

# Bottle Bay Recreational Water and Sewer District

Financial Statements  
NOVEMBER 30, 2023

# Bottle Bay Recreational Water and Sewer District

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Financial Section

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Bottle Bay Recreational Water and Sewer District  
Sagle, Idaho

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the accompanying financial statements of the business-type activities of Bottle Bay Recreational Water and Sewer District, as of and for the year ended November 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Bottle Bay Recreational Water and Sewer District, as of November 30, 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bottle Bay Recreational Water and Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2024, on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions, 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 the District's internal control over financial reporting and compliance.

*Scott P. Hoover, CPA*

Scott P. Hoover, CPA, PLLC  
Liberty Lake, WA

July 31, 2024

## Financial Section

### Basic Financial Statements

**Bottle Bay Recreational Water and Sewer District**

**STATEMENT OF NET POSITION**

**November 30, 2023**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 189,300
Restricted cash and cash equivalents - debt service	98,525
Customer accounts receivable	26,335
Property taxes receivable	32,538
Total current assets	<u>346,698</u>

Noncurrent assets:

Land	330,096
Capital asset, net	<u>2,740,587</u>
Total noncurrent assets	<u>3,070,683</u>

Total assets	<u>3,417,381</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	8,062
Accrued interest	4,618
Unearned revenue	48,623
Inspection deposits	15,000
Long-term debt, due within one year	<u>60,300</u>
Total current liabilities	<u>136,603</u>

Noncurrent liabilities:

Long-term debt, due after one year	<u>1,632,281</u>
Total noncurrent liabilities	<u>1,632,281</u>

Total liabilities	<u>1,768,884</u>
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**NET POSITION**

Net investment in capital assets	1,378,102
Restricted for debt service	98,525
Unrestricted	<u>171,870</u>
Total net position	<u>\$ 1,648,497</u>

The accompanying "Notes to Financial Statements"  
are an integral part of this statement.

**Bottle Bay Recreational Water and Sewer District**

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
For the Year Ended November 30, 2023**

**Operating revenues:**

Sewer service revenue	\$ 266,453
Total operating revenues	<u>266,453</u>

**Operating expenses:**

Administrative expenses	6,098
Contract services	82,175
Depreciation	102,670
Insurance	2,034
Legal and accounting	23,237
Hookup buy-back expenses	11,685
Repairs and maintenance	53,346
Utilities	3,933
Operating chemicals	5,424
Testing	4,975
Vehicle expense	3,075
Total operating expenses	<u>298,652</u>

Operating income (loss) (32,199)

**Nonoperating revenues (expenses):**

Property taxes	35,041
Interest income	10,936
Interest expense	<u>(32,212)</u>
Total nonoperating revenues (expenses)	<u>13,765</u>

Change in net position (18,434)

Net position - beginning of year 1,666,931

Net position - end of year \$ 1,648,497

The accompanying "Notes to Financial Statements"  
are an integral part of this statement.

**Bottle Bay Recreational Water and Sewer District**

**STATEMENT OF CASH FLOWS  
For the Year Ended November 30, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers	\$ 264,808
Payments to suppliers and contractors	(200,768)
Net cash provided by operating activities	<u>64,040</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Property taxes	36,299
Net cash provided by noncapital financing activities	<u>36,299</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Principal payments on long-term debt	(59,172)
Interest payments on long-term debt	(32,212)
Net cash used by capital and related financing activities	<u>(173,193)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on savings and investments	10,936
Net cash provided by investing activities	<u>10,936</u>

Net increase (decrease) in cash and cash equivalents	(61,918)
Cash and cash equivalents - beginning of year	<u>349,743</u>
Cash and cash equivalents - end of year	<u><u>\$ 287,825</u></u>

**Reconciliation of operating income (loss) to net cash provided by operating activities:**

Operating income (loss)	\$ (32,199)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	102,670
Decrease (increase) in trade accounts receivable	258
Decrease (increase) in prepaid expenses	2,077
Increase (decrease) in accounts payable	(6,863)
Increase (decrease) in inspection deposits	(2,000)
Increase (decrease) in deferred revenue	97
Total adjustments	<u>96,239</u>
Net cash provided by operating activities	<u><u>\$ 64,040</u></u>

The accompanying "Notes to Financial Statements" are an integral part of this statement.

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS

November 30, 2023

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Bottle Bay Recreational Water and Sewer District (the "District") was created for the purpose of constructing, installing, and operating a public wastewater treatment system to provide sewer service to the territory encompassed within the District's boundaries. The District operates under a board of directors form of government. The District's financial statements include all accounts of the District's operations. The District meets the criteria established by the Governmental Accounting Standards Board (GASB) to be considered a primary governmental entity for financial reporting purposes. Component units are legally separate organizations that are financially accountable to the primary government. The District has no component units, and is not a component unit of any other governmental unit based on the criteria established by the GASB.

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to special-purpose governments engaged only in business-type activities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described in the following notes.

#### B. Basis of Presentation and Accounting

Financial Statement Presentation – In June 1999 the GASB issued Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The financial statement presentation required by GASB 34 provides comprehensive, entity-wide perspective of the entity's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting – For financial statement purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the full-accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

#### C. Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. The District's net position is classified in the following three components:

*Net Investment in Capital Assets* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets, to the extent debt has been incurred but not yet expended for capital assets.

*Restricted Net Position* – This consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS

November 30, 2023

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### C. Net Position (Concluded)

*Unrestricted Net Position* – Unrestricted net position consists of amounts that do not meet the definition of “net investment in capital assets” or “restricted net position” as defined above. These resources are used for transactions related to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

#### D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly-liquid investments (including restricted cash and cash equivalents) with maturities of three months or less when purchased to be cash equivalents. The District considers its investment in the Idaho Local Government Investment Pool (“LGIP”) to be a cash equivalent because these funds are readily convertible to known amounts of cash at any time. Balances in checking accounts and the LGIP are stated at fair value.

#### E. Accounts Receivable

Accounts receivable consist of amounts due from customers for sewer service and amounts due from the County for property taxes receivable. Because delinquent sewer bills can be turned over to the County Treasurer for collection with property taxes, the District’s management has determined that an allowance for uncollectible accounts is not necessary.

#### F. Capital Assets

Capital assets, which include property, plant, and equipment, with an original cost of \$1,000 or more are capitalized at historical cost or estimated historical cost when historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Expenditures for routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred. Replacements that improve or extend the useful life of capital assets are capitalized.

Depreciation for capital assets is calculated using the straight-line method over the estimated useful lives of the underlying assets. The estimated useful lives are as follows:

Buildings and infrastructure	20 - 40 Years
Machinery and equipment	5 - 20 Years

#### G. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer services. Operating expenses for the district include the cost of sewer services, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS

November 30, 2023

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

#### H. Income Taxes

The District is a political subdivision of the State of Idaho and is therefore not subject to taxation of its earnings.

#### I. Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

#### J. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### NOTE 2: CASH AND CASH EQUIVALENTS

#### General:

State statutes authorize the District's investments and deposits. Per Idaho Code, the District is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations of the State of Idaho and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, bonds, debentures or notes of any corporation organized, controlled and operating within the U.S. which have at their purchase an "A" rating or higher, government pool and money market funds consisting of any of these securities listed. No violations of these categories have occurred during the year.

#### Custodial Credit Risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the District's deposits and investments may not be returned to it. The District does not have a deposit policy for custodial credit risk. The carrying amount of the District's deposits and investments is \$287,825 and the bank balance is \$289,191. At November 30, 2023, the District's deposits were exposed to custodial credit risk as follows:

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS November 30, 2023

### NOTE 2: CASH AND CASH EQUIVALENTS (Concluded)

#### Deposits without exposure to custodial credit risk:

Amounts insured by the FDIC	\$ 54,848
Total deposits without exposure to custodial credit risk	<u>54,848</u>

#### Deposits with exposure to custodial credit risk:

Amounts collateralized with securities held in trust, but not in the District's name	<u>234,343</u>
Total deposits with exposure to custodial credit risk	<u>234,343</u>
Total deposits	<u>\$ 289,191</u>

Cash and cash equivalents at November 30, 2023 are classified in the accompanying statement of net position as follows:

Cash and cash equivalents	\$ 189,300
Restricted cash and cash equivalents - debt service	<u>98,525</u>
Total	<u>287,825</u>

Cash and cash equivalents at November 30, 2023 consist of the following:

Deposits with financial institutions	53,482
Idaho State Investment Pool	<u>234,343</u>
Total	<u>\$ 287,825</u>

#### Credit Risk:

The Idaho State Investment Pool does not have an established credit rating, but invests in entities with a minimum credit rating of "A" as stipulated by Idaho Code. The District does not have a formal policy for credit risk. Financial information on the investment pool can be obtained by contacting the Idaho State Treasurer.

#### Fair Value:

The District's investments in 2a-7-like pools are valued based upon the value of pool shares. The District invests in one 2a-7-like pool, the Idaho State Investment Pool. The advisory board of the Idaho State Investment Pool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act. The State Investment Pool is duly chartered and administered by the State Treasurer's office and consists of US Treasury bills and notes, collateralized certificates of deposit and repurchase agreements.

The balances that the District has in the State Investment Pool are carried at cost which approximates their fair market value. The District's portion of the State Investment Pool had an unrealized gain of \$585 as of November 30, 2023. Since the difference between the fair market value and cost is immaterial, the unrealized gain has not been recorded.

The District considers funds held in the State Investment Pool to be cash equivalents, as the average maturity of the underlying securities is less than 90 days, and the District can liquidate the account at any time.

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS November 30, 2023

### NOTE 3: RECEIVABLES

Accounts receivable at November 30, 2023 consist of the following components:

Sewer fees receivable	\$ 26,335
Unearned property taxes (next fiscal year) receivable	31,857
Delinquent property taxes receivable	<u>681</u>
Total	<u><u>\$ 58,873</u></u>

Sewer accounts receivable represent amounts owed to the District from billings to customers for sewer services. In addition to the above sewer accounts receivable, customer payments for sewer service received in advance totaled \$16,766 at November 30, 2023, and are included in unearned revenues in the liability section of the accompanying statement of net position. Customer prepayments are removed from unearned revenue and applied to the customers' account during the period the sewer service revenues are earned by the District.

Unearned property taxes receivable consists of property taxes levied for collection in the next fiscal year. These amounts have been offset by unearned revenue in the financial statements.

Delinquent property taxes receivable consists of property taxes levied for the current and prior fiscal years which have yet to be collected.

### NOTE 4: CAPITAL ASSETS

The following schedule represents the detail of changes in capital asset balances for the fiscal year ending November 30, 2023:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 330,096	\$ -	\$ -	\$ 330,096
Total capital assets not being depreciated	<u>330,096</u>	<u>-</u>	<u>-</u>	<u>330,096</u>
Capital assets, being depreciated:				
Buildings and infrastructure	3,852,072	81,809	-	3,933,881
Machinery and equipment	<u>38,120</u>	<u>-</u>	<u>-</u>	<u>38,120</u>
Total capital assets being depreciated	<u>3,890,192</u>	<u>81,809</u>	<u>-</u>	<u>3,972,001</u>
Less accumulated depreciation for:				
Buildings and infrastructure	1,119,983	99,247	-	1,219,230
Machinery and equipment	<u>8,761</u>	<u>3,423</u>	<u>-</u>	<u>12,184</u>
Total accumulated depreciation	<u>1,128,744</u>	<u>102,670</u>	<u>-</u>	<u>1,231,414</u>
Capital assets, being depreciated, net	<u>2,761,448</u>	<u>(20,861)</u>	<u>-</u>	<u>2,740,587</u>
Business-type activities capital assets, net	<u><u>\$ 3,091,544</u></u>	<u><u>\$ (20,861)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,070,683</u></u>

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS

November 30, 2023

### NOTE 5: LONG-TERM DEBT

#### **Note Payable – White Living Trust:**

During 2013, the District entered into an operating lease agreement for the rental of undeveloped land, which the District intended to use for expansion of the land application and to upgrade the collection system. The lease terms required annual payments of \$18,000 for the first two years of the lease, with an option to purchase the land at any time during the term of the lease. In May 2015, the District issued at \$324,000, zero-interest note payable to the White Living Trust for the acquisition of the previously-leased land, which requires monthly payments of \$1,500 through July 2033.

The District recorded the land and note payable at their net present value, using an imputed interest rate of 3.0% per annum, which resulted in a discount on the note payable totaling \$73,885. During fiscal year ended November 30, 2023, amortization of the discount was \$4,743, which is included in interest expense in the accompanying financial statements.

#### **Note Payable – IDEQ:**

In December 2014, the District entered into a loan agreement with the Idaho Department of Environmental Quality (IDEQ) to finance the design and construction of an update and expansion of the wastewater treatment system. Under the terms of this agreement, the District was entitled to be reimbursed for qualifying expenditures, including the note payable to acquire the land, up to \$2.5 million. However, the District elected not to include the White Living Trust note payable to acquire the land. Upon completion of the project during 2020, the District issued a promissory note in the amount of \$1,709,658, payable to the IDEQ, including interest at 1.75% and maturing in January 2050.

Repayment of the note payable to IDEQ will be funded through a portion of monthly sewer service charges. In addition, prior to finalizing the promissory note with IDEQ, the District offered property owners the option to prepay their estimated share of the note principal, at \$5,570 per each equivalent residential unit (ERU) hookups, in exchange for a reduction of their monthly sewer service of \$20.

In addition, under the terms of this note, the District is required to establish and maintain a reserve fund equal to one year's payment of principal, fees, and interest. The District had up to ten years to establish this debt reserve fund and had to set aside 10% of one year's payment into the reserve fund each year until it was fully funded. This reserve requirement became effective upon completion of the project and issuance of the promissory note. The District has established and funded the entire reserve amount that is equal to more than one year's payment of principal, fees, and interest. This debt reserve fund is reflected in the accompanying statement of net position and is presented as "restricted cash and cash equivalents – debt service."

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS November 30, 2023

### NOTE 5: LONG-TERM DEBT (Continued)

A summary of the notes payable as of November 30, 2023 are as follows:

Note payable to White Living Trust, due in monthly installments of \$1,500, net of an imputed interest rate of 3.0%, maturing in July 2033.	\$ 150,879
Note payable to IDEQ, due in quarterly installments of \$18,346, including interest at 1.75% per annum, maturing in January 2050.	<u>1,541,702</u>
	1,692,581
Less: amounts due within one year	<u>(60,300)</u>
Amounts due after one year	<u><u>\$ 1,632,281</u></u>

The annual combined debt service requirements on the notes payable are as follows:

Year Ending November 30,	Principal	Interest	Total
2024	\$ 60,300	\$ 31,084	\$ 91,384
2025	61,610	29,774	91,384
2026	62,876	28,508	91,384
2027	64,167	27,217	91,384
2028	65,425	25,959	91,384
2029 - 2033	342,230	108,693	450,923
2034 - 2038	288,026	78,892	366,918
2039 - 2043	314,315	52,603	366,918
2044 - 2048	342,997	23,921	366,918
2049 - 2050	90,635	192	90,827
	<u>\$ 1,692,581</u>	<u>\$ 406,843</u>	<u>\$ 2,099,424</u>

A summary of changes in long-term obligations for the District for the fiscal year ended November 30, 2023 is as follows:

	Balance November 30, 2022	Additions	Repayments	Balance November 30, 2023	Due Within One Year
White Living Trust Note	\$ 164,136	\$ -	\$ (13,257)	\$ 150,879	\$ 13,660
IDEQ Note	1,587,617	-	(45,915)	1,541,702	46,640
Total	<u>\$ 1,751,753</u>	<u>\$ -</u>	<u>\$ (59,172)</u>	<u>\$ 1,692,581</u>	<u>\$ 60,300</u>

# Bottle Bay Recreational Water and Sewer District

## NOTES TO THE FINANCIAL STATEMENTS

November 30, 2023

### NOTE 6: CONTINGENCIES

#### Environmental Liabilities

The District is required to comply with the provisions of permits and regulations issued by the U.S. Environmental Protection Agency and the Idaho Department of Environmental Quality. If the District fails to meet the requirements of the permits and regulations, it could be subject to fines or other censures. If the District determines that it is probable that a liability has been incurred and the amount can be reasonably estimated, the District will record a liability in the statement of net position. At November 30, 2023, the District's management is of the opinion that no liability for environmental matters is necessary.

Financial Section

Report Required by the GAO



**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 Auditor's Report**

To the Board of Directors  
Bottle Bay Recreational Water and Sewer District  
Sagle, Idaho

We have audited, in accordance with the 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 business-type activities of Bottle Bay Recreational Water and Sewer District (the "District"), as of and for the year ended November 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 31, 2024.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Finding 2023-01 that we consider to be a significant deficiency.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

**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 (CONCLUDED)***

**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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Scott P. Hoover, CPA*

Scott P. Hoover, CPA, PLLC  
Liberty Lake, WA

July 31, 2024

**Bottle Bay Recreational Water and Sewer District  
Schedule of Findings and Responses  
Year Ended November 30, 2023**

**Finding 2023-01:**

*Lack of Segregation of Duties*

Criteria:

An accounting system that provides adequate internal controls would be designed so that no one individual is involved with a transaction from its beginning to its ending.

Condition:

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff (internal or outsourced) were large enough to provide optimum segregation of duties within the accounting function.

Effect:

This situation dictates that the Board remain involved in the financial affairs of the District to provide oversight and independent review functions.

Cause:

The District's small size does not allow for enough staff to adequately segregate all accounting functions.

Recommendation:

We recommend that the board remain aware of this deficiency and continue to be actively involved in the monitoring of the District's finances. The Board should continue to review internal budget vs. actual reporting, monthly bank statements and reconciliations, and cash disbursements on a timely and consistent basis throughout the year.

Views of Responsible Officials:

While the Board acknowledges the importance of segregation of duties, given the small size of the District, it is not feasible to increase the size of the office staff as the cost to do so outweighs the benefits. The Board has implemented approval and review internal controls over the financial aspects of the District including approval of expenditures and Board oversight and review of all banking transactions. The Board reviews bank statements and reconciliations, monitors budget vs. actual, monitors accounts receivable status of customers, and all expenditures previously approved by the Board are reviewed at the board meeting.