

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**FOR THE YEAR ENDED DECEMBER 31, 2012**

## **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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

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

**For the Year Ended December 31, 2012**



**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, 2012**

<u>Board of Directors</u>	<u>Position</u>	<u>Township</u>	<u>Term Ending</u>
Scott Campbell	Chair	Canosia	March 31, 2013
Kevin Comnick	Vice Chair	Canosia	March 31, 2014
Duayne Anderson	Treasurer	Grand Lake	December 31, 2012
Jeff Lundholm	Supervisor	Canosia	March 31, 2015
John Holcomb	Supervisor	Grand Lake	December 31, 2012
Steve Torgeson	Supervisor	Grand Lake	December 31, 2014

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pike Lake Area Wastewater Collection System

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pike Lake Area Wastewater Collection System's basic financial statements, as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Pike Lake Area Wastewater Collection System'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 Pike Lake Area Wastewater Collection System'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 Pike Lake Area Wastewater Collection System as of December 31, 2012, and the changes in its financial position 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 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 historic context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Supplementary 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. 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. Such 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2014, 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* in considering the Pike Lake Area Wastewater Collection System's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 10, 2014

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## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

**Assets**

**Current assets**

Cash	\$ 54,257
Taxes receivable	24,588
Accounts receivable	33,075
Due from other governments	387,685
Prepaid insurance	355
Assets restricted for debt service	
Cash	254,725
Assets restricted for capital replacement	
Cash	<u>206,937</u>

**Total current assets** **\$ 961,622**

**Capital assets**

Depreciable - net of accumulated depreciation	<u>4,814,394</u>
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**Total Assets** **\$ 5,776,016**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 4,928
Salaries payable	<u>74</u>

**Total Liabilities** **\$ 5,002**

**Net Position**

Investment in capital assets	\$ 4,814,394
Restricted for	
Debt service	642,410
Capital replacement	206,937
Unrestricted	<u>107,273</u>
<b>Total Net Position</b>	<b>\$ 5,771,014</b>

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

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Operating Revenues</b>	
Charges for services	<u>\$ 385,470</u>
<b>Operating Expenses</b>	
Wages and benefits	\$ 17,322
Western Lake Superior Sanitary District fees	66,428
Operations and maintenance	92,749
Supplies	1,690
Travel	302
Professional services	43,814
Insurance	6,461
Rent and storage	5,438
Other contracted services	187
Miscellaneous	839
Depreciation	<u>133,453</u>
<b>Total Operating Expenses</b>	<u>\$ 368,683</u>
<b>Operating Income (Loss)</b>	<b>\$ 16,787</b>
<b>Nonoperating Revenues</b>	
Interest income	<u>4,896</u>
<b>Change in Net Position</b>	<b>\$ 21,683</b>
<b>Net Position - January 1</b>	<u>5,749,331</u>
<b>Net Position - December 31</b>	<u><u>\$ 5,771,014</u></u>

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

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Cash Flows from Operating Activities</b>	
Cash receipts from customers	\$ 382,800
Cash paid to suppliers	(222,713)
Payments to employees	(17,483)
	<b>\$ 142,604</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Special assessments received from towns	\$ 176,197
Principal paid on behalf of towns for long-term debt	(205,105)
Interest paid on behalf of towns for long-term debt	(22,962)
	<b>\$ (51,870)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments for capital assets	<b>\$ (30,966)</b>
<b>Cash Flows from Investing Activities</b>	
Interest income	<b>\$ 4,896</b>
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 64,664</b>
<b>Cash - January 1</b>	<b>451,255</b>
<b>Cash - December 31</b>	<b>\$ 515,919</b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
	<b>\$ 16,787</b>
 <b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	\$ 133,453
Decrease (increase) in receivables	8,595
Decrease (increase) in taxes receivable	(10,910)
Increase (decrease) in payables	(4,913)
Increase (decrease) in salaries payable	(53)
Decrease (increase) in prepaids	(355)
	<b>\$ 125,817</b>
<b>Total adjustments</b>	<b>\$ 125,817</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 142,604</b>

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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, 2012

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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**

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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 position is reported in three parts: (1) investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

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.

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**

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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, 2012, the System's deposits totaled \$516,744, all of which were cash deposits insured as required by Minnesota statutes. The carrying value of these deposits was \$515,919. During 2012, 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, 2012, 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	226,267	30,966	(14,000)	243,233
Total capital assets depreciated	\$ 8,033,949	\$ 30,966	\$ (14,000)	\$ 8,050,915
Less: accumulated depreciation for				
Sewer lines	\$ 1,434,583	\$ 125,783	\$ -	\$ 1,560,366
Lift stations	1,518,510	-	-	1,518,510
Equipment	163,974	7,671	(14,000)	157,645
Total capital assets depreciated	\$ 3,117,067	\$ 133,454	\$ (14,000)	\$ 3,236,521
Total Capital Assets, Net	\$ 4,916,882	\$ (102,488)	\$ -	\$ 4,814,394

C. Net Position

Net position is reported in three broad components--net investment in capital assets, restricted, and unrestricted. In addition, the System's Board has designated a portion of unrestricted net position 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, 2012, was \$107,273.

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 POSITION  
DECEMBER 31, 2012**

	<b>Canosia</b>	<b>Grand Lake</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash	\$ 188,083	\$ (133,826)	\$ 54,257
Taxes receivable	16,966	7,622	24,588
Accounts receivable	22,822	10,253	33,075
Due from other governments	262,704	124,981	387,685
Prepaid insurance	245	110	355
Assets restricted for debt service			
Cash	174,978	79,747	254,725
Assets restricted for capital replacement			
Cash	142,787	64,150	206,937
<b>Total current assets</b>	<b>\$ 808,585</b>	<b>\$ 153,037</b>	<b>\$ 961,622</b>
<b>Capital assets</b>			
Depreciable - net of accumulated depreciation	3,321,932	1,492,462	4,814,394
<b>Total Assets</b>	<b>\$ 4,130,517</b>	<b>\$ 1,645,499</b>	<b>\$ 5,776,016</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 3,400	\$ 1,528	\$ 4,928
Salaries payable	51	23	74
<b>Total Liabilities</b>	<b>\$ 3,451</b>	<b>\$ 1,551</b>	<b>\$ 5,002</b>
<b><u>Net Position</u></b>			
Investment in capital assets	\$ 3,321,932	\$ 1,492,462	\$ 4,814,394
Restricted for			
Debt service	437,682	204,728	642,410
Capital replacement	142,787	64,150	206,937
Unrestricted	224,665	(117,392)	107,273
<b>Total Net Position</b>	<b>\$ 4,127,066</b>	<b>\$ 1,643,948</b>	<b>\$ 5,771,014</b>

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

*EXHIBIT A-2*

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for services	<u>\$ 265,974</u>	<u>\$ 119,496</u>	<u>\$ 385,470</u>
<b>Operating Expenses</b>			
Wages and benefits	\$ 11,952	\$ 5,370	\$ 17,322
Western Lake Superior Sanitary District fees	45,835	20,593	66,428
Operations and maintenance	63,997	28,752	92,749
Supplies	1,166	524	1,690
Travel	208	94	302
Professional services	30,232	13,582	43,814
Insurance	4,458	2,003	6,461
Rent and storage	3,752	1,686	5,438
Other contract services	129	58	187
Miscellaneous	579	260	839
Depreciation	<u>92,083</u>	<u>41,370</u>	<u>133,453</u>
<b>Total Operating Expenses</b>	<u>\$ 254,391</u>	<u>\$ 114,292</u>	<u>\$ 368,683</u>
<b>Operating Income (Loss)</b>	<u>\$ 11,583</u>	<u>\$ 5,204</u>	<u>\$ 16,787</u>
<b>Nonoperating Revenues</b>			
Interest income	<u>3,378</u>	<u>1,518</u>	<u>4,896</u>
<b>Change in Net Position</b>	<u>\$ 14,961</u>	<u>\$ 6,722</u>	<u>\$ 21,683</u>
<b>Net Position - January 1</b>	<u>4,112,105</u>	<u>1,637,226</u>	<u>5,749,331</u>
<b>Net Position - December 31</b>	<u><u>\$ 4,127,066</u></u>	<u><u>\$ 1,643,948</u></u>	<u><u>\$ 5,771,014</u></u>

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

*EXHIBIT A-3*

**COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Canosia</b>	<b>Grand Lake</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>			
Cash receipts from customers	\$ 264,132	\$ 118,668	\$ 382,800
Cash paid to suppliers	(153,672)	(69,041)	(222,713)
Payments to employees	(12,063)	(5,420)	(17,483)
	<b>\$ 98,397</b>	<b>\$ 44,207</b>	<b>\$ 142,604</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Special assessments received from towns	\$ 123,061	\$ 53,136	\$ 176,197
Principal paid on behalf of towns for long-term debt	(137,000)	(68,105)	(205,105)
Interest paid on behalf of towns for long-term debt	(15,712)	(7,250)	(22,962)
	<b>\$ (29,651)</b>	<b>\$ (22,219)</b>	<b>\$ (51,870)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Payments for capital assets	\$ (21,367)	\$ (9,599)	\$ (30,966)
<b>Cash Flows from Investing Activities</b>			
Interest income	\$ 3,378	\$ 1,518	\$ 4,896
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 50,757</b>	<b>\$ 13,907</b>	<b>\$ 64,664</b>
<b>Cash - January 1</b>	<b>455,873</b>	<b>(4,618)</b>	<b>451,255</b>
<b>Cash - December 31</b>	<b>\$ 506,630</b>	<b>\$ 9,289</b>	<b>\$ 515,919</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
	<b>\$ 11,583</b>	<b>\$ 5,204</b>	<b>\$ 16,787</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation	\$ 92,083	\$ 41,370	\$ 133,453
Decrease (increase) in receivables	5,931	2,664	8,595
Decrease (increase) in taxes receivable	(7,528)	(3,382)	(10,910)
Increase (decrease) in payables	(3,390)	(1,523)	(4,913)
Increase (decrease) in salaries payable	(37)	(16)	(53)
Decrease (increase) in prepaids	(245)	(110)	(355)
	<b>\$ 86,814</b>	<b>\$ 39,003</b>	<b>\$ 125,817</b>
<b>Total adjustments</b>	<b>\$ 86,814</b>	<b>\$ 39,003</b>	<b>\$ 125,817</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 98,397</b>	<b>\$ 44,207</b>	<b>\$ 142,604</b>

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Internal Controls/Segregation of Duties

**Criteria:** Management 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, management 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 Pike Lake Area Wastewater Collection System's financial records to the financial statements as reported. These adjustments, which were determined to be material to the financial statements, affected assets, expenses, and net position.

**Context:** It is not unusual for an organization the size of the Pike Lake Area Wastewater Collection System to be limited in the internal control that management can design and implement into the organization.

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

**Cause:** 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.

**Recommendation:** Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Directors and management be mindful that limited staffing causes inherent risks in safeguarding the Pike Lake Area Wastewater Collection System's assets and the proper reporting of its financial activity. We recommend the Board of Directors and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*The Board of Directors of Pike Lake Area Wastewater Collection System is very aware of their limited staffing and segregation of duties.*

*Members of the Board are very diligent in reviewing the bank statements and Board Packet that is furnished each month by Evergreen Accounting. Bank statements are sent to the Treasurer of the Board from the bank and he sends them to Evergreen Accounting for reconciling. After reconciling, they are faxed back to him for review.*

*The Board packet that each member receives monthly contains – Balance sheet, profit and loss statement, cash flow statement, accounts receivable (over 90 days), accounts payable, general ledger printouts for the checking account and maintenance and supply, recap of checks printed for signing at the meeting, copies of large payables, etc. Evergreen Accounting meets with them at the Board meeting monthly. The packets are sent out a few days before the meeting so there is time to review them. The Treasurer gives a report on his findings and questions are asked and answered by him or Evergreen. Evergreen Accounting also gives an opinion on items that were out of the ordinary or items that came up during the month that the Board should be made aware of.*

*Checks are presented at the meeting for payment. Three Board members sign the checks.*

*The financial statements are backed up every night on and off sight.*

*The Board and management take great efforts to see that the Pike Lake Area Wastewater Collection System's assets are well protected and will continue to keep a diligent eye on the handling of these assets.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **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 Directors  
Pike Lake Area Wastewater Collection System

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 Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pike Lake Area Wastewater Collection System's basic financial statements, and have issued our report thereon dated February 10, 2014.

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

In planning and performing our audit of the financial statements, we considered the Pike Lake Area Wastewater Collection System'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 Pike Lake Area Wastewater Collection System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pike Lake Area Wastewater Collection 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 material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not 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 Pike Lake Area Wastewater Collection 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because there were no applicable procurements and for public indebtedness because there is no debt.

In connection with our audit, nothing came to our attention that caused us to believe that the Pike Lake Area Wastewater Collection System failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Pike Lake Area Wastewater Collection System's noncompliance with the above referenced provisions.

## **Other Matters**

The Pike Lake Area Wastewater Collection System's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The Pike Lake Area Wastewater Collection System's response was not subject to audit 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 over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the result of that testing, and not to provide an opinion on the effectiveness of the Pike Lake Area Wastewater Collection System'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 Pike Lake Area Wastewater Collection System'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

February 10, 2014