

Bayview Water & Sewer District

Financial Statements
NOVEMBER 30, 2021

Bayview Water and Sewer District

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Financial Section

Independent Auditor's Report



INDEPENDENT AUDITOR'S 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 and each major fund of Bayview Water and Sewer District, as of and for the year ended November 30, 2021, 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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.

Opinion

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 Bayview Water and Sewer District, as of November 30, 2021, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Matters

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 1, 2022, on our consideration of the Bayview Water and Sewer 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 1, 2022

Financial Section

Basic Financial Statements

Bayview Water and Sewer District

STATEMENT OF NET POSITION

November 30, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 526,585	\$ 45,629	\$ 572,214
Interest receivable - special assessments	950	85	1,035
Accounts receivable	8,002	9,952	17,954
Tax roll receivable	11,140	8,955	20,095
Prepaid expenses	1,745	1,711	3,456
Current portion of special assessments	13,196	228	13,424
Total current assets	<u>561,618</u>	<u>66,560</u>	<u>628,178</u>
Capital assets:			
Land	6,250	208,558	214,808
Construction in progress	284,560	16,243	300,803
Sewer system	-	3,804,544	3,804,544
Water system	2,599,072	-	2,599,072
Automotive	-	12,930	12,930
Office equipment	3,485	3,485	6,970
Office building	50,747	50,747	101,494
Total capital assets, at cost	<u>2,944,114</u>	<u>4,096,507</u>	<u>7,040,621</u>
Less: Accumulated depreciation	<u>(1,208,675)</u>	<u>(2,285,842)</u>	<u>(3,494,517)</u>
Net capital assets	<u>1,735,439</u>	<u>1,810,665</u>	<u>3,546,104</u>
Other assets:			
Special assessments, net of current portion	<u>81,783</u>	<u>6,191</u>	<u>87,974</u>
Total assets	<u>\$ 2,378,840</u>	<u>\$ 1,883,416</u>	<u>\$ 4,262,256</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 110,784	\$ 10,417	\$ 121,201
Payroll liabilities	2,379	2,378	4,757
Unearned revenue	14,204	8,422	22,626
Total current liabilities	<u>127,367</u>	<u>21,217</u>	<u>148,584</u>
Current liabilities payable from restricted assets:			
Accrued interest payable	121	-	121
Total current liabilities payable from restricted assets	<u>121</u>	<u>-</u>	<u>121</u>
Non-current liabilities:			
IDEQ Loan payable	<u>128,526</u>	<u>-</u>	<u>128,526</u>
Total liabilities	<u>256,014</u>	<u>21,217</u>	<u>277,231</u>
NET POSITION			
Net investment in capital assets	1,606,913	1,810,665	3,417,578
Restricted for capital improvement	52,992	-	52,992
Unrestricted	462,921	51,534	514,455
Total net position	<u>\$ 2,122,826</u>	<u>\$ 1,862,199</u>	<u>\$ 3,985,025</u>
Total liabilities and net position	<u>\$ 2,378,840</u>	<u>\$ 1,883,416</u>	<u>\$ 4,262,256</u>

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

Bayview Water and Sewer District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended November 30, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Water	\$ 260,243	\$ -	\$ 260,243
Sewer	-	173,375	173,375
Late charges and miscellaneous	4,332	7,631	11,963
Total operating revenues	<u>264,575</u>	<u>181,006</u>	<u>445,581</u>
OPERATING EXPENSES:			
Auto expense	1,010	1,100	2,110
Bank and finance charges	137	97	234
Contracted services	38,258	52,910	91,168
Depreciation	56,966	81,044	138,010
Dues and subscriptions	1,804	1,803	3,607
Fee assessments	1,865	-	1,865
Insurance - liability	3,637	3,637	7,274
Insurance - medical	88	88	176
Miscellaneous	445	247	692
Office expenses	4,482	4,266	8,748
Payroll expenses	24,926	24,926	49,852
Professional fees	15,646	15,260	30,906
Repairs and maintenance	121,336	67,835	189,171
Telephone	2,390	2,390	4,780
Utilities	30,346	29,932	60,278
Total operating expenses	<u>303,336</u>	<u>285,535</u>	<u>588,871</u>
OPERATING INCOME (LOSS)	<u>(38,761)</u>	<u>(104,529)</u>	<u>(143,290)</u>
NON-OPERATING REVENUES/(EXPENSES):			
Hookup and cap fees	49,750	7,200	56,950
Interest income - general	320	50	370
Interest income - special assessments	3,275	-	3,275
Interest expense	(3,036)	-	(3,036)
Total non-operating revenues/(expenses)	<u>50,309</u>	<u>7,250</u>	<u>57,559</u>
CHANGE IN NET POSITION	11,548	(97,279)	(85,731)
NET POSITION, beginning of year	<u>2,111,278</u>	<u>1,959,478</u>	<u>4,070,756</u>
NET POSITION, end of year	<u>\$ 2,122,826</u>	<u>\$ 1,862,199</u>	<u>\$ 3,985,025</u>

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

Bayview Water and Sewer District

STATEMENT OF CASH FLOWS
For the Year Ended November 30, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 280,495	\$ 188,443	\$ 468,938
Cash paid to suppliers	(123,956)	(188,937)	(312,893)
Cash paid to employees	(24,408)	(24,409)	(48,817)
Net cash provided (used) by operating activities	<u>132,131</u>	<u>(24,903)</u>	<u>107,228</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	(256,984)	(5,310)	(262,294)
Principal debt payments - LID bonds	(164,922)	-	(164,922)
Interest payments - LID bonds	(3,190)	-	(3,190)
Proceeds from special assessments	53,379	6,051	59,430
Proceeds from IDEQ Loan Payable	128,526	-	128,526
Hook ups and cap fees	49,750	7,200	56,950
Net cash provided (used) by capital and related financing activities	<u>(193,441)</u>	<u>7,941</u>	<u>(185,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	4,615	50	4,665
Net cash provided by investing activities	<u>4,615</u>	<u>50</u>	<u>4,665</u>
Net increase (decrease) in cash	(56,695)	(16,912)	(73,607)
Cash, beginning of year	583,280	62,541	645,821
Cash, end of year	<u>\$ 526,585</u>	<u>\$ 45,629</u>	<u>\$ 572,214</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)	\$ (38,761)	\$ (104,529)	\$ (143,290)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	56,966	81,044	138,010
Accounts receivable	9,305	4,629	13,934
Tax roll receivable	443	115	558
Prepaid expenses	(341)	(307)	(648)
Accounts payable	97,829	(9,065)	88,764
Payroll liabilities	518	517	1,035
Unearned revenue	6,172	2,693	8,865
Total adjustments	<u>170,892</u>	<u>79,626</u>	<u>250,518</u>
Net cash provided (used) by operating activities	<u>\$ 132,131</u>	<u>\$ (24,903)</u>	<u>\$ 107,228</u>

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

Bayview Water and Sewer District

NOTES TO THE FINANCIAL STATEMENTS

November 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 the residents of Bayview, Idaho.

The District's financial statements include the accounts of all District operations.

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's 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 governmental entities 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 following notes to the financial statements are an integral part of the District's basic financial statements.

B. Basis of Presentation and Accounting

Financial Reporting - The District follows: (1) All GASB pronouncements, and (2) FASB statements and interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 20, 1989, as defined by GASB Statement No. 20.

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.

Bayview Water and Sewer District

NOTES TO THE FINANCIAL STATEMENTS

November 30, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Net Position (Concluded)

Unrestricted Net Position – Unrestricted net position represents resources from water and sewer fees charged. 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 Equivalents and Investments

The District considers all highly-liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents.

E. Receivables

Charges for usage are billed monthly for the previous month's usage. Accounts receivable consist of billings of fees that have not yet been collected. No allowance for uncollectible amounts has been estimated, as management believes all amounts to be collectible. The District has the authority to have delinquent customer accounts added to the Kootenai County tax rolls.

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

Sewer System	5 – 50 Years
Water System	5 – 50 Years
Automotive	5 Years
Office Equipment	5 – 8 Years
Office Building	5 – 20 Years

G. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of activities that have the characteristics of exchange transactions, such as water and sewer usage fees. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing-type activities and result from non-exchange transactions or ancillary activities, such as gains and losses from CD redemptions. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to the unrestricted net position.

Bayview Water and Sewer District

NOTES TO THE FINANCIAL STATEMENTS

November 30, 2021

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. Assessments Receivable

Assessments receivable are amounts due from benefitted property owners of public improvements to the water and sewer systems. Installments of principal and interest due from property owners are billed annually.

NOTE 2: CASH AND CASH EQUIVALENTS

General:

State statutes authorize the District's investments and deposits. The 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 fiscal year ended November 30, 2021.

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 is \$572,214 and the bank balance is \$583,200.

The District uses sweep accounts as well as FDIC insurance coverage to ensure that its deposits are not exposed to custodial credit risk. Accordingly, as of November 30, 2021, none of the District's deposits were exposed to custodial credit risk.

Bayview Water and Sewer District

NOTES TO THE FINANCIAL STATEMENTS November 30, 2021

NOTE 3: CAPITAL ASSETS

The following schedule represents the detail of changes in capital asset balances for the fiscal year ending November 30, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 214,808	\$ -	\$ -	\$ 214,808
Construction in progress	38,509	262,294	-	300,803
Total capital assets, not being depreciated	<u>253,317</u>	<u>262,294</u>	<u>-</u>	<u>515,611</u>
Capital assets, being depreciated:				
Sewer system	3,804,544	-	-	3,804,544
Water system	2,599,072	-	-	2,599,072
Automotive	12,930	-	-	12,930
Office equipment	6,970	-	-	6,970
Office building	101,494	-	-	101,494
Total capital assets being depreciated	<u>6,525,010</u>	<u>-</u>	<u>-</u>	<u>6,525,010</u>
Less accumulated depreciation for:				
Sewer system	2,145,720	78,578	-	2,224,298
Water system	1,105,561	54,500	-	1,160,061
Automotive	12,930	-	-	12,930
Office equipment	6,969	-	-	6,969
Office building	85,327	4,932	-	90,259
Total accumulated depreciation	<u>3,356,507</u>	<u>138,010</u>	<u>-</u>	<u>3,494,517</u>
Total capital assets, being depreciated, net	<u>3,168,503</u>	<u>(138,010)</u>	<u>-</u>	<u>3,030,493</u>
Business-type activities capital assets, net	<u>\$ 3,421,820</u>	<u>\$ 124,284</u>	<u>\$ -</u>	<u>\$ 3,546,104</u>

NOTE 4: LID BOND PAYABLE

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 (IDEQ) for the water system expansion. On November 1, 2003, the loan was converted into \$1,657,068 of local improvement district (special assessment) bonds. The bonds carry an annual interest rate of 2.0%. The bonds payable are backed by assessments receivable of the local improvement district and are not backed by the full faith and guarantee of the District. The District acts as an agent for the property owners by collecting assessments, forwarding collections to special assessment debt-holders, and if necessary, beginning foreclosures.

During the fiscal year ended November 30, 2021, the District prepaid the remaining outstanding obligation totaling \$164,922, satisfying the obligation in full.

Bayview Water and Sewer District

NOTES TO THE FINANCIAL STATEMENTS November 30, 2021

NOTE 5: 2020 WATER REVENUE BONDS

In May of 2020, a special election was held whereby eligible voters of the District approved the issuance of water revenue bonds in the aggregate principal amount not to exceed \$3,400,000, for the purpose of providing the funds for the acquisition, construction, and installation of certain improvements, additions and betterments of the District's water system.

In June 2020, the District signed and entered into the State of Idaho Department of Environmental Quality (IDEQ) Loan Offer and Acceptance Agreement. Under the loan agreement, the District finalized its terms for financing the water system improvement project. Per the agreement, the District may borrow up to \$3,317,000 at 1.75% (interest of 0.75% and loan fee of 1.0%) and \$97,830 of principal forgiveness to be repaid in biannual installments over 30 years for a total repayment obligation of \$3,219,170. The IDEQ loan will be evidenced and secured by the voter-approved water revenue bonds in the amount of \$3,219,170, which will be issued upon certified completion of the project.

During the fiscal year ended November 30, 2021, the District received \$132,432 in funding on the loan as it began incurring the initial planning and design costs of the project. IDEQ forgave \$3,906 in principal per the terms of the loan during fiscal 2021. Given that the project is in its initial stages and the final total amounts of loan funding are still pending, no future amortization or current portion of the loan is available to be disclosed.

NOTE 5: LONG-TERM DEBT

Long-term debt activity for the year ended November 30, 2021 is summarized as follows:

	Beginning Balance	Additions	Repayments	Principal Forgiven	Ending Balance	Due Within One Year
LID Bond Payable	\$ 164,922	\$ -	\$ (164,922)	\$ -	\$ -	\$ -
IDEQ Water Loan	-	132,432	-	(3,906)	128,526	-
	<u>\$ 164,922</u>	<u>\$ 132,432</u>	<u>\$ (164,922)</u>	<u>\$ (3,906)</u>	<u>\$ 128,526</u>	<u>\$ -</u>

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
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 (the "District"), as of and for the year ended November 30, 2021, 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 1, 2022.

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 my 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. 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 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 1, 2022