actions – Beginning in FY2016, the Bookkeeper will be preparing proper reports for all activity in the Capital Nonrecurring Fund to be presented to the Board of Finance for review.

Section III - Federal Financial Assistance Findings And Questioned Costs

No findings or questioned cost are reported relating to Federal financial assistance programs.