

Wellington Community Housing

Managed by HOUSING CATALYST

Financial Statements
December 31, 2022

Wellington Community Housing

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Independent Auditor's Report

To the Board of Commissioners
Wellington Community Housing
Wellington, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Wellington Community Housing as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Wellington Community Housing as of and for the year ended December 31, 2022, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Wellington Community Housing and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Wellington Community Housing's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wellington Community Housing's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2023 on our consideration of Wellington Community Housing’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 solely 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 effectiveness of Wellington Community Housing’s 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 Wellington Community Housing’s internal control over financial reporting and compliance.



Fargo, North Dakota
November 20, 2023

Wellington Community Housing

Management's Discussion and Analysis

December 31, 2022

As management of the Wellington Community Housing ("WCH"), we offer readers of WCH's financial statements this narrative overview and analysis of the financial activities of the WCH for the fiscal year ended December 31, 2022. We encourage readers to consider the information presented here in conjunction with WCH's basic financial statements, which begin on page 8.

Financial Highlights

- The assets of WCH exceeded its liabilities at the close of the most recent fiscal year by \$596,632.
- As of the close of the current fiscal year, WCH had an unrestricted net position of \$161,754, an increase of \$112,670 over the prior year end balance of \$49,084.
- WCH's cash balances, including restricted cash, at December 31, 2022 totaled \$173,302, representing an increase of \$114,851 from December 31, 2021.
- WCH had net rental income of \$688,372 for the year and incurred expenses of \$222,630 for maintenance and operations, \$219,434 in administrative expenses, \$98,016 for utilities and \$39,842 for insurance and other costs.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to WCH's basic financial statements. WCH's basic financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. As WCH did not expend over \$750,000 in federal assistance, the supplementary information does not contain the schedule of expenditures of federal awards.

Financial Statements

The financial statements are designed to provide readers with a broad overview of WCH's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of WCH's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of WCH is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how WCH's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future periods (e.g., depreciation and earned personal leave).

Wellington Community Housing

Management's Discussion and Analysis

December 31, 2022

The Statement of Cash Flows presents information showing WCH's inflows and outflows of cash and cash equivalents during the most recent fiscal year. All changes in cash and cash equivalents are reported as soon as the underlying receipt is received or disbursement occurs. Thus, cash flows are reported in this statement for some items that will only result in revenue or expenses in past or future periods (e.g., purchase of assets, new loans, or payments on loans).

The financial statements report on the function of WCH that is principally supported by intergovernmental revenues. WCH's function is to provide decent, safe, and sanitary housing to low income and special needs populations, which is funded primarily with rental revenues received from tenants.

Financial Analysis

The following table shows a summary of changes from prior year's amounts.

Wellington Community Housing Net Position as of December 31, (in thousands of dollars)

	<u>2022</u>	<u>2021</u>
Cash & Escrow Deposits	\$ 173	\$ 58
Tenant Receivables	14	14
Other Receivables	4	-
Prepaid Expenses	2	16
Capital Assets (Net)	<u>435</u>	<u>473</u>
Total Assets	<u>\$ 628</u>	<u>\$ 561</u>
A/P & Accrued Liabilities	\$ 13	\$ 12
Security Deposits/Escrow	14	12
Due to Other Governments	2	10
Unearned Revenue	3	5
Total Liabilities	<u>32</u>	<u>39</u>
Investment in Capital Assets	435	473
Unrestricted Net Position	<u>161</u>	<u>49</u>
Total Net Position	<u>596</u>	<u>522</u>
Total Liabilities & Net Position	<u>\$ 628</u>	<u>\$ 561</u>

Wellington Community Housing

Management's Discussion and Analysis
December 31, 2022

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of WCH, assets exceeded liabilities by \$596,632 at the close of the most recent fiscal year.

The largest portion of WCH's net position (73%) reflects its investment in capital assets (e.g., buildings, machinery, and equipment, less accumulated depreciation). WCH uses these capital assets to provide housing and services to low-income tenants; consequently, these assets are not available for future spending. The unrestricted net position of \$161,754 for WCH is available for future use to provide program services.

The unrestricted net position of WCH increased by \$112,670 during the current fiscal year. WCH's revenues are largely rental payments from tenants and rental subsidy payments.

A condensed Statement of Changes in Net Position is shown in the table below.

Wellington Community Housing Change in Net Position for the Year Ended December 31, (in thousands of dollars)

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Rental Income	\$ 688	\$ 208
Other Income	23	2
Total Operating Revenue	<u>711</u>	<u>210</u>
Operating Expenses		
Maintenance and Operations	223	65
Administrative	219	54
Depreciation	57	24
Utilities	98	32
Insurance and Other	40	9
Total Operating Expenses	<u>637</u>	<u>184</u>
Change in Net Position	74	26
Contribution of Capital Assets	-	496
Net Position - Beginning of Year	<u>522</u>	-
Net Position - End of Year	<u><u>\$ 596</u></u>	<u><u>\$ 522</u></u>

Wellington Community Housing

Management's Discussion and Analysis

December 31, 2022

- Rental income increased by \$480,584 (231%) and other revenues increased by \$20,608 (979%) as compared to the prior year as the year ended December 31, 2022 was the first full year of operations.
- Operating expenses increased by \$452,075 (245%) as compared to the prior year as the year ended December 31, 2022 was the first full year of operations.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2022, WCH's investment in capital assets was \$434,878 (net of accumulated depreciation and capital loans), which represents a decrease of \$38,130. This investment in capital assets includes land, buildings, improvements, equipment, and computer software.

During the year ended December 31, 2022, WCH replaced flooring and hot water heaters in several units at a cost of \$18,630. Additional information can be found in Note 4 of this report.

Long-Term Debt

As of December 31, 2022, WCH has no long-term debt.

Economic Factors and Next Year's Budget

The following factors were used in preparing WCH's budget for the 2023 fiscal year:

- WCH has contracted with Housing Catalyst to provide administrative and maintenance services.

Contact Information

This financial report is designed to provide the reader with a general overview of WCH's finances and to demonstrate WCH's financial accountability over its resources. Questions concerning any of the information provided in this report or requests for financial information should be addressed to:

Tonya Frammolino, Chief Financial Officer
1715 West Mountain Avenue
Fort Collins, Colorado 80521

Wellington Community Housing

Statement of Net Position

December 31, 2022

Assets

Current Assets

Cash and cash equivalents	\$	159,507
Accounts receivable - tenants		13,459
Prepaid expenses		2,317
Due from other government		4,340

Total Current Assets 179,623

Restricted Cash 13,795

Capital Assets

Non-depreciable		144,669
Depreciable, net		290,209

Total Capital Assets, Net 434,878

Total Assets \$ 628,296

Liabilities and Net Position

Current Liabilities

Accounts payable	\$	12,928
Unearned revenues		3,314
Due to other government		1,627

Total Current Liabilities 17,869

Long-Term Liabilities

Tenant security deposits payable		13,795
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Total Long-Term Liabilities 13,795

Total Liabilities 31,664

Net Position

Net investment in capital assets		434,878
Unrestricted net position		161,754

Total Net Position 596,632

Total Liabilities and Net Position \$ 628,296

Wellington Community Housing
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022

Operating Revenues		
Rental income, net	\$	688,372
Other		<u>22,714</u>
Total Operating Revenues		<u>711,086</u>
Operating Expenses		
Ordinary maintenance		222,630
Administrative		219,434
Depreciation		56,760
Utilities		98,016
Insurance		27,307
Other		<u>12,535</u>
Total Operating Expenses		<u>636,682</u>
Operating Income (Loss)		<u>74,404</u>
Non-Operating Revenues (Expenses)		
Interest income		<u>136</u>
Total Non-Operating Revenues (Expenses)		<u>136</u>
Change in Net Position		74,540
Net Position, Beginning of the Year		<u>522,092</u>
Net Position, End of the Year	\$	<u><u>596,632</u></u>

Wellington Community Housing

Statement of Cash Flows
Year Ended December 31, 2022

Operating Activities	
Receipts from tenants	\$ 710,930
Payments to suppliers	<u>(577,585)</u>
Net Cash from Operating Activities	<u>133,345</u>
Capital and Related Financing Activities	
Acquisition of capital assets	<u>(18,630)</u>
Net Cash used for Capital and Related Financing Activities	<u>(18,630)</u>
Investing Activities	
Interest income	<u>136</u>
Net Cash from Investing Activities	<u>136</u>
Net Change in Cash and Cash Equivalents and Restricted Cash	114,851
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>58,451</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u><u>\$ 173,302</u></u>

Wellington Community Housing

Statement of Cash Flows
Year Ended December 31, 2022

Reconciliation of Total Cash and Cash Equivalents	
Cash and Cash Equivalents	\$ 159,507
Restricted Cash	<u>13,795</u>
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 173,302</u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating income	\$ 74,404
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation	56,760
Changes in assets and liabilities	
(Increase) decrease in assets:	
Receivables	(3,883)
Prepaid expenses	13,630
Increase (decrease) in liabilities:	
Accounts payable	2,411
Tenant security deposits payable	1,384
Due to other government	(8,180)
Accrued liabilities	(1,184)
Unearned revenue	<u>(1,997)</u>
Net Cash from Operating Activities	<u>\$ 133,345</u>

Note 1 - Principal Business Activity and Significant Accounting Policies

General

Wellington Community Housing ("WCH") is a governmental not-for-profit organization created in 2019 to provide affordable housing for the elderly and low-income families of Wellington, Colorado. Substantially all of the revenue of WCH is currently derived from rental operations. In total, WCH owns and manages 42 residential units and a clubhouse. All assets were acquired from the Wellington Housing Authority in 2021.

WCH is governed by a six-member Board of Commissioners.

WCH prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as they relate to governmental entities.

Reporting Entity

WCH's financial statements include the accounts of all WCH operations. The criteria for including organizations as component units within the WCH 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 separated (can sue and be sued in their own name)
- WCH holds the corporate powers of the organization
- WCH appoints a voting majority of the organization's board
- WCH is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on WCH
- There is fiscal dependency by the organization on WCH

Based on the aforementioned criteria, WCH has no component units and is included as a blended component unit of the City of Wellington.

Basis of Accounting and Measurement Focus

WCH accounts for its operations in one fund type, the enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred. All assets, deferred outflows, liabilities and deferred inflows associated with the operations of WCH are included on the statement of net position.

Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with an original maturity of three months or less and money market savings.

Accounts Receivable

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Capital Assets

Land, buildings and improvements, and equipment are recorded at cost, including indirect development costs. WCH uses a capitalization threshold of \$5,000. Donated fixed assets are valued at their acquisition value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Depreciation is computed using the straight line method as follows:

Buildings and Land Improvements	15 - 30 years
Equipment	5 - 10 years

WCH reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses recognized during 2022.

Components of Net Position

Components of net position include the following:

- Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.
- Unrestricted Net Position – Consists of net position less related liabilities reported in the basic statements of net position that are not subject to restraints on their use.

Operating Revenues and Expenses

WCH considers all revenues and expenses as operating items with the exception of interest expense, interest revenue and gain/loss on disposal of capital assets which are considered non-operating for financial reporting purposes.

Unearned Revenues

Unearned revenue represents prepaid rent.

Accounting 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, liabilities, revenues and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Deposits

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, WCH's deposits may not be returned to it. As of December 31, 2022, WCH's deposits were not exposed to custodial credit risk, as all deposits were insured by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with PDPA.

At December 31, 2022, WCH's carrying amount of deposits was \$173,302 and the bank balance was \$173,302. As of December 31, 2022, the full amount of the bank balance was covered by Federal Depository Insurance.

Note 3 - Restricted Cash

Restricted cash consist of cash which is restricted for tenant security deposits. At December 31, 2022, \$13,795 of cash was restricted.

Wellington Community Housing

Notes to Financial Statements

December 31, 2022

Note 4 - Capital Assets, Net

The following is a summary of changes in capital assets for the year ended December 31, 2022:

	Balance 01/01/22	Additions	Deletions	Balance 12/31/22
Non-Depreciable				
Land	\$ 144,669	\$ -	\$ -	\$ 144,669
Depreciable				
Building and land improvements	2,187,306	-	-	2,187,306
Furniture and equipment	59,437	18,630	-	78,067
Total Depreciable Assets	2,246,743	18,630	-	2,265,373
Accumulated Depreciation				
Building and land improvements	(1,886,496)	(49,310)	-	(1,935,806)
Furniture and equipment	(31,908)	(7,450)	-	(39,358)
Total Accumulated Depreciation	(1,918,404)	(56,760)	-	(1,975,164)
Net Depreciable Capital Assets	328,339	(38,130)	-	290,209
Total	\$ 473,008	\$ (38,130)	\$ -	\$ 434,878

Note 5 - Management Contract

WCH has a management contract with Housing Catalyst. The agreement requires Housing Catalyst to provide for the operations of WCH's project. WCH pays a management fee and an accounting fee plus all direct costs to Housing Catalyst. During 2022, WCH incurred and paid Housing Catalyst \$90,248 and \$50,782, respectively, for management and accounting fees. As of December 31, 2022, WCH owed Housing Catalyst \$951 for unpaid management fees.

During 2022, WCH incurred and paid Housing Catalyst \$109,138 for all other direct costs related to maintenance and operating expenses. As of December 31, 2022, WCH owed Housing Catalyst \$3,413 for these costs.

Note 6 - Risk Management

WCH is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. WCH carries commercial insurance for the risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage are adjusted annually for new values.



**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 Commissioners
Wellington Community Housing
Wellington, Colorado

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 Wellington Community Housing, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Wellington Community Housing’s basic financial statements and have issued our report thereon dated November 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wellington Community Housing's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wellington Community Housing’s internal control. Accordingly, we do not express an opinion on the effectiveness of Wellington Community Housing’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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wellington Community Housing'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 financial statements. 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*.

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.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Fargo, North Dakota
November 20, 2023