

BAYVIEW WATER AND SEWER DISTRICT

**AUDITED FINANCIAL STATEMENTS
& Additional Information**

Years Ended November 30, 2014 and 2013

Prepared By

ANDERSON BROS. CPA's, P.A.

Post Falls, ID

BAYVIEW WATER AND SEWER DISTRICT
Years Ended November 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bayview Water and Sewer District
Bayview, ID 83803

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bayview Water and Sewer District, as of and for the years ended November 30, 2014 and 2013, 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 of material misstatement.

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

Basis for Qualified Opinion on Major Enterprise Funds

The District has not presented their major enterprise funds as separate combining financial statements.

Qualified Opinion

In our opinion, except for the matter described in the “Basis for Qualified Opinion on Major Enterprise Funds” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise funds of Bayview Water and Sewer District as of November 30, 2014 and 2013 and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, other than the Major Enterprise Funds of Bayview Water and Sewer District as of November 30, 2014 and 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

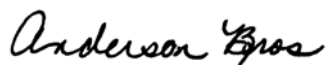
Other Matters

Required Supplementary Information

Management has omitted the Management’s Discussion & 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 basic 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 December 10, 2015, on our consideration of Bayview Water and Sewer 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 the 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 Bayview Water and Sewer District’s internal control over financial reporting and compliance.



Anderson Bros. CPA’s, P.A.

Post Falls, Idaho
December 10, 2015

**BAYVIEW WATER AND SEWER DISTRICT
STATEMENTS OF NET POSITION**

November 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash & cash equivalents	\$ 141,299	\$ 159,911
Employee advances	5,009	4,935
Interest receivable - special assessments	23,589	11,089
Accounts receivable	26,339	9,249
Tax roll receivable	22,699	20,121
Prepaid expenses	1,670	1,670
Current portion of special assessments	120,372	76,547
Total current assets	340,977	283,522
Restricted cash:		
LID bond debt service account	327,575	380,430
LID bond guarantee account	110,203	110,004
Total restricted cash	437,778	490,434
Property, plant and equipment:		
Land	214,808	214,808
Sewer system	3,805,861	3,793,679
Water system	2,552,178	2,552,178
Automotive	48,898	48,898
Office equipment	6,969	6,969
Office building	101,493	101,493
Total property, plant and equipment	6,730,207	6,718,025
Less: accumulated depreciation	(2,612,168)	(2,480,857)
Net property, plant and equipment	4,118,039	4,237,168
Other assets:		
Special assessments less current portion	563,756	651,804
Total assets	\$ 5,460,550	\$ 5,662,928
LIABILITIES		
Current liabilities:		
Accounts payable	5,031	12,753
Payroll liabilities	26,101	7,063
Total current liabilities	31,132	19,816
Current liabilities payable from restricted assets:		
Current portion of LID bonds payable	172,109	168,934
Accrued interest payable	17,341	19,047
Total current liabilities payable from restricted assets	189,450	187,981
Long-term liabilities:		
LID bonds payable, less current portion	634,810	716,569
Total liabilities	855,392	924,366
NET POSITION		
Net investment in capital assets	3,311,120	3,351,665
Restricted for debt service	1,121,906	1,218,785
Unrestricted	172,132	168,112
Total Net Position	4,605,158	4,738,562
Total liabilities and net position	\$ 5,460,550	\$ 5,662,928

See accompanying notes to financial statements and independent auditors' report.

BAYVIEW WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Years Ended November 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water revenues	\$ 127,489	\$ 130,113
Sewer revenues	168,014	168,269
Hook up and cap fees	2,697	4,632
Late charges and miscellaneous	4,684	2,635
Total operating revenues	<u>302,884</u>	<u>305,649</u>
OPERATING EXPENSES		
Auto expense	4,000	9,179
Bank and finance charges	25	33
Contracted services	3,635	4,729
Depreciation	131,311	132,858
Dues and subscriptions	179	92
Equipment rental	870	564
Fee assessments	2,170	1,945
Insurance - liability	5,085	5,294
Insurance - medical	18,836	23,528
Licenses and permits	609	512
Miscellaneous	3,143	2,575
Office expenses	5,858	12,395
Payroll expenses	156,026	146,035
Penalties and interest	6,068	-
Professional fees	4,340	13,577
Repairs and maintenance	43,076	41,892
Small tools and equipment	2,457	849
Telephone	4,528	5,957
Utilities	43,840	42,397
Workers' compensation	3,870	4,186
Total operating expenses	<u>439,926</u>	<u>448,597</u>
OPERATING (LOSS)	(137,042)	(142,948)
NON-OPERATING REVENUES (EXPENSES)		
Interest income - general	938	864
Interest income - special assessments	23,751	25,713
Interest expense	(21,051)	(21,085)
Amortization of bond issue costs	-	(15,134)
Total non operating revenues (expenses)	<u>3,638</u>	<u>(9,642)</u>
CHANGES IN NET POSITION	(133,404)	(152,590)
NET ASSETS, beginning of year	4,738,562	4,884,087
PRIOR PERIOD ADJUSTMENT	-	7,065
NET ASSETS, end of year	<u>\$ 4,605,158</u>	<u>\$ 4,738,562</u>

See accompanying notes to financial statements and independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS**

Years Ended November 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patrons	\$ 283,216	\$ 305,970
Cash paid to suppliers	(137,605)	(128,737)
Cash paid to employees	(159,768)	(169,141)
Net cash (used) provided by operating activities	(14,157)	8,092
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal debt payments - LID bonds	(78,584)	(78,418)
Interest payments - LID bonds	(22,757)	(22,922)
Proceeds from special assessments	44,223	111,279
Net cash (used) provided for capital and related financing activities	(57,118)	9,939
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	12,189	25,792
Purchase of property, plant and equipment	(12,182)	
Net cash provided by investing activities	7	25,792
NET CHANGE IN CASH	(71,268)	43,823
CASH, beginning of year	650,345	606,522
CASH, end of year	\$ 579,077	\$ 650,345
<u>Displayed in statement of net position as:</u>		
Cash & cash equivalents	\$ 141,299	\$ 159,911
LID bond debt service account	327,575	380,430
LID bond guarantee account	110,203	110,004
	\$ 579,077	\$ 650,345
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating (loss)	\$ (137,042)	\$ (142,948)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	131,311	132,858
(Increase) decrease in assets:		
Employee advances	(74)	(996)
Accounts receivable	(17,090)	(3,864)
Tax roll receivable	(2,578)	4,185
Prepaid expenses	-	357
Increase (decrease) in liabilities:		
Accounts payable	(7,722)	12,896
Payroll liabilities	19,038	5,604
Net Cash Provided by Operating Activities	\$ (14,157)	\$ 8,092

See accompanying notes to financial statements and independent auditors' report.

BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bayview Water and Sewer District (the “District”) was organized under and pursuant to the laws of the State of Idaho in January 1972, for the purpose of constructing and operating water and sewer systems for residents in Bayview, Idaho.

The District’s financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board’s (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- ✓ the organization is legally separate (can sue and be sued in their own name)
- ✓ the District holds the corporate powers of the organization
- ✓ the District appoints a voting majority of the organization’s board
- ✓ the District is able to impose its will on the organization
- ✓ the organization has the potential to impose a financial benefit/burden on the District
- ✓ there is fiscal dependency by the organization on the District

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Based on the aforementioned criteria, Bayview Water and Sewer District has no component units.

The District has oversight responsibility and control over all activities related to The District’s functions. The District is not included in any other governmental “reporting entity” as defined in GASB pronouncements, since the public elects the District Board members.

The accounting methods and procedures adopted by Bayview Water and Sewer 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 notes to the financial statements are an integral part of the District’s basic financial statements.

Basis of Presentation

The District’s basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No.20 Accounting and Financial Reporting for Proprietary Fund and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net assets, revenues, and expenses. Enterprise Funds account for activities: (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establishes fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

See accompanying independent auditors’ report.

BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (CONTINUED)

Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to the District is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position is segregated into net investment in capital assets, restricted and unrestricted components. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Bayview Water and Sewer District reports the following proprietary fund: Enterprise Fund. The only fund kept by the District is the Enterprise Fund that accounts for the District's activities concerning water and sewer fees and assessments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Water and sewer fees and hookup fees generate the principal operating revenues reported by the District. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities, such as gains and losses from CD redemptions.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. It also includes certificates of deposit with a maturity beyond three months as the entity is able to access the funds at any time with minimal penalty.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. There are no amounts considered uncollectible at November 30, 2014 and 2013.

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment, with an original cost of \$5,000 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 and repairs are expensed as incurred. Replacements that improve or extend the life of capital assets are capitalized.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense included for the years ended November 30, 2014 and 2013 was \$0 and \$0, respectively. Of these amounts, \$0 was included as part of the cost of capital assets under construction.

Upon disposal of capital assets, the historical cost or estimated historical cost is removed from the balance sheet and proceeds from any sales are generally recorded as proceeds from sale of assets.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Sewer System	5 – 50 years
Water System	5 – 50 years
Automotive	5 years
Office Equipment	5 – 8 years
Office Building and Improvements	20 years

Bond Discounts, Premiums and Issue Costs

Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of revenue bonds payable whereas premiums are presented as an addition to the face amount of revenue bonds. All discounts are fully amortized.

Bond issue costs which were previously being amortized have been written off in the year ended November 30, 2013 in accordance with GASB 65. The District chose to early implement this new standard.

Assessments Receivable

These consist of receivables from benefitted property owners of public improvements to the water and sewer systems. Installment payments of principle and interest due from property owners are billed annually.

See accompanying independent auditors' report.

BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (CONTINUED)

Compensated Absences

Bayview Water and Sewer District has the following policy relating to annual leave and sick leave:

ANNUAL LEAVE: After one (1) year of successful time experience, each full time employee shall accrue ten (10) days paid vacation which may be taken at any time with concurrence of the Chairman. After five (5) years employment, full time employees shall accrue fifteen (15) days of vacation per year.

The policy is silent as to how many days can carryover, if any, and if an employee is paid out upon leaving the employment of the District. Therefore, an accrual for compensated absences has not been made in the financial statements.

SICK LEAVE: Full time employees will accrue one (1) day of paid sick leave per month which may be accumulated up to forty five (45) days. Unused sick leave will be lost when an employee leaves the District's employment.

Net Position

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

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of "net investment in capital assets". Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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.

Unrestricted Net Position – This consists of net position that does not meet the definition of "restricted" or "investment in capital assets".

Sometimes the government 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, 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.

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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 2 – CASH AND CASH EQUIVALENTS

State statutes authorize the District's cash and investments. The Bayview Water and Sewer District is authorized to invest in demand deposits, savings accounts, U.S. Government obligations and its agencies, obligations 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 years November 30, 2014 or 2013.

Custodial credit risk:

Custodial credit risk is the risk that in the event of a failure of a financial institution, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

As of November 30, 2014 and 2013 the District's deposits were exposed to custodial credit risk as follows:

Fiscal Year Ending 11/30/14:

Deposits without exposure to custodial credit risk:

Amount insured by FDIC or other agencies	\$ 313,340
Total deposits without exposure to custodial credit risk	<u>313,340</u>

Deposits with exposure to custodial credit risk:

Amounts uninsured-exposed to custodial credit risk	269,140
Total bank balance (deposits)	<u><u>\$ 582,480</u></u>

The carrying amount is displayed as follows in the financial statements:

Statement of net position	
Cash and cash equivalents	\$ 141,299
LID bond debt service account-restricted	327,575
LID bond guarantee account-restricted	110,203
Total carrying amount	<u><u>\$ 579,077</u></u>

Cash and Cash equivalents at November 30, 2014 consist of the following:

Cash	
Deposits with financial institutions	59,931
Cash equivalents	
Money market funds and savings	519,146
	<u><u>\$ 579,077</u></u>

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

Fiscal Year Ending 11/30/13:

Deposits without exposure to custodial credit risk:

Amount insured by FDIC or other agencies	\$ 300,138
Total deposits without exposure to custodial credit risk	<u>300,138</u>

Deposits with exposure to custodial credit risk:

Amounts uninsured-exposed to custodial credit risk	358,918
Total bank balance (deposits)	<u><u>\$ 659,056</u></u>

The carrying amount is displayed as follows in the financial statements:

<i>Statement of net position</i>	
Cash and cash equivalents	\$ 159,911
LID bond debt service account-restricted	380,430
LID bond guarantee account-restricted	110,004
Total carrying amount	<u><u>\$ 650,345</u></u>

Cash and Cash equivalents at November 30, 2013 consist of the following:

<i>Cash</i>	
Deposits with financial institutions	\$ 41,427
<i>Cash equivalents</i>	
Money market funds and savings	608,918
	<u><u>\$ 650,345</u></u>

See accompanying independent auditors' report.

BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013

NOTE 3 – CAPITAL ASSETS

The following schedule represents the detail of changes in capital asset balances for the fiscal year ending November 30, 2014:

	Balance			Balance
	11.30.13	Increases	Decreases	11.30.14
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 214,808	\$ -	\$ -	\$ 214,808
Total capital assets, not being depreciated	214,808	-	-	214,808
Capital assets being depreciated:				
Sewer system	3,793,679	12,182	-	3,805,861
Water system	2,552,178	-	-	2,552,178
Automotive	48,898	-	-	48,898
Office equipment	6,969	-	-	6,969
Office building	101,493	-	-	101,493
Total capital assets being depreciated	6,503,217	12,182	-	6,515,399
Less accumulated depreciation for:				
Sewer system	1,628,016	75,795	-	1,703,811
Water system	746,172	50,584	-	796,756
Automotive	48,898	-	-	48,898
Office equipment	6,969	-	-	6,969
Office building	50,802	4,932	-	55,734
Total accumulated depreciation	2,480,857	131,311	-	2,612,168
Total capital assets being depreciated, net	4,022,360	(119,129)	-	3,903,231
Total governmental activities capital assets, net	\$ 4,237,168	\$ (119,129)	\$ -	\$ 4,118,039

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 3 – CAPITAL ASSETS (CONTINUED)

The following schedule represents the detail of changes in capital asset balances for the fiscal year ending November 30, 2013:

	Balance 11.30.12	Increases	Decreases	Balance 11.30.13
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 214,808	\$ -	\$ -	\$ 214,808
Total capital assets, not being depreciated	214,808	-	-	214,808
Capital assets being depreciated:				
Sewer system	3,793,679	-	-	3,793,679
Water system	2,552,178	-	-	2,552,178
Automotive	48,898	-	-	48,898
Office equipment	6,969	-	-	6,969
Office building	101,493	-	-	101,493
Total capital assets being depreciated	6,503,217	-	-	6,503,217
Less accumulated depreciation for:				
Sewer system	1,550,634	77,382	-	1,628,016
Water system	695,439	50,733	-	746,172
Automotive	48,898	-	-	48,898
Office equipment	6,969	-	-	6,969
Office building	46,059	4,743	-	50,802
Total accumulated depreciation	2,347,999	132,858	-	2,480,857
Total capital assets being depreciated, net	4,155,218	(132,858)	-	4,022,360
Total governmental activities capital assets, net	\$4,370,026	\$(132,858)	\$ -	\$4,237,168

Depreciation for the years ended November 30, 2014 and 2013 was \$131,311 and \$132,858, respectively.

NOTE 4 – LONG-TERM DEBT

The District issued \$514,580 of local improvement district (special assessment) bonds in 1992 to provide matching funds for the construction of a sewage treatment facility.

In November 1999, the District began receiving loan proceeds from the State of Idaho Department of Environmental Quality for the water system expansion. On November 1, 2003, the loan was converted into \$1,657,068 to local improvement district (special assessment) bonds.

The bonds carry an annual interest rate of 2.00%

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the years ended November 30, 2014 and 2013 were as follows:

	<u>11/30/2012 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>11/30/2013 Balance</u>	<u>Due Within One Year</u>
DEQ Loan	\$ 963,922	\$ -	\$ 78,418	\$ 885,504	\$ 168,934
	<u>11/30/2013 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>11/30/2014 Balance</u>	<u>Due Within One Year</u>
DEQ Loan	\$ 885,504	\$ -	\$ 78,585	\$ 806,919	\$ 172,109

The following is a schedule of maturities for the DEQ loan:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 172,109	\$ 30,573	\$ 202,682
2016	88,645	12,696	101,341
2017	90,418	10,923	101,341
2018	92,226	9,115	101,341
2019	94,070	7,271	101,341
2020-2022	269,451	10,372	279,823
	<u>\$ 806,919</u>	<u>\$ 80,950</u>	<u>\$ 887,869</u>

NOTE 5 – RISK MANGEMENT

The District may be liable for certain claims or damage of property, which may arise, in the ordinary course of operations.

Insurance is maintained through Idaho Counties Risk Management Program (ICRMP). ICRMP is an insurance pool, which serves most public entities in Idaho through provision of property, general liability, auto liability and physical damages, and public officials' insurance. ICRMP provides loss prevention training to enable its subscribers to minimize their exposure to loss through implementation of proper policies and procedures.

See accompanying independent auditors' report.

**BAYVIEW WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended November 30, 2014 and 2013**

NOTE 6 – PRIOR PERIOD ADJUSTMENT

Adjustments were made to the beginning net position balance as a result of errors discovered for the following accounts at November 30, 2012:

Cash	\$ (5,188)
Restricted cash	(55)
Accounts receivable	1,466
Interest receivable	6,234
LID receivable	(2,135)
Employee advances	3,939
Total adjustments to asset accounts	4,261
Accounts payable	233
Payroll liabilities	2,571
Total adjustments to liability accounts	2,804
Adjusted net position	\$ 7,065

The overall result was an increase to the ending net position of \$7,065 at November 30, 2012. This has been presented as a prior period adjustment on page 4 of the financial statements for the fiscal year ending November 30, 2013.

See accompanying independent auditors' report.



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**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Bayview Water and Sewer District
Bayview, ID 83803

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 Bayview Water and Sewer District as of and for the year ended November 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Bayview Water and Sewer District's basic financial statements, and have issued our report thereon, dated December 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bayview Water and Sewer 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bayview Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Bayview Water and Sewer 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

2015-1 – Time Records for Employees

Condition: Currently there are no records kept of employee's time for payroll processing.

Criteria: Payroll transactions should be supported by time records which are reviewed and approved by appropriate officials.

Cause of Condition: There are currently no policies and procedures relating to keeping records of time, nor the review or authorization of this time.

Potential Effect of Condition: Without a formal system to record time worked by employees, that is reviewed and approved by appropriate officials, the risk of abuse or fraud related to time worked is significantly increased.

Recommendation: We recommend that management implement a formal system to keep track of time worked for employees, which would include a review and approval process.

Client Response: The District will be exploring implementing a formal system to keep track of time worked for employees, which would include a review and approval process.

2015-2 – Compensated Absence Records

Condition: There are no records kept of employee(s) accrual of vacation and sick leave, nor of their use of these. Additionally, the current policy of the District does not specify if vacation leave will be paid upon an employee leaving the District. Additionally, the policy regarding vacation time does not specify if it will be paid out upon leaving the District.

Criteria: Formal records should be kept of the accrual and use of vacation and sick leave, which are approved by appropriate officials. Also, the policy relating to vacation time should specify if the accrued leave will be paid out upon an employee leaving the District.

Cause of Condition: There are currently no policies and procedures relating to the tracking of vacation and sick leave. Also, the vacation leave policy does not specify if it will be paid out upon an employee leaving the District.

Potential Effect of Condition: Without a formal system to track accrual of time and use of time for vacation and sick leave, that is reviewed and approved by appropriate officials, the risk of abuse or fraud related to this benefit is significantly increased. Without a policy that specifies if accrued vacation leave will be paid out upon an employee leaving the District, the District may have potential liability exposure.

Recommendation: We recommend that management implement a formal system to keep track of the accrual and use of vacation and sick leave and that their policy indicate if and how much accrued leave will be paid out upon an employee leaving the District.

Client Response: The District will be exploring implementing a formal system to keep track of the accrual and use of vacation and sick leave. Additionally, the District will clarify provisions of accrued leave, such as carryover and pay out provisions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bayview Water and Sewer 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2015-3 – Federal Form 941's

Condition: Federal Form 941's were not timely filed in 2013 and 2014.

Criteria: Federal Form 941's should be filed by the end of the month following each quarter in the calendar year.

Cause of Condition: When the District was required to begin depositing their payroll liabilities via the IRS electronic funds transfer payment system (eftps); they were under the impression that the filing of Federal Form 941's was no longer required.

Potential Effect of Condition: The IRS has assessed penalties and interest as a result of the late filing of the Federal Form 941's.

Recommendation: The District has already hired an independent CPA to assist with filing the required forms. The applicable forms have been filed. We recommend that the independent CPA assist the District in writing a letter to the IRS requesting abatement of the penalties.

Client Response: The District has completed the filing of the reports and will have a letter sent to the IRS requesting abatement of the penalties.

Bayview Water and Sewer District's Response to Findings

Bayview Water and Sewer District's response to the findings identified in our audit are described above. Bayview Water and Sewer District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This 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.



Anderson Bros. CPA's, P.A.
Post Falls, Idaho
December 10, 2015