

EMERALD LAKE VILLAGE DISTRICT

Annual Financial Statements

For the Year Ended December 31, 2013

Emerald Lake Village District

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Emerald Lake Village District

Additional Offices:
Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Emerald Lake Village District (the District) as of and for the year ended December 31, 2013, which collectively comprise the Emerald Lake Village District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Emerald Lake Village District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assess-

ments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Emerald Lake Village District, at December 31, 2013, and the respective changes in financial position and the respective budgetary comparison for the general and water funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Melanson Heath

September 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Emerald Lake Village District, we offer readers this narrative overview and analysis of the financial activities of the Emerald Lake Village District for the year ended December 31, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities include general government, public works, and culture and recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$1,140,972 (i.e., net position), a change of \$7,913 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$388,849, a change of \$191,612 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$33,260, a change of \$20,057 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$2,245,000, a change of \$1,747,498 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 538	\$ 3,441
Capital assets	<u>2,920</u>	<u>-</u>
Total assets	3,458	3,441
Long-term liabilities outstanding	2,118	-
Other liabilities	<u>199</u>	<u>2,308</u>
Total liabilities	2,317	2,308
Net position:		
Net investment in capital assets	675	846
Restricted	341	274
Unrestricted	<u>125</u>	<u>13</u>
Total net position	<u>\$ 1,141</u>	<u>\$ 1,133</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 294	\$ 279
Capital grants	-	239
Property taxes	146	157
taxes	7	8
Miscellaneous	<u>3</u>	<u>2</u>
Total revenues	450	685
Expenses:		
General government	53	44
Public works	327	287
Culture and recreation	5	3
Interest expense	<u>57</u>	<u>25</u>
Total expenses	<u>442</u>	<u>359</u>
Change in net position	8	326
Net position - beginning of year (as restated)	<u>1,133</u>	<u>807</u>
Net position - end of year	<u>\$ 1,141</u>	<u>\$ 1,133</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$1,140,972, a change of \$7,913 from the prior year.

A portion of net position \$675,072 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$340,589 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$125,311 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$7,913. Key elements of this change are as follows:

General fund operating results	\$ 55,140
Water fund operating results	29,373
Nonmajor fund operating results	(39,401)
Excess depreciation, which is not budgeted or funded	(197)
Other GAAP accruals	<u>(37,002)</u>
Total	<u>\$ 7,913</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$388,849 a change of \$191,612 in comparison to the prior year. Key elements of this change are as follows:

General fund surplus	\$	55,140
Water fund surplus		29,373
Water capital project fund surplus		146,500
Nonmajor fund deficit		<u>(39,401)</u>
Total	\$	<u>191,612</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$33,260, while total fund balance was \$152,122. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 33,260	\$ 13,203	\$ 20,057	18.0%
Total fund balance	\$ 152,122	\$ 96,982	\$ 55,140	82.5%

The total fund balance of the general fund changed by \$55,140 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$	44,808
Expenditures turnback		(4,490)
Use of fund balance		(27,571)
Shortfall of tax collections		18,092
Change in capital reserve		25,083
Other		<u>(782)</u>
Total	\$	<u>55,140</u>

Included in the total general fund balance are the District's capital reserve accounts with the following balances:

	<u>12/31/13</u>	<u>12/31/12</u>	<u>Change</u>
Capital reserve	\$ <u>103,862</u>	\$ <u>78,779</u>	\$ <u>25,083</u>
Total	\$ <u>103,862</u>	\$ <u>78,779</u>	\$ <u>25,083</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$2,920,072 (net of accumulated depreciation). This investment in capital assets includes infrastructure improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- \$1,653,500 Construction in progress for the water system improvements

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$2,245,000, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Emerald Lake Village District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of District Administrator
Emerald Lake Village District
P.O. Box 2217
Hillsboro, New Hampshire 03244

EMERALD LAKE VILLAGE DISTRICT

STATEMENT OF NET POSITION

DECEMBER 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 260,047
Receivables:	
Property taxes	90,315
User fees	75,097
Intergovernmental	110,387
Other current asset	2,415
Capital Assets:	
Land and construction in progress	1,837,085
Capital assets, net of accumulated depreciation	<u>1,082,987</u>
TOTAL ASSETS	3,458,333
LIABILITIES	
Current:	
Accrued liabilities	42,472
Other current liabilities	29,889
Current portion of long-term liabilities:	
Bonds payable	126,658
Noncurrent:	
Bonds payable, net of current portion	<u>2,118,342</u>
TOTAL LIABILITIES	2,317,361
NET POSITION	
Net investment in capital assets	675,072
Restricted for:	
Grants and other statutory restrictions	340,589
Unrestricted	<u>125,311</u>
TOTAL NET POSITION	\$ <u>1,140,972</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
General government	\$ 53,100	\$ -	\$ -	\$ (53,100)
Public works	326,569	293,930	-	(32,639)
Culture and recreation	5,348	-	-	(5,348)
Interest	<u>57,309</u>	<u>-</u>	<u>-</u>	<u>(57,309)</u>
Total Governmental Activities	<u>\$ 442,326</u>	<u>\$ 293,930</u>	<u>\$ -</u>	(148,396)
		General Revenues:		
				145,757
				7,486
				209
				<u>2,857</u>
				<u>156,309</u>
				7,913
		Net Position:		
				<u>1,133,059</u>
				<u>\$ 1,140,972</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2013

	<u>General</u>	<u>Water Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 36,391	\$ 223,656	\$ 260,047
Receivables:			
Property taxes	90,315	-	90,315
User fees	-	75,097	75,097
Intergovernmental	105,212	5,175	110,387
Due from other funds	-	36,601	36,601
Other assets	<u>2,195</u>	<u>220</u>	<u>2,415</u>
TOTAL ASSETS	<u>\$ 234,113</u>	<u>\$ 340,749</u>	<u>\$ 574,862</u>
LIABILITIES			
Due to other funds	\$ 36,601	\$ -	\$ 36,601
Other liabilities	<u>964</u>	<u>28,925</u>	<u>29,889</u>
TOTAL LIABILITIES	37,565	28,925	66,490
DEFERRED INFLOWS OF RESOURCES	44,426	75,097	119,523
FUND BALANCES			
Restricted	-	234,440	234,440
Committed	103,862	-	103,862
Assigned	15,000	2,287	17,287
Unassigned	<u>33,260</u>	<u>-</u>	<u>33,260</u>
TOTAL FUND BALANCES	<u>152,122</u>	<u>236,727</u>	<u>388,849</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 234,113</u>	<u>\$ 340,749</u>	<u>\$ 574,862</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

DECEMBER 31, 2013

Total governmental fund balances	\$ 388,849
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,920,072
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	119,523
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(42,472)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(2,245,000)</u>
Net position of governmental activities	<u>\$ 1,140,972</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General</u>	<u>Water Fund</u>	<u>Water Capital Project Fund</u>	<u>Non-major Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 177,092	\$ -	\$ -	\$ -	\$ 177,092
Penalties, interest and other taxes	-	7,486	-	-	7,486
Charges for services	-	281,034	-	-	281,034
Investment income	83	126	-	-	209
Miscellaneous	<u>2,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,857</u>
Total Revenues	180,032	288,646	-	-	468,678
Expenditures:					
Current:					
General government	52,350	-	-	-	52,350
Public works	79,456	171,057	1,653,500	-	1,904,013
Culture and recreation	5,349	-	-	-	5,349
Capital outlay	28,867	10,215	-	-	39,082
Debt service	<u>18,271</u>	<u>58,001</u>	<u>-</u>	<u>-</u>	<u>76,272</u>
Total Expenditures	<u>184,293</u>	<u>239,273</u>	<u>1,653,500</u>	<u>-</u>	<u>2,077,066</u>
Excess (deficiency) of revenues over expenditures	(4,261)	49,373	(1,653,500)	-	(1,608,388)
Other Financing Sources (Uses):					
Bond proceeds	-	-	1,800,000	-	1,800,000
Transfers in	71,402	-	-	7,001	78,403
Transfers out	<u>(12,001)</u>	<u>(20,000)</u>	<u>-</u>	<u>(46,402)</u>	<u>(78,403)</u>
Total Other Financing Sources (Uses)	<u>59,401</u>	<u>(20,000)</u>	<u>1,800,000</u>	<u>(39,401)</u>	<u>1,800,000</u>
Change in fund balance	55,140	29,373	146,500	(39,401)	191,612
Fund Equity, at Beginning of Year, as restated	<u>96,982</u>	<u>207,354</u>	<u>(146,500)</u>	<u>39,401</u>	<u>197,237</u>
Fund Equity, at End of Year	<u>\$ 152,122</u>	<u>\$ 236,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 388,849</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

Net changes in fund balances - total governmental funds	\$ 191,612												
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital purchases</td> <td style="text-align: right;">1,668,475</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(52,699)</td> </tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td></td> <td style="text-align: right;">(18,439)</td> </tr> </table> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 40px;">Additions to bonds payable</td> <td style="text-align: right;">(1,800,000)</td> </tr> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">52,502</td> </tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td> <td style="text-align: right;"><u>(33,538)</u></td> </tr> </table> 		Capital purchases	1,668,475	Depreciation	(52,699)		(18,439)	Additions to bonds payable	(1,800,000)	Repayments of debt	52,502		<u>(33,538)</u>
Capital purchases	1,668,475												
Depreciation	(52,699)												
	(18,439)												
Additions to bonds payable	(1,800,000)												
Repayments of debt	52,502												
	<u>(33,538)</u>												
Change in net position of governmental activities	\$ <u>7,913</u>												

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 159,000	\$ 159,000	\$ 159,000	\$ -
Investment income	50	50	-	(50)
Miscellaneous	1,400	1,400	46,258	44,858
Use of fund balance	<u>27,571</u>	<u>27,571</u>	<u>27,571</u>	<u>-</u>
Total Revenues and Other Sources	188,021	188,021	232,829	44,808
Expenditures and Other Uses:				
General government	48,195	48,195	54,356	(6,161)
Public works	94,400	94,400	79,456	14,944
Culture and recreation	7,150	7,150	3,549	3,601
Capital outlay	15,000	15,000	24,878	(9,878)
Debt service	18,276	18,276	18,271	5
Other uses	<u>5,000</u>	<u>5,000</u>	<u>12,001</u>	<u>(7,001)</u>
Total Expenditures and Other Uses	<u>188,021</u>	<u>188,021</u>	<u>192,511</u>	<u>(4,490)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>40,318</u>	\$ <u>40,318</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

WATER FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 233,900	\$ 233,900	\$ 280,370	\$ 46,470
Miscellaneous	<u>-</u>	<u>-</u>	<u>7,611</u>	<u>7,611</u>
Total Revenues and Other Sources	233,900	233,900	287,981	54,081
Expenditures and Other Uses:				
Public works	233,900	233,900	253,387	(19,487)
Other uses	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>(20,000)</u>
Total Expenditures and Other Uses	<u>233,900</u>	<u>233,900</u>	<u>273,387</u>	<u>(39,487)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>14,594</u>	\$ <u>14,594</u>

The accompanying notes are an integral part of these financial statements.

EMERALD LAKE VILLAGE DISTRICT

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Emerald Lake Village District (the District) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The District is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the government for which it is considered to be financially accountable. In 2013, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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 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

Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 revenues* rather than as program revenues.

Fund Financial Statements

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 District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The District reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *Water Fund* - To account for the water operations and maintenance of the District's water lines, pumping station and plant.
- *Water Capital Project Fund* - To account for the operations related to the water system upgrade.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

E. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

F. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 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 asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Vehicles	5
Office equipment	5
Computer equipment	5

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The District's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., District Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the District uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital

assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

1. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The District's budget is originally prepared by the Commissioner's office with the cooperation of their primary contractors and engineers, when appropriate. After reviewing the budget, the commissioners hold a public hearing for discussion in the same manner as a Town under the municipal finance act.

Should the budget include a bond issue, it will follow the same posting and hearing process as required for towns. The final version of the budget is then posted and printed in the annual report, and submitted for approval at the annual district meeting. The approved budget is subsequently reported to the State of New Hampshire on the statement of appropriation form in order to establish the current tax rate and a copy of the approved appropriations is also forwarded to the Selectmen of the Town by the District Clerk as required by RSA Chapter 52.

The Commissioners cannot increase the total of the approved budget; however, they have the power to reclassify its components when necessary and in accordance with the municipal finance act.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget.

C. Budget/GAAP Reconciliation

The budgetary data for the general is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund and water fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data. There were no differences between the GAAP basis and the budgetary basis financial statements.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting:

	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>General Fund</u>		
Revenues/Expenditures (GAAP Basis)	\$ 180,032	\$ 184,293
Other financing sources/uses (GAAP Basis)	<u>71,402</u>	<u>12,001</u>
Subtotal (GAAP Basis)	251,434	196,294
Adjust tax revenue to accrual basis	(18,092)	-
To record use of fund balance	27,571	-
To remove unbudgeted capital reserve fund	(25,083)	-
Other timing differences	<u>(3,001)</u>	<u>(3,783)</u>
Budgetary Basis	<u>\$ 232,829</u>	<u>\$ 192,511</u>
	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>Water Fund</u>		
Revenues/Expenditures (GAAP Basis)	\$ 288,646	\$ 239,273
Other financing sources/uses (GAAP Basis)	<u>-</u>	<u>20,000</u>
Subtotal (GAAP Basis)	288,646	259,273
Other timing differences	<u>(665)</u>	<u>14,114</u>
Budgetary Basis	<u>\$ 287,981</u>	<u>\$ 273,387</u>

3. Cash and Short-Term Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus, exception that a District with a population in excess of 50,000 is authorized to deposit funds in a solvent bank in excess of the paid-up capital surplus of said bank." The District does not have a deposit policy for custodial credit risk.

As of December 31, 2013, none of the District's bank balance of \$260,047 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Taxes Receivable

Real estate taxes are levied and based on values assessed on April 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town of Hillsborough, NH has an ultimate right to foreclose on property for unpaid taxes.

Taxes receivable at December 31, 2013 consist of the following (in thousands):

Real Estate	
2013	\$ <u>90</u>
Total	\$ <u><u>90</u></u>

5. Intergovernmental Receivables

This balance represents collections made by the Town Tax Collector for water receivables through December 31, 2013, which were subsequently paid in January.

6. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the December 31, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 36,601
Special Revenue Funds	<u>36,601</u>	<u>-</u>
Total	<u>\$ 36,601</u>	<u>\$ 36,601</u>

7. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 146	\$ -	\$ -	\$ 146
Machinery, equipment, and furnishings	565	-	-	565
Infrastructure	<u>650</u>	<u>15</u>	<u>-</u>	<u>665</u>
Total capital assets, being depreciated	1,361	15	-	1,376
Less accumulated depreciation for:				
Buildings and improvements	(11)	(4)	-	(15)
Machinery, equipment, and furnishings	(200)	(32)	-	(232)
Infrastructure	<u>(29)</u>	<u>(17)</u>	<u>-</u>	<u>(46)</u>
Total accumulated depreciation	<u>(240)</u>	<u>(53)</u>	<u>-</u>	<u>(293)</u>
Total capital assets, being depreciated, net	1,121	(38)	-	1,083
Capital assets, not being depreciated:				
Construction in progress	<u>183</u>	<u>1,654</u>	<u>-</u>	<u>1,837</u>
Total capital assets, not being depreciated	<u>183</u>	<u>1,654</u>	<u>-</u>	<u>1,837</u>
Governmental activities capital assets, net	<u>\$ 1,304</u>	<u>\$ 1,616</u>	<u>\$ -</u>	<u>\$ 2,920</u>

Depreciation expense was charged to functions of the District as follows (in thousands):

Governmental Activities:	
Public works	\$ <u>53</u>
Total depreciation expense - governmental activities	\$ <u>53</u>

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses represent 2013 expenditures paid in 2014.

9. Long-Term Debt

A. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/13</u>
Water bond	08/15/26	4.74%	\$ 445,000
General obligation	05/01/33	2.86%	<u>1,800,000</u>
Total Governmental Activities:			<u>\$ 2,245,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 126,658	\$ 36,490	\$ 163,148
2015	126,658	34,261	160,919
2016	126,658	31,719	158,377
2017	126,658	29,177	155,835
2018	126,658	26,635	153,293
2019 - 2023	633,290	97,106	730,396
2024 - 2028	553,290	39,015	592,305
2029 - 2033	<u>425,130</u>	<u>10,447</u>	<u>435,577</u>
Total	<u>\$ 2,245,000</u>	<u>\$ 304,850</u>	<u>\$ 2,549,850</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Total Balance 1/1/13	Additions	Reductions	Total Balance 12/31/13	Less Current Portion	Equals Long-Term Portion 12/31/13
<u>Governmental Activities</u>						
Bonds payable	\$ 497,502	\$ 1,800,000	\$ (52,502)	\$ 2,245,000	\$ (126,658)	\$ 2,118,342
Totals	\$ 497,502	\$ 1,800,000	\$ (52,502)	\$ 2,245,000	\$ (126,658)	\$ 2,118,342

10. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the District that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of December 31, 2013:

	<u>General Fund</u>	<u>Water</u>
Unearned revenue	\$ 44,426	\$ 75,097

11. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

12. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The District implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at December 31, 2013:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund

reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at District Meetings, capital reserve funds set aside by District Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the District's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various District departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the District's fund balances at December 31, 2013:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Total Governmental Funds</u>
Restricted			
Special revenue funds	\$ -	\$ 234,440	\$ 234,440
Total Restricted	-	234,440	234,440
Committed			
Capital reserve funds	103,862	-	103,862
Total Committed	103,862	-	103,862
Assigned			
Encumbrances	-	2,287	2,287
Reserved for expenditures	15,000	-	15,000
Total Assigned	15,000	2,287	17,287
Unassigned			
Total Unassigned	33,260	-	33,260
Total Fund Balance	\$ 152,122	\$ 236,727	\$ 388,849

13. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in respect to how undesignated fund balance is reported in accordance with the budgetary basis for reporting for the State of New Hampshire for tax rate setting purposes. The major difference is the State of New Hampshire considers revenues in connection with property tax receivables to be available to liquidate liabilities when billed rather than received.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 33,260
Deferred inflows	<u>44,426</u>
Statutory (UMAS) Balance	<u>\$ 77,686</u>

14. Commitments and Contingencies

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

Emerald Lake Water System – The District has been ordered by the Department of Environmental Services to improve its water system to DES standards. The original completion date was ordered to be December 14, 2012; however, the District is seeking and extension. The District estimates the cost to be \$35,000 to \$50,000.

15. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

16. Beginning Fund Balance Reclassification

The District's major governmental funds for fiscal year 2013, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 12/31/12 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 12/31/12 (as restated)
Capital project fund	\$ 39,401	\$ (39,401)	\$ -
Non-major fund	<u>-</u>	<u>39,401</u>	<u>39,401</u>
Total	<u>\$ 39,401</u>	<u>\$ -</u>	<u>\$ 39,401</u>