

**Bottle Bay Recreational  
Water and Sewer District**

*Financial Report*  
**November 30, 2021**

**Bottle Bay Recreational Water and Sewer District**  
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**November 30, 2021**

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## **Report of Independent Auditor**

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

### **Report on the Financial Statements**

We have audited the accompanying 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, 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 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 opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Bottle Bay Recreational 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 accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented management's discussion and analysis that governmental 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 GASB, which 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 a separate report dated August 22, 2022, on our consideration of the 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 the District's internal control over financial reporting and compliance.

*DeCoria, Blair & Teague, PS*

DeCoria, Blair & Teague, P.S.  
Spokane, Washington

August 22, 2022

## **Basic Financial Statements**

**Bottle Bay Recreational Water and Sewer District**  
**Statement of Net Position - Enterprise Fund**  
**November 30, 2021**

**ASSETS**

Current assets:

Cash and cash equivalents (Note 3)	\$ 86,387
Investments (Note 4)	160,398
Receivables (Note 5)	<u>62,509</u>
Total current assets	<u>309,294</u>

Restricted assets (Note 7):

Cash and cash equivalents (Note 3)	14,910
Investments (Note 4)	<u>80,864</u>
Total restricted assets	<u>95,774</u>

Noncurrent assets:

Capital assets, net (Note 6)	<u>3,191,459</u>
Total noncurrent assets	<u>3,191,459</u>
Total assets	<u>3,596,527</u>

**LIABILITIES**

Current liabilities:

Accounts payable	11,696
Accrued interest	4,618
Unearned revenue (Note 5)	46,526
Inspection deposits	19,000
Long-term debt, due within one year (Note 9)	<u>57,976</u>
Total current liabilities	<u>139,816</u>

Noncurrent liabilities:

Long-term debt, due after one year (Note 9)	<u>1,751,557</u>
Total noncurrent liabilities	<u>1,751,557</u>

Total liabilities 1,891,373

Commitments and contingencies (Notes 10 and 11)

**NET POSITION**

Net investment in capital assets	1,381,926
Restricted for debt service (Notes 4, 7 and 9)	95,774
Unrestricted	<u>227,454</u>
Total net position	<u>\$ 1,705,154</u>

**Bottle Bay Recreational Water and Sewer District**  
**Statement of Revenues, Expenses and Changes in Net Position - Enterprise Fund**  
**Year Ended November 30, 2021**

**Operating revenues:**

Sewer service revenue	\$ 246,126
Sewer hook-up revenue	6,804
Other income (Note 9)	4,620
	<hr/>
Total operating revenues	257,550
	<hr/>

**Operating expenses:**

Administrative expenses	10,542
Contract services	74,600
Depreciation	98,774
Insurance	3,012
Legal and accounting	16,385
Payroll and related expenses	1,560
Repairs and maintenance	40,329
Utilities	7,582
Miscellaneous (Note 11)	3,958
	<hr/>
Total operating expenses	256,742
	<hr/>
Operating income	808
	<hr/>

**Nonoperating revenues (expenses):**

Property taxes	33,098
Interest expense	(34,366)
Interest income	526
	<hr/>
Total nonoperating revenues (expenses), net	(742)
	<hr/>
Changes in net position	66
	<hr/>
Net position, beginning of year	1,705,088
	<hr/>
Net position, end of year	<u>\$ 1,705,154</u>
	<hr/>

**Bottle Bay Recreational Water and Sewer District  
Statement of Cash Flows - Enterprise Fund  
Year Ended November 30, 2021**

**Cash flows from operating activities:**

Receipts from customers	\$ 260,738
Payments to suppliers and contractors	(123,964)
Payments to and on behalf of employees	(1,560)
Other receipts and payments, net	<u>(23,305)</u>

Net cash provided by operating activities 111,909

**Cash flows from noncapital financing activities:**

Property taxes	<u>32,992</u>
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Net cash provided by noncapital financing activities 32,992

**Cash flows from capital and related financing activities:**

Principal payments on long-term debt	(56,892)
Interest payments on long-term debt	(34,492)
Additions to capital assets	<u>(39,088)</u>

Net cash used by capital and related financing activities (130,472)

**Cash flows from investing activities:**

Interest income	526
Change in investments, net	<u>(15,026)</u>

Net cash used by investing activities (14,500)

Net decrease in cash and cash equivalents (71)

Cash and cash equivalents, beginning of year 101,368

Cash and cash equivalents, end of year \$ 101,297

**Reconciliation of cash and cash equivalents to the Statement of Net Position:**

Cash and cash equivalents	\$ 86,387
Restricted cash and cash equivalents	<u>14,910</u>

Total cash and cash equivalents \$ 101,297

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

Operating income \$ 808

Adjustments to reconcile operating income to net cash provided by operating activities:

    Depreciation expense 98,774

    Changes in:

        Receivables (1,946)

        Accounts payable 4,519

        Unearned revenue (246)

        Inspection deposits 10,000

Net cash provided by operating activities \$ 111,909



**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements**  
**November 30, 2021**

**1. Organization**

The Bottle Bay Recreational Water and Sewer District (“the District”) was created for the purpose of constructing and installing a public sewage system to provide sewer service to the territory encompassed within the District and operates under a Board of Directors form of government. The District’s financial statements are prepared on the accrual basis of accounting, and conform to accounting principles generally accepted in the United States of America, as applicable to governmental units.

**2. Summary of Significant Accounting Policies**

Reporting Entity

The District’s financial statements include the accounts of all District 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.

Accounting Principles Generally Accepted in the United States of America

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles and standards. The District has adopted and applied all applicable GASB pronouncements, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Recent Accounting Pronouncements Adopted

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Statement No. 84 became effective for the District beginning in the fiscal year ending November 30, 2021. Implementation of this statement did not have a material impact on the District’s financial results.

Recent Accounting Pronouncements not yet Adopted

On May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was effective immediately. This statement postponed by one year the effective dates of provisions in most GASB Statements and Implementation Guides due to be implemented by state and local governments for fiscal year 2019 and later. The effective dates for the pronouncements described below have been adjusted for the impact of Statement No. 95.

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**2. Summary of Significant Accounting Policies, Continued**

Recent Accounting Pronouncements not yet Adopted, Continued

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments leasing activities. Statement No. 87 is effective for the District beginning in the fiscal year ending November 30, 2022. The District is currently evaluating the financial statement impact of adopting this statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 89 is effective for the District beginning in the fiscal year ending November 30, 2022. The District does not currently capitalize any interest costs, and management does not anticipate capitalizing any in the foreseeable future. As such, there will be no financial statement impact of adopting this statement.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**2. Summary of Significant Accounting Policies, Continued**

Recent Accounting Pronouncements not yet Adopted, Continued

The requirements of Statement No. 92 that are related to the effective date of Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The requirements related to the other topics covered in Statement No. 92 will be effective for the District beginning in the fiscal year ending November 30, 2022. The District is currently evaluating the financial statement impact of adopting this statement.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for Subscription-Based Information Technology Arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Statement No. 96 is effective for the District beginning in the fiscal year ending November 30, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

Basis of Presentation

To ensure observance of limitations and restrictions placed on the use of resources available to the District, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. The assets, liabilities and net position of the District are reported in one self-balancing fund. This fund is a proprietary fund and is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges. The District's Enterprise Fund consists of all operations required to provide sewer services within the District's service area.

Measurement Focus, Basis of Accounting

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized and recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements stipulated by the provider have been met and satisfied.

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**2. Summary of Significant Accounting Policies, Continued**

Cash and Cash Equivalents

The District considers all short-term deposits and highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Investments

The District invests in the State of Idaho Treasurer’s Local Government Investment Pool (LGIP). Investments are authorized by Board policy as permitted by Idaho Code, section 67-1210. Deposits in the LGIP are stated at fair market value, which approximates cost, and consist of local certificates of deposit, repurchase agreements and U.S. government securities.

Accounts Receivable

Receivables consist of amounts due from customers for sewer service and property taxes. 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 doubtful accounts is unnecessary.

Grants Receivable

Grants receivable, if any, consist of revenues earned by the District from various state or federal grants that had not been received by the District as of November 30, 2021.

Capital Assets

Capital assets are reported at historical cost, less accumulated depreciation. If historical cost is unknown, estimated historical cost is used. Donated capital assets are recorded at estimated fair market value at the date of donation, less accumulated depreciation. Major improvements and betterments are capitalized. The District uses a capitalization threshold of \$1,000. Expenditures for repairs and maintenance that do not improve or extend the useful lives of the related assets are charged to expense in the period incurred. When capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reported in the Statement of Revenues, Expenses and Changes in Net Position – Enterprise Fund.

Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of those assets, as follows:

	<u>Years</u>
Buildings and infrastructure	20 to 40
Machinery and equipment	5 to 20

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the District’s own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the District.

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**2. Summary of Significant Accounting Policies, Continued**

Fair Value Measurements, Continued

At November 30, 2021, the assets and liabilities of the District that were measured at fair value on a recurring basis are summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in the LGIP	\$ 241,262	\$ --	\$ --	\$ 241,262

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The District had no assets or liabilities measured at fair value on a nonrecurring basis during 2021.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sewer services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Grant Revenue

The District occasionally receives financial assistance from governmental agencies in the form of grants. Revenue is deemed earned and thus recognized when applicable program expenditures are recorded. Funds received, if any, but not earned at November 30, 2021 are recorded as unearned revenue.

Net Position

Net position represents the difference between assets plus deferred outflows, and liabilities plus deferred inflows. Net position consists of the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following components:

*Net investment in capital assets:* This component of net position 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.

*Restricted net position:* This component of net position consists of amounts subject to 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. The District had \$95,774 of net position restricted for debt service at November 30, 2021.

*Unrestricted net position:* This component of net position consists of amounts that do not meet the definition of "net investment in capital assets" or "restricted net position."

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**2. Summary of Significant Accounting Policies, Continued**

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, and an expenditure is incurred for purposes that may be both restricted and unrestricted, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

Budgetary Comparison Schedule

The budgetary comparison schedule is presented as required supplementary information to demonstrate whether resources were obtained and used in accordance with the District's legally adopted budget. The District may revise the original budget over the course of the year for various reasons. Under the reporting model prescribed by the GASB, budgetary information is provided, and includes comparisons of the District's originally adopted budget to the final budget and actual results.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements.

Subsequent Events

The District has evaluated subsequent events through August 22, 2022, the date as of which these financial statements were available to be issued. No material subsequent events have occurred since November 30, 2021 that required recognition or disclosure in these financial statements.

**3. Cash and Cash Equivalents**

Cash and cash equivalents, including restricted cash and cash equivalents, consist of deposits held in checking accounts with a local bank. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The combined carrying amount of cash and cash equivalents on the District's books at November 30, 2021 was \$101,297 and bank balances totaled \$101,442. The difference between the carrying amount of cash and cash equivalents on the District's books and the bank balances consisted of outstanding checks and deposits not processed by the bank as of November 30, 2021. All amounts deposited at the local bank were fully insured as of November 30, 2021.

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**3. Cash and Cash Equivalents, Continued**

The carrying amount of cash and cash equivalents on the District's books at November 30, 2021 consisted of and appears in the financial statements as summarized below:

Cash and cash equivalents	\$ 86,387
Restricted cash and cash equivalents (see Notes 7 and 9)	<u>14,910</u>
Total	<u>\$ 101,297</u>

**4. Investments**

The District's investments, including restricted investments totaling \$80,864 (see Notes 7 and 9), at November 30, 2021 are summarized as follows:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Idaho State Local Government Investment Pool	120 days (weighted average)	<u>\$ 241,262</u>

The District has not adopted a formal investment policy. Subsequent to November 30, 2021, the District formally adopted an investment policy. The new policy does not have any impact on investments as of and for the year ended November 30, 2021, and through the date as of which these financial statements were available to be issued. The District's investments are subject to the following types of risk:

*Interest Rate Risk:* The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates;

*Credit Risk:* State law limits investments to obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State of Idaho investment pools and funds. The District has no investment policy that would further limit its investment choices. At November 30, 2021, the District's investments in the Idaho State Local Government Investment Pool are not rated; and

*Concentration of Credit Risk:* The District places no limit on the amount the District may invest in any one issuer. All of the District's investments are in the Idaho State Local Government Investment Pool.

The Idaho State Local Government Investment Pool is overseen and managed by the State of Idaho Treasurer's Office.

**5. Receivables**

Receivables at November 30, 2021 are as follows:

Accounts receivable	\$ 29,211
Unearned property (next fiscal year) taxes receivable	32,595
Delinquent property taxes receivable	<u>703</u>
Total	<u>\$ 62,509</u>

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**5. Receivables, Continued**

Accounts receivable consist of amounts due from customers for sewer service, including approximately \$6,100 of past due amounts that have been turned over to the County Treasurer for collection through property tax liens. In addition, customer payments for sewer service received in advance, totaling \$13,931, are reported as unearned revenue in the Statement of Net Position – Enterprise Fund. Customer prepayments are removed from unearned revenue and applied to the customer’s account during the period the sewer service is earned by the District.

Unearned property taxes receivable consist 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 consist of property taxes levied for the current and prior fiscal years, which were not collected within the current period of the District’s fiscal year.

**6. Capital Assets**

Capital asset activity for the year ended November 30, 2021 is as follows:

	Balance November 30, <u>2020</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance November 30, <u>2021</u>
Buildings and infrastructure	\$ 3,831,247	\$ 20,825	\$ --	\$ --	\$ 3,852,072
Machinery and equipment	19,857	18,263	--	--	38,120
Accumulated depreciation	<u>(930,055)</u>	<u>(98,774)</u>	<u>--</u>	<u>--</u>	<u>(1,028,829)</u>
	2,921,049	(59,686)	--	--	2,861,363
Land	<u>330,096</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>330,096</u>
	<u>\$ 3,251,145</u>	<u>\$ (59,686)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,191,459</u>

Depreciation expense for 2021 was \$98,774.

**7. Restricted Assets**

Certain proceeds and resources are set aside and classified as restricted assets on the Statement of Net Position – Enterprise Fund because their use is limited by ordinance. The DEQ loan reserve account is used to report resources set aside to be used for the payment of principal and interest on the loan, which are included in restricted investments. Amounts received from monthly billings are also restricted for the future payment of principal and interest on the loan, which are included in restricted cash and cash equivalents (see Note 9).

**8. Short-Term Borrowings**

The District had no short-term borrowings at November 30, 2021, nor were there any short-term borrowings or repayments during the year then ended.



**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**9. 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 a \$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 2021, amortization of the discount was recognized in the amount of \$5,514, which is included in interest expense in the financial statements.

Note Payable – DEQ

In December 2014, the District entered into a loan agreement with the Idaho State Department of Environmental Quality (DEQ) to finance the design and construction of the upgrade 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 DEQ, including interest at 1.75% and maturing in January 2050.

Repayment of the note payable to DEQ will be funded through a portion of monthly sewer service charges. In addition, prior to finalizing the promissory note with DEQ, the District offered property owners the option to prepay their estimated share of the DEQ note principal, at \$5,750 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 a reserve fund equal to one year's payment of principal, fees and interest. The District has up to ten years to establish this reserve and must set aside 10% of one year's repayment into the reserve fund each year until it is 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, and is included in restricted investments (see Notes 4 and 7).

A summary of the notes payable are as follows:

Note payable to White Living Trust, due in monthly installments of \$1,500, net of an imputed interest at 3.00%, maturing in July 2033	\$ 177,003
Note payable to DEQ, due in quarterly installments of \$18,346, including interest at 1.75%, maturing in January 2050	<u>1,632,530</u>
	1,809,533
Less amounts due within one year	<u>(57,976)</u>
Amounts due after one year	<u>\$ 1,751,557</u>

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**9. Long-Term Debt, Continued**

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

<u>Year ending November 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 57,976	33,408	\$ 91,384
2023	59,161	32,223	91,384
2024	60,300	31,084	91,384
2025	61,610	29,774	91,384
2026	62,876	28,508	91,384
2027-2031	334,288	122,630	456,918
2032-2036	307,322	89,596	396,918
2037-2041	303,536	63,382	366,918
2042-2046	331,242	35,676	366,918
2047-2050	<u>231,222</u>	<u>7,145</u>	<u>238,367</u>
	<u>\$ 1,809,533</u>	<u>\$ 473,426</u>	<u>\$ 2,282,959</u>

A summary of changes in long-term obligations of the District for the year ended November 30, 2021 are as follows:

	<u>Long-Term Obligations November 30, 2020</u>	<u>Long-Term Obligations Incurred</u>	<u>Long-Term Obligations Paid</u>	<u>Long-Term Obligations November 30, 2021</u>	<u>Due Within One Year</u>
White Living Trust Note	\$ 189,489	\$ --	\$ (12,486)	\$ 177,003	\$ 12,866
DEQ Note	<u>1,676,936</u>	<u>--</u>	<u>(44,406)</u>	<u>1,632,530</u>	<u>45,110</u>
Total	<u>\$ 1,866,425</u>	<u>\$ --</u>	<u>\$ (56,892)</u>	<u>\$ 1,809,533</u>	<u>\$ 57,976</u>

**10. Retirement Plan**

The District does not participate in the Public Employee Retirement System of the State of Idaho nor does it provide any other type of retirement plan.

**11. Contingencies**

Risk Pool

The District participates in the Idaho Counties Risk Management Pool (ICRMP) to provide general liability and property insurance. The District, along with other participating entities, contributes annual amounts determined by ICRMP management. As claims arise, they are submitted to and paid by ICRMP. If necessary, ICRMP may assess members additional amounts to cover losses. No such additional assessments were made during 2021, or in any of the previous three years.

Litigation

The District is occasionally named as a defendant in lawsuits arising principally in the normal course of operations. The District's management is not aware of any pending litigation or claims against the District at November 30, 2021. Accordingly, the District has no reserve established for the payment of uninsured claims. Expenditures are recognized when amounts are paid.

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Financial Statements, Continued**  
**November 30, 2021**

**11. Contingencies, Continued**

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 – Enterprise Fund. At November 30, 2021, the District’s management is of the opinion that no liability for environmental matters is necessary.

Refunded Hook-up Fees

The District regularly receives revenues related to new hook-ups in the form of capacity-related receipts and new user facility fees (NUFF). Generally, these amounts are paid in advance by customers before the new hook-up is actually needed. Requests to refund unused hook-up fees are evaluated on a case-by-case basis by the Board of Directors. The District recognizes the expense of refunded hook-up fees in the year the request is made and the Board approves the refund. The District records these amounts as part of miscellaneous expenses in the Statement of Revenues, Expenses and Changes in Net Position – Enterprise Fund. The District recorded \$3,958 in refunds for the year ended November 30, 2021.

**Required Supplementary Information**

**Bottle Bay Recreational Water and Sewer District  
Budgetary Comparison Schedule - Enterprise Fund  
Year Ended November 30, 2021**

	<b>Budgeted Amounts</b>		<b>Actual Non-GAAP Basis</b>	<b>Variances</b>	
				<b>Positive/(Negative)</b>	
	<b>Original</b>	<b>Final</b>		<b>Original to Final</b>	<b>Final to Actual</b>
<b>Operating revenues:</b>					
Sewer service revenue	\$ 237,304	\$ 237,304	\$ 246,126	\$ -	\$ 8,822
Sewer hook-up revenue	-	-	6,804	-	6,804
Other income	-	-	4,620	-	4,620
Total operating revenues	237,304	237,304	257,550	-	20,246
<b>Operating expenses:</b>					
Administrative expenses	7,180	7,180	10,542	-	(3,362)
Contract services	76,300	76,300	74,600	-	1,700
Insurance	2,200	2,200	3,012	-	(812)
Legal and accounting	16,900	16,900	16,385	-	515
Payroll and related expenses	1,440	1,440	1,560	-	(120)
Repairs and maintenance	48,450	48,450	40,329	-	8,121
Utilities	9,750	9,750	7,582	-	2,168
Miscellaneous	11,000	11,000	3,958	-	7,042
Total operating expenses	173,220	173,220	157,968	-	15,252
Operating income	64,084	64,084	99,582	-	35,498
<b>Nonoperating revenues (expenses):</b>					
Property taxes	31,488	31,488	33,098	-	1,610
Debt service	(47,056)	(18,000)	(91,258)	(29,056)	(73,258)
Interest income	3,000	3,000	526	-	(2,474)
Total nonoperating revenues (expenses), net	(12,568)	16,488	(57,634)	(29,056)	(74,122)
Change in net position	51,516	80,572	41,948	(29,056)	(38,624)
<b>Reconciliation to GAAP basis:</b>					
Depreciation	-	-	(98,774)	-	(98,774)
Principal payments on debt	-	-	56,892	-	56,892
Net position, beginning of year	1,705,088	1,705,088	1,705,088	-	-
Net position, end of year	\$ 1,756,604	\$ 1,785,660	\$ 1,705,154	\$ (29,056)	\$ (80,506)

**Bottle Bay Recreational Water and Sewer District**  
**Notes to Budgetary Comparison Schedule – Enterprise Fund**  
**November 30, 2021**

**1. Basis of Presentation**

The budgetary comparison schedule has been prepared on the accrual basis of accounting, excluding debt service principal payments and depreciation expense.

**2. Expenditures in Excess of Budgeted Amounts**

As disclosed in Note 1 above, with the exception of debt service principal payments and depreciation expense, the budgetary comparison schedule has been prepared in conformance with the presentation used in the preparation of the Enterprise Fund financial statements. This presentation differs from the account groupings required by Idaho Statutes for Board of Directors' budgetary control at the functional level. As a result, the budgetary comparison schedule for the Enterprise Fund at page 17 discloses four instances in which actual expenditures exceeded budgeted expenditures. In fact, there were no instances in which Enterprise Fund expenditures exceeded budgeted expenditures at the functional levels required by Idaho Statutes.

## **Compliance 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***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Bottle Bay Recreational 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 August 22, 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 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 have not been identified. 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 in the accompanying Schedule of Findings and Responses as Findings 2021-001 and 2021-002 that we consider to be significant deficiencies.

**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*.



### **District's Response to the Findings**

The District's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The sole purpose of this report is 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.

*DeCoria, Blair & Teague, PS*

DeCoria, Blair & Teague, P.S.  
Spokane, Washington

August 22, 2022

**Bottle Bay Recreational Water and Sewer District  
Schedule of Findings and Responses  
Year Ended November 30, 2021**

**Section I – Summary of Auditor’s Results**

*Financial Statements*

The report of independent auditor expressed an unmodified opinion on the basic financial statements of the District.

The audit of the financial statements of the District disclosed two significant deficiencies in internal control over financial reporting.

The audit of the District’s financial statements disclosed no material weaknesses in internal control over financial reporting.

The audit disclosed no compliance findings material to the financial statements of the District.

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Finding Error! No document variable supplied.-001**

Condition	The overall size and experience of the District’s staff makes it difficult to allow for a complete segregation of duties for an effective system of internal control over financial reporting. The District’s management continues to implement various procedures to improve segregation of duties related to most of the day-to-day operations. However, the District has a limited number of individuals with sufficient understanding of the accounting principles necessary to provide adequate oversight and review of the various financial reporting requirements in accordance with accounting principles generally accepted in the United States of America.
Criteria	An effective system of internal control over financial reporting requires that closely related duties be segregated, including duties outside of the day-to-day operations. These additional functions specifically relate to the various reporting requirements in accordance with accounting principles generally accepted in the United States of America; general journal entries; nonroutine or unusual transactions; recording of net position classifications; and the accrual basis of accounting for financial reporting purposes. In addition, an effective system of internal control over financial reporting requires adequate oversight and review procedures.
Effect	The concentration of closely related duties and responsibilities by a small staff makes it difficult to establish a complete system of automatic internal checks on the accuracy and reliability of the accounting records. In addition, transactions outside of the day-today operations generally contain a higher degree of complexity and, therefore, result in a greater risk that a material misstatement related to these transactions would not be detected and corrected on a timely basis.

**Bottle Bay Recreational Water and Sewer District  
Schedule of Findings and Responses, Continued  
Year Ended November 30, 2021**

**Finding Error! No document variable supplied.-001, Continued**

Cause	The District's staff is too small to allow a complete segregation of duties, and adequate oversight and review of the various financial reporting requirements.
Recommendation	Although the District's staff is not large enough to permit a complete segregation of duties for an effective system of internal control over financial reporting, primarily related to duties outside of the day-to-day operations, we recommend that officials be aware that the condition does exist. In addition, we recommend that month-end, quarter-end and year-end closing procedures, as applicable, continue to be evaluated for potential opportunities to improve segregation of duties, as well as oversight and review procedures. Finally, the District may consider consulting with external sources who have sufficient knowledge and experience related to the various financial reporting requirements specific to governmental entities, for unusual or overly complex accounting issues, as deemed necessary, or to assist in oversight and review procedures of more complex and unusual accounting matters.
Management's Response	Management and the District's Board of Directors are aware of this condition and believe that the District has minimized the risk to the degree possible, given the size of the District, the limited number of office staff, and associated costs or other considerations. In order to mitigate the risk of fraud or errors in financial reporting, the Board of Directors reviews the financial statements for unusual fluctuations and significant variances from budget at each meeting. In addition, copies of all invoices and disbursements are provided to the Board of Directors for review and comment at each meeting. Members of the Board of Directors have access to the bank account to review the images of cashed checks to ensure they were appropriately approved.

**Bottle Bay Recreational Water and Sewer District  
Schedule of Findings and Responses, Continued  
Year Ended November 30, 2021**

**Finding 2021-002**

Condition	Due in part to the District's size and limited resources, while improvement has occurred, year-end closing procedures are not fully formalized and documented for certain accounts.
Criteria	An effective system of internal control over financial reporting includes reconciling each general ledger account, and adjusting the recorded balances if necessary, including balances reported in the basic financial statements on the accrual basis of accounting.
Effect	In connection with performing our audit testing, we proposed several audit adjustments to correct account balances. Clarified Statement on Auditing Standards Section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (AU-C 265), indicates that identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control over financial reporting should at least be regarded as a significant deficiency and should be considered as a strong indicator of a material weakness in internal control over financial reporting.
Cause	The District does not have fully formalized, documented procedures for reviewing and reconciling all balances included in the basic financial statements. One such example is the timely and accurate recording of capital asset activity, depreciation and maintenance of related records.
Recommendation	We recommend that year-end closing procedures continue to be further developed, documented and implemented for each general ledger account, and that training over the required procedures be provided to District personnel. By documenting the procedures and providing training to personnel, especially in relation to transactions that occur less frequently or are outside of the general nature of operations, the need for audit adjustments should be reduced or eliminated altogether.
Management's Response	The District will continue to develop and implement documented procedures for reconciling and adjusting account balances for each general ledger account, and training will be made available on an as-needed basis, in an effort to eliminate audit adjustments.

**Bottle Bay Recreational Water and Sewer District  
Status of Prior Year Finding  
Year Ended November 30, 2021**

**Finding 2020-001**

Condition      The size of the District's staff is not large enough to permit an adequate segregation of duties for an effective system of internal control over financial reporting.

Status            This condition continues to exist at November 30, 2021. See Finding 2021-001.

**Finding 2020-002**

Condition      Due in part to the District's size and limited resources, year-end closing procedures are not fully formalized and documented for certain accounts.

Status            While improvement has occurred, this condition continues to exist at November 30, 2021. See Finding 2021-002.