

TOWN OF SPRAGUE, CONNECTICUT

**AUDITED FINANCIAL STATEMENTS
TOGETHER WITH
SUPPLEMENTAL REPORTS
AND SCHEDULES**

FOR THE YEAR ENDED JUNE 30, 2011

**TOWN OF SPRAGUE, CONNECTICUT
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SUPPLEMENTAL SCHEDULES
YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut, as of and for the year ended June 30, 2011, which collectively comprise the Town of Sprague, Connecticut's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sprague, Connecticut's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 7, 2012, on my consideration of the Town of Sprague, Connecticut's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 39 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

(Continued)

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sprague, Connecticut's financial statements as a whole. The combining and individual nonmajor fund financial statements, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate 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 other 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in dark ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Albert J. Rusilowicz
Certified Public Accountant, LLC
Killingworth, Connecticut
March 7, 2012

TOWN OF SPRAGUE, CONNECTICUT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

This discussion and analysis of the Town of Sprague, Connecticut's (the "Town") financial performance is provided by management to provide an overview of the Town's financial activities for the fiscal year ended June 30, 2011. This management discussion and analysis should be read in conjunction with the Town's financial statements.

Financial Highlights

- Net assets of the Town increased by \$1,083,826 or approximately 6.35%.
- The total cost of all of the Town's governmental activities was \$10,123,559.
- The total cost of the Town's business-type activities was \$476,094.
- The General Fund reported a fund balance of \$588,147 at June 30, 2011.
- For the year ended June 30, 2011, the resources available for appropriation were \$270,964 less than budgeted for the general fund. Expenditures were generally kept within spending limits.
- The Town's total bonded debt increased by \$58,167 to a level of \$4,038,167.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (Exhibits I and II respectively) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements are presented in Exhibits III and IV. For governmental activities and business-type 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 Town's operations in more detail than the government-wide financial statements by providing information on the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside the government.

Government-Wide Financial Statements

The analysis of the Town as a whole begins on Exhibit 1 and 2. The statement of net assets and the statement of activities report information about the Town as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the basis of 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 Town's net assets and changes in them. The Town's net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. The reader need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's capital assets, to assess the overall financial health of the Town.

(Continued)

In the statement of net assets and the statement of activities, the Town reports its activities:

- *Governmental activities*-Most of the Town's basic services are reported here, including general government, highway, public safety, health and welfare, library, recreation, environmental services and education. Property taxes, charges for services and state and federal grants finance most of these activities.
- *Business-Type activities*-The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's water and sewer system operations are reported here.

Fund Financial Statements

The fund financial statements begin with Exhibit 3 and provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by State law. However, the First Selectman establishes many other funds to help the Town control and manage financial activities for particular purposes or to show that the Town is meeting legal responsibilities for using certain grants and other money (like grants received from the State of Connecticut). The Town's funds are divided into three categories; governmental, proprietary and fiduciary.

- *Governmental funds* (Exhibit 3 and 4) – Most of the Town'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 be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Town's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* (Exhibits 5, 6 and 7) – When the Town charges customers for the services it provides, whether to outside customers or to other units of the Town, 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 Assets and the Statement of Activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.
- *Fiduciary funds* (Exhibits 8) – The Town is the trustee, or fiduciary, for the student activity funds at the Sayles School. The Town's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. These activities are excluded from the Town's other financial statements because the Town cannot use the assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

(Continued)

Government-wide Financial Analysis

The Town's combined net assets increased from a year ago. The analysis below focuses on the net assets and changes in net assets of the Town's governmental and business-type activities.

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
	<u>(Restated)</u>				<u>(Restated)</u>	
Current and other assets	\$ 2,292,802	2,251,276	386,436	347,199	2,679,238	2,598,475
Capital assets, net	17,842,066	19,226,822	1,815,226	1,850,939	19,657,292	21,077,761
Total assets	<u>20,134,868</u>	<u>21,478,098</u>	<u>2,201,662</u>	<u>2,198,138</u>	<u>22,336,530</u>	<u>23,676,236</u>
Long-term liabilities outstanding	4,216,627	4,322,751	251,789	201,396	4,468,416	4,524,147
Other liabilities	794,322	999,118	18,501	13,854	812,823	1,012,972
Total liabilities	<u>5,010,949</u>	<u>5,321,869</u>	<u>270,290</u>	<u>215,250</u>	<u>5,281,239</u>	<u>5,537,119</u>
Net assets:						
Invested in capital assets, net of related debt	13,862,066	15,188,655	1,563,437	1,649,543	15,425,503	16,838,198
Restricted:						
Nonexpendable	1,250	1,250	-	-	1,250	1,250
Unrestricted	<u>1,260,603</u>	<u>966,324</u>	<u>367,935</u>	<u>333,345</u>	<u>1,628,538</u>	<u>1,299,669</u>
Total net assets	<u>\$15,123,919</u>	<u>16,156,229</u>	<u>1,931,372</u>	<u>1,982,888</u>	<u>17,055,291</u>	<u>18,139,117</u>

Net assets of the Town increased by \$1,083,826 or 6.35%. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by \$294,279 to \$966,324 at June 30, 2011.

Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities		Government	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues:						
Charges for services	\$ 378,040	355,946	501,976	491,950	880,016	847,896
Operating grants and contributions	3,761,448	3,770,447	-	-	3,761,448	3,770,447
Capital grants and contributions	1,275,781	1,889,549	16,861	-	1,292,642	1,889,549
General revenues:						
Property taxes	5,128,365	4,812,887	-	-	5,128,365	4,812,887
Grants and contributions not restricted to specific purposes	68,256	272,968	-	-	68,256	272,968
Unrestricted investment earnings	6,368	4,032	648	456	7,016	4,488
Other revenue	12,100	85,044	-	200	12,100	85,244
Total revenues	<u>10,630,358</u>	<u>11,190,873</u>	<u>519,485</u>	<u>492,606</u>	<u>11,149,843</u>	<u>11,683,479</u>
Program expenses:						
General government	1,844,621	1,956,949	-	-	1,844,621	1,956,949
Public safety	376,442	447,117	-	-	376,442	447,117
Public works	839,327	645,305	-	-	839,327	645,305
Education	6,708,993	6,907,617	-	-	6,708,993	6,907,617
Interest on long-term debt	155,921	166,571	-	-	155,921	166,571
Water and sewer	-	-	488,096	476,094	488,096	476,094
Total expenses	<u>9,925,304</u>	<u>10,123,559</u>	<u>488,096</u>	<u>476,094</u>	<u>10,413,400</u>	<u>10,599,653</u>
Excess (deficiency) before transfers	705,054	1,067,314	31,389	16,512	736,443	1,083,826
Transfers	<u>(35,972)</u>	<u>(35,004)</u>	<u>35,972</u>	<u>35,004</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ 669,082</u>	<u>1,032,310</u>	<u>67,361</u>	<u>51,516</u>	<u>736,443</u>	<u>1,083,826</u>

The Town's total revenue (excluding special items) was \$11,683,479. The total cost of all programs and services was \$10,599,653. Our analysis above separately considers the operations of governmental activities and business-type activities.

(Continued)

Governmental activities

Governmental activities increased the Town’s net assets by \$1,032,310. Grant revenues from capital projects were the main contributors to this years results.

The table below presents the cost of each of the Town’s five largest programs – general government, public works, public safety, education, and interest on debt - as well as each program’s net cost (total cost less revenues generated by the activities). Net cost shows the burden that was placed on the Town’s taxpayers by each of the functions.

Governmental Activities

	<u>Year Ended June 30, 2010</u>		<u>Year Ended June 30, 2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Income) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Income) of Services</u>
General government	\$ 1,844,621	443,415	1,956,949	1,567,880
Public works	839,327	590,930	645,305	(1,146,909)
Public safety	376,442	346,690	447,117	305,047
Education	6,708,993	2,973,079	6,907,617	3,215,028
Interest on debt	155,921	155,921	166,571	166,571
	<u>\$ 9,925,304</u>	<u>4,510,035</u>	<u>10,123,559</u>	<u>4,107,617</u>

Business-Type Activities

Business-Type Activities

	<u>Year Ended June 30, 2010</u>		<u>Year Ended June 30, 2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost (Income) of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost (Income) of Services</u>
Water and sewer	\$ 488,096	(30,741)	476,094	(15,856)

The net cost of the business-type activities is small, or a net income, by design. The purpose of accounting for an activity as a business-type activity is to cover the total costs with charges for services. This was accomplished in 2011 as \$15,856 of water and sewer costs were covered by fees. In 2010 the water and sewer costs were also covered by fees and an operating grant.

(Continued)

Town Fund Financial Analysis

Governmental funds

As the Town completed the year, its governmental funds (as presented in the balance sheet – Exhibit 3) reported a combined fund balance of \$467,687 which is a decrease of \$583,685 from last year's total of \$1,051,372. Included in this year's total change in fund balance is a decrease in the Town's General Fund balance of \$395,910, and a decrease in the Town's Reserve Fund for Capital and Nonrecurring Expenditures Fund balance of \$166,216. The primary reasons for the General Fund's decrease was a significant reduction in the State manufacturing equipment grant and other revenue shortfall as highlighted on Schedule RSI-1. The decrease in the Town's Reserve Fund is attributable primarily to the fixed asset acquisitions made during the fiscal year.

General Fund budgetary highlights

General property taxes-property tax revenue was \$45,927 less than budgeted due primarily to an overall increase uncollected taxes. Intergovernmental revenue-grant revenues in total were lower than budgeted due primarily to reductions in State funding of the manufacturing equipment grant. Local revenues in total were less than budgeted amounts primarily as a result of decreases in interest income, conveyance taxes and waste management.

The following is a summary of the General Fund budgetary activity for the year:

General Fund-Budget Summary

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Property taxation	\$ 4,793,943	4,748,016	(45,927)
Intergovernmental-school	2,709,915	2,727,556	17,641
Intergovernmental-town	610,266	383,302	(226,964)
Local revenues	272,682	256,968	(15,714)
Intergovernmental transfers	26,658	26,658	-
Total Revenues	<u>8,413,464</u>	<u>8,142,500</u>	<u>(270,964)</u>
Expenditures:			
General Government	2,089,836	2,087,714	2,122
Education	5,832,459	5,832,459	-
Debt and capital and nonrecurring items	566,949	566,949	-
Non-budgetary expenditures	4,596	5,806	(1,210)
Total Expenditures	<u>8,493,840</u>	<u>8,492,928</u>	<u>912</u>
Increase (decrease) in Fund			
Balance on a budgetary basis	<u>\$ (80,376)</u>	<u>(350,428)</u>	<u>(270,052)</u>

(Continued)

Capital asset and debt administration

At June 30, 2011, the Town had a net balance of \$19,226,822 invested in government activity capital assets representing a broad range of capital assets, including land, buildings, vehicles and equipment, and infrastructure and \$1,850,939 invested in business-type activity capital assets. This represents a net increase (including additions and deductions) of \$1,420,469, or approximately 7% from the prior year.

The largest additions to capital assets this year were:

Gristmill renovations	\$	648,048
Road improvements	\$	301,876
Solar panel project	\$	190,915

More detailed information about the Town's capital assets is presented in Note 6 to the financial statements.

Long-term debt

At June 30, 2011, the Town had \$4,038,167 in bonds outstanding. This is a net increase of \$58,167 from the previous year. The increase was caused by the issuance of \$403,167 of bond anticipation notes and offsetting principal payments on existing bonds in the amount of \$345,000.

The Town's general obligation bond rating continues to carry a Moody's A3 rating. More detailed information about the Town's long-term liabilities is presented in Note 8 to the financial statements.

Economic factors and next year's budgets and rates

The Town's elected and appointed officials consider many factors when establishing the annual budget and setting the mil rate. One of those factors is the state and local economy. Other factors include anticipated tax collections as well as uncertainty regarding the levels of state funding to be received.

These factors were taken into account when adopting the General Fund budget.

Contacting the Town's financial management

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

TOWN OF SPRAGUE, CONNECTICUT
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 400,613	210,923	611,536
Receivables, net	1,771,941	129,771	1,901,712
Prepaid expenses	9,000	3,577	12,577
Inventory	3,826	2,928	6,754
Other long-term assets	65,896	-	65,896
Capital assets not being depreciated	6,788,368	-	6,788,368
Capital assets being depreciated, net of depreciation	12,438,454	1,850,939	14,289,393
Total Assets	21,478,098	2,198,138	23,676,236
LIABILITIES:			
Accounts payable and accrued expenses	526,477	13,854	540,331
Due to others	21,705	-	21,705
Accrued interest	35,286	-	35,286
Deferred revenue	415,650	-	415,650
Noncurrent liabilities:			
Due within one year	747,852	47,576	795,428
Due in more than one year	3,574,899	153,820	3,728,719
Total Liabilities	5,321,869	215,250	5,537,119
NET ASSETS:			
Invested in capital assets, net of related debt	15,188,655	1,649,543	16,838,198
Restricted net assets:			
Nonexpendable	1,250	-	1,250
Unrestricted net assets	966,324	333,345	1,299,669
Total Net Assets	\$ 16,156,229	1,982,888	18,139,117

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

TOWN OF SPRAGUE, CONNECTICUT
Statement of Activities
For the year ended June 30, 2011

	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 1,956,949	57,296	59,181	272,592	(1,567,880)	-	(1,567,880)
Public safety	447,117	56,131	25,035	60,904	(305,047)	-	(305,047)
Public works	645,305	188,950	89,837	1,513,427	1,146,909	-	1,146,909
Education	6,907,617	53,569	3,596,394	42,626	(3,215,028)	-	(3,215,028)
Interest on long-term debt	166,571	-	-	-	(166,571)	-	(166,571)
Total governmental activities	<u>10,123,559</u>	<u>355,946</u>	<u>3,770,447</u>	<u>1,889,549</u>	<u>(4,107,617)</u>	<u>-</u>	<u>(4,107,617)</u>
Business-type activities:							
Water and sewer	476,094	491,950	-	-	-	15,856	15,856
	<u>476,094</u>	<u>491,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,856</u>	<u>15,856</u>
Total government	<u>\$ 10,599,653</u>	<u>847,896</u>	<u>3,770,447</u>	<u>1,889,549</u>	<u>(4,107,617)</u>	<u>15,856</u>	<u>(4,091,761)</u>
General revenues:							
Property taxes					4,812,887	-	4,812,887
Grants and contributions not restricted to specific programs					272,968	-	272,968
Unrestricted investment earnings					4,032	456	4,488
Miscellaneous					85,044	200	85,244
Transfers					(35,004)	35,004	-
Total general revenues and transfers					<u>5,139,927</u>	<u>35,660</u>	<u>5,175,587</u>
Change in net assets					1,032,310	51,516	1,083,826
Net assets-beginning, restated					15,123,919	1,931,372	17,055,291
Net assets-ending					<u>\$ 16,156,229</u>	<u>1,982,888</u>	<u>18,139,117</u>

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

TOWN OF SPRAGUE, CONNECTICUT
Governmental Funds
Balance Sheet
June 30, 2011

ASSETS	General	Reserve Fund For Capital And Nonrecurring Expenditures	Small Cities Housing Rehabilitation Programs	Education Grants Fund	Upper High Street Reconstruction	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 280,157	2,619	791	50,857	3,938	62,251	400,613
Receivables, net	603,914	457,090	344,788	23,338	291,500	51,311	1,771,941
Inventory	1,427	-	-	-	-	2,399	3,826
Prepaid expenses	9,000	-	-	-	-	-	9,000
Due from other funds	283,004	-	-	2,008	-	6,147	291,159
Total Assets	\$ 1,177,502	459,709	345,579	76,203	295,438	122,108	2,476,539
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued expenses	\$ 155,559	85,220	-	10,183	226,596	48,919	526,477
Deferred revenue	412,091	341,770	344,788	66,020	4,842	-	1,169,511
Due to other funds	-	227,159	-	-	64,000	-	291,159
Due to others	21,705	-	-	-	-	-	21,705
Total Liabilities	589,355	654,149	344,788	76,203	295,438	48,919	2,008,852
Fund Balances:							
Nonspendable	10,427	-	-	-	-	-	10,427
Restricted	-	-	-	-	-	8,213	8,213
Committed	-	-	-	-	-	-	-
Assigned	104,924	-	791	-	-	65,021	170,736
Unassigned	472,796	(194,440)	-	-	-	(45)	278,311
Total Fund Balances	588,147	(194,440)	791	-	-	73,189	467,687
Total Liabilities and Fund Balances	\$ 1,177,502	459,709	345,579	76,203	295,438	122,108	
Reconciliation of net assets to fund balances-total governmental funds:							
Less: Long-term liabilities not due and payable in the current period:							
Bonds, notes and unamortized premiums on bond costs							(4,058,699)
Compensated absences and special termination benefits							(91,400)
Post closure landfill costs							(15,600)
Accrued interest payable							(35,286)
Other post employment benefits							(157,052)
Plus:							
Deferred charges on bond costs (to be amortized over the life of the bond)							65,896
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds							19,226,822
Other long-term assets not available to pay for current period expenditures, recorded as deferred revenue in the funds							753,861
Net assets of governmental activities (Exhibit 1)							\$ 16,156,229

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

TOWN OF SPRAGUE, CONNECTICUT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011

	General Fund	Reserve Fund For Capital And Nonrecurring Expenditures	Small Cities Housing Rehabilitation Programs	Education Grants Fund	Upper High Street Reconstruction	Other Governmental Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 4,710,196	-	-	-	-	-	4,710,196
Intergovernmental	3,410,735	978,640	-	476,358	358,558	457,604	5,681,895
Licenses, fees and charges for goods and services	244,977	-	-	-	-	110,969	355,946
Revenues from the use of money	4,003	-	4	-	-	25	4,032
Other revenue	7,988	43,800	-	43,005	-	4,495	99,288
Total Revenues	8,377,899	1,022,440	4	519,363	358,558	573,093	10,851,357
EXPENDITURES:							
Current:							
General government	1,393,218	101,058	-	-	-	2,625	1,496,901
Public safety	304,443	-	-	-	-	57,357	361,800
Public works	384,737	220,217	-	-	-	-	604,954
Education	6,132,335	-	-	519,362	-	139,022	6,790,719
Debt service	503,287	4,448	-	-	-	-	507,735
Capital outlays	18,785	1,268,466	29,851	-	358,558	365,436	2,041,096
Total Expenditures	8,736,805	1,594,189	29,851	519,362	358,558	564,440	11,803,205
Excess of Revenues Over (Under) Expenditures	(358,906)	(571,749)	(29,847)	1	-	8,653	(951,848)
Other Financing Sources (Uses):							
Operating transfers in from governmental funds	-	2,366	-	-	-	-	2,366
Operating transfers in from nongovernmental funds	26,658	-	-	-	-	-	26,658
Operating transfers out to governmental funds	(2,000)	-	-	-	-	(366)	(2,366)
Operating transfers out to nongovernmental funds	(61,662)	-	-	-	-	-	(61,662)
Proceeds of bond anticipation notes payable	-	403,167	-	-	-	-	403,167
Total Other Financing Sources (Uses)	(37,004)	405,533	-	-	-	(366)	368,163
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(395,910)	(166,216)	(29,847)	1	-	8,287	(583,685)
Fund Balance, June 30, 2010 Restated	984,057	(28,224)	30,638	(1)	-	64,902	1,051,372
Fund Balance, June 30, 2011	\$ 588,147	(194,440)	791	-	-	73,189	467,687

(Continued)

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

TOWN OF SPRAGUE, CONNECTICUT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances, Continued
For the Year Ended June 30, 2011

Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities (Exhibit 2)

Net change in fund balances-total governmental funds	\$ (583,685)
Transactions involving the treatment of capital outlays:	
Plus: Capital outlays treated as expenditures in the funds, but capitalized on Exhibit 2	1,832,747
Less: Depreciation expense recorded in Exhibit 2, but not considered in the fund statements	(444,787)
Net effect of various transaction involving fixed assets:	
Plus: Gain or (loss) on disposal of fixed assets not reported in the funds	(3,204)
Transactions involving the treatment of long-term debt:	
Less: Long-term debt issued:	
Issuance of bond anticipation notes	(403,167)
Plus: Principal repayments:	
General obligation bonds	345,000
Post-closure landfill costs	1,200
Changes in other items not requiring the use of current financial resources	
Compensated absences and other post employment benefits payable	(83,460)
Accrued interest payable	(476)
Special termination benefits payable	32,782
Amortization of bond issue premium	1,521
Amortization of bond issue costs	(4,881)
Change in revenue in the Statement of Activities (Exhibit 2) that is deferred in the funds	342,720
Changes in net assets of governmental activities (Exhibit 2)	<u><u>\$ 1,032,310</u></u>

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

TOWN OF SPRAGUE, CONNECTICUT
Statement of Net Assets
Proprietary Funds
June 30, 2011

	<u>Enterprise Fund</u> <u>Water</u> <u>and Sewer</u> <u>Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 210,923
Receivables	129,771
Inventory	2,928
Prepaid Expenses	3,577
Total Current Assets	347,199
Fixed Assets:	
Capital Assets, Net of Accumulated Depreciation	1,850,939
Total Assets	\$ 2,198,138
LIABILITIES	
Current Liabilities:	
Bonds Payable, Portion Due In One Year	\$ 47,576
Accounts Payable and Accrued Expenses	4,749
Accrued Wages and Benefits	9,105
Total Current Liabilities	61,430
Other Liabilities:	
Bonds Payable, Less Portion Due In One Year	153,820
Total Liabilities	215,250
NET ASSETS	
Invested in capital assets, net of related debt	1,649,543
Unrestricted Net Assets	333,345
Total Net Assets	\$ 1,982,888

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

TOWN OF SPRAGUE, CONNECTICUT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Fund
	Water and Sewer Fund
Operating Revenues:	
Charges for Services	\$ 491,950
Miscellaneous	200
Total Operating Revenues	492,150
Operating Expenses:	
Employee Expenses	178,842
Contractual Services	31,876
Utilities	75,606
Repairs and Maintenance	37,854
Other Supplies and Expenses	58,339
Depreciation	82,797
Total Operating Expenses	465,314
Net Operating Income (Loss)	26,836
Nonoperating Revenues (Expenses):	
Interest Income	456
Interest Expense	(10,780)
Total Nonoperating Revenues (Expenses)	(10,324)
Net Income (Loss) Before Operating Transfers	16,512
Transfers In	61,662
Transfers Out	(26,658)
	35,004
Net Income	51,516
Total Net Assets, Beginning of Year	1,931,372
Total Net Assets, End of Year	\$ 1,982,888

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

TOWN OF SPRAGUE, CONNECTICUT
Statement of Cash Flows
Proprietary Funds
June 30, 2011

	Enterprise Fund
	Water and Sewer Fund
Cash Flows From Operating Activities:	
Receipts from customers and users	\$ 515,434
Payments to suppliers	(214,630)
Payments to employees	(175,821)
	124,983
Cash Flows From Noncapital Financing Activities	
Transfers to/from other funds, net	35,004
	35,004
Cash Flows From Capital And Related Financing Activities	
Purchase of capital assets	(118,510)
Principal paid on capital debt	(50,393)
Interest paid on capital debt	(10,780)
	(179,683)
Cash Flows From Investing Activities	
Interest income	456
	456
Net Increase (Decrease) In Cash And Cash Equivalents	(19,240)
Cash And Cash Equivalents, Beginning Of Year	230,163
Cash And Cash Equivalents, End Of Year	\$ 210,923
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities:	
Operating Income	\$ 26,836
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:	
Depreciation expense	82,797
(Increase) decrease in receivables	23,284
(Increase) decrease in inventory	(710)
(Increase) decrease in prepaid expenses	(2,577)
Increase (decrease) in accounts payable	(7,668)
Increase (decrease) in accrued expenses	3,021
Net cash provided (used) by operating activities	\$ 124,983

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

TOWN OF SPRAGUE, CONNECTICUT
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2011

	Agency Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 18,094
Total Assets	<u>\$ 18,094</u>
<u>LIABILITIES</u>	
Due to students	\$ 18,094
Total Liabilities	<u>\$ 18,094</u>

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

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Town of Sprague, Connecticut (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the Town are described below:

A. Reporting Entity

The Town of Sprague is a municipal corporation governed by a selectmen-town meeting form of government. This form of government includes a Board of Selectmen consisting of a First Selectman, who is the chief administrative and executive official, and two other members. The Board of Selectmen and the Town Meeting have the legislative power of the Town and may enact ordinances consistent with the General Statutes of the State of Connecticut. An elected board of education oversees and governs the public school system. An elected board of finance is the budget making authority and supervises the Town's financial matters.

Accounting principles generally accepted in the United State of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) 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. The criterion, provided by the Government Accounting Standards Board, has been considered and there are no agencies or entities which should be presented with this government.

B. Government-Wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which generally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Exceptions to this general rule are charges between the Town's water and sewer function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Fiduciary funds are excluded from the government-wide financial statements.

The statement of net assets presents the Town's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in Capital Assets Net of Related Debt – This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those capital assets.

Restricted Net Assets – This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

B. Government-Wide and Fund Financial Statements, Continued

Unrestricted Net Assets – This category consists of net assets which do not meet the definition of the two preceding categories.

The statement of activities demonstrates the degree to which the 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 the goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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. The emphasis of fund financial statements is on major individual governmental funds and major individual proprietary funds with each being reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as "Other Governmental Funds".

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to customers for sales and services. Operating expenses for proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government-wide financial statements are reported using the economic resources measurement focus and 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 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. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

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

Property taxes, charges for services, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Reserve Fund for Capital and Nonrecurring Expenditures* is used to account for financial resources set aside for designated projects of a capital or nonrecurring nature.

The *Small Cities Housing Rehabilitation Programs Fund* accounts for rehabilitation expenditures and subsequent loan repayment activity under the housing rehabilitation program.

The *Education Grants Fund* accounts for grant revenues and related expenditures in support of various educational activities.

The *Upper High Street Reconstruction Fund* accounts for the revenues and expenditures relating to a specific capital project.

The Town reports the following major proprietary funds:

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.

Additionally, the Town reports the following fiduciary fund types:

Agency Funds-These funds are used to account for monies held as a custodian for outside groups.

As a general rule, the effect of interfund activity has been eliminated from the government wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between certain Town functions because the elimination of these charges would distort the direct cost and program revenues reported for the various functions concerned.

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

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

D. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments of the Town are reported at fair value.

State statutes authorize the Town to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and certain other investments.

E. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts being owed between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/due from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/due from other funds." Interfund receivables and payables within governmental activities are eliminated in the Statement of Net Assets.

All trade and property taxes receivable are shown net of an allowance for uncollectibles. Property taxes are assessed on property values as of October 1 and billed the following July. Real estate and personal property tax bills are payable in two installments, July 1 and the following January 1, and motor vehicle taxes are payable in one installment on July 1. Assessments for real and personal property, including motor vehicles, are computed at seventy percent of the market value. Taxes become overdue one month after the installment due date. Delinquent taxes are charged interest at the rate of 18% per year (1.5% per month). The Town has the ability to impose a lien on a taxpayer if any tax, other than motor vehicle, due to the Town is not paid within the time allowed. The lien shall be effective for a period of 15 years from the date of filing unless discharged. A notice of tax lien shall not be effective if filed more than 2 years from the date of assessment for the taxes claimed to be due.

Section 12-165 of the General Statutes of the State of Connecticut requires each municipality to write-off, on an annual basis, the property taxes which are deemed uncollectible. Property taxes and related interest receivable at June 30, 2011 are stated net of an allowance for uncollectible amounts of \$27,558.

F. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. At June 30, 2011, the Town had \$9,000 of prepaid expenses.

G. Capital Assets

Capital assets, which include land and related improvements, buildings and related improvements, equipment and vehicles, 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.

Fixed assets used in governmental fund operations are accounted for as capital outlays, or departmental expenditures in the fund financial statements upon acquisition.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

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

G. Capital Assets, Continued

Capital assets are defined by the Town as assets with an initial, individual cost of more than the capitalization threshold for the particular 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.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital asset is not included as part of the capitalized value of the asset constructed. Depreciation starts once an asset is placed in service.

Buildings and related improvements, land improvements, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Buildings	50
Building improvements	50
Heavy equipment	20
Light equipment	7
Vehicles/Trucks	15
Computers	5
Furniture	7
Infrastructure:	
Bridges	40
Roads and drainage	35
Drainage-per project	35
Sidewalks	25
Sewer systems	50
Dams	50

H. Compensated Absences

Employees are paid by prescribed formula for absences due to vacation or sickness. Accumulated vacation and sick pay earned and not paid for governmental funds as of June 30, 2011 amounted to \$57,995. This liability for unpaid vacation and sick leave is reflected in the government-wide statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

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

I. Long-Term Obligations

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

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the 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. Debt issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

J. Fund Equity-Fund Financial Statements

The equity of the fund financial statements is defined as "fund balance" and is classified in the following categories:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either (a) not in spendable form-such as inventory or prepaid items or (b) legally or contractually required to be maintained intact-such as a trust that must be maintained in perpetuity.

Restricted Fund Balance – represents amounts that are constrained for a specific purpose by either (a) external parties, such as grantors, creditors, contributors, or laws and regulations of their government or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (Sprague Town Meeting).

Assigned Fund Balance – represents amounts that are constrained by the Town's intent to be used for a specific purpose, but are neither restricted or committed. Intent is expressed by a governing board or body or official that has been delegated the authority to assign, modify, or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining positive amounts that are reported in governmental funds (other than the General Fund) that are not classified as spendable, restricted, or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Town of Sprague itself.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies, Continued

J. Fund Equity-Fund Financial Statements, Continued

Appropriated Assigned Fund Balance is an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Unassigned Fund Balance – represents is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

K. 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 and disclosures in the financial statements. Actual results could differ from those estimates.

3. 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:

- **Teacher's Retirement** – 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 in its budget. The Governmental Accounting Standards Board's Statement Number 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. On the statements prepared under Generally Accepted Accounting Principles, encumbrances do not constitute expenditures or liabilities.
- **Excess Cost and Certain Other Educational Grants** – 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. The reimbursement is the Excess Cost Grant-Student Based. Connecticut General Statute 10-76g states that this grant should reduce the educational expenditures instead of being reported as revenue. The Ton also nets certain other educational grants against expenditures.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

3. Stewardship, Compliance and Accountability, Continued

A. Budget Basis, Continued

- **Cash Basis Payroll** – Payroll is budgeted based on when it is expected to be paid for the general government. On the statements prepared under Generally Accepted Accounting Principles, payroll is charged to the fiscal year in which it is earned.
- **Tax Collections** – Tax collections are budgeted on a cash basis. On the statements prepared under Generally Accepted Accounting Principles, receivables and deferred revenue are recognized.

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.

The Board of Finance's estimated and recommended budget reports are submitted at the Annual Town Meeting. The Annual Town Meeting takes action on the 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 onetime additional appropriation of 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. During the year no additional appropriations were made.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

4. Cash, Cash Equivalents and Investments

The deposit of public funds is controlled by Connecticut General Statutes (Section 7-402). Deposits may be invested in any "qualified public depository" as defined by State Statute, or, in amounts not exceeding the Federal Deposit Insurance Corporation (FDIC) insurance limit, in an "out of state bank", as defined by the State Statutes, which is not a "qualified public depository".

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: (a) obligations of the United States and its agencies; (b) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof; and (c) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net assets values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority.

The State Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer's Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

A. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at June 30, 2011:

Governmental Funds	\$	400,613
Business-Type Funds		210,923
Agency Funds		18,094
Total Cash and Cash Equivalents	\$	629,630

Deposits

At June 30, 2011, the carrying amount of the Town's deposits with financial institutions was \$629,630 and the bank balance was \$873,256.

Custodial credit risk is the risk that, in the event of a bank failure, the Town would not be able to recover its deposits or would not be able to recover collateral securities that are in possession of an outside party. The Town does not have a deposit policy for custodial risk. Of the June 30, 2011 bank balance, \$620,483 was covered by Federal Depository Insurance. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio. A minimum of \$85,763, based on the June 30, 2011 deposits, was collateralized (collateral held by the pledging bank's trust department is not in the Town's name). The remaining bank balance of \$167,010 was uninsured and uncollateralized.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

4. Cash, Cash Equivalents and Investments, Continued

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2011, the Town's cash equivalents amounted to \$10,417 and represented amounts held in the State Short-Term Investment Fund (STIF). (This amount is included in the preceding disclosure regarding custodial credit risk.) The STIF is an investment pool managed by the Treasurer of the State of Connecticut.

The Short Term Investment Fund pool is rated AAAM by Standard & Poor's. The Town's cash equivalents held in the STIF are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

As indicated above, State Statutes limit the investment options of cities and towns. The Town has no investment policy that would further limit its investment choices beyond those limited by Connecticut state statutes.

5. Receivables and Deferred Revenue

Receivables as of year-end for the Town's individual major funds, nonmajor funds and proprietary funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Reserve Fund for Capital and Nonrecurring Expenditures	Small Cities Housing Rehabilitation Programs	Education Grants	Upper High Street Reconstruction	Nonmajor Governmental Funds	Business- Type Funds
Receivables:							
Taxes, interest and liens	\$436,954*	-	-	-	-	-	-
Due from customers and others	189,172	-	-	-	-	-	129,771
Sewer assessments	5,346*	-	-	-	-	-	-
Intergovernmental	-	457,090	-	23,338	291,500	51,311	-
Housing rehabilitation grants	-	-	344,788 *	-	-	-	-
Gross receivables	<u>631,472</u>	<u>457,090</u>	<u>344,788</u>	<u>23,338</u>	<u>291,500</u>	<u>51,311</u>	<u>129,771</u>
Less: allowance for uncollectibles	<u>(27,558)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$603,914</u>	<u>457,090</u>	<u>344,788</u>	<u>23,338</u>	<u>291,500</u>	<u>51,311</u>	<u>129,771</u>

* These amounts are not expected to be completely collected in the next year.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

5. Receivables and Deferred Revenue, Continued

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the component of deferred revenue and unearned revenue reported in the governmental funds is as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent net property taxes, interest and liens receivable	\$ 406,745	-
Grant revenue not received within 60 days of year-end	407,790	-
Grant drawdowns prior to meeting all eligibility requirements	-	4,842
Sewer assessments	5,346	-
Housing rehabilitation grants/loans receivable	344,788	-
	<u>\$ 1,164,669</u>	<u>4,842</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,645,268	143,100	-	<u>6,788,368</u>
Capital assets being depreciated:				
Buildings	6,954,086	-	-	6,954,086
Building improvements	1,085,726	723,241	-	1,808,967
Bridges	1,270,156	113,471	-	1,383,627
Roads	4,161,012	507,223	-	4,668,235
Sidewalks	1,180,195	-	-	1,180,195
Computers	153,242	308	-	153,550
Vehicles	1,947,730	-	-	1,947,730
Drainage	726,315	-	-	726,315
Furniture	20,159	15,844	-	36,003
Office equipment	51,048	-	-	51,048
Heavy equipment	472,762	72,559	(6,825)	538,496
Light equipment	251,150	257,001	(9,243)	498,908
Water and sewer	46,710	-	-	46,710
Total assets being depreciated	18,320,291	1,689,647	(16,068)	19,993,870
Less: accumulated depreciation	(7,123,492)	(444,787)	12,864	
Total capital assets being depreciated, net	<u>11,196,799</u>	<u>1,244,860</u>	<u>(3,204)</u>	<u>19,993,870</u>
Total Government-Wide Capital Assets, Net	<u>\$ 17,842,067</u>	<u>1,387,960</u>	<u>(3,204)</u>	<u>26,782,238</u>

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

6. Capital Assets, Continued

Depreciation expense was charged to functions/programs as follows:

General government	\$ 254,159
Public safety	85,317
Public works	38,749
Education	66,562
	<hr/>
Total depreciation expense-governmental activities	<u><u>\$ 444,787</u></u>

7. Interfund Accounts

At June 30, 2011, amounts due from and to other funds were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 283,004	-
Major Governmental Fund:		
Reserve Fund for Capital and Nonrecurring Expenditures	-	227,159
Education Grants Fund	2,008	-
Upper High Street Reconstruction	-	64,000
Nonmajor Governmental Funds:		
Dog Fund	2,589	-
Recreation Fund	3,558	-
	<hr/>	<hr/>
	<u><u>\$ 291,159</u></u>	<u><u>291,159</u></u>

All interfund receivables and payables represent routine recurring transactions that are temporary in nature.

Interfund Transfers:

Interfund transfers represent routine recurring transactions to move resources from one fund to another. Interfund transfers for the year ended June 30, 2011 are as follows:

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

7. Interfund Accounts, Continued

Interfund Transfers, Continued:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 26,658	63,662
Major Governmental Funds:		
Reserve Fund for Capital and Nonrecurring Expenditures	2,366	-
Nonmajor Governmental Funds:		
Sidewalk Phase II	-	366
Proprietary Fund:		
Water and Sewer	61,662	26,658
	\$ 90,686	90,686

Advances to/from other funds

There are no long-term loan agreements on the interfund balances.

8. Long-term Debt

Changes in Long-Term Liabilities

Long-term liability for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
General obligation bonds:					
School	\$ 865,000	-	(115,000)	750,000	75,000
General purpose	45,000	-	(15,000)	30,000	15,000
General purpose	1,260,000	-	(130,000)	1,130,000	85,000
General purpose	1,810,000	-	(85,000)	1,725,000	130,000
Bond anticipation notes payable	-	403,167	-	403,167	403,167
Total bonds payable	3,980,000	403,167	(345,000)	4,038,167	708,167
Compensated absences	52,048	5,947	-	57,995	8,078
Special termination benefits	66,187	-	(32,782)	33,405	28,886
Bond issue premium	22,053	-	(1,521)	20,532	1,521
Other post employment benefits	79,539	77,513	-	157,052	-
Post closure landfill costs	16,800	-	(1,200)	15,600	1,200
Total Governmental Activities long-term liabilities	\$ 4,216,627	486,627	(380,503)	4,322,751	747,852

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

8. Long-term Debt, Continued

A schedule of bonds and loans payable at June 30, 2011 is presented below:

<u>Purpose</u>	<u>Original Amount</u>	<u>Matures in Year Ending</u>	<u>Interest Rates</u>	<u>Balance June 30, 2011</u>
General obligation bonds payable:				
School	\$ 1,940,000	06/30/21	4.50%-6.25%	\$ 750,000
General	180,000	06/30/13	2.34%-4.94%	30,000
General	1,600,000	06/30/25	5.00%	1,130,000
General	1,810,000	06/30/25	2.50%-4.00%	1,725,000
Bond anticipation notes payable:				
General	403,167	06/30/12	1.60%	403,167
	<u>\$ 5,933,167</u>			<u>\$ 4,038,167</u>

The following is a schedule of loan and note maturities as of June 30, 2011:

<u>Fiscal year ending in:</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 708,167	153,143	47,576	9,298
2013	305,000	135,652	33,468	7,535
2014	290,000	124,881	33,468	5,900
2015	290,000	114,481	33,468	4,266
2016	285,000	103,834	33,468	2,632
2017	285,000	92,706	2,218	997
2018	285,000	84,647	2,218	887
2019	285,000	76,238	2,218	776
2020	285,000	54,669	2,218	665
2021	270,000	45,966	2,218	554
2022	195,000	39,550	2,218	443
2023	185,000	22,500	2,218	332
2024	185,000	18,300	2,218	221
2025	185,000	14,100	2,204	110
	<u>\$ 4,038,167</u>	<u>1,080,667</u>	<u>201,396</u>	<u>34,616</u>

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

8. Long-term Debt, Continued

Post Closure Landfill Costs

The Town has closed a 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 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 as long-term debt in the government-wide financial statements. The actual costs may vary based on actual events, inflation, changes in technology and applicable laws and regulations. There were no actual costs incurred during the current fiscal year.

Special Termination Benefits

Previous employees were offered monthly extended health care benefits based on negotiated separation agreements. These are paid through the General Fund on a pay-as-you-go basis. Expenses for this fiscal year totaled \$32,782 for two previous employees that continued to receive these benefits. These former employees will continue to receive benefits into fiscal year ending in 2013.

Proprietary Funds

Long-term liabilities outstanding during the fiscal year and the changes in these liabilities are as follows for the Proprietary Funds:

	Balance <u>July 1, 2010</u>	<u>Additions</u>	Reductions/ <u>Maturities</u>	Balance <u>June 30, 2011</u>	Due Within <u>One Year</u>
Business-Type Activities:					
Bonds 4.88%	\$ 187,500	-	(31,250)	156,250	31,250
Notes 2.00%	31,033	-	(16,925)	14,108	14,108
Bonds 5.00%	33,256	-	(2,218)	31,038	2,218
 Total Business-Type Activities					
long-term liabilities	<u>\$ 251,789</u>	<u>-</u>	<u>(50,393)</u>	<u>201,396</u>	<u>47,576</u>

The Town's indebtedness does not exceed the legal debt limitations as required by the Connecticut General Statutes as reflected in the following schedule:

<u>Category</u>	<u>Debt Limit</u>	<u>Present Indebtedness</u>	<u>Balance</u>
General purpose	\$ 10,711,229	3,288,167	7,423,062
Schools	21,422,457	750,000	20,672,457
Sewers	17,852,048	201,396	17,650,652
Urban renewal	15,471,775	-	15,471,775
Pension deficit	14,281,638	-	14,281,638

The total overall statutory debt limit for the Town is equal to seven times annual receipts from taxation or \$33,236,112.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

8. Long-term Debt, Continued

Compensated Absences

Employees can accumulate unused vacation and sick leave (as determined by Town policies and/or individual union contracts) until termination of their employment. At termination, pay-out provisions as determined by Town policies and/or individual union contracts provide for payments to vested employees. The estimated potential liability for such amounts as of June 30, 2011 was \$57,995.

9. Fund Balances

The following is a summary of the Governmental Funds fund balances of the Town at the year ended June 30, 2011:

General Fund:		
Nonspendable:		
Prepaid items	\$	9,000
Inventory		1,427
Assigned:		
Appropriation of fund balance		104,924
Unassigned		<u>472,796</u>
Total General Fund Balance		<u>588,147</u>
Reserve Fund for Capital and Nonrecurring Expenditures:		
Unassigned		(194,440)
Small Cities Housing Rehabilitation Program		
Assigned		791
Other Governmental Funds:		
Restricted		8,213
Assigned		65,021
Unassigned		<u>(45)</u>
Total Other Governmental Fund Balances		<u>73,189</u>
Total Governmental Fund Balances	\$	<u>467,687</u>

Deficit Fund Balances

The Reserve Fund for Capital and Nonrecurring Expenditures had a deficit fund balance of \$194,440. This is the result of timing differences relating to grant revenue recognition and is expected to turn around in the next fiscal year.

The Lovett Cemetery Permanent Fund also had a deficit fund balance of \$45. This deficit is expected to continue until such time as interest earnings can make up for the deficit fund balance.

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

10. 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; workers compensation and natural disasters for which the Town carries commercial insurance. There have been no significant reductions in insurance coverage. Settled claims, for all types of commercial coverage, have not exceeded commercial insurance coverage during any of the past three fiscal 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, for some of its insurance. 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.

11. Employee Retirement Systems and Pension Plans

Teachers Retirement System

Teachers and certain other certified personnel in the Town are eligible to participate in the State of Connecticut Teachers' Retirement System, a multiple employer public employee's retirement system described in the Connecticut General Statutes. The system has been established to provide retirement and other benefits for teachers, their survivors and beneficiaries. 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 of which are service in the public schools of Connecticut. The financial report may be obtained through the State Teacher's Retirement Board.

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, or be less than \$3,600. Benefits are fully vested after ten years of service.

The funding of the system is provided by required member contributions (7 percent of their annual salary) and by amounts appropriated by the State of Connecticut General Assembly. For the year ended June 30, 2011, the State contributed \$299,877 into the pension plan on behalf to the Town of Sprague, Connecticut. This was recorded on the GAAP statements as revenue and expenditures in the General Fund.

Town of Sprague, Connecticut Deferred Compensation Plan

The Town of Sprague, Connecticut Employees 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 \$17,109.

12. Other Post-employment Benefits (OPEB)

The Sprague Public Schools Other Post Employment Benefit Program provides post-retirement medical benefits to eligible retirees and their spouses through a single-employer, contributory, defined benefit OPEB plan. The OPEB plan provides medical coverage to eligible retirees and their spouse. An annual actuarial valuation is made to determine whether the contributions are sufficient to meet plan obligations. The latest valuation was made July 1, 2009. The OPEB plan does not issue a separate, stand-alone, financial report.

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

12. Other Post-employment Benefits (OPEB), Continued

Employees of the school are eligible for medical coverage based upon the following criteria:

Certified Employees

Eligibility for Medical Coverage	Age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 10 years of service; TRB retirement and Board approval.
Retirees/Spouse Cost of Medical Coverage	Future retirees must pay 17% of the cost for medical for pre-65 coverage and 100% of the cost over age 65.
Plan of Coverage	Various Anthem medical plans, dependent on whether under or over age 65 and whether eligible for Medicare.
Retiree/Spouse Cost of Dental Coverage	Same as medical.
Current Retirees	Current retirees must pay 16% of the cost for medical coverage for pre-65 coverage and 100% of the cost over age 65.

Non-Certified Employees

Eligibility for Medical Coverage	No benefits provided or valued.
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Actuarial Assumptions: Please refer to Schedule RSI-3.

Schedule of Funding Progress: Please refer to Schedule RSI-3.

Schedule of Employer Contributions: Please refer to Schedule RSI-3.

Calculation of Net Other Postemployment Obligation (NOO): Please refer to Schedule RSI-3.

Three Year Trend Information: Please refer to Schedule RSI-3.

Annual Required Contribution (ARC):

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces:

Past Service Cost (a catch-up accrual to amortize the unfunded accrued liability). The amortization period is 30 years starting on July 1, 2009. The ARC is assumed to be paid at the beginning of the fiscal year. Interest is also calculated on the unfunded accrued liability and added to the Annual Required Contribution.

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

12. Other Post-employment Benefits (OPEB), Continued

Annual Required Contribution (ARC), Continued:

Normal Cost is the present value of the portion of the projected benefit attributable to the current year (the cost of benefits earned each year should be accrued in that year). The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Other Disclosures:

The calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing cost between the employer and plan members to that point. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

13. Contingent Liabilities

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

The Town is currently a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of Town officials and legal counsel that the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

14. Subsequent Events

The Town has evaluated subsequent events from the period after June 30, 2011 through March 15, 2012, the date the financial statements were available to be issued.

**TOWN OF SPRAGUE, CONNECTICUT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2011**

15. Fund Balances/Net Assets Restatement

Governmental fund balances and governmental activities net assets have been restated to correct previously reported amounts. The details of such restatements are as follows:

	Governmental Funds				Governmental Activities
	General Fund	Reserve Fund for Capital and Nonrecurring Expenditures	Small Cities Housing Rehabilitation Programs		
Fund balances/Net assets as previously stated	\$ 1,219,233	(283,224)	352,787		15,426,244
To correct prior year interfund transfers	(255,000)	255,000	-		-
To reclassify Housing Rehabilitation grants/loans to deferred revenue	-	-	(322,150)		(322,150)
To correct previously misstated amounts	19,824	-	1		19,825
Fund balances/Net assets as restated	<u>\$ 984,057</u>	<u>(28,224)</u>	<u>30,638</u>		<u>15,123,919</u>

TOWN OF SPRAGUE, CONNECTICUT

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxation:				
Current Year Taxes	\$ 4,638,943	4,638,943	4,586,033	(52,910)
Prior Year Taxes	110,000	110,000	106,523	(3,477)
Interest and Lien Fees	45,000	45,000	55,460	10,460
	<u>4,793,943</u>	<u>4,793,943</u>	<u>4,748,016</u>	<u>(45,927)</u>
State Grants-School:				
Education Cost Sharing (ECS)	2,229,629	2,229,629	2,232,484	2,855
ARRA Stabilization-Govt. Services	131,862	131,862	131,862	-
ARRA Stabilization-Education	239,160	239,160	239,160	-
Pupil Transportation (non-public)	4,586	4,586	5,795	1,209
Pupil Transportation (public)	104,678	104,678	118,255	13,577
	<u>2,709,915</u>	<u>2,709,915</u>	<u>2,727,556</u>	<u>17,641</u>
State Grants-Local:				
Telecommunication Property Grant	26,259	26,259	9,403	(16,856)
Manufacturing Equipment Tax	410,205	410,205	205,471	(204,734)
PILOT, State Property	12,782	12,782	12,855	73
Mashantucket Pequot Grant	27,259	27,259	28,023	764
Veterans Tax Relief	3,296	3,296	3,296	-
Disability Exemption Reimbursement	361	361	360	(1)
Homeowners Tax Credit	17,903	17,903	12,530	(5,373)
State Motor Boat Registration Reimbursement	705	705	571	(134)
Judicial 10th Circuit	700	700	459	(241)
SLA-Emergency Management Agency	3,000	3,000	2,535	(465)
State Police Overtime Reimbursement	22,500	22,500	22,500	-
Town Aid Roads	76,496	76,496	76,495	(1)
Elderly and Disables Transportation Grant	8,800	8,800	8,804	4
	<u>610,266</u>	<u>610,266</u>	<u>383,302</u>	<u>(226,964)</u>
Local Revenues:				
Interest Income	20,000	20,000	4,003	(15,997)
License and Permit Fees	1,500	1,500	1,403	(97)
Building Permit Fees	25,000	25,000	18,278	(6,722)
Sundry Receipts	150	150	207	57
Recording Land Records, Maps, Etc.	13,000	13,000	10,136	(2,864)
Conveyance Tax	22,000	22,000	7,318	(14,682)
Copies-Fax Machine	4,500	4,500	5,294	794
Boards and Commissions-Fees	4,000	4,000	5,761	1,761
Versailles Sewer Assessments	2,754	2,754	2,953	199
Landfill Receipts	22,000	22,000	28,914	6,914
Newsletter	1,000	1,000	1,762	762
Marriage Licenses	125	125	209	84
Sportsmans Licenses	200	200	150	(50)
Farmland Preservation	1,400	1,400	1,200	(200)
SCRRA Subsidy	75,053	75,053	106,544	31,491
Waste Management	80,000	80,000	53,492	(26,508)
Dog License Fees	-	-	1,356	1,356
Other Revenues	-	-	7,988	7,988
	<u>272,682</u>	<u>272,682</u>	<u>256,968</u>	<u>(15,714)</u>
Intergovernmental Transfers:				
Principal Subsidy from Sewer and Water for Reservoir Dam Project	20,625	20,625	20,625	-
Interest Subsidy from Sewer and Water for Reservoir Dam Project	6,033	6,033	6,033	-
	<u>26,658</u>	<u>26,658</u>	<u>26,658</u>	<u>-</u>
Total Revenues	<u>\$ 8,413,464</u>	<u>8,413,464</u>	<u>8,142,500</u>	<u>(270,964)</u>
Budgetary revenues are different from GAAP revenues because:				
On-behalf payments from the State of Connecticut Teachers Retirement Board are not recognized for budgetary purposes			299,877	
Property taxes are budgeted on a cash basis:				
Change in net property taxes and interest receivable			64,871	
Change in deferred property tax and interest revenue			(102,691)	
Total revenues and other financing sources as reported on the "Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds"-Exhibit 4			<u>\$ 8,404,557</u>	

TOWN OF SPRAGUE
Schedule of Expenditures-Budget and Actual
Budgetary Basis-General Fund
For the year ended June 30, 2011

	<u>Original</u> <u>Budget</u>	<u>Revised</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
General Government Operating Budget:				
Board of Selectmen	\$ 82,397	82,220	82,220	-
Elections	13,770	12,526	12,526	-
Board of Finance	1,150	1,136	1,136	-
Auditing	32,013	32,013	32,013	-
Tax Assessor	38,094	37,653	37,653	-
Tax Collector	28,892	28,592	28,592	-
Town Treasurer	18,218	18,218	18,218	-
Town Counsel	30,000	26,238	26,238	-
Town Clerk	48,242	48,242	48,242	-
Telephone Services	8,300	10,959	10,959	-
Pool Secretaries	43,587	43,448	43,448	-
Town Office Building	42,448	44,624	44,624	-
Grants/Contracts Manager	38,350	38,350	38,350	-
Planning and Zoning Commission	28,063	29,413	29,413	-
Land Use	800	703	703	-
Economic Development	3,540	3,538	3,538	-
Conservation Commission	1,100	1,100	1,100	-
Conservation/Wetlands Enforcement Officer	6,766	7,459	5,831	1,628
Highways	349,969	349,791	349,791	-
Tree Maintenance	10,495	10,380	10,380	-
Street Lighting	27,300	24,566	24,566	-
Social Security	59,898	59,532	59,038	494
Deferred Compensation	17,109	17,109	17,109	-
Regional Agencies	8,198	10,203	10,203	-
Insurance	239,743	238,441	238,441	-
Police Department	148,386	145,424	145,424	-
Fire Department	124,252	123,830	123,830	-
Emergency Management	5,181	5,166	5,166	-
Fire Marshal	9,700	9,700	9,700	-
Building Official	19,704	19,649	19,649	-
Blight Enforcement Officer	2,550	2,550	2,550	-
Sanitation and Waste Removal	61,595	60,499	60,499	-
Waste Management	168,516	168,519	168,519	-
Health	20,324	20,324	20,324	-
Commission on Aging	72,536	78,179	78,179	-
Animal Control Officer	8,491	8,491	8,491	-
Capital Projects	18,000	18,785	18,785	-
Parks and Playgrounds	2,500	2,361	2,361	-
Summer Recreation	9,553	9,553	9,553	-
Recreation Facilities	7,500	7,429	7,429	-
Recreation Events	9,633	8,803	8,803	-
Other Recreation Programs	1,250	1,250	1,250	-
Grist Mill	11,847	15,316	15,316	-
Library	66,155	63,289	63,289	-
Miscellaneous	49,475	55,828	55,828	-
Sprague Water and Sewer Authority	6,526	6,064	6,064	-
Computer Services and Supplies	38,180	37,583	37,583	-
Facilities Manager	44,921	44,790	44,790	-
Total Operating Budget	<u>2,085,217</u>	<u>2,089,836</u>	<u>2,087,714</u>	<u>2,122</u>

TOWN OF SPRAGUE
Schedule of Expenditures-Budget and Actual, Continued
Budgetary Basis-General Fund
For the year ended June 30, 2011

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Debt and Capital and Nonrecurring Items Budget:				
Interest Payment-Bonds	\$ 169,556	169,556	169,556	-
Redemption of Debt-Principal	395,393	395,393	395,393	-
Capital and Nonrecurring Items	2,000	2,000	2,000	-
Total Debt and Capital and Nonrecurring Items Budget	<u>566,949</u>	<u>566,949</u>	<u>566,949</u>	<u>-</u>
Non-Budgetary Expenditures	-	4,596	5,806	(1,210)
Total General Government Expenditures	<u>2,652,166</u>	<u>2,661,381</u>	<u>2,660,469</u>	<u>912</u>
Board of Education Expenditures	5,841,674	5,832,459	5,832,459	-
Total Expenditures	<u>8,493,840</u>	<u>8,493,840</u>	<u>8,492,928</u>	<u>912</u>

Budgetary expenditures are different from GAAP expenditures because:

On-behalf expenditures to the State of Connecticut Teachers Retirement Board are not recognized for budgetary purposes.

299,877

Payroll expenses are recorded on a cash basis for budgetary purposes. This is the change in accrued payroll.

5,637

Inventory is not recognized for budgetary purposes. This is the change in inventory during the year.

2,025

Total expenditures and other financing uses as reported on the "Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds"-Exhibit 4.

\$ 8,800,467

**TOWN OF SPRAGUE, CONNECTICUT
OTHER POSTEMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

I. Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 132,529	\$ 52,990	40%
2011	\$ 135,188	\$ 56,581	42%

II. Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 1,222,687	\$ 1,222,687	0%	\$ 1,852,797	66%

III. Calculation of Net Other Postemployment Obligation (NOO)

Annual Required Contribution (ARC)	\$ 135,188
Net OPEB Obligation (NOO) June 30, 2010	79,539
Interest on NOO at 4.5%	3,579
Adjustment to ARC	4,673
Annual OPEB Cost (AOC)	<u>134,094</u>
Contribution Made	<u>56,581</u>
Change in NOO	<u>77,513</u>
NOO, End of Year	<u>\$ 157,052</u>

IV. Three-year Trend Information

The Town's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation (NOO) is as follows ***:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 132,529	\$ 52,990	40%	\$ 79,539
6/30/2011	\$ 134,094	\$ 56,581	42%	\$ 157,052

*** June 30, 2010 is the first year in which the ARC and the net OPEB obligation has been completed.

(Continued)

**TOWN OF SPRAGUE, CONNECTICUT
OTHER POSTEMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011**

V. Notes to Required Supplementary Information:

Actuarial valuation date: July 1, 2009
Actuarial cost method: Projected Unit Credit
Amortization method: 30 years, level dollar, open
Remaining amortization period: 30 years
Actuarial asset valuation method: Market value

Actuarial assumptions:
Investment rate of return 4.5% per annum
Inflation No explicit assumption
Health cost trend rates A rate of 10% for 2009, decreasing 1% per year, to an ultimate rate of 5.0% for 2014 and later.
Turnover assumption No turnover was assumed.

Other:**Mortality**

Sample pre-retirement mortality rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	.0164%	.0108%
30	.0268%	.0140%
40	.0645%	.0343%
50	.1027%	.0761%
60	.2911%	.2675%

Sample post-retirement mortality rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
60	.3881%	.3567%
70	1.3671%	1.2224%
80	4.1439%	3.2898%

Assumed rates of retirement

As used in the Connecticut State Teachers' Retirement System

Future retiree coverage

100% of actives eligible at retirement are assumed 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.

TOWN OF SPRAGUE, CONNECTICUT
SCHEDULE OF PROPERTY TAXES LEVIED, COLLECTED AND OUTSTANDING
FOR THE YEAR ENDED JUNE 30, 2011

Grand List Year	Uncollected Taxes July 1, 2010 and		Suspense Collections	Transfers (To) Suspense	Taxes Collectible	Actual Cash Collections				Tax Refunds	Uncollected Taxes June 30, 2011
	Current Levy	Lawful Corrections				Taxes	Interest	Liens & Fees	Total		
2009	\$ 4,758,858	(9,880)	-	-	4,748,978	4,584,900	20,130	96	4,605,126	6,149	170,227
2008	159,452	(4,318)	-	-	155,134	79,359	17,438	624	97,421	781	76,556
2007	68,717	(1,252)	1,631	(20,155)	48,941	18,530	6,329	240	25,099	154	30,565
2006	21,914	(312)	1,025	-	22,627	3,007	3,075	72	6,154	156	19,776
2005	12,939	(288)	1,037	-	13,688	1,934	2,171	24	4,129	144	11,898
2004	9,310	(282)	190	-	9,218	2,484	1,586	72	4,142	141	6,875
2003	2,724	(203)	24	-	2,545	125	60	24	209	183	2,603
2002	2,419	(192)	-	-	2,227	95	55	24	174	173	2,305
2001	1,774	(18)	587	-	2,343	676	1,545	24	2,245	-	1,667
2000	486	(17)	459	-	928	543	857	24	1,424	-	385
1999	416	(17)	135	-	534	208	347	24	579	-	326
1998	393	(16)	-	-	377	69	90	24	183	-	308
1997	1,284	(15)	106	-	1,375	172	348	24	544	-	1,203
1996	1,073	(15)	-	-	1,058	64	98	24	186	-	994
1995	803	(14)	-	-	789	61	99	26	186	-	728
1994	396	(14)	-	-	382	61	106	48	215	-	321
	<u>\$ 5,042,958</u>	<u>(16,853)</u>	<u>5,194</u>	<u>(20,155)</u>	<u>5,011,144</u>	<u>4,692,288</u>	<u>54,334</u>	<u>1,394</u>	<u>4,748,016</u>	<u>7,881</u>	<u>326,737</u>

TOWN OF SPRAGUE, CONNECTICUT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2011

	Special Revenue Funds						Total Special Revenue Funds
	Library Fund	Dog Fund	Child Nutrition	Lovett Cemetery	Recreation Fund	Scholarship Fund	
<u>ASSETS</u>							
Cash and cash equivalents	\$ 7,064	1,787	31,212	46	-	4,160	44,269
Accounts receivable	-	-	23,811	-	-	-	23,811
Due from other funds	-	2,589	-	-	3,558	-	6,147
Inventory	-	-	2,399	-	-	-	2,399
Total Assets	\$ 7,064	4,376	57,422	46	3,558	4,160	76,626
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Accounts payable and accrued expenses	\$ -	3,757	5,450	-	-	-	9,207
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Total Liabilities	-	3,757	5,450	-	-	-	9,207
Fund Balance:							
Restricted	-	-	2,399	-	-	-	2,399
Assigned	7,064	619	49,573	46	3,558	4,160	65,020
Unassigned	-	-	-	-	-	-	-
Total Fund Balance	7,064	619	51,972	46	3,558	4,160	67,419
Total Liabilities and Fund Balance	\$ 7,064	4,376	57,422	46	3,558	4,160	76,626

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
Nonmajor Governmental Funds
Combining Balance Sheet, Continued
June 30, 2011

	<u>Sidewalk Phase II</u>	<u>Grist Mill</u>	<u>USRDA Account</u>	<u>Total Capital Projects Funds</u>	<u>Permanent Fund Lovett Cemetery</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ -	16,776	1	16,777	1,205	62,251
Accounts receivable	-	27,500	-	27,500	-	51,311
Due from other funds	-	-	-	-	-	6,147
Inventory	-	-	-	-	-	2,399
Total Assets	\$ -	44,276	1	44,277	1,205	122,108
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable and accrued expenses	\$ -	39,712	-	39,712	-	48,919
Due to other funds	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total Liabilities	-	39,712	-	39,712	-	48,919
Fund Balance:						
Restricted	-	4,564	-	4,564	1,250	8,213
Assigned	-	-	1	1	-	65,021
Unassigned	-	-	-	-	(45)	(45)
Total Fund Balance	-	4,564	1	4,565	1,205	73,189
Total Liabilities and Fund Balance	\$ -	44,276	1	44,277	1,205	122,108

TOWN OF SPRAGUE, CONNECTICUT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2011

	Special Revenue Funds						Total Special Revenue Funds
	Library Fund	Dog Fund	Child Nutrition	Lovett Cemetery	Recreation Fund	Scholarship Fund	
REVENUES:							
Intergovernmental	\$ -	-	92,603	-	-	-	92,603
Licenses, fees and charges for goods and services	-	54,775	53,569	-	2,625	-	110,969
Revenues from the use of money	2	-	-	-	-	22	24
Other revenue	3,952	-	543	-	-	-	4,495
Total Revenues	3,954	54,775	146,715	-	2,625	22	208,091
EXPENDITURES:							
Current:							
General government	2,385	-	-	-	240	-	2,625
Public safety	-	57,357	-	-	-	-	57,357
Public works	-	-	-	-	-	-	-
Education	-	-	138,827	-	-	195	139,022
Capital Outlays	-	-	-	-	-	-	-
Total Expenditures	2,385	57,357	138,827	-	240	195	199,004
Excess of Revenues Over (Under) Expenditures	1,569	(2,582)	7,888	-	2,385	(173)	9,087
Other Financing Sources (Uses):							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,569	(2,582)	7,888	-	2,385	(173)	9,087
Fund Balance, June 30, 2010	5,495	3,201	44,084	46	1,173	4,333	58,332
Fund Balance (Deficit), June 30, 2011	\$ 7,064	619	51,972	46	3,558	4,160	67,419

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2011

	<u>Sidewalk Phase II</u>	<u>Grist Mill</u>	<u>USRDA Account</u>	<u>Total Capital Projects Funds</u>	<u>Permanent Fund Lovett Cemetery</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES:						
Intergovernmental	\$ -	365,001	-	365,001	-	457,604
Licenses, fees and charges for goods and services	-	-	-	-	-	110,969
Revenues from the use of money	-	-	-	-	1	25
Other revenue	-	-	-	-	-	4,495
Total Revenues	-	365,001	-	365,001	1	573,093
EXPENDITURES:						
Current:						
General government	-	-	-	-	-	2,625
Public safety	-	-	-	-	-	57,357
Public works	-	-	-	-	-	-
Education	-	-	-	-	-	139,022
Capital Outlays	-	365,436	-	365,436	-	365,436
Total Expenditures	-	365,436	-	365,436	-	564,440
Excess of Revenues Over (Under) Expenditures	-	(435)	-	(435)	1	8,653
Other Financing Sources (Uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	(366)	-	-	(366)	-	(366)
Total Other Financing Sources (Uses)	(366)	-	-	(366)	-	(366)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(366)	(435)	-	(801)	1	8,287
Fund Balance, June 30, 2010	366	4,999	1	5,366	1,204	64,902
Fund Balance, June 30, 2011	\$ -	4,564	1	4,565	1,205	73,189

TOWN OF SPRAGUE, CONNECTICUT
Fiducary Funds
Statement of Changes in Assets and Liabilities-Agency Fund
For the Year Ended June 30, 2011

STUDENT ACTIVITY FUND				
	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
ASSETS				
Cash	\$ 16,758	45,596	44,260	18,094
Total Assets	\$ 16,758	45,596	44,260	18,094
LIABILITIES				
Due to students	\$ 16,758	45,596	44,260	18,094
Total Liabilities	\$ 16,758	45,596	44,260	18,094

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Debt Limitation
June 30, 2011

Total Current Year Tax Collections, Including Interest and Lien Fees	\$ 4,748,016
Reimbursements For Revenue Loss on Tax Relief For The Elderly (C.G.S. 12-129d)	12,530
	\$ 4,760,546

	General Purpose	Schools	Sewers	Urban Renewal	Pension Deficit
Debt Limitation:					
2-1/4 times base	\$ 10,711,229				
4-1/2 times base		21,422,457			
3-3/4 times base			17,852,048		
3-1/4 times base				15,471,775	
3 times base					14,281,638
Total Debt Limitation	10,711,229	21,422,457	17,852,048	15,471,775	14,281,638
Indebtedness:					
Bonds and notes payable	2,885,000	750,000	201,396	-	-
Bond anticipation notes payable	403,167	-	-	-	-
Total Indebtedness	3,288,167	750,000	201,396	-	-
Debt Limitation in Excess of Outstanding and Authorized Debt	\$ 7,423,062	20,672,457	17,650,652	15,471,775	14,281,638
Total Capacity For Borrowing (7 times annual receipts from taxation)				\$ 33,236,112	

ALBERT J. RUSILOWICZ

Certified Public Accountant, LLC

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Finance
Town of Sprague, Connecticut

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut, as of and for the year ended June 30, 2011, which collectively comprise the Town of Sprague, Connecticut's basic financial statements and have issued my report thereon dated March 7, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Sprague, Connecticut's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sprague, Connecticut's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Sprague, Connecticut's internal control over financial reporting.

My consideration of 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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the following deficiencies described in the accompanying schedule of findings and questioned cost to be material weaknesses: MW-2011-1; MW-2011-2; MW-2011-3.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: SD-2011-1; SD-2011-2.

(Continued)

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Finance and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Albert J. Rusilowicz
Certified Public Accountant, LLC
Killingworth, Connecticut
March 7, 2012

ALBERT J. RUSILOWICZ

Certified Public Accountant, LLC

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT, AND ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

To the Board of Finance
Town of Sprague, Connecticut

Compliance

I have audited the Town of Sprague, Connecticut's compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of the Town of Sprague, Connecticut's major state programs for the year ended June 30, 2011. The major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Town of Sprague, Connecticut's management. My responsibility is to express an opinion on the Town of Sprague, Connecticut's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Sprague, Connecticut's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Town of Sprague, Connecticut's compliance with those requirements.

In my opinion, the Town of Sprague, Connecticut complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

The management of the Town of Sprague, Connecticut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing my audit, I considered the Town of Sprague, Connecticut's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing my opinion on compliance, and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town of Sprague, Connecticut's internal control over compliance.

(Continued)

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 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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut as of and for the year ended June 30, 2011, and have issued my report thereon dated March 7, 2012. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Sprague, Connecticut's 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Finance, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Albert J. Rusilowicz
Certified Public Accountant, LLC
Killingworth, Connecticut
March 7, 2012

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2011

<u>State Grantor: Pass-Through Grantor: Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management:		
Property Tax Relief For Manufacturing Machinery and Equipment	11000-OPM20600-17031	\$ 204,376
Distressed Municipalities	11000-OPM20600-17016	1,095
Property Tax Relief For Elderly And Totally Disabled Homeowners	11000-OPM20600-17018	12,530
Property Tax Relief For Veterans	11000-OPM20600-17024	3,296
Prepare/Revise Municipal Plans of Conservation	12052-OPM20600-43129	12,000
Property Tax Reimbursement-Disabled Exemption	11000-OPM20600-17011	360
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	25,837
Local Capital Improvement Program (LOCIP)-Grist Mill Renovations	12050-OPM20600-40254	18,708
Small Town Economic Assistance Program (STEAP)-LaCroix Bridge		25,458
Total Office of Policy and Management		<u>303,660</u>
Department of Environmental Protection:		
Sprague Dam Repairs	12052-DEP43740-43148	521,171
Department of Transportation:		
Town Aid Road Grants Transportation Fund	13033-DOT57131-43459	56,096
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	20,399
Transit Grants-Bus Operations	12001-DOT57931-12175	8,804
Local Bridge Program Transportation Fund-LaCroix Bridge	21010-DOT57000-XXXX	14,621
Total Department of Transportation		<u>99,920</u>
Department of Education:		
School Readiness and Child Care-Competitive Grant	11000-SDE64370-12113	107,150
Child Nutrition Program (State Match)	11000-SDE64370-16211	1,808
Healthy Foods Initiative	11000-SDE64370-16212	3,940
Health Services	11000-SDE64370-17034	33,251
Adult Education	11000-SDE64370-17030	14,578
		<u>160,727</u>
Commission on Culture & Tourism:		
Historic Restoration Fund-Grist Mill Renovations	12052-CAT45241-40297/90455	56,124
Department of Environmental Protection:		
Boat Grant	12060-DEP44434-34907	571
Office of the State Comptroller:		
Payment In-Lieu of Taxes-State Owned Property	11000-OSC15910-17004	12,855
Judicial Department:		
Non-Budgeted Operating Appropriations	34001-JUD95162-40001	459
State Library:		
Historic Documents Preservation Grant	12060-CSL66094-35150	3,000
Grants to Public Libraries	11000-CSL66051-17003	1,311
Connecticard Payments	11000-CSL66051-17010	68
		<u>4,379</u>
Total State Financial Assistance Before Exempt Programs		<u>1,159,866</u>
Exempt Programs:		
Department of Education:		
Education Equalization Grants	11000-SDE64370-17041	2,232,484
Excess Cost-Student Based	11000-SDE64370-17047	87,797
Public School Transportation	11000-SDE64370-17027	72,111
Nonpublic School Transportation	11000-SDE64370-17049	5,795
Magnet Schools	11000-SDE64370-17057	10,400
School Construction Grants	13010-SDE64370-40901	42,626
		<u>2,451,213</u>
Office of the State Comptroller:		
Mashantucket Pequot Grant	12009-OSC15910-17005	28,023
Total Exempt Programs		<u>2,479,236</u>
Total State Financial Assistance		<u>\$ 3,639,102</u>

TOWN OF SPRAGUE, CONNECTICUT
Notes to the Schedule of Expenditures of
State Financial Assistance
For the Year Ended June 30, 2011

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Sprague, Connecticut through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including:

- Education
- Public works
- Property tax relief
- Public safety

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sprague, Connecticut conform to generally accepted accounting principles accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Certain revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), 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.

(Continued)

TOWN OF SPRAGUE, CONNECTICUT

**Notes to the Schedule of Expenditures of
State Financial Assistance, Continued**

For the Year Ended June 30, 2011

2. Loan Programs

In accordance with Section 4-236-23(a)(4)(f) of the Regulations of 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, 2011:

Grantor: Department of Environmental Protection

Name of Loan: Clean Water Fund-Versailles Sewer-0-6865-3100-888

<u>Identifier</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Beginning Balance</u>	<u>Retired</u>	<u>Ending Balance</u>
CWF#154-O/C	5/31/01	2%	\$3,271,712	\$31,033 \$	(16,925)	\$14,108

TOWN OF SPRAGUE, CONNECTICUT

**State Financial Assistance Programs
Schedule of Findings and Questioned Costs**

For the Year Ended June 30, 2011

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

State Financial Assistance

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unqualified

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 no

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

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Office of Policy and Management:		
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	12060-OPM20600-17031	\$ 204,376
Department of Environmental Protection:		
Sprague Dam Repairs	12052-DEP43740-43148	\$ 521,171

(Continued)

TOWN OF SPRAGUE, CONNECTICUT

**State Financial Assistance Programs
Schedule of Findings and Questioned Costs, Continued**

For the Year Ended June 30, 2011

I. Summary of Auditor's Results, Continued

State Financial Assistance, Continued

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

II. Financial Statement Findings

- I have issued reports dated March 7, 2012 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*.
- My report on compliance and other matters indicated no reportable instances of noncompliance.
- My report on internal control over financial reporting indicated the following material weaknesses and significant deficiencies:

MW-2011-1: Internal Control Weaknesses in the Water and Sewer Authority

Criteria: 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.

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: Given the size of the water and sewer authority operation and the fact that the bookkeeper is a part-time position, an adequate segregation of duties may not be practical. However, additional internal control procedures should be established to achieve a suitable internal control structure given the size of the water and sewer authority.

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

(Continued)

TOWN OF SPRAGUE, CONNECTICUT

**State Financial Assistance Programs
Schedule of Findings and Questioned Costs, Continued**

For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

MW-2011-1: Internal Control Weaknesses in the Water and Sewer Authority, Continued

Recommendation: I recommend that the Town consider implementing additional controls such as having another Town employee reconcile the bank statements; having a member of the water and sewer authority Board review the accounts receivable listing on a monthly basis to determine what collection efforts might be necessary regarding delinquent accounts; 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 my audit and the accounting records for the water and sewer authority were in good condition.

MW-2011-2: Tax Collections

Criteria: 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.

Condition: Presently, the tax collection activities lack an appropriate segregation of duties. The Tax Collector handles virtually all aspects of the tax collection process with generally no oversight. Although numerous reconciliation processes are performed by the Tax Collector, additional internal control procedures may be worthy of consideration.

Context: Given the size of the Town of Sprague and the fact that the Tax Collector is a part-time position, an adequate segregation of duties may not be practical. However, additional internal control procedures should be considered and/or established to achieve a suitable internal control structure given the size of the Town.

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

Recommendation: I recommend that the Town consider implementing additional controls such as reconciling tax collections as recorded on the Tax Collectors system to amounts as recorded by the Finance office. Additionally, a periodic verification of tax adjustments by another Town employee to records as maintained by the Assessor would provide additional assurance that account balances have not been adjusted inappropriately. It must be noted that there were no errors and/or irregularities noted during my audit and the records for Tax Collectors office were in good condition.

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
State Financial Assistance Programs
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

MW-2011-3: Reserve Fund for Capital and Nonrecurring Expenditures

Condition: The Reserve Fund for Capital and Nonrecurring Expenditures has numerous capital projects which have not had adequate "Fund Balance" amounts by project since approximately 2007. The tracking of budgeted expenditures, annual appropriations, and actual expenditures has not been something that the Town has kept track of over the past few years.

Context: The Town had relied on the auditor to maintain such records prior to 2007. Since that time, differences were noted and the detailed accounting by project has not been maintained.

Effect: The annual budget which tracks the individual projects within the Reserve Fund for Capital and Nonrecurring Expenditures may not be reliable and should not be considered to be reliable until such time as a historical analysis is performed.

Recommendation: I recommend that the Town, retrospectively, perform an analysis of activity within the Reserve Fund for Capital and Nonrecurring Expenditures in order to determine what the appropriate balances are by project, given appropriation amounts and actual expenditures since fiscal year 2007.

SD-2011-1: 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. For unexpended grant funds as of June 30, 2010 (per the audit), I was unable to reconcile amounts expended during fiscal year ended June 30, 2011 to such balances.

Context: It appears that in previous years a contracted accountant and/or the auditor had made year-end deferrals which were recorded on the accounting system. The details regarding such adjustments were not provided to the Finance Administrator of the school.

Effect: The recording of grant revenue during the fiscal year ended June 30, 2011 was in error.

Recommendation: I recommend that the Finance Administrator for the school, in conjunction with the Town's bookkeeper, establish procedures for recording grant revenue which effectively matches grant revenue with the related expenses.

(Continued)

TOWN OF SPRAGUE, CONNECTICUT

**State Financial Assistance Programs
Schedule of Findings and Questioned Costs, Continued**

For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

SD-2011-2: Student Activity Funds

Criteria: Effective internal controls prohibit the signing of blank checks.

Condition: My examination of the accounting records and underlying information relating to the Sayles school student activity funds revealed numerous signed blank checks in the checkbook for the account.

Context: At June 30, 2011 there was approximately \$14,478 in the student activity checkbook. The signing of blank checks undermines the most basic premise of any system of internal control and places the balance in the account at risk.

Recommendation: The Superintendent needs to make it understood to the authorized check signers for the student activity fund that under no circumstances are checks to be signed in advance.

III. State Financial Assistance Findings and Questioned Costs

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

TOWN OF SPRAGUE, CONNECTICUT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

Status of Prior Year Findings:

Prior year finding MW-10-1 has not been corrected and has been presented as item MW-2011-2.

Prior year finding MW-05-1 has not been corrected and has been presented as item MW-2011-1.

Prior year finding MW-07-1 has been effectively corrected.

Prior year finding MW-07-4 has been effectively corrected.

Prior year finding MW-07-6 has not been corrected and has been presented as item MW-2011-3.

Prior year finding MW-08-2 I consider to not applicable to the Town of Sprague.

ALBERT J. RUSILOWICZ

Certified Public Accountant, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

I have audited the Town of Sprague, Connecticut's 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 of Sprague, Connecticut's major federal programs for the year ended June 30, 2011. The Town of Sprague, Connecticut's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Sprague, Connecticut's management. My responsibility is to express an opinion on the Town of Sprague, Connecticut's compliance based on our audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Sprague, Connecticut's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Town of Sprague, Connecticut's compliance with those requirements.

In my opinion, the Town of Sprague, Connecticut, complied, in all material respects, with the 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, 2011.

Internal Control over Compliance

Management of the Town of Sprague, Connecticut is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Town of Sprague, Connecticut's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance 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, I do not express an opinion on the effectiveness of the Town of Sprague, Connecticut's internal control over compliance.

(Continued)

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.

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

Schedule of Expenditures of Federal Awards

have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sprague, Connecticut, as of and for the year ended June 30, 2011, and have issued my report thereon dated March 7, 2012, which contained unqualified opinions on those financial statements. My audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Finance, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Albert J. Rusilowicz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Albert J. Rusilowicz, CPA, LLC
Killingworth, Connecticut 06419
March 7, 2012

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed-through the State of Connecticut:			
American Recovery and Reinvestment Act, SFSF: Education Grants	84.394	12060-SDE64370-29054	\$ 371,022
Title I-Improving Basic Programs-Current	84.010	12060-SDE64370-20679	46,085
Title I-Improving Basic Programs-ARRA	84.389	12060-SDE64370-29010	22,170
Title II-Part A, Improving Teacher Quality-Current	84.367	12060-SDE64370-20858	14,121
Title II-Part A, Improving Teacher Quality-Carryover	84.367	12060-SDE64370-20858	1,933
Title II-Part D, Technology-Carryover	84.318	12060-SDE64370-20826	3,577
Title II-Part D, Technology-ARRA	84.390	12060-SDE64370-29063	955
Title IV-Safe and Drug Free Schools-Carryover	84.186	12060-SDE64370-20873	1,105
IDEA, Part B, Section 611, Handicapped-Current	84.027	12060-SDE64370-20977	89,498
IDEA, Part B, Section 611, Handicapped-Carryover	84.027	12060-SDE64370-20977	29,795
IDEA, Part B, Section 611, Handicapped-ARRA	84.391	12060-SDE64370-29011	70,773
IDEA, Part B, Section 619, Preschool-Current	84.173	12060-SDE64370-20983	2,526
IDEA, Part B, Section 619, Preschool-Carryover	84.173	12060-SDE64370-20983	1,134
IDEA, Part B, Section 619, Preschool-ARRA	84.392	12060-SDE64370-29012	103
Small Rural School Achievement Program	84.358A	N/A	18,027
Total U.S. Department of Education			<u>672,824</u>
U.S. Department of Agriculture:			
Passed-through the State of Connecticut:			
National School Lunch	10.555	12060-SDE64370-20560	66,288
National School Breakfast	10.553	12060-SDE64370-20508	20,348
Community Facilities-Grist Mill Renovations-ARRA	10.776	N/A	56,124
Community Facilities-Records Storage-ARRA	10.776	N/A	6,207
Community Facilities-Mobile Radio Equipment-ARRA	10.776	N/A	16,404
Community Facilities-Waste Water Treatment Feasibility Study	10.776	N/A	24,105
Community Facilities-Solar Panel Project	10.776	N/A	61,093
Community Facilities-LaCroix Road Bridge	10.776	N/A	15,702
Community Facilities-Generator Project	10.776	N/A	19,500
Total U.S. Department of Agriculture			<u>285,771</u>
U.S. Department of Environmental Protection:			
Baltic Mills Brownfields	66.818	N/A	8,230
U.S. Department of Energy:			
Energy Efficiency and Conservation Block Grant Program	81.128	N/A	5,112
U.S. Department of Housing and Urban Development:			
Passed-through the State of Connecticut:			
Community Development Block Grant-Grist Mill Renovations	14.218	N/A	56,124
Community Development Block Grant-Small Cities-Grist Mill Renovations	14.218	12060-ECD46350-20730	365,001
Community Development Block Grant-Small Cities-Upper High Street	14.218	12060-ECD46350-20730	358,558
Total U.S. Department of Housing and Urban Development			<u>779,683</u>
U.S. Department of the Interior:			
Consolidated Forestry Programs	15.233	12060-DEP44165-22052	2,465
U.S. Department of Homeland Security:			
Passed-through the State of Connecticut:			
State Homeland Security-Emergency Operations Center Generator	97.XXX	12060-EHS99530-21877	25,000
Emergency Management Performance Grant	97.042	12060-EHS99660-21881	2,535
Total U.S. Department of Homeland Security			<u>27,535</u>
Federal Emergency Management Agency:			
2010 Severe Storms and Flooding Disaster	97.036	12060-EHS99690-21891	117,951
U.S. Department of Transportation:			
Passed-through the State of Connecticut:			
Alcohol Open Containers Requirement	20.607	12062-DOT57343-22091	5,880
Alcohol Traffic Safety Grants	20.XXX	12062-DOT57343-22086	4,183
Total U.S. Department of Transportation			<u>10,063</u>
Total Expenditures of Federal Awards			<u>\$ 1,909,634</u>

The accompanying notes are an integral part of this schedule.

TOWN OF SPRAGUE, CONNECTICUT
Notes to the Schedule of Expenditures of
Federal Awards
For the Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sprague, Connecticut conform to generally accepted accounting principles accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Certain revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Basis of Presentation

The Schedule of Expenditures of Federal Awards, contained in this report, includes the federal grant activity of the Town of Sprague 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 Organizations. 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
Schedule of Federal Findings and Questioned Costs
For the Year Ended June 30, 2011

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a) yes no

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.394	U.S. Department of Education-American Recovery and Reinvestment Act, SFSF, Education Grants
14.218	U.S. Department of Housing and Urban Development-Community Development Block Grant-Small Cities

The dollar threshold for determining Types A and B programs was \$300,000.

Auditee qualified as low-risk auditee? yes no

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Federal Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

II. Financial Statement Findings

- I have issued reports dated March 7, 2012 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*.
- My report on compliance and other matters indicated no reportable instances of noncompliance.
- My report on internal control over financial reporting indicated the following material weaknesses and significant deficiencies:

MW-2011-1: Internal Control Weaknesses in the Water and Sewer Authority

Criteria: 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.

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: Given the size of the water and sewer authority operation and the fact that the bookkeeper is a part-time position, an adequate segregation of duties may not be practical. However, additional internal control procedures should be established to achieve a suitable internal control structure given the size of the water and sewer authority.

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

Recommendation: I recommend that the Town consider implementing additional controls such as having another Town employee reconcile the bank statements; having a member of the water and sewer authority Board review the accounts receivable listing on a monthly basis to determine what collection efforts might be necessary regarding delinquent accounts; 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 my audit and the accounting records for the water and sewer authority were in good condition.

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Federal Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

MW-2011-2: Tax Collections

Criteria: 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.

Condition: Presently, the tax collection activities lack an appropriate segregation of duties. The Tax Collector handles virtually all aspects of the tax collection process with generally no oversight. Although numerous reconciliation processes are performed by the Tax Collector, additional internal control procedures may be worthy of consideration.

Context: Given the size of the Town of Sprague and the fact that the Tax Collector is a part-time position, an adequate segregation of duties may not be practical. However, additional internal control procedures should be considered and/or established to achieve a suitable internal control structure given the size of the Town.

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

Recommendation: I recommend that the Town consider implementing additional controls such as reconciling tax collections as recorded on the Tax Collectors system to amounts as recorded by the Finance office. Additionally, a periodic verification of tax adjustments by another Town employee to records as maintained by the Assessor would provide additional assurance that account balances have not been adjusted inappropriately. It must be noted that there were no errors and/or irregularities noted during my audit and the records for Tax Collectors office were in good condition.

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Federal Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

MW-2011-3: Reserve Fund for Capital and Nonrecurring Expenditures

Condition: The Reserve Fund for Capital and Nonrecurring Expenditures has numerous capital projects which have not had adequate "Fund Balance" amounts by project since approximately 2007. The tracking of budgeted expenditures, annual appropriations, and actual expenditures has not been something that the Town has kept track of over the past few years.

Context: The Town had relied on the auditor to maintain such records prior to 2007. Since that time, differences were noted and the detailed accounting by project has not been maintained.

Effect: The annual budget which tracks the individual projects within the Reserve Fund for Capital and Nonrecurring Expenditures may not be reliable and should not be considered to be reliable until such time as a historical analysis is performed.

Recommendation: I recommend that the Town, retrospectively, perform an analysis of activity within the Reserve Fund for Capital and Nonrecurring Expenditures in order to determine what the appropriate balances are by project, given appropriation amounts and actual expenditures since fiscal year 2007.

SD-2011-1: 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. For unexpended grant funds as of June 30, 2010 (per the audit), I was unable to reconcile amounts expended during fiscal year ended June 30, 2011 to such balances.

Context: It appears that in previous years a contracted accountant and/or the auditor had made year-end deferrals which were recorded on the accounting system. The details regarding such adjustments were not provided to the Finance Administrator of the school.

Effect: The recording of grant revenue during the fiscal year ended June 30, 2011 was in error.

Recommendation: I recommend that the Finance Administrator for the school, in conjunction with the Town's bookkeeper, establish procedures for recording grant revenue which effectively matches grant revenue with the related expenses.

(Continued)

TOWN OF SPRAGUE, CONNECTICUT
Schedule of Federal Findings and Questioned Costs, Continued
For the Year Ended June 30, 2011

II. Financial Statement Findings, Continued

SD-2011-2: Student Activity Funds

Criteria: Effective internal controls prohibit the signing of blank checks.

Condition: My examination of the accounting records and underlying information relating to the Sayles school student activity funds revealed numerous signed blank checks in the checkbook for the account.

Context: At June 30, 2011 there was approximately \$14,478 in the student activity checkbook. The signing of blank checks undermines the most basic premise of any system of internal control and places the balance in the account at risk.

Recommendation: The Superintendent needs to make it understood to the authorized check signers for the student activity fund that under no circumstances are checks to be signed in advance.

III. Federal Award Program Findings

No findings or questioned costs are reported relating to Federal awards programs.

TOWN OF SPRAGUE, CONNECTICUT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

Status of Prior Year Findings:

Prior year finding MW-10-1 has not been corrected and has been presented as item MW-2011-2.

Prior year finding MW-05-1 has not been corrected and has been presented as item MW-2011-1.

Prior year finding MW-07-1 has been effectively corrected.

Prior year finding MW-07-4 has been effectively corrected.

Prior year finding MW-07-6 has not been corrected and has been presented as item MW-2011-3.

Prior year finding MW-08-2 I consider to not applicable to the Town of Sprague.