

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT**  
**KNIFE RIVER, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

**Year Ended December 31, 2016**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2016

<u>Board of Managers</u>	<u>Term Ending</u>
Robert Entzion, Chair	January 1, 2018
Randy Ellestad, Vice Chair	January 1, 2019
Chris Skadberg, Treasurer	January 1, 2019
Tom Bothwell, Member	January 1, 2017
Vacant*	January 1, 2018

\*Vacancy was filled on January 27, 2017, by Phil Hartley.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of Managers  
Knife River-Larsmont Sanitary District  
Knife River, Minnesota

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Knife River-Larsmont 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, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Knife River-Larsmont Sanitary District as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of the Knife River-Larsmont Sanitary 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 Knife River-Larsmont Sanitary District's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

October 6, 2017

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **BASIC FINANCIAL STATEMENTS**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

**Assets**

**Current assets**

Cash	\$ 69,441
Accounts receivable	45,106
Assets restricted for capital replacement	
Cash	<u>7,985</u>

**Total current assets** **\$ 122,532**

**Capital assets**

Depreciable - net of accumulated depreciation	<u>2,018,169</u>
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**Total Assets** **\$ 2,140,701**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 22,000
Due to other governments	27,509
Public Facilities Authority (PFA) loans payable	<u>47,000</u>

**Total current liabilities** **\$ 96,509**

**Noncurrent liabilities**

PFA loans payable	<u>395,212</u>
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**Total Liabilities** **\$ 491,721**

**Net Position**

Net investment in capital assets	\$ 1,575,957
Restricted for capital replacement	7,985
Unrestricted	<u>65,038</u>

**Total Net Position** **\$ 1,648,980**

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Operating Revenues</b>	
Charges for services	\$ 173,593
Miscellaneous	4,162
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 177,755</b>
	<hr/>
<b>Operating Expenses</b>	
Contracted services	\$ 30,430
Professional services	30,693
Repair and maintenance	13,482
Supplies	1,737
Utilities	13,038
Insurance	11,066
Other services and charges	50,245
Depreciation	117,872
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 268,563</b>
	<hr/>
<b>Operating Income (Loss)</b>	<b>\$ (90,808)</b>
	<hr/>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 94
Interest expense	(6,396)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (6,302)</b>
	<hr/>
<b>Change in Net Position</b>	<b>\$ (97,110)</b>
	<hr/>
<b>Net Position - January 1</b>	<b>1,746,090</b>
	<hr/>
<b>Net Position - December 31</b>	<b>\$ 1,648,980</b>
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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Cash Flows from Operating Activities</b>	
Cash receipts from customers	\$ 174,405
Cash paid to suppliers	(149,117)
	<b>\$ 25,288</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on long-term debt	\$ (46,000)
Interest paid on long-term debt	(6,396)
	<b>\$ (52,396)</b>
<b>Cash Flows from Investing Activities</b>	
Interest income	\$ 94
	<b>\$ (27,014)</b>
<b>Cash - January 1</b>	<b>104,440</b>
<b>Cash - December 31</b>	<b>77,426</b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
	<b>\$ (90,808)</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	117,872
Decrease (increase) in receivables	(3,350)
Increase (decrease) in payables	1,574
	<b>\$ 25,288</b>

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Summary of Significant Accounting Policies

The accounting policies of the Knife River-Larsmont Sanitary District conform with accounting principles generally accepted in the United State of America.

A. Financial Reporting Entity

The Knife River-Larsmont Sanitary District was formed May 8, 2001, pursuant to Minn. Stat. §§ 115.18 to 115.37 (*see now*, Minn. Stat., ch. 442A). The District was created for the purpose of promoting the public health and welfare by providing an adequate and efficient means of collecting, conveying, pumping, treating, and disposing of domestic sewage and industrial waste within the District. The District is governed by a five-member Board. Each member of the Board must be a voter residing in the District.

B. Basis of Presentation

The accounts of the Knife River-Larsmont Sanitary District are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as taxes, grants, and investment earnings, result from nonexchange transactions or incidental activities. The District's net position is reported in three parts: (1) net investment in capital assets, (2) restricted for capital replacement, and (3) unrestricted net position.

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The District's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of cash flows.

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

D. Assets, Liabilities, and Net Position

1. Cash

Cash consists of an operations checking account, a repair and replacement savings account, a project savings account, and a Larsmont savings account. Cash and cash equivalents include both restricted and unrestricted cash and petty cash.

2. Accounts Receivable

Accounts receivable consists of the December user charges, delinquent accounts, and an annual debt service charge. The delinquent account balance is a large portion of the accounts receivable balance. The District does not set up an allowance for doubtful accounts; instead, it is the District's practice to certify residential delinquent accounts over to Lake County to be placed on the individual's taxes. The District turned over the delinquent residential accounts to the County in 2016.

3. Restricted Assets

Certain funds of the District are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position (Continued)

4. Capital Assets

Capital assets are stated at cost. Depreciation is determined using the straight-line method for the estimated useful lives of the assets.

<u>Classification</u>	<u>Estimated Life</u>
Sewer plant	15 years
Collection system	40 years
Equipment	5 years

5. Classification of Net Position

Net position is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

2. Detailed Notes

A. Deposits

The District is authorized by Minn. Stat. § 118A.02 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the District's Board. The District does not have a policy on custodial credit risk. At December 31, 2016, the District's deposits totaled \$94,172; all cash deposits were insured as required by Minnesota statutes. The carrying value of these deposits was \$77,426. The District had an adequate amount of insurance and collateral pledged to cover its deposits.

B. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2016, follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Capital assets depreciated				
Collection system	\$ 4,705,002	\$ -	\$ -	\$ 4,705,002
Equipment	2,431	-	-	2,431
Total capital assets depreciated	<u>\$ 4,707,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,707,433</u>
Less: accumulated depreciation for				
Collection system	\$ 2,569,208	\$ 117,625	\$ -	\$ 2,686,833
Equipment	2,184	247	-	2,431
Total accumulated depreciation	<u>\$ 2,571,392</u>	<u>\$ 117,872</u>	<u>\$ -</u>	<u>\$ 2,689,264</u>
Total Capital Assets, Net	<u>\$ 2,136,041</u>	<u>\$ (117,872)</u>	<u>\$ -</u>	<u>\$ 2,018,169</u>

C. Long-Term Obligations

The following is a summary of the District's long-term debt activity for the year ended December 31, 2016:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Public Facilities Authority general obligation notes	<u>\$ 488,212</u>	<u>\$ -</u>	<u>\$ 46,000</u>	<u>\$ 442,212</u>	<u>\$ 47,000</u>

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

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2. Detailed Notes

C. Long-Term Obligations (Continued)

Long-term debt is composed of the following:

An amount of \$876,212 was drawn down on a General Obligation Revenue Note issued to the Minnesota Public Facilities Authority through 2006. Note payments are due semi-annually on February 20 and August 20, 2006 through 2025, at an interest rate of 1.31 percent.

Debt service requirements at December 31, 2016, are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Revenue Note</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 47,000	\$ 5,793
2018	47,000	5,177
2019	48,000	4,562
2020	48,000	3,933
2021	49,000	3,304
2022 - 2025	<u>203,212</u>	<u>6,705</u>
Total	<u>\$ 442,212</u>	<u>\$ 29,474</u>

The note will be retired with income from operations, an annual debt service charge, property taxes, investment income, and unused construction funding and is exempt from the limitations on net debt imposed by Minnesota law.

3. Risk Management

The Knife River-Larsmont Sanitary District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased commercial insurance to insure these risks. There are no employees of the Knife River-Larsmont Sanitary District, as the District has hired independent contractors to operate the system and perform its accounting functions. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance during the audit period.

**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

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4. Contingent Liability

Lake County has paid for certain engineering and other expenses on behalf of the Knife River-Larsmont Sanitary District for the period of 1997 to 2005, with the understanding that if funding becomes available to the District, these expenses would be reimbursed to Lake County. According to Lake County records, the amount owed from the Knife River-Larsmont Sanitary District to Lake County is \$462,372 at December 31, 2016. This is not reported as a liability on the Knife River-Larsmont Sanitary District's financial statements.



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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### Independent Auditor's Report

Board of Managers  
Knife River-Larsmont Sanitary District  
Knife River, Minnesota

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 Knife River-Larsmont 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 October 6, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Knife River-Larsmont Sanitary District's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 Schedule of Findings and Recommendations, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses and an item that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting 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 Schedule of Findings and Recommendations as items 2002-001 and 2015-001 to be material weaknesses and item 2016-001 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Knife River-Larsmont Sanitary 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*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the District's financial statements: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because the District did not enter into any applicable contracts. We also did not test for compliance with tax increment financing provisions because the District does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Knife River-Larsmont Sanitary District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

## **Knife River-Larsmont Sanitary District's Response to Findings**

The Knife River-Larsmont Sanitary District's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 6, 2017

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2002-001

Internal Control/Segregation of Duties

**Criteria:** The Board of Managers is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Also, the Board of Managers is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system.

**Condition:** The limited number of personnel results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. In addition, audit adjustments were necessary to convert the District's financial records to the financial statements as reported. These adjustments were determined to be material to the financial statements.

**Context:** It is not unusual for an organization the size of the Knife River-Larsmont Sanitary District to be limited in the internal control that the Board of Managers can design and implement into the organization.

**Effect:** Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

**Cause:** The size, structure, and economic resources of the District limit the internal control that management can design and implement into the organization. Based on the availability of the District's staff and the cost benefit of using our expertise, the Board of Managers has requested that we prepare the annual financial statements and related notes.

**Recommendation:** The Board of Managers should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Knife River-Larsmont Sanitary District be mindful that limited staffing causes inherent risks in safeguarding the District's assets and the proper reporting of its financial activity. We recommend the Knife River-Larsmont Sanitary District continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

**View of Responsible Official:** Concur

Finding Number 2015-001

#### Audit Adjustments

**Criteria:** A deficiency in controls over financial reporting exists when, in the normal course of performing their assigned functions, management is unable to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** The District's financial statements required material audit adjustments to present them fairly in accordance with accounting principles generally accepted in the United States of America.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** The following audit adjustments were needed:

- Net position was reduced by \$57,015 to correct entries made directly to net position instead of the appropriate general ledger account. Reductions of \$52,396 and \$4,619 were recorded for loan payments, which should have been reported against the liability account, and for charges for services, so revenue would equal the charges billed to customers.
- PFA loans payable was increased by \$6,396 to add back the interest portion of the payment, which should have been recorded as interest expense.

**Cause:** The District's general ledger does not include capital assets, accounts payable, or due to other governments, and detailed accounting entries are not reviewed by anyone other than the preparer.

**Recommendation:** We recommend the District review its trial balance and journal entries to detect misstatements.

**View of Responsible Official:** Concur

ITEM ARISING THIS YEAR

Finding Number 2016-001

Accounting Policies and Procedures Manual

**Criteria:** Management is responsible for establishing and implementing internal controls over the accounting cycles and the systems used for financial reporting.

**Condition:** The District does not have a Board-approved accounting and procedures manual.

**Context:** This documentation will help enhance the District's understanding of their internal controls and establish responsibilities, provide guidance, improve efficiency and consistency with transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the District's internal control system and help to avoid circumvention of District policies.

**Effect:** The District's practices may not be followed as intended, and informal practices and procedures can become unwritten standards that have unintended consequences.

**Cause:** The District has common practices and procedures, but many of those are not in writing or Board approved.

**Recommendation:** We recommend the District formalize its policies and procedures manual and obtain Board approval to emphasize its importance and authority.

**View of Responsible Official:** Concur

## II. OTHER FINDINGS AND RECOMMENDATIONS

### MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-001

#### Unclaimed Funds

**Criteria:** The Minnesota Unclaimed Property Law requires uncashed vendor or refund checks be reported to the state after three years. The reporting requirements for unclaimed property and its payment to the Commissioner of the Minnesota Department of Commerce are detailed in Minn. Stat. §§ 345.38-.43.

**Condition:** The District has not filed unclaimed property reports with the state or turned money over to the state. In 2008, the District opened a Larsmont tax levy checking account to refund the taxes paid by the Larsmont residents. Our review of the District's documentation of unclaimed checks showed that the amount of unclaimed checks not turned over to the state totaled \$16,421 as of December 31, 2016.

**Context:** Any person who willfully refuses to pay or deliver abandoned property to the Commissioner under Minn. Stat. § 345.55 shall be guilty of a gross misdemeanor.

**Effect:** Noncompliance with Minn Stat. ch. 345.

**Cause:** The District is responsible for keeping an updated file of unclaimed property. The District is also responsible for filing required reports with the Commissioner of the Minnesota Department of Commerce and turn over any unclaimed property after three years. The District continues to not comply with this legal requirement.

**Recommendation:** We recommend the District file the required unclaimed property reports with the Commissioner of the Minnesota Department of Commerce and turn over any funds required to be remitted to the state.

**View of Responsible Official:** Concur

## III. PREVIOUSLY REPORTED ITEMS RESOLVED

2010-002 Documentation of Claims Review and Approval

2015-002 Timely Deposits

**REPRESENTATION OF  
KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2002-001**

**Finding Title: Internal Control/Segregation of Duties**

Name of Contact Person Responsible for Corrective Action:

Robert Entzion, Board Chair

Corrective Action Planned:

Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The Administrative Assistant does the accounting for the District. A Board member (Treasurer) approves bank accounts and receivables. The full Board approves monthly bills, bank accounts, and receivables on a monthly basis.

Anticipated Completion Date:

Ongoing

**Finding Number: 2015-001**

**Finding Title: Audit Adjustments**

Name of Contact Person Responsible for Corrective Action:

Robert Entzion, Board Chair

Corrective Action Planned:

The Board members review monthly transactions to stay on top of the District's financials. All transactions are presented to the Board at each monthly meeting. Each bank account along with each transaction, if any, in each account is reviewed and approved by the Board. Additionally, the District continually works on improving financial reporting. In subsequent years, the District will not make entries directly to net position, nor will interest paid be recorded as a reduction of loan principle.

Anticipated Completion Date:

Ongoing

**Finding Number: 2016-001**

**Finding Title: Accounting Policies and Procedures Manual**

Name of Contact Person Responsible for Corrective Action:

Robert Entzion, Board Chair

Corrective Action Planned:

The District has been working to compile all the policies that have been approved prior. Given the enormous amount of paperwork that was compiled over the last 20 plus years to go through in reference to policies and procedures, the District continues to work on compiling a policies and procedures manual.

Anticipated Completion Date:

Ongoing

**Finding Number: 2014-001**

**Finding Title: Unclaimed Funds**

Name of Contact Person Responsible for Corrective Action:

Robert Entzion, Board Chair

Corrective Action Planned:

The District has been working with someone from the Department of Commerce to make sure that we are in compliance with any and all guidelines.

Anticipated Completion Date:

Ongoing

**REPRESENTATION OF  
KNIFE RIVER-LARSMONT SANITARY DISTRICT  
KNIFE RIVER, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2002-001**

**Finding Title: Internal Control/Segregation of Duties**

**Summary of Condition:** Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The Administrative Assistant does the accounting for the District. A Board member (Treasurer) approves bank accounts and receivables. The full Board approves monthly bills, bank accounts, and receivables on a monthly basis.

**Summary of Corrective Action Previously Reported:** The cost of adding additional staff outweighs the benefit. Knife River-Larsmont Sanitary District understands the risk and is willing to assume the responsibility.

**Status:** Not Corrected. Knife River-Larsmont Sanitary District understands the risk and is willing to assume the responsibility.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2010-002**

**Finding Title: Documentation of Claims Review and Approval**

**Summary of Condition:** A payment voucher was noted to not contain the Treasurer's signature.

**Summary of Corrective Action Previously Reported:** All invoices are presented to the Treasurer for approval during the monthly meetings. Board approval is required before the Secretary can pay any invoices.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-001**  
**Finding Title: Audit Adjustments**

**Summary of Condition:** The financial statements required material audit adjustments to present them fairly in accordance with generally accepted accounting principles.

**Summary of Corrective Action Previously Reported:** The Board members review monthly transactions to stay on top of the District's financials. All transactions are presented to the Board at each monthly meeting. Each bank account along with each transaction, if any, in each account is reviewed and approved by the Board.

**Status:** Not Corrected. Due to the size of the District and limited personnel, errors are not always identified timely.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 2015-002**  
**Finding Title: Timely Deposits**

**Summary of Condition:** The District does not have formal receipting and depositing procedures documented or Board-approved. During the prior year, the audit detected a check received by the District which was not deposited within six months of receipt.

**Summary of Corrective Action Previously Reported:** The District makes every effort to deposit payments within the week that they are collected.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 2014-001**  
**Finding Title: Unclaimed Funds**

**Summary of Condition:** The District has not filed unclaimed property reports with the state or turned money over to the state. In 2008, the District opened a Larsmont tax levy checking account to refund the taxes paid by the Larsmont residents. Our review of the District's documentation of unclaimed checks showed that the amount of unclaimed checks not turned over to the state totaled \$16,421 as of December 31, 2016.

**Summary of Corrective Action Previously Reported:** The District has been working with someone from the Department of Commerce to make sure that we are in compliance with any and all guidelines.

**Status:** Partially Corrected. The District is working with an attorney to determine what steps need to be taken to make sure that corrective action is taken. There are outstanding issues in relation to these funds, such that the amount to be remitted to the Department of Commerce could be reduced. Progress on resolution of this issue is ongoing.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X