Financial Statements
December 31, 2016 and 2015

# Richmond Lake Sanitary District

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# Independent Auditor's Report

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

## Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Richmond Lake Sanitary District as of and for the years ended December 31, 2016 and 2015, 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 audits. 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 opinion.



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**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Richmond Lake Sanitary District, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*
Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2017 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 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.

Eide Bailly LLP

Aberdeen, South Dakota
July 6, 2017

| | Enterprise Fund | |
|---|---|---|
| | 2016 | 2015 |
| Assets | | |
| Current Assets | | |
| Cash and deposits | $ 357,383 | $ 291,446 |
| Accounts receivable | 4,161 | 4,289 |
| Notes receivable - current portion | 10,674 | 29,224 |
| Taxes receivable - current | 30,069 | 30,200 |
| Taxes receivable - delinquent | 69 | 585 |
| Replacement parts | 29,705 | 28,101 |
| Certificate of deposit | 56,309 | 55,834 |
| Total current assets | 488,370 | 439,679 |
| Property and Equipment, at Cost | | |
| Piping and appurtenances | 840,629 | 840,629 |
| Lift stations | 212,803 | 212,803 |
| Residential pump stations | 440,932 | 440,932 |
| Fencing and gates | 37,594 | 37,594 |
| Manholes | 105,843 | 105,843 |
| Pond structures | 295,102 | 295,102 |
| Wastewater stabilization pond facility | 191,023 | 191,023 |
| Pumps, panels, and septic tanks | 149,305 | 139,543 |
| Office furniture and equipment | 12,433 | 12,433 |
| Buildings | 899 | 899 |
| Land rights and easements | 21,000 | 21,000 |
| | 2,307,563 | 2,297,801 |
| Accumulated depreciation | (1,415,860) | (1,325,967) |
| Total property and equipment, at cost | 891,703 | 971,834 |
| Other Assets | | |
| Notes receivable - noncurrent portion | 16,457 | 28,068 |
| Security deposit | 64 | 64 |
| Prepaid storage | 220 | 220 |
| Total other assets | 16,741 | 28,352 |
| Total assets | $ 1,396,814 | $ 1,439,865 |

| | Enterprise Fund | |
|---|---|---|
| | 2016 | 2015 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Unearned revenue | $ 19,232 | $ 22,895 |
| Accounts payable | - | 475 |
| Payroll taxes payable | 2,190 | 2,039 |
| Total liabilities | 21,422 | 25,409 |
| Net Position | | |
| Net investment in capital assets | 891,703 | 971,834 |
| Unrestricted | 483,689 | 442,622 |
| Total net position | 1,375,392 | 1,414,456 |
| Total liabilities and net position | $ 1,396,814 | $ 1,439,865 |

| | Enterprise Fund | |
|---|---|---|
| | 2016 | 2015 |
| Operating Revenue | | |
| Hook-up fees | $ 3,000 | $ 3,000 |
| User fees | 117,949 | 118,547 |
| Debt service fees | 1,561 | - |
| Late fees | 1,015 | 1,259 |
| Septic tank replacement fees | 19,680 | 19,780 |
| System upgrade fees | - | 2,956 |
| Miscellaneous income | - | 8 |
| Maintenance fees | 3,210 | 250 |
| Total operating revenue | 146,415 | 145,800 |
| Operating Expenses | | |
| Wages | 22,810 | 19,981 |
| Professional fees | 8,368 | 7,248 |
| Postage and office supplies | 418 | 795 |
| Insurance | 4,781 | 4,848 |
| Utilities | 5,366 | 5,336 |
| Public notices and elections | 139 | 145 |
| Taxes | 1,717 | 1,529 |
| Printing | 26 | - |
| Repairs and maintenance | 71,899 | 58,315 |
| Miscellaneous expense | 4,291 | 795 |
| Bank service charges | - | 61 |
| Mileage | 1,561 | 1,432 |
| Office rent | 4,950 | 5,400 |
| Storage fee | 2,860 | 660 |
| Depreciation | 89,893 | 93,337 |
| Total operating expenses | 219,079 | 199,882 |
| Operating Loss | (72,664) | (54,082) |

| | Enterprise Fund | |
|---|---|---|
| | 2016 | 2015 |
| Nonoperating Revenues | | |
| Interest income | 3,496 | 7,873 |
| Taxes | 30,104 | 29,390 |
| Tax deed revenue | - | 6,644 |
| Total nonoperating revenues | 33,600 | 43,907 |
| Change in Net Position | (39,064) | (10,175) |
| Net Position, Beginning of Year | 1,414,456 | 1,424,631 |
| Net Position, End of Year | $ 1,375,392 | $ 1,414,456 |

| | Enterprise Fund | |
|---|---|---|
| | 2016 | 2015 |
| Operating Activities | | |
| Receipts from customers | $ 173,041 | $ 188,563 |
| Payments to employees | (24,376) | (22,023) |
| Payments to suppliers | (105,134) | (84,560) |
| Net Cash from Operating Activities | 43,531 | 81,980 |
| Noncapital Financing Activities | | |
| Taxes received | 30,751 | 29,086 |
| Tax deed receipts | - | 6,644 |
| Net Cash from Noncapital Financing Activities | 30,751 | 35,730 |
| Capital and Related Financing Activities | | |
| Purchase of replacement parts | (11,366) | (3,692) |
| Net Cash used for Capital and Related Financing Activities | (11,366) | (3,692) |
| Investing Activities | | |
| Interest received | 3,021 | 7,233 |
| Net Cash from Investing Activities | 3,021 | 7,233 |
| Net Change in Cash | 65,937 | 121,251 |
| Cash at Beginning of Year | 291,446 | 170,195 |
| Cash at End of Year | $ 357,383 | $ 291,446 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | |
| Operating loss | $ (72,664) | $ (54,082) |
| Charges and credits to operating income (loss) not affecting cash: | | |
| Depreciation expense | 89,893 | 93,337 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 128 | 6,150 |
| Other receivables | 30,161 | 35,242 |
| Unearned revenue | (3,663) | 1,371 |
| Accounts payable | (475) | 475 |
| Accrued liabilities | 151 | (513) |
| Net Cash from Operating Activities | $ 43,531 | $ 81,980 |

## Note 1 - Significant Accounting Policies

The accounting policies of Richmond Lake Sanitary District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

### Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) pronouncements, the District should include all component units over which the District exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based on these criteria, no legally separate organizations were determined to be part of the reporting entity.

### Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and reporting.

The statements of net position and revenues, expenses and changes in net position present the business-type activities of the District, which are all of the financial activities and represent the government-wide financial statements.

### Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with a proprietary fund's principal ongoing operations. The District records all revenues derived from fees as operating revenues since these revenues are generated from the District's daily operations needed to carry out its purpose. Operating expenses include administrative, operating and maintenance expenses related to operation of the District's sanitary system.

Enterprise Fund: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as enterprise funds.

The District has one enterprise fund, which is reported as a major fund, to record the transactions related to operating a sanitary sewer system through fees and charges to users of the system.

### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The enterprise fund is presented using the economic resources measurement focus and the accrual basis of accounting.

**Capital Assets**

All capital assets are valued at historical cost. Interest costs incurred during construction of capital assets are capitalized along with other capital asset costs. The District's capitalization policy is $400. Depreciation of all exhaustible capital assets used by the proprietary funds is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund statements of net position. Depreciation has been provided over estimated useful lives using the straight-line method as follows:

| | |
|---|---|
| Piping and appurtenances | 50 years |
| Lift and residential pump stations | 5-20 years |
| Fencing, gates, manholes, pond structures, and septic tanks | 20 years |
| Wastewater pond facility | 20 years |
| Pumps and control panels | 5-7 years |
| Office furniture and equipment | 5-20 years |
| Buildings | 39 years |
| Land rights and easements | 99 years |

The District reviews the carrying value of capital assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at December 31, 2016 and 2015.

**Accumulated Unpaid Vacation and Sick Leave**

Vacation and sick leave are not earned by employees of the District.

**Unearned Revenues**

Unearned revenues represent user, hookup, and maintenance fees received in advance.

**Statements of Cash Flows**

The District considers all amounts held in checking and savings accounts to be cash for purposes of the statements of cash flows.

**Accounts Receivable**

Accounts are charged-off as they are deemed uncollectible based on a periodic review of the accounts. The amount charged as bad debt in 2016 and 2015 was $0. At December 31, 2016 and 2015, no allowance for uncollectible accounts was considered necessary, as uncollectible amounts are not material.

**Replacement Parts**

Replacement parts are valued at cost.

**Net Position**

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) 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.
2. Restricted Net Position – Consists of position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

**Application of Net Position**

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense incurred for purposes for which both restricted and unrestricted net position are available.

**User and Septic Tank Replacement Fees**

The user and septic tank replacement fees are monthly charges for all users. The user fees finance the general operations of the district. The septic tank replacement fee is used to replace septic tanks when needed.

**Rounding**

Computer generated rounding variances exist in the financial statements. The variances result from values being entered with cents rather than as whole numbers.

## Note 2 - Deposits And Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

**Deposits**

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

**Custodial Credit Risk – Deposits**

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, the District maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6 A-3.

The actual bank balances at December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Insured (FDIC/NCUA) | $ 407,989 | $ 343,838 |
| Uninsured, collateral jointly held by State's/District's agent in the name of the State and the pledging financial institution | - | - |
| | $ 407,989 | $ 343,838 |

The District's carrying amounts of deposits at December 31, 2016 and 2015 were $357,383 and $291,446, respectively.

**Investments**

In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2016 and 2015, the District did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The District also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

## Note 3 - Organization

An election on June 16, 1992 authorized the District to operate a sanitary sewer system pursuant to South Dakota Codified Law (SDCL) 34A-5-41. In accordance with SDCL 34A-5-14.1, the District is governed by an elected three-member Board of Trustees.

## Note 4 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. The District's property tax revenues are recognized in accordance with the accrual basis of accounting. The District is permitted by state statute to levy taxes. The District has elected to levy the following amounts of taxes per $1,000 of taxable valuation of the property in the District.

| | 2016 | 2015 |
|---|---|---|
| General Fund | | |
| Agricultural property | $ 0.660 | $ 0.660 |
| Owner occupied | 0.660 | 0.660 |
| Nonagricultural property | 0.660 | 0.660 |

## Note 5 - Notes Receivable

The District has notes receivable from property owners within the District for debt service assessments relating to construction of the system and upgrades. The notes accrue interest ranging from 5-5.75% and are due at varying dates in the future depending on the repayment terms selected by the property owners. The notes are presented in the financial statements as follows:

| | 2016 | 2015 |
|---|---|---|
| Current portion | $ 10,674 | $ 29,224 |
| Noncurrent portion | 16,457 | 28,068 |
| | $ 27,131 | $ 57,292 |

## Note 6 - Changes in Capital Assets

A summary of changes in capital assets for the years ended December 31, 2016 and 2015 are as follows:

| Proprietary Fund | Balance 01/01/16 | Increases | Decreases | Balance 12/31/16 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land rights | $ 1,000 | $ - | $ - | $ 1,000 |
| Total capital assets not being depreciated | 1,000 | - | - | 1,000 |
| Capital assets being depreciated: | | | | |
| Piping and appurtenances | 840,629 | - | - | 840,629 |
| Lift stations | 212,803 | - | - | 212,803 |
| Residential pump stations | 440,932 | - | - | 440,932 |
| Fencing and gates | 37,594 | - | - | 37,594 |
| Manholes | 105,843 | - | - | 105,843 |
| Pond structures | 295,102 | - | - | 295,102 |
| Wastewater stabilization pond facility | 191,023 | - | - | 191,023 |
| Pumps, panels, and septic tanks | 139,543 | 9,762 | - | 149,305 |
| Office furniture and equipment | 12,433 | - | - | 12,433 |
| Land easements | 20,000 | - | - | 20,000 |
| Buildings | 899 | - | - | 899 |
| | 2,296,801 | 9,762 | - | 2,306,563 |
| Less accumulated depreciation | 1,325,967 | 89,893 | - | 1,415,860 |
| Total capital assets being depreciated, net | 970,834 | (80,131) | - | 890,703 |
| Proprietary fund activities capital assets, net | $ 971,834 | $ (80,131) | $ - | $ 891,703 |
| Total depreciation expense - proprietary fund activities | | | | $ 89,893 |

| Proprietary Fund | Balance 01/01/15 | Increases | Decreases | Balance 12/31/15 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land rights | $ 1,000 | $ - | $ - | $ 1,000 |
| Total capital assets not being depreciated | 1,000 | - | - | 1,000 |
| Capital assets being depreciated: | | | | |
| Piping and appurtenances | 840,629 | - | - | 840,629 |
| Lift stations | 212,803 | - | - | 212,803 |
| Residential pump stations | 440,932 | - | - | 440,932 |
| Fencing and gates | 37,594 | - | - | 37,594 |
| Manholes | 105,843 | - | - | 105,843 |
| Pond structures | 295,102 | - | - | 295,102 |
| Wastewater stabilization pond facility | 191,023 | - | - | 191,023 |
| Pumps, panels, and septic tanks | 133,634 | 5,909 | - | 139,543 |
| Office furniture and equipment | 12,433 | - | - | 12,433 |
| Land easements | 20,000 | - | - | 20,000 |
| Buildings | 899 | - | - | 899 |
| | 2,290,892 | 5,909 | - | 2,296,801 |
| Less accumulated depreciation | 1,232,630 | 93,337 | - | 1,325,967 |
| Total capital assets being depreciated, net | 1,058,262 | (87,428) | - | 970,834 |
| Proprietary fund activities capital assets, net | $ 1,059,262 | $ (87,428) | $ - | $ 971,834 |
| Total depreciation expense - proprietary fund activities | | | | $ 93,337 |

## Note 7 - Risk Management

The District 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. During the years ended December 31, 2016 and 2015, the District managed its risks as follows:

### Employee Health Insurance

The District does not provide health insurance benefits to its employees.

### Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; automobile liability; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have never exceeded the liability coverage.

### Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims from these risks have never exceeded the liability coverage.

### Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District elected not to designate equity for the payment of future unemployment benefits. During the years ended December 31, 2016 and 2015, no claims for unemployment benefits were paid. At December 31, 2016 and 2015, no claims had been filed for unemployment benefits and none are anticipated in the next year.

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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

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 Richmond Lake Sanitary District, as of and for the year ended December 31, 2016, 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 6, 2017.

**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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying summary schedule of prior and current audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying summary schedule of prior and current findings as item 2016-A to be a material weakness.



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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. We consider the deficiencies described in the accompanying summary schedule of prior and current audit findings as items 2016-B and 2016-C to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying summary schedule of prior and current audit findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Aberdeen, South Dakota
July 6, 2017

## Prior Audit Findings

### 2015-A Finding - Preparation of Financial Statements and Footnotes and Significant Journal Entries

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Status: The finding has not been corrected and has been restated as current audit finding 2016-A.

### 2015-B Finding - Lack of Segregation of Duties

There was a lack of segregation of duties in the revenues, expenditure and payroll functions due to the size of the District.

Status: The finding has not been corrected and has been restated as current audit finding 2016-B.

### 2016-C Finding – Tracking of Replacement Parts

The District does not have a good system of internal controls over replacement parts being placed into service.

Status: The finding has not been corrected and has been restated as current audit finding 2016-C.

## Current Audit Findings

### Finding 2016-A - Preparation of Financial Statements and Footnotes and Significant Journal Entries

**Material Weakness**

Criteria: The District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: Richmond Lake Sanitary District requested the external auditors to assist in the preparation of the financial statements and related footnotes. As part of the financial statement preparation process, we proposed material audit adjustments that were not identified as a result of the District's existing internal controls and, therefore, could result in a misstatement of the District's financial statements.

Cause: The District does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to propose material journal entries.

Effect: This condition may affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management agrees with the finding.

**Finding 2016-B- Lack of Segregation of Duties**

**Significant Deficiency**

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: Richmond Lake Sanitary District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions because of a lack of segregation of duties.

Cause: The District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Board of Trustees exercise adequate oversight of the accounting function.

Management's Response: Management agrees with the finding.

**Finding 2016-C- Tracking of Replacement Parts**

**Significant Deficiency**

Criteria: A good system of internal controls over replacement parts requires that any items placed into service are recorded in the equipement log in a timely manner so that the activity can be appropriately reflected in the financial statements.

Condition: Replacement parts placed into service are not being recorded in the equipment log in a timely manner.

Cause: Employees and independent contractors responsible for placing replacement parts into service are not following the District's established internal control policies.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: We recommend that management emphasize to employees and independent contractors placing replacement parts into service that failure to record these parts in the equipement log in a timely manner increases the risk that fraud or errors might occur in the financial reporting process.

Management's Response: Management agrees with the finding.