

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**PIKE LAKE AREA WASTEWATER
COLLECTION SYSTEM
TWIG, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2010

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 160 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 730 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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**PIKE LAKE AREA WASTEWATER
COLLECTION SYSTEM
TWIG, MINNESOTA**

For the Year Ended December 31, 2010



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

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2010**

<u>Board of Directors</u>	<u>Position</u>	<u>Township</u>	<u>Term Ending</u>
Kevin Comnick	Chair	Canosia	March 31, 2011
Steve Torgeson	Vice Chair	Grand Lake	November 30, 2014
Duayne Anderson	Supervisor	Grand Lake	November 30, 2011
Scott Campbell	Supervisor	Canosia	March 31, 2013
Louis Dubla	Supervisor	Canosia	March 31, 2012
John Holcomb	Supervisor	Grand Lake	November 30, 2011

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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 Directors
Pike Lake Area Wastewater Collection System

We have audited the accompanying basic financial statements of the Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Pike Lake Area Wastewater Collection System's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pike Lake Area Wastewater Collection System as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 consider it to be an essential part of the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pike Lake Area Wastewater Collection System's basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012, on our consideration of the Pike Lake Area Wastewater Collection System'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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 20, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Assets

Current assets

Cash	\$	50,884
Taxes receivable		13,926
Accounts receivable		43,762
Due from other governments		290,057
Assets restricted for debt service		
Cash		194,314
Assets restricted for capital replacement		
Cash		142,112
		142,112

Total current assets **\$ 735,055**

Capital assets

Depreciable - net of accumulated depreciation		5,040,856
		5,040,856

Total Assets **\$ 5,775,911**

Liabilities

Current liabilities

Accounts payable	\$	17,777
Salaries payable		431
		431

Total Liabilities **\$ 18,208**

Net Assets

Invested in capital assets	\$	5,040,856
Restricted for		
Debt service		484,371
Capital replacement		142,112
Unrestricted		90,364
		90,364

Total Net Assets **\$ 5,757,703**

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Operating Revenues	
Charges for services	<u>\$ 356,561</u>
Operating Expenses	
Wages and benefits	\$ 18,907
Western Lake Superior Sanitary District fees	58,852
Operations and maintenance	91,328
Supplies	5,390
Travel	782
Professional services	45,403
Insurance	4,403
Rent and storage	5,150
Miscellaneous	1,700
Depreciation	<u>220,317</u>
Total Operating Expenses	<u>\$ 452,232</u>
Operating Income (Loss)	\$ (95,671)
Nonoperating Revenues	
Interest income	<u>4,571</u>
Change in Net Assets	\$ (91,100)
Net Assets - January 1	<u>5,848,803</u>
Net Assets - December 31	<u><u>\$ 5,757,703</u></u>

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cash Flows from Operating Activities	
Cash receipts from customers	\$ 326,029
Cash paid to suppliers	(204,560)
Payments to employees	(18,985)
	<hr/>
Net cash provided by (used in) operating activities	\$ 102,484
Cash Flows from Noncapital Financing Activities	
Special assessments received from towns	\$ 167,188
Principal paid on behalf of towns for long-term debt	(258,374)
Interest paid on behalf of towns for long-term debt	(28,356)
	<hr/>
Net cash provided by (used in) noncapital financing activities	\$ (119,542)
Cash Flows from Capital and Related Financing Activities	
Payments for capital assets	\$ (51,484)
Interest income	4,571
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (46,913)
Net Increase (Decrease) in Cash	\$ (63,971)
Cash - January 1	451,281
	<hr/>
Cash - December 31	\$ 387,310
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	\$ (95,671)
	<hr/>
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities	
Depreciation	\$ 220,317
Decrease (increase) in receivables	(24,361)
Decrease (increase) in taxes receivable	(6,236)
Decrease (increase) in customer deposits	65
Increase (decrease) in payables	8,448
Increase (decrease) in salaries payable	(78)
	<hr/>
Total adjustments	\$ 198,155
	<hr/>
Net Cash Provided by (Used in) Operating Activities	\$ 102,484
	<hr/> <hr/>

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Summary of Significant Accounting Policies

The accounting policies of the Pike Lake Area Wastewater Collection System conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Pike Lake Area Wastewater Collection System was formed February 3, 1998, pursuant to Minn. Stat. § 471.59, *Joint Exercise of Powers*. The System was created for the purpose of providing the equipment, services, and other items necessary and appropriate for the establishment, operation, and maintenance of a joint wastewater collection system for the mutual benefit of the Towns of Canosia and Grand Lake. The System is governed by a six-member Board, with three members appointed by each Town. All members have equal voting rights.

The Pike Lake Area Wastewater Collection System was constructed with general obligation revenue bonds from the Public Facilities Authority and Wastewater Infrastructure grants. The Towns of Canosia and Grand Lake provided this funding to the Pike Lake Area Wastewater Collection System, which then administered the construction contracts. These expenditures were funded 69 percent by the Town of Canosia and 31 percent by the Town of Grand Lake. The Pike Lake Area Wastewater Collection System receives resources from System operations and special assessments levied by the Towns of Canosia and Grand Lake to repay the general obligation revenue bonds.

The Pike Lake Area Wastewater Collection System is a primary government, as defined by Governmental Accounting Standards Board (GASB) Statement 14, and the System has no component units for which the System is financially accountable.

B. Basis of Presentation

The accounts of the Pike Lake Area Wastewater Collection System 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.

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

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

C. Basis of Accounting

The Pike Lake Area Wastewater Collection System's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Pursuant to GASB Statement 20, the System has elected to not apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Assets and Liabilities

Cash

Cash consists of an operations checking account, an operations savings account, a repair and replacement savings account, and a debt service savings account.

Accounts Receivable

Accounts receivable consists primarily of the December user charges.

Due From Other Governments

Due from other governments consists of the amounts that the Towns of Canosia and Grand Lake owe the Pike Lake Area Wastewater Collection System for the debt service payments made by the System on behalf of the Towns. The Towns of Canosia and Grand Lake turn over their assessments to the Pike Lake Area Wastewater Collection System, and these assessments are used to make the annual debt payments by the System on behalf of the Towns. The debt is not reported as the System's debt, but rather the Towns' debt.

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

Restricted Assets

Restricted assets consist of monies specified for payment of collection system repair and replacement costs or debt service.

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 lines	50 years
Lift stations	10 years
Equipment	10 years

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

2. Detailed Notes

A. Deposits

The System is authorized by Minn. Stat. § 118A.02 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the System's Board. The System does not have a policy on custodial credit risk. At December 31, 2010, the System's deposits totaled \$413,240, all of which were cash deposits insured as required by Minnesota statutes. The carrying value of these deposits was \$387,310. During 2010, the System had an adequate amount of insurance and collateral pledged to cover its deposits.

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

2. Detailed Notes (Continued)

B. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2010 follows:

	Balance January 1	Additions	Deletions	Balance December 31
Capital assets depreciated				
Sewer lines	\$ 6,289,172	\$ -	\$ -	\$ 6,289,172
Lift stations	1,518,510	-	-	1,518,510
Equipment	155,275	51,484	-	206,759
Total capital assets depreciated	\$ 7,962,957	\$ 51,484	\$ -	\$ 8,014,441
Less: accumulated depreciation for				
Sewer lines	\$ 1,183,017	\$ 125,783	\$ -	\$ 1,308,800
Lift stations	1,427,695	82,872	-	1,510,567
Equipment	142,556	11,662	-	154,218
Total capital assets depreciated	\$ 2,753,268	\$ 220,317	\$ -	\$ 2,973,585
Total Capital Assets, Net	\$ 5,209,689	\$ (168,833)	\$ -	\$ 5,040,856

C. Net Assets

Net assets are reported in three broad components--invested in capital assets, restricted, and unrestricted. In addition, the System's Board has designated a portion of unrestricted net assets for capital improvements. These designations are internal and can be changed by the System's Board. The amount designated for capital improvements at December 31, 2010, was \$90,364.

3. Risk Management

The Pike Lake Area Wastewater Collection System 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. The System has purchased commercial insurance to insure these risks. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance during the last three years.

SUPPLEMENTARY INFORMATION

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT A-1

**COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	Canosia	Grand Lake	Total
<u>Assets</u>			
Current assets			
Cash	\$ 178,872	\$ (127,988)	\$ 50,884
Taxes receivable	9,608	4,318	13,926
Accounts receivable	30,196	13,566	43,762
Due from other governments	201,443	88,614	290,057
Assets restricted for debt service			
Cash	134,077	60,237	194,314
Assets restricted for capital replacement			
Cash	98,057	44,055	142,112
Total current assets	\$ 652,253	\$ 82,802	\$ 735,055
Capital assets			
Depreciable - net of accumulated depreciation	3,478,191	1,562,665	5,040,856
Total Assets	\$ 4,130,444	\$ 1,645,467	\$ 5,775,911
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 12,266	\$ 5,511	\$ 17,777
Salaries payable	298	133	431
Total Liabilities	\$ 12,564	\$ 5,644	\$ 18,208
<u>Net Assets</u>			
Invested in capital assets	\$ 3,478,191	\$ 1,562,665	\$ 5,040,856
Restricted for			
Debt service	335,520	148,851	484,371
Capital replacement	98,057	44,055	142,112
Unrestricted	206,112	(115,748)	90,364
Total Net Assets	\$ 4,117,880	\$ 1,639,823	\$ 5,757,703

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT A-2

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
Operating Revenues			
Charges for services	<u>\$ 246,027</u>	<u>\$ 110,534</u>	<u>\$ 356,561</u>
Operating Expenses			
Wages and benefits	\$ 13,046	\$ 5,861	\$ 18,907
Western Lake Superior Sanitary District fees	40,608	18,244	58,852
Operations and maintenance	63,016	28,312	91,328
Supplies	3,719	1,671	5,390
Travel	540	242	782
Professional services	31,328	14,075	45,403
Insurance	3,038	1,365	4,403
Rent and storage	3,553	1,597	5,150
Miscellaneous	1,173	527	1,700
Depreciation	<u>152,019</u>	<u>68,298</u>	<u>220,317</u>
Total Operating Expenses	<u>\$ 312,040</u>	<u>\$ 140,192</u>	<u>\$ 452,232</u>
Operating Income (Loss)	<u>\$ (66,013)</u>	<u>\$ (29,658)</u>	<u>\$ (95,671)</u>
Nonoperating Revenues			
Interest income	<u>3,154</u>	<u>1,417</u>	<u>4,571</u>
Change in Net Assets	<u>\$ (62,859)</u>	<u>\$ (28,241)</u>	<u>\$ (91,100)</u>
Net Assets - January 1	<u>4,180,739</u>	<u>1,668,064</u>	<u>5,848,803</u>
Net Assets - December 31	<u><u>\$ 4,117,880</u></u>	<u><u>\$ 1,639,823</u></u>	<u><u>\$ 5,757,703</u></u>

**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

EXHIBIT A-3

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Canosia	Grand Lake	Total
Cash Flows from Operating Activities			
Cash receipts from customers	\$ 224,960	\$ 101,069	\$ 326,029
Cash paid to suppliers	(141,146)	(63,414)	(204,560)
Payments to employees	(13,100)	(5,885)	(18,985)
	\$ 70,714	\$ 31,770	\$ 102,484
Cash Flows from Noncapital Financing Activities			
Special assessments received from towns	\$ 112,412	\$ 54,776	\$ 167,188
Principal paid on behalf of towns for long-term debt	(179,034)	(79,340)	(258,374)
Interest paid on behalf of towns for long-term debt	(19,462)	(8,894)	(28,356)
	\$ (86,084)	\$ (33,458)	\$ (119,542)
Cash Flows from Capital and Related Financing Activities			
Payments for capital assets	\$ (35,524)	(15,960)	(51,484)
Interest income	3,154	\$ 1,417	\$ 4,571
	\$ (32,370)	\$ (14,543)	\$ (46,913)
Net Increase (Decrease) in Cash	\$ (47,740)	\$ (16,231)	\$ (63,971)
Cash - January 1	458,746	(7,465)	451,281
Cash - December 31	\$ 411,006	\$ (23,696)	\$ 387,310
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
	\$ (66,013)	\$ (29,658)	\$ (95,671)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	\$ 152,019	\$ 68,298	\$ 220,317
Decrease (increase) in receivables	(16,809)	(7,552)	(24,361)
Decrease (increase) in taxes receivable	(4,303)	(1,933)	(6,236)
Decrease (increase) in customer deposits	45	20	65
Increase (decrease) in payables	5,829	2,619	8,448
Increase (decrease) in salaries payable	(54)	(24)	(78)
	\$ 136,727	\$ 61,428	\$ 198,155
Total adjustments	\$ 136,727	\$ 61,428	\$ 198,155
Net Cash Provided by (Used in) Operating Activities	\$ 70,714	\$ 31,770	\$ 102,484

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**PIKE LAKE AREA WASTEWATER COLLECTION SYSTEM
TWIG, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Internal Control/Segregation of Duties

The Pike Lake Area Wastewater Collection System's Board of Directors 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. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Pike Lake Area Wastewater Collection System and its staffing limits the internal control that management can design and implement into the organization. The Board of Directors should be aware that segregation of duties is not adequate from an internal control point of view.

The Board of Directors is responsible for the accuracy and completeness of all financial records and related information. Also, the Board of Directors 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 in the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

During our audit, we proposed adjustments to convert the System's financial records to the financial statements as reported. These adjustments, which were determined to be material to the financial statements, increased assets and net assets, and decreased liabilities, revenues, and expenditures.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the System's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

In recognition of the need to maximize segregation of duties in a small organization with limited or no administrative staffing, PLAWCS utilizes a financial contractor whose efforts are reviewed by the Board Treasurer on a detail level and the full Board at the monthly meetings with the contractor at their monthly meetings. PLAWCS has secured contracts or Engagement Letters with the appropriate operational vendors to supplement Board oversight and to provide prompt, consistent, and high-quality service to users.

User Fee, Related Billings/Cash Receipts - For the year 2010, monthly invoices and cash receipts were processed by an individual contractor. We are taking an active role in following up with any past due balances and customer questions. Customer-related notes are maintained in QuickBooks to aid in accurate processing.

Accounts Payable: Payables are received at the P. O. Box or sent electronically. The invoices are reviewed by the accounting firm and entered into payables and compared to the budget. Invoices that are out of the norm are sent to the Board for their opinion. Checks are prepared and presented to the Board the night of their regular meeting for review and signatures. All Board members are sent a recap of all bills being paid for review a few days before the Board meeting. Checks require at least two signatures, but the norm is three signatures. The majority of checks are signed by a representative of each Township and one administrative representative. Transfers are made monthly from the appropriate funds to cover the monthly disbursements.

Banking: All funds are deposited into the Operational Savings account. Bank accounts segregate funds into Operations funds, Debt Service funds and Capital funds; each with a sweep account that earns interest. Each of these accounts is reconciled monthly with copies of bank statements, bank reconciliations, and detailed entries being given to Board members.

Monthly Reporting and Communication: Board members each receive monthly a packet with a list of all invoices being paid, copies of unusual or large invoices, monthly financial statements from QuickBooks for current period and year-to-date, along with schedules of accounts receivable and payable and cash flow. Also included are the bank reconciliations, detail of bank and operations entries, and the Budget versus Actual reporting.

Financial Records: are maintained electronically at the contracted accounting firm, which is also where the accounting system is hosted. All financial records processed in QuickBooks are backed up daily on and off-site.

Minimum Standards: PLAWCS attempts to ensure that all material transactions receive review by Board members. Material transactions are e-mailed to Board members. Full documentation is kept for all transactions.



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*

Board of Directors
Pike Lake Area Wastewater Collection System

We have audited the financial statements of the Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2010, and have issued our report thereon dated January 20, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike Lake Area Wastewater Collection System's internal control over financial reporting as a basis for designing our auditing procedures 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 System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 System's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 08-1 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except for public indebtedness since there was no debt issued or outstanding during 2010.

The results of our tests indicate that for the items tested, the Pike Lake Area Wastewater Collection System complied with the material terms and conditions of applicable legal provisions.

The Pike Lake Area Wastewater Collection System's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the System's Board of Directors, management, and others within the Pike Lake Area Wastewater Collection System and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 20, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR