

To the Board of Commissioners
Emerald Lake Village District

In planning and performing our audit of the basic financial statements of the Emerald Lake Village District as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Emerald Lake Village District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Emerald Lake Village District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Emerald Lake Village District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management and the Board of Commissioners and is not intended to be, and should not be, used by anyone other than these specified parties.

Melanson Heath

September 4, 2014

Summary of Recommendations

The following summarizes areas where improvements could be made. These issues are discussed briefly, however, we are available to discuss in more detail, if requested.

- Document stipends in minutes - At least annually, the minutes of the Commissioner meetings should document the approved stipend amounts for all paid individuals.

District's response:

At our August 7, 2014, we will re-affirm stipends paid to Commissioners, Treasurer, and Clerk. This procedure is set forth in Section 14.1 of the Finance Policy.

- Standardize journal entries - All general ledger adjusting journal entries should be consecutively numbered, and filed in a three-ring binder, along with supporting documentation.

District's response:

This is a function that was hopefully in place through our Treasurer in past years but perhaps you could advise of any discrepancies you found in your audit since it was not part of the management interview. We hope that there will be far fewer special "adjustments" made by ensuring that the Chart of Accounts is comprehensive enough to cover almost all situations, and because we are no longer engaging in transfers between accounts to cover revenues.

- Document preparation and approval of cash reconciliations – Because of the small size of the Organization, it is difficult to maintain an adequate segregation of duties. To compensate the District has two employees involved in the monthly bank reconciliations. We recommend both employees sign the monthly reconciliations to improve the documented oversight of this critical internal control procedure.

District's response:

Both the Treasurer and the Administrator (or in the absence of one, a Commissioner) will sign off on bank reconciliations pursuant to Section 13.1 of the Finance Policies.

- Establish related party policy – The Commission should establish formal policies for authorization of all related party transactions.

District's response:

This is now set forth in Section 14.2 of the Finance Policies.

- Classify expenses accurately – Care should be exercised to ensure all expenses are coded to the proper chart of account categories.

District's response:

We recognize that coding expenses to the proper account classification is important and will be reviewing the Chart of Accounts to ensure that sufficient classifications exist for our purposes. We will review chart of accounts to ensure proper coding is there.

- Document invoice approval – All vendor invoices should be signed or initialed and dated to document the goods or services were actually provided and that the bill is appropriate for the manifest process.

District's response:

This is now set forth in Section 13.2 of the Finance Policies. We have ordered a stamp and all invoices will reviewed by our District Administrator to ensure accuracy before being processed.

- Contact local banks – All local banks should be contacted periodically to ensure there are not unauthorized bank accounts using the District's federal identification number.

District's response:

We will send letters to banks to ensure there are no unauthorized bank accounts using the District's federal identification number.

- Establish capital project funds – All large projects should be accounted for in a separate capital project fund in the District's general ledger. This will simplify the accounting records and improve accountability of the project.

District's response:

This is set forth in Section 5.6 of the Finance Policy. Your letter calls for separate accounting within the general ledger, presumably by separate account number for monies received for special projects. We go further and intend to establish a separate bank account where such funds must be accounted for, e.g., to a state agency.

- Formalize indirect cost allocation – All shared expenses between the general and water fund should be clearly identified in the District's annual budget.

District's response:

We discussed the shared overhead cost issue in our interview and noted that Account 4331 does provide overhead "administration" in the budget for water related items up to a certain amount which should be sufficient for the remainder of this fiscal year. We have also discovered that BMSI does easily accommodate entry of shared expenses allocated both to the water and general revenue accounts. For next year's budget, we propose to actually sublist all the expenses we believe to be common to both accounts; even though the proportion of sharing may alter. For now, we are using an alloca-

tion of 60% water/40% operating for shared expenses, based on pro rate analysis of last year's expenditures. This procedure will also increase availability of operating funds since the water funds will now contribute to shared overhead such as rent, administration costs, and other common expense.