

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOFTE-SCHROEDER SANITARY
SEWER DISTRICT
TOFTE, MINNESOTA**

For the Year Ended December 31, 2004



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

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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

<u>Board of Managers</u>	<u>Term Ending</u>
Richard Anderson, Chair	January 1, 2007
David Rude, Vice Chair	January 1, 2008
Gary Kettleon, Treasurer	January 1, 2008
Paul James, Member	January 1, 2006
Bruce Martinson, Member	January 1, 2006
<u>Board Secretary (Non-Voting)</u>	
Karen Evens	Appointed

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Managers
Tofte-Schroeder Sanitary Sewer District

We have audited the basic financial statements of the Tofte-Schroeder Sanitary Sewer District as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the District'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. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Tofte-Schroeder Sanitary Sewer District as of December 31, 2004, 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.

As discussed in the notes to the financial statements, the Tofte-Schroeder Sanitary Sewer District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Tofte-Schroeder Sanitary Sewer District has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 1, 2005

BASIC FINANCIAL STATEMENTS

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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

EXHIBIT A

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets

Current assets

Cash	\$ 53,424
Taxes receivable	4,386

Total Assets	\$ 57,810
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Liabilities

Current liabilities

Accounts payable	\$ 1,373
Accrued interest payable	1,641
Deferred revenue	1,443
General obligation revenue notes - Public Facilities Authority	20,000

Total current liabilities	\$ 24,457
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Noncurrent liabilities

General obligation revenue notes - Public Facilities Authority	135,000
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Total Liabilities	\$ 159,457
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Net Assets

Unrestricted	\$ (101,647)
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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

EXHIBIT B

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2004**

Operating Expenses	
Board expenses	\$ 2,250
Bank charges	50
Postage	36
Insurance	120
Training	203
Clerical	40
Legal fees	957
Audit	2,870
Data base	600
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Total Operating Expenses	\$ 7,126
	<hr/>
Net Operating Income (Loss)	\$ (7,126)
	<hr/>
Nonoperating Revenues (Expenses)	
Property taxes and aids	\$ 59,087
Interest expense	(5,271)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 53,816
	<hr/>
Change in Net Assets	\$ 46,690
	<hr/>
Net Assets - January 1	(148,337)
	<hr/>
Net Assets - December 31	\$ (101,647)
	<hr/> <hr/>

**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

EXHIBIT C

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004**

Cash Flows from Operating Activities	
Cash paid to suppliers	\$ <u>(8,738)</u>
Cash Flows from Noncapital Financing Activities	
Property tax levy and aids	\$ 59,381
Principal paid on Public Facilities Authority general obligation note	(69,000)
Interest paid on Public Facilities Authority general obligation note	<u>(6,002)</u>
Net cash provided by (used for) noncapital financing activities	\$ <u>(15,621)</u>
Net Increase (Decrease) in Cash	\$ (24,359)
Cash - January 1	<u>77,783</u>
Cash - December 31	\$ <u><u>53,424</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Net operating income (loss)	\$ (7,126)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Changes in assets and liabilities	
Increase (decrease) in payables	<u>(1,612)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>(8,738)</u></u>

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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The accounting policies of the Tofte-Schroeder Sanitary Sewer District conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Tofte-Schroeder Sanitary Sewer District was formed pursuant to Minn. Stat. §§ 115.18-115.37. 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 within the District. The District is governed by a five-member Board which consists of two members appointed by the Town of Tofte, two members appointed by the Town of Schroeder, and one member elected at large. Each member of the Board must be a voter residing in the District.

The District is a primary government, as defined by Governmental Accounting Standards Board (GASB) Statement 14, and there are no component units for which the District is financially accountable.

B. Basis of Presentation

The financial statements combine fund level financial statements (enterprise fund) and government-wide financial statements (business-type activities) into a single column presentation. These statements include all financial activities of the District.

The accounts of the Tofte-Schroeder Sanitary Sewer District are presented as an enterprise fund. Enterprise funds are used to account for operations that are 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.

**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Assets, Liabilities, and Net Assets

Cash

Cash consists of a checking account.

Taxes Receivable and Revenue

A property tax levy was established to finance operations effective in 2001. In Minnesota, counties act as collection agents for all property taxes. Tax settlements are received four times each year--in January, June, July, and December. The tax levy is recognized as revenue in the year of the levy.

General Obligation Revenue Notes Payable - Minnesota Public Facilities Authority

General obligation revenue notes payable include amounts drawn down from the Minnesota Public Facilities Authority in the design and engineering phase of the project that have not yet been repaid.

Net Assets Deficit

The District has deficit net assets of \$101,647 as of December 31, 2004. The deficit will be eliminated in future periods with property tax levies.

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

**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Use of Estimates (Continued)

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.

F. Change in Accounting Principle

The District implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the District to change the format and content of the financial statements.

2. Detailed Notes

A. Deposits

Minn. Stat. § 118A.02 authorizes the District to deposit its cash and to invest in certificates of deposit in financial institutions designated by the District's Board. At December 31, 2004, District deposits totaled \$57,134, all of which were cash deposits insured as required by Minnesota statutes. The carrying value of these deposits was \$53,424.

B. Long-Term Debt

The following is a summary of changes in the District's long-term debt for the year ended December 31, 2004.

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Due Within One Year
Public Facilities Authority General obligation notes	\$ 224,000	\$ -	\$ 69,000	\$ 155,000	\$ 20,000

Long-term debt comprises the following:

\$450,000 General Obligation Revenue Note issued to the Public Facilities Authority. Note payments are due semi-annually on February and August 20, 2003 through 2011, at an interest rate of 2.93 percent. So far, \$230,481 has been drawn on this note.

**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

2. Detailed Notes

B. Long-Term Debt (Continued)

Due to a lack of funding for the project, the note from the Public Facilities Authority was closed at the December 16, 2002, Board meeting. Construction of the project has been suspended indefinitely.

A summary of the annual requirements needed to service the long-term debt at December 31, 2004, is as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 20,000	\$ 4,542	\$ 24,542
2006	21,000	3,955	24,955
2007	22,000	3,340	25,340
2008	22,000	2,696	24,696
2009	23,000	2,051	25,051
2010 - 2011	47,000	2,080	49,080
Total	<u>\$ 155,000</u>	<u>\$ 18,664</u>	<u>\$ 173,664</u>

The general obligation notes will be retired with property taxes and are exempt from the limitations on net debt imposed by Minnesota law.

3. Risk Management

The District has limited exposure to risks of loss because it has no employees and has no significant insurable assets. The District has purchased commercial insurance to insure the Board of Managers against liability claims. There have been no insurance claims.

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**TOFTE-SCHROEDER SANITARY SEWER DISTRICT
TOFTE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

FINANCIAL STATEMENT AUDIT--INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-1 Segregation of Duties

Due to the limited number of administrative personnel, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Tofte-Schroeder Sanitary Sewer District; however, the Board of Managers should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Segregation of duties is defined as an arrangement of responsibilities such that the work of one employee is checked by another. Ideally, no single individual should be able to:

- authorize a transaction,
- record the transaction and maintain related financial records, and
- have custody of assets.

We recommend that the Board of Managers be aware of the lack of segregation of the accounting functions and perform oversight procedures to ensure that District funds are adequately safeguarded.

Client's Response:

The Board of Managers is aware of this condition and will continue to monitor the operations of the District. Currently, all transactions, including bank reconciliations and financial statements, are being reviewed by the Board.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Members of the Board of Managers
Tofte-Schroeder Sanitary Sewer District

We have audited the basic financial statements of the Tofte-Schroeder Sanitary Sewer District as of and for the year ended December 31, 2004, and have issued our report thereon dated November 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the Tofte-Schroeder Sanitary Sewer District is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Tofte-Schroeder Sanitary Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide

assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 02-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

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 Local Government*, 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 Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Tofte-Schroeder Sanitary Sewer District complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Managers and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 1, 2005