

CANDLEWOOD TAX DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2020

Sandra E. Welwood, LLC
Certified Public Accountants

CANDLEWOOD TAX DISTRICT

TABLE OF CONTENTS

Independent Auditors' Report..... 1
Management's Discussion and Analysis (Unaudited) 3

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:
Statement of Net Position..... 8
Statement of Activities 9

Fund Financial Statements:
Balance Sheet – Governmental Funds..... 10
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds..... 11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities 12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis –
Budget and Actual – General Fund..... 13
Notes to Financial Statements..... 14

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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* 22

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Candlewood Tax District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Candlewood Tax District (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2020, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2020, on our consideration of Candlewood Tax District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Candlewood Tax District's internal control over financial reporting and compliance.

Sandra E. Welwood, LLC

Danbury, Connecticut
September 17, 2020

CANDLEWOOD TAX DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2020

As management of the Candlewood Tax District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here along with additional information furnished in the District's basic financial statements that follow this section.

The District's discussion and analysis is designed to:

1. Provide an overview of the District's financial activity.
2. Assist the reader in focusing on significant financial issues.
3. Identify any material deviations from the financial plan (approved budget).
4. Identify changes in the District's financial position, as well as its ability to address challenges in future years.

FINANCIAL HIGHLIGHTS

- On a government-wide basis, the assets of the District exceeded its liabilities at the close of the fiscal year by \$657,634 (net position).
- On a government-wide basis, expenses exceeded revenues by \$9,019.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$306,470. This represents the combined balances in the General Fund and the Capital Projects Fund.
- At the end of the current fiscal year, the unassigned General Fund balance was \$73,285. This represents 28% of total General Fund expenditures in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's 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 basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to private-sector businesses. All of the resources which the District has at its disposal are shown, including major assets such as buildings and infrastructure. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. One can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Candlewood Tax District
Management's Discussion and Analysis (Unaudited) (continued)

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements present the functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include general government and public works.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The District, like other state and local governments, uses fund accounting to help it maintain control and manage money that have been segregated for specific activities or objectives. All of the funds of the District are governmental funds.

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 the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the 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 District'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.

The District maintains several individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Capital Projects Fund.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the authorized budget in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budgetary Basis – Budget and Actual – General Fund.

Candlewood Tax District
Management's Discussion and Analysis (Unaudited) (continued)

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time the change in net position may be a useful indicator of the District's financial position. The District's combined assets exceeded its combined liabilities by \$657,634 at June 30, 2020.

<u>Net Position</u>	
<u>Assets</u>	
Cash and cash equivalents	\$ 107,390
Investments	184,292
Receivables	19,317
Prepaid expenses	3,893
Capital assets, net of accumulated depreciation	<u>351,164</u>
Total assets	<u>666,056</u>
<u>Liabilities</u>	
Accounts payable	<u>8,422</u>
Total liabilities	<u>8,422</u>
<u>Net Position</u>	
Net investment in capital assets	351,164
Unrestricted	<u>306,470</u>
Total net position	<u>\$ 657,634</u>

A large portion of the District's net position \$351,164 reflects its net investment in capital assets (e.g. equipment and infrastructure). The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

The remaining unrestricted net position of \$306,470 may be used to meet the District's ongoing obligations to citizens and creditors.

Candlewood Tax District
Management's Discussion and Analysis (Unaudited) (continued)

Governmental activities decreased the District's net position by \$9,019. Key elements of the decrease are as follows:

Changes in Net Position	
Revenues:	
Property taxes	\$ 245,550
Charges for services	-
Operating grants and contributions	16,405
Other revenues	6,766
Investment earnings	<u>3,150</u>
Total revenues	<u>271,871</u>
Expenses:	
General	73,203
Public works	181,258
Depreciation	<u>26,429</u>
Total expenses	<u>280,890</u>
Decrease in net position	<u><u>\$ (9,019)</u></u>

FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$306,470, as follows:

General Fund	\$ 122,178
Capital Projects	<u>184,292</u>
Total	<u><u>\$ 306,470</u></u>

**Candlewood Tax District
Management's Discussion and Analysis (Unaudited) (continued)**

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the final budget and actual results can be briefly summarized as follows:

Revenues were greater than the final budget by \$20,922 primarily because of intergovernmental and other revenues that were received, which were not budgeted.

Expenditures were \$2,626 more than the final budget primarily due to road repair, brushing and weed control over budget, which were offset by snowplowing and sanding, beach maintenance, and Green Pond drainage project, which were under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of June 30, 2020, amounted to \$351,164 (net of accumulated depreciation). This investment in capital assets includes equipment and infrastructure.

Additional information on the District's capital assets may be found in Note 4 – Capital Assets.

Long-Term Obligations

At the end of the current fiscal year, there were no long-term payables outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considered many factors when setting the fiscal year 2021 budget and property tax rates. With an overwhelming reliance on property taxes, the District's income stream is relatively stable.

The District is facing increasing economic burdens from expenditures associated with maintenance and repairs to the District's infrastructure.

All of these factors were considered while preparing the District's General Fund budget for the 2021 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the 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 the Treasurer, P.O. Box 123, Sherman, CT 06784.

CANDLEWOOD TAX DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2020

Assets

Cash and cash equivalents	\$ 107,390
Investments	184,292
Receivables:	
Other receivables	19,317
Prepaid expenses	3,893
Noncurrent assets:	
Capital assets, not being depreciated	6,000
Capital assets, net of accumulated depreciation	345,164
	<hr/>
Total assets	666,056

Liabilities

Accounts payable	8,422
	<hr/>
Total liabilities	8,422

Net Position

Net investment in capital assets	351,164
Unrestricted	306,470
	<hr/>
Total net position	\$ 657,634

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

CANDLEWOOD TAX DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ (73,203)	\$ -	\$ -	\$ -	\$ (73,203)
Public works	(181,258)	-	16,405	-	(164,853)
Unallocated depreciation	(26,429)	-	-	-	(26,429)
 Total governmental activities	\$ (280,890)	\$ -	\$ 16,405	\$ -	(264,485)
General Revenues:					
					245,550
					6,766
					3,150
					255,466
Change in net position					(9,019)
Net position, beginning of year					666,653
Net position, end of year					\$ 657,634

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

CANDLEWOOD TAX DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2020

	General Fund	Capital Projects	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 107,390	\$ -	\$ 107,390
Investments	-	184,292	184,292
Receivables:			
Other	19,317	-	19,317
Prepaid expenses	3,893	-	3,893
Total assets	\$ 130,600	\$ 184,292	\$ 314,892
<u>Liabilities</u>			
Accounts payable	\$ 8,422	\$ -	\$ 8,422
<u>Fund Balances</u>			
Nonspendable	3,893	-	3,893
Restricted	-	-	-
Assigned	45,000	184,292	229,292
Unassigned	73,285	-	73,285
Total fund balances	122,178	184,292	306,470
Total liabilities, deferred inflows of resources, and fund balances	\$ 130,600	\$ 184,292	

Amounts reported in the Statement of Net Position are different because:

Capital assets used are not financial resources and, therefore, are not reported in the funds.	351,164

Net position	\$ 657,634

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

CANDLEWOOD TAX DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 244,797	\$ -	\$ 244,797
Interest and lien fees	753	-	753
Intergovernmental	16,405	-	16,405
Charges for services	-	-	-
Other revenues	6,766	-	6,766
Investment earnings	1	3,149	3,150
Total revenues	<u>268,722</u>	<u>3,149</u>	<u>271,871</u>
Expenditures:			
Current:			
General government	79,203	-	79,203
Public works	186,223	-	186,223
Capital outlay	-	-	-
Total expenditures	<u>265,426</u>	<u>-</u>	<u>265,426</u>
Excess of revenues over expenditures	3,296	3,149	6,445
Other Financing Sources (Uses):			
Transfers in	-	10,000	10,000
Transfers out	(10,000)	-	(10,000)
Net change in fund balances	(6,704)	13,149	6,445
Fund balances, beginning of year	<u>128,882</u>	<u>171,143</u>	<u>300,025</u>
Fund balances, end of year	<u>\$ 122,178</u>	<u>\$ 184,292</u>	<u>\$ 306,470</u>

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

CANDLEWOOD TAX 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 JUNE 30, 2020**

Amounts reported in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ 6,445
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were less than depreciation in the current period:	
Capital outlay	10,965
Depreciation expense	(26,429)
	<hr/>
Change in net position	<u><u>\$ (9,019)</u></u>

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

CANDLEWOOD TAX DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Budget Positive (Negative)</u>
Revenues:				
Property taxes	\$ 247,800	\$ 247,800	\$ 244,797	\$ (3,003)
Interest and lien fees	-	-	753	753
Intergovernmental:				
New Milford area	-	-	13,738	13,738
Mill Pond area	-	-	2,667	2,667
Charges for services	-	-	-	-
Other revenues	-	-	6,767	6,767
Total revenues	<u>247,800</u>	<u>247,800</u>	<u>268,722</u>	<u>20,922</u>
Expenditures:				
Current:				
Road repair	15,000	15,000	29,404	(14,404)
Culverts and gutters	10,800	10,800	11,706	(906)
Brushing	6,000	6,000	14,546	(8,546)
Snowplowing and sanding	65,000	65,000	36,997	28,003
Signs	500	500	834	(334)
Beach maintenance	25,000	25,000	17,311	7,689
Weed control	-	-	12,050	(12,050)
Porta potty - beach	500	500	360	140
Security	15,000	15,000	16,162	(1,162)
Capital projects fund	10,000	10,000	10,000	-
Legal fees	10,000	10,000	10,740	(740)
Audit/accounting services	7,750	7,750	7,750	-
Insurance	20,000	20,000	16,296	3,704
Property taxes	3,000	3,000	2,508	492
Administrative expenses	4,000	4,000	5,924	(1,924)
Secretary's pay	2,750	2,750	2,750	-
President's pay	8,000	8,000	8,000	-
Contingency/storm damage	10,000	10,000	13,022	(3,022)
Tax collector	10,000	10,000	9,235	765
Gate operation	6,500	6,500	9,703	(3,203)
Tree maintenance	10,000	10,000	13,200	(3,200)
Guard rails	5,000	5,000	4,965	35
Donations	16,000	16,000	16,000	-
Green Pond drainage project	12,000	12,000	5,963	6,037
Total expenditures	<u>272,800</u>	<u>272,800</u>	<u>275,426</u>	<u>(2,626)</u>
Net change in fund balance	<u>\$ (25,000)</u>	<u>\$ (25,000)</u>	<u>\$ (6,704)</u>	<u>\$ 18,296</u>

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

CANDLEWOOD TAX DISTRICT
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Candlewood Tax District (the “District”) is a separately organized entity located within the Town of Sherman, Connecticut, and is not reported as a component unit of the Town. The District was formed in 1976 under Section 7-324 of the Connecticut General Statutes. It operates under a corporate form of government with officers elected annually. As authorized by its bylaws, the District provides public safety, road and beach maintenance, and other services within the Sherman area of Candlewood Lake Estates. The District reports its financial activities in accordance with governmental accounting principles.

The basic financial statements of the reporting entity include only the funds of the District as no component units exist based on operational or financial relationships with the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the activities of the District. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

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

The funds included in the financial statements are described below:

Governmental Funds

General Fund - the primary operating fund of the District. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and charges for services.

Capital Projects Fund - accounts for all financial resources used for the acquisition or construction of capital projects.

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 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.

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, when levied for, 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. In determining when to recognize intergovernmental revenues (grants and entitlements), the legal and contractual requirements of the individual programs are used as guidance. Revenues are recognized when the eligibility requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the District or specifically identified.

The District reports the following major governmental funds:

The **General Fund** is the general operating fund of the District government. All unrestricted resources, except those required to be accounted for in another fund, are accounted for in this fund. From this fund are paid general operating expenditures, fixed charges, principal and interest on long-term debt, and capital improvement costs of the District, which were not paid through a special fund.

The **Capital Projects Fund** accounts for capital projects that are funded through General Fund transfers.

Cash and Cash Equivalents

The District considers cash on hand, deposits, and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (current portion of interfund loans) or “advances to/from other funds” (noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Trade account allowance for uncollectible accounts is estimated based on the inherent risk associated with the accounts. No allowance for uncollectible accounts was considered necessary at June 30, 2020.

Capital Assets

Capital assets, which include equipment and infrastructure assets (e.g., roads and similar items) are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the net assets or materially extend assets lives are not capitalized.

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	25
Equipment	15-20

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Fund Equity and Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted - This category represents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category represents the net position of the District which is not restricted for any project or other purpose.

Governmental Accounting Standards Board Statement #54 (GASB 54) defines the different types of fund balances that the District must use for its governmental funds. GASB 54 requires the fund balances to be properly reported within one of the following categories for financial reporting purposes.

Nonspendable – fund balance amounts associated with inventories, prepaids, and long-term receivables and payables.

Restricted – fund balance amounts that can be spent only for the specific purposes stipulated by external source providers or enabling legislation.

Committed – fund balance amounts that can be used only for specific purposes determined by a formal action of the District’s highest level of decision-making authority.

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

Assigned – fund balance amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed fund balances.

Unassigned – fund balance amounts remaining for the General Fund that are spendable.

Generally, the District’s committed fund balance reporting is required when funds have been committed at a District Meeting and the District’s assigned fund balance reporting is required when funds have been assigned by the District’s Board. The District’s policy is to apply expenditures against the applicable fund balances in the following order: nonspendable, restricted, committed, assigned, and unassigned.

Accounting Estimates

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

Note 2 – Budgets and Budgetary Accounting

The District adheres to the following procedures in establishing the budgetary data included in the General Fund financial statements.

- a. The Treasurer prepares the annual budget which is reviewed by the Board of Directors and adopted at the annual budget meeting of the District held on the last Saturday in May of each year.
- b. At the annual meeting the mil rate and the levying of the tax is completed.
- c. The District budget adoption must be a minimum of 30 days prior to the beginning of the applicable fiscal year.
- d. Classifications of certain revenues and expenditures under accounting principles generally accepted in the United States of America differ from classifications utilized for budgetary purposes.

General Fund

A reconciliation of General Fund amounts presented on a budgetary basis to amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP) is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary Basis	\$ 268,722	\$ 275,426
Recorded as other financial uses through interfund transfers	-	(10,000)
GAAP Basis	<u>\$ 268,722</u>	<u>\$ 265,426</u>

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

Capital Projects Fund

Legal authorization for expenditures of the Capital Projects Fund is provided by the related Board approvals. Capital appropriations do not lapse until completion of the applicable projects.

Note 3 - Deposits and Investments

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a deposit policy for custodial credit risk. As of June 30, 2020, the District's bank balance was \$291,682. Of this amount \$36,278, was uninsured and uncollateralized.

All of the District's deposits were in qualified public institutions as defined by Connecticut general statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

As of June 30, 2020, the District's investments consisted of the following:

	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Certificates of Deposit	<u>\$ 184,292</u>	<u>\$ 98,006</u>	<u>\$ 86,286</u>

Interest Rate Risk

The District 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

The District has no formally adopted investment policy that would limit its investment choices due to credit risk other than the State of Connecticut General Statutes that limit investments to obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

Fair Value Measurements

The District utilizes the market approach as the valuation technique to measure fair value of its financial assets. GAAP establishes a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”) and requires that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuation based on unadjusted quoted prices in active markets for identical assets the District has the ability to access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation of these assets does not entail significant judgment.
- Level 2 - Valuation based on quoted prices for similar assets in active markets; quoted prices for similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the District’s own assumptions about assumptions that market participants might use.

The District’s investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The District has no financial assets measured using Level 2 or Level 3 at June 30, 2020.

Note 4 – Capital Assets

	<u>Balance at</u> <u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2020</u>
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 6,000	\$ -	\$ 6,000
Capital assets being depreciated:				
Swim platforms	8,350	-	-	8,350
Entrance gate	39,976	-	-	39,976
Infrastructure	<u>599,469</u>	<u>4,965</u>	-	<u>604,434</u>
Total capital assets being depreciated	647,795	4,965	-	652,760
Less accumulated depreciation	<u>(281,167)</u>	<u>(26,429)</u>	-	<u>(307,596)</u>
Capital assets being depreciated, net of depreciation	<u>366,628</u>	<u>(21,464)</u>	-	<u>345,164</u>
Total net capital assets	<u>\$ 366,628</u>	<u>\$ (15,464)</u>	<u>\$ -</u>	<u>\$ 351,164</u>

Note 5 – Risk Management

The District is exposed to various risks of loss involving torts, theft of, damage to, and destruction of assets, errors and omissions, injuries of employees, natural disaster, and public official liabilities. The District obtains commercial insurance for these risks and claims have not exceeded commercial coverage.

Note 6 – Recently Issued Accounting Standards Not Yet Adopted

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 Pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for the District's reporting period beginning July 1, 2020, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The District does not expect this statement to have an effect on its financial statements.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the District's reporting period beginning July 1, 2021, which reflects the eighteen month postponement pursuant to GASB Statement No. 95 issued in May 2020. The District is currently evaluating the potential impact of adopting this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The objective of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement should be applied prospectively and are effective for the District's reporting period beginning July 1, 2021, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The District does not expect this statement to have an effect on its financial statements.

In August 2018, the GASB issued Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61, The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the District's reporting period beginning July 1, 2020, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The District does not expect this statement to have an effect on its financial statements.

Candlewood Tax District
Notes to Financial Statements
June 30, 2020 (continued)

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for the District's reporting period beginning July 1, 2022, which reflects the one year postponement pursuant to GASB Statement No. 95 issued in May 2020. The District does not expect this statement to have an effect on its financial statements.

Note 7 – Subsequent Events

Management has evaluated subsequent events from the financial statement date of June 30, 2020 through September 17, 2020, which is the date these financial statements were available to be issued. All subsequent events requiring recognition or disclosure have been incorporated into these financial statements.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the City could be significantly adversely affected. The extent to which the coronavirus may impact governmental activity, business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the duration and severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others. The District has not included any contingencies in the financial statements specific to this issue.

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

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

Independent Auditors' Report

To the Board of Directors
Candlewood Tax District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Candlewood Tax District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 17, 2020.

Internal Control over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

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

Purpose of This Report

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

Sandra E. Welwood, LLC

Danbury, Connecticut
September 17, 2020