March 4, 2016

Susan Chapman, First Selectman
Town of New Fairfield
4 Brush Hill Road
New Fairfield, CT 06812

I am writing in response to your request to read and interpret Candlewood Lake Authority's ("CLA") audited financial statements from recent years. I appreciate your asking. As you know, I have 33 years of experience in working with governments and not-for-profits. I am one of 12 government audit partners in the firm. Together we audit approximately 170 governments a year. I am responsible for approximately 20 of those in Connecticut each year. I have attached some more information about the firm and also my background.

I have read the statements from 2009 through 2015. In each of the 7 years CLA spent more money than it had budgeted. This is specifically prohibited for a municipality. If you assume that a specialty government, such as CLA, only has the authority that it is specifically given, this would be prohibited for them too. The Town Attorney might be able to provide you with some case law that discusses this further.

But, even more important than overspending their budget each year, these expenditures were not offset with adequate increased revenues. So in each year CLA has used some of its Fund Balance (which you can think of as working capital) to sustain itself. On June 30, 2008 CLA had $270,871 in Fund Balance. By June 30, 2015 this had been reduced by $255,391 to $15,480.

This means that CLA has been spending an average of $36,484 more per year than it receives in revenue per year. This is not sustainable and, if the past repeats itself, they should be out of resources right about now as their beginning Fund Balance would cover less than ½ of the average deficit per year.

Reducing Fund Balance down to zero is not fiscally responsible without a plan and a purpose for doing so. Unfortunately the story told by the audited financial statements does get worse. CLA has not only spent their operating money (unrestricted Fund Balance) but they have spent money that has been restricted (from donors or grantors) on budget shortfalls as well. The donor and grantor money is no longer available to use for the purposes for which it was received.

I have tried to show how CLA has "borrowed" that money in the chart that follows.

- The top of each bar is the amount of Fund Balance (working capital) CLA has at the end of each year according to the audited financial statements.

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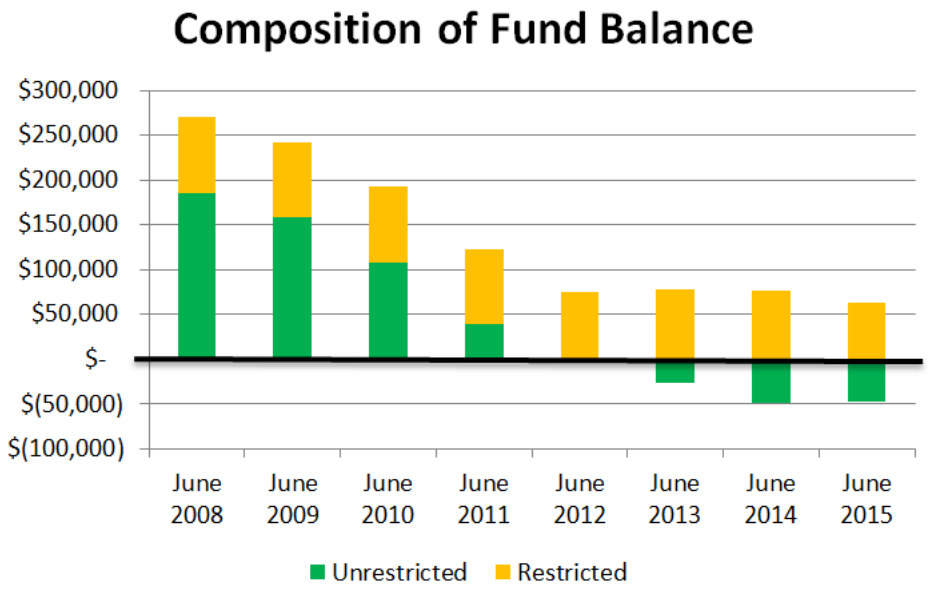
- The green portion of the bar is the unrestricted Fund Balance at June 30th for the last 8 years. It started at $185,147 on June 30, 2008 and the entire balance was spent by June 30, 2012. That is when CLA started spending money that they were not yet entitled to use. As of June 30, 2015 CLA has used $47,553 of this money to cover its own shortfall.

- The yellow portion of the bar is the money that is restricted for specific purposes. If CLA would have liquidated as of June 30, 2015, they would not have been able to spend this money as intended or to have returned it to the donor or grantor because of the over expenditures in the unrestricted Fund Balance.



Unfortunately, the financial reporting at CLA has not been formatted to show this trend adequately to the general public. Going forward I would suggest a few changes:

- The monies that are restricted by donor or grantors should be separated from the unrestricted (or operating) monies. This is done through the use of Special Revenue Funds. The unrestricted monies would be shown in one column on the financial statements. The restricted (or earmarked) monies would be shown in separate column(s) on the financial statements. That would be much more transparent.

- The annual budget should include the unrestricted monies separate from the restricted monies. This would allow better compliance with the budget. If additional grant monies were received, the expenditure of these monies would not cause the unrestricted expenditures to be over budget.

- The CLA budget should provide a plan as soon as possible, certainly before you invest any more Town money, to turn their financial situation around. It might take a few years, but this should be clearly noted in a multi-year plan.

- Finally, I don't think you want to wait a full year before seeing the financial condition again. I would recommend that the accounting be changed to accommodate the segregation of restricted and unrestricted monies and that you receive monthly financial reports (balance sheet and income statement in a budget vs. actual format).

I hope you find this helpful in understanding the finances of CLA and how they got to where they are now. If you have any additional questions or concern, I would be pleased to meet with you at any time.

Sincerely,

Marcia L. Marien, CPA
Partner

CANDLEWOOD LAKE AUTHORITY
Summary of Audited Financial Statements

	General Fund	Special Revenue Funds	Total
Balance June 30, 2008	**185,147**	**85,724**	**270,871**
Revenues	427,074	23,431	450,505
Expenditures	(453,941)	(25,907)	(479,848)
Profit (Loss)	(26,867)	(2,476)	(29,343)
Balance June 30, 2009	**158,280**	**83,248**	**241,528**
Revenues	388,366	17,174	405,540
Expenditures	(439,511)	(14,808)	(454,319)
Profit (Loss)	(51,145)	2,366	(48,779)
Balance June 30, 2010	**107,135**	**85,614**	**192,749**
Revenues	421,106	17,264	438,370
Expenditures	(489,457)	(18,771)	(508,228)
Profit (Loss)	(68,351)	(1,507)	(69,858)
Balance June 30, 2011	**38,784**	**84,107**	**122,891**
Revenues	429,151	20,350	449,501
Expenditures	(467,935)	(29,942)	(497,877)
Profit (Loss)	(38,784)	(9,592)	(48,376)
Balance June 30, 2012	**-**	**74,515**	**74,515**
Revenues	398,541	19,250	417,791
Expenditures	(424,585)	(15,063)	(439,648)
Profit (Loss)	(26,044)	4,187	(21,857)
Balance June 30, 2013	**(26,044)**	**78,702**	**52,658**
Revenues	411,000	21,700	432,700
Expenditures	(434,422)	(24,374)	(458,796)
Profit (Loss)	(23,422)	(2,674)	(26,096)
Balance June 30, 2014	**(49,466)**	**76,028**	**26,562**
Revenues	455,204	62,945	518,149
Expenditures	(453,291)	(75,940)	(529,231)
Profit (Loss)	1,913	(12,995)	(11,082)
Balance June 30, 2015	**$ (47,553)**	**$ 63,033**	**$ 15,480**

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- NYSSCPA - New York State Society of Certified Public Accountants
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- **Ranked 30 of "2015's Top 100 Firms"**
  - Accounting Today, 2015
- **Ranked 33 of "2014's Top 100 Firms"**
  - INSIDE Public Accounting, 2014
- **Recognized as a "Leader in Audit and Accounting"**
  - Accounting Today, 2014
- **Recognized as a "Pacesetter in Growth"**
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- **Recognized as one of the "Top Firms in the Mid-Atlantic"**
  - Accounting Today, 2015
- **Recognized as one of the "Top Ten Fastest-Growing Firms"**
  - INSIDE Public Accounting, 2014
- **One of the 20 largest accounting firms in the New York Metropolitan area**
  - Crain's New York Business, 2014
- **One of the 20 largest accounting firms in the New York Metropolitan area**
  - Westchester and Fairfield County Business Journals

Contact Us

To explore how you will benefit from our guidance in meeting the demands of today's challenging financial environment, we invite you to contact us directly:

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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Experience

Marcia Marien has 33 years of experience, is an audit partner with the Firm and heads our Wethersfield office and our Connecticut government audit practice. Marcia specializes in government and not-for-profit auditing, accounting and advising. She serves on the firm's Accounting and Auditing Committee. She authors and presents numerous educational sessions for the clients, professional associations, colleges and the firm each year.

Current Professional and Civic Involvement

- **Auditing Standards Board ("ASB")** – Marcia is 1 of 19 individuals serving on the AICPA's Auditing Standards Board. The ASB is the senior committee for auditing, attestation, and quality control applicable to the performance and issuance of the audit and attestation report. It establishes Generally Accepted Auditing Standards ("GAAS") for all private companies, not-for-profits and governments in the United States.

- **State Board of Accountancy ("SBOA")** – Marcia was appointed by the governor to serve on the SBOA where they regulate the accounting profession in the State of Connecticut.

- **American Institute of Certified Public Accountants ("AICPA")** – Marcia just completed her second term on the AICPA Council serving as part of the leadership of the national 600,000 member professional organization for CPAs.

- **National Association of State Boards of Accountancy ("NASBA")** – Marcia is a member of this national organization that is responsible for overseeing the CPA exam and assisting and coordinating the rules and regulations for members of the State Boards of Accountancy.

- **Connecticut Society of Certified Public Accountants ("CTCPA")** – Marcia serves as the Governmental Accounting specialist for the CTCPA in their Connecticut Fiscal Crisis Initiative. She is also a long-time member and past chairman of the Government Accounting and Auditing Committee. Marcia previously served as the President of the CTCPA and in numerous other leadership roles and committees.

- **University of Connecticut ("UCONN") Accounting Advisory Council** – Marcia serves on the UCONN Accounting Advisory Council which provides feedback and guidance to the university's accounting program from 25 top level accounting professionals. Marcia was also honored as the UCONN 2014 "Accountant of the Year" for her support and volunteer activities with the University. Marcia received her accounting degree from UCONN, magna cum laude, in 1984.

Select Past Civic Involvement

- **Community Foundation of Eastern Connecticut ("CFECT")** – Marcia serves on the Board of Directors as well as on the Endowment Development, Norwich Grants Selection and Audit Committees.

- **City of Norwich Ethics Commission** – Marcia served as a member of the Ethics Committee for several years until she relocated to lead the Wethersfield office of O'Connor Davies.

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