

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**PRAIRIE LAKES MUNICIPAL SOLID
WASTE AUTHORITY
(A COMPONENT UNIT OF OTTER TAIL COUNTY)
FERGUS FALLS, MINNESOTA**

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.

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**PRAIRIE LAKES MUNICIPAL SOLID
WASTE AUTHORITY
(A COMPONENT UNIT OF OTTER TAIL COUNTY)
FERGUS FALLS, MINNESOTA**

Year Ended December 31, 2012



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

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Directors			
Larry Knutson	Member	Becker	December 2012
Doug Huebsch	Chair	Otter Tail	December 2012
Roger Froemming	Member	Otter Tail	December 2012
Gary Kneisl	Member	Todd	December 2012
Bill Stearns	Vice Chair	Wadena	December 2012
Officers			
Mike Hanan	Executive Director		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairie Lakes Municipal Solid Waste Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Prairie Lakes Municipal Solid Waste Authority, a component unit of Otter Tail County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority 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

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 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 September 25, 2013, on our consideration of Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 1

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

Assets

Current assets

Cash and pooled investments	\$ 1,364,509
Accounts receivable - net	151,061
Due from other governments	558,778
Due from primary government	143,760
	<hr/>

Total current assets **\$ 2,218,108**

Noncurrent assets

Capital assets	
Nondepreciable	\$ 3,167,311
Depreciable - net	6,131,573
	<hr/>

Total noncurrent assets **\$ 9,298,884**

Total Assets **\$ 11,516,992**

Liabilities

Current liabilities

Accounts payable	\$ 292,318
Advance from primary government - current	380,000
Contracts payable	193,441
Due to other governments	71,725
Due to primary government	88,928
	<hr/>

Total current liabilities **\$ 1,026,412**

Noncurrent liabilities

Advance from primary government	9,690,000
	<hr/>

Total Liabilities **\$ 10,716,412**

Net Position

Net investment in capital assets	\$ 586,809
Unrestricted	213,771
	<hr/>

Total Net Position **\$ 800,580**

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 2

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

Operating Revenues	
Charges for services	<u>\$ 4,197,596</u>
Operating Expenses	
Professional services	\$ 68,527
Contracted services	1,023,111
Office	115,552
Chemicals and consumables	291,548
Utilities	1,103,564
Insurance	160,200
Repairs and maintenance	458,713
Transportation and disposal	470,926
Depreciation	<u>619,278</u>
Total Operating Expenses	<u>\$ 4,311,419</u>
Operating Income (Loss)	<u>\$ (113,823)</u>
Nonoperating Revenues (Expenses)	
Intergovernmental	
State	
Pollution Control Agency	\$ 395,799
Investment income	11,789
Interest expense	<u>(418,067)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (10,479)</u>
Income (Loss) Before Capital Contributions	<u>\$ (124,302)</u>
Capital contributions	<u>500,000</u>
Change in net position	<u>\$ 375,698</u>
Net Position - January 1	<u>424,882</u>
Net Position - December 31	<u><u>\$ 800,580</u></u>

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 4,225,293
Payments to suppliers	<u>(3,568,372)</u>
Net cash provided by (used in) operating activities	<u>\$ 656,921</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 509,590
Principal paid on advance	(405,000)
Principal paid on capital lease	(13,393)
Interest paid on long-term debt	(420,248)
Purchases of capital assets	<u>(2,070,262)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (2,399,313)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 12,101</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,730,291)
Cash and Cash Equivalents - January 1	<u>3,094,800</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,364,509</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (113,823)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 619,278
(Increase) decrease in accounts receivable	25,098
(Increase) decrease in due from other governments	(9,747)
(Increase) decrease in due from primary government	12,346
Increase (decrease) in accounts payable	119,961
Increase (decrease) in due to other governments	(1,594)
Increase (decrease) in due to primary government	<u>5,402</u>
Total adjustments	<u>\$ 770,744</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 656,921</u></u>

The notes to the financial statements are an integral part of this statement.

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Summary of Significant Accounting Policies

Prairie Lakes Municipal Solid Waste Authority's (Prairie Lakes) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Prairie Lakes are discussed below.

A. Financial Reporting Entity

Prairie Lakes is a joint enterprise operation of Becker, Otter Tail, Todd, and Wadena Counties (the Counties). Prairie Lakes was established by a Joint Powers Agreement dated May 4, 2010, pursuant to Minn. Stat. § 471.59, Joint Powers Act.

Each of the Counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400, to provide for the management and disposal of solid waste in its respective county. It is the intention of the Counties to cooperate in a joint venture to operate and manage a waste management system within the Counties. This purpose, without limitation, shall include ownership and operation of the Perham Resource Recovery Facility. The facility is located in Perham, Minnesota, and the administrative office is located in Fergus Falls, Minnesota. Prairie Lakes also has a Management Agreement with the City of Perham for the operations of the facility. They are located in the City of Perham offices in Perham, Minnesota.

Prairie Lakes is governed by a five-member Board of Directors--one member appointed from Becker, Todd, and Wadena Counties and two from Otter Tail County. Receipts and disbursements for the day-to-day operations are recorded by the City of Perham as a fund in their general ledger. Receipts and disbursements related to the expansion of the facility are recorded in the Prairie Lakes Municipal Solid Waste Authority Fund by Otter Tail County. Contribution percentages for the Counties were set up in the Joint Powers Agreement as follows: Becker - 26.42 percent, Otter Tail - 45.26 percent, Todd - 16.19 percent, and Wadena - 12.13 percent.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Prairie Lakes is a component unit of Otter Tail County because Otter Tail County is financially accountable for Prairie Lakes. Prairie Lakes' financial statements are discretely presented in the Otter Tail County financial statements.

B. Basic Financial Statements

The accounts of Prairie Lakes are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activities of Prairie Lakes. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or incidental activities. Prairie Lakes' net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

C. Measurement Focus and Basis of Accounting

Prairie Lakes' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is Prairie Lakes' policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments. Prairie Lakes' cash is pooled and invested with Otter Tail County and the City of Perham and is treated as a cash equivalent because Prairie Lakes can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Prairie Lakes Fund. Otter Tail County and the City of Perham obtain collateral to cover the deposits in excess of insurance coverage.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Prairie Lakes does not have a formal policy in place to define capital assets. Instead, they currently use the capital asset listing developed by the City of Perham at the time of the sale of the facility from the City of Perham to the Counties. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, Prairie Lakes did not have any capitalized interest.

Property, plant, and equipment of Prairie Lakes are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Machinery, furniture, equipment, and vehicles	3 - 20

4. Liabilities

Long-term liabilities consist of an advance from the primary government.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Equity Classifications

Equity is classified as net position. Unrestricted net position is net position that do not meet the definition of “restricted” or “net investment in capital assets.”

E. Operating Revenues and Expenses

Prairie Lakes’ statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, investment income, grants, and contributions received for purposes other than for capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

F. Use of Estimates

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

Prairie Lakes’ total cash and cash equivalents are reported as follows:

Cash and pooled investments	\$ 1,364,509
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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Prairie Lakes is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Prairie Lakes is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Prairie Lakes' deposits may not be returned to it. Prairie Lakes does not have a deposit policy for custodial credit risk. As of December 31, 2012, its deposits were not exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 151,061	\$ -
Due from other governments	558,778	-
Due from primary government	143,760	-
Total	\$ 853,599	\$ -

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 25,489	\$ -	\$ -	\$ 25,489
Construction in progress	960,854	2,180,968	-	3,141,822
Total capital assets not depreciated	\$ 986,343	\$ 2,180,968	\$ -	\$ 3,167,311
Capital assets depreciated				
Buildings	\$ 5,563,415	\$ -	\$ -	\$ 5,563,415
Machinery, furniture, and equipment	1,548,682	-	-	1,548,682
Total capital assets depreciated	\$ 7,112,097	\$ -	\$ -	\$ 7,112,097
Less: accumulated depreciation for				
Buildings	\$ 269,828	\$ 462,562	\$ -	\$ 732,390
Machinery, furniture, and equipment	91,418	156,716	-	248,134
Total accumulated depreciation	\$ 361,246	\$ 619,278	\$ -	\$ 980,524
Total capital assets depreciated, net	\$ 6,750,851	\$ (619,278)	\$ -	\$ 6,131,573
Capital Assets, Net	\$ 7,737,194	\$ 1,561,690	\$ -	\$ 9,298,884

Depreciation expense for the year was \$ 619,278.

B. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

Accounts	\$ 292,318
Contracts	193,441
Due to other governments	71,725
Due to primary government	88,928
Total Payables	<u>\$ 646,412</u>

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. Advance From Primary Government

Prairie Lakes Municipal Solid Waste Authority has entered into an advance arrangement with Otter Tail County. The County issued \$10,475,000 in General Obligation Disposal System Revenue Bonds in order to finance the acquisition/expansion of the facility. The proceeds from the sale of these bonds were recognized by Otter Tail County. Prairie Lakes' advance payment back to the County is essentially equal to the principal and interest on the bonds for the year. The advance balance consists of the following at December 31, 2012:

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original</u>	<u>Balance</u>
Advance from primary government	2030	\$405,000 - 755,000	3.0 to 5.0	<u>\$ 10,475,000</u>	<u>\$ 10,070,000</u>

The future minimum obligations as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Future Minimum Obligations</u>
2013	\$ 788,132
2014	786,581
2015	789,656
2016	787,356
2017	784,756
2018 - 2022	3,918,063
2023 - 2027	3,909,559
2028 - 2030	<u>3,134,625</u>
Total future minimum advance payments	\$ 14,898,728
Less: amount representing interest	<u>(4,828,728)</u>
Advance Balance	<u>\$ 10,070,000</u>

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ 10,475,000	\$ -	\$ 405,000	\$ 10,070,000	\$ 380,000
Capital lease	13,393	-	13,393	-	-
Long-Term Liabilities	<u>\$ 10,488,393</u>	<u>\$ -</u>	<u>\$ 418,393</u>	<u>\$ 10,070,000</u>	<u>\$ 380,000</u>

4. Construction and Other Significant Commitments

Prairie Lakes has active construction project commitments as of December 31, 2012.

	Spent-to-Date	Remaining Commitment
WTE Expansion	\$ 565,912	\$ 13,109,661
MRF Expansion	225,986	3,573,161
Total	<u>\$ 791,898</u>	<u>\$ 16,682,822</u>

3. Risk Management

Prairie Lakes purchases commercial insurance coverage through Western National Mutual Insurance Company. Prairie Lakes pays an annual premium for its insurance coverage. Prairie Lakes retains the risk for the deductible portion of the policies, which is considered immaterial to the financial statements. At December 31, 2012, there are no other claims liabilities reported in the financial statements based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

4. Other Items

Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 4,573,308	\$ 4,197,596	\$ (375,712)
Operating Expenses	4,139,057	4,311,419	(172,362)
Operating Income (Loss)	\$ 434,251	\$ (113,823)	\$ (548,074)
Nonoperating Revenues (Expenses) and Contributions	(388,041)	489,521	877,562
Change in Net Position	\$ 46,210	\$ 375,698	\$ 329,488

5. Subsequent Events

Bond Issue

Otter Tail County issued \$19,380,000 General Obligation Waste Disposal Revenue Bonds, Series 2013A, on behalf of Prairie Lakes Municipal Solid Waste Authority.

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, 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

11-1 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect Prairie Lakes' assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place. Prairie Lakes Municipal Solid Waste Authority contracts with the City of Perham for administration and accounting services.

Condition: Due to the limited number of personnel performing the business functions of Prairie Lakes Municipal Solid Waste Authority, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. There is inadequate segregation of duties regarding the receipting and related processes: billing is not segregated from collection and accounting; detail A/R maintenance is not segregated from collections and general posting; and entries in cash receipts records is not segregated from general ledger entry responsibility.

Context: This is not unusual in operations the size of Prairie Lakes Municipal Solid Waste Authority; however, Prairie Lakes' management 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 internal control point of view.

Effect: Inadequate segregation of duties could adversely affect Prairie Lakes' ability to detect misstatements in a timely period by contracted employees in the normal course of performing their assigned functions.

Cause: The staffing size of the City of Perham (who performed many of the collection and accounting functions for Prairie Lakes through December 31, 2012) limits the internal control that management can design and implement into the organization.

Recommendation: We recommend that Prairie Lakes Municipal Solid Waste Authority officials and management be mindful that limited staffing increases the risks in safeguarding Prairie Lakes' assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed.

Client's Response:

2012 was a transition year for PLMSWA. Beginning in 2013, some of the billing is completed by PRRF and some by Otter Tail County staff. In both cases, copies of the billings are sent to the Otter Tail County Auditor's Office, and in all cases, payments are sent to the OTC Auditor's Office. The OTC Auditor's Office provides both the Solid Waste Office and the PRRF with information regarding who has paid and who has not. The Solid Waste Office and PRRF track receivables. While these modifications are important, the LMSWA Board is aware that having limited staff performing concentrated duties is not desirable. PLMSWA will continue to work to assure that oversight is available to ensure that internal control policies and procedures are being followed.

ITEMS ARISING THIS YEAR

12-1 Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Statement on Auditing Standards 115 defines 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 Prairie Lakes' financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to Prairie Lakes' financial statements. Otter Tail County, as well as the City of Perham, provide general ledgers which include certain accruals and other supporting information. These general ledgers are consolidated into one general ledger to facilitate the preparation of the financial statements.

Context: The inability to make all necessary accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Audit adjustments were necessary to record depreciation expense of \$619,278; reclassify \$419,050 in receipts from member counties from miscellaneous revenue to capital contributions to properly reflect additional funding provided by the members; and reclassify \$819,917 from unrestricted net position to net investment in capital assets to reflect the balance of net position not available for operations.

Cause: As of January 1, 2013, Prairie Lakes' no longer contracts with the City of Perham for management functions. Otter Tail County now assumes most of the duties that the City had previously provided. Following this change, there are some transactions that are infrequent and, thus, were overlooked in the preparation of the sources of information used to prepare the financial statements.

Recommendation: We recommend that Prairie Lakes' establish internal controls necessary to ensure their annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

PLMSWA will continue to work with Otter Tail County Auditor's staff (contracted to PLMSWA to provide Administrative Services, accounting, etc.) to establish and reinforce procedures to assure that postings and account activities reports are completed accurately. Review of monthly IFS reports is completed by staff from PLMSWA as well as Otter Tail County staff to review and to assure that postings are in accordance with general accounting principles and procedures.

12-2 Documenting and Monitoring Internal Controls

Criteria: Prairie Lakes' management is responsible for the internal controls over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Otter Tail County maintains narratives to document the controls in place over their significant transaction cycles for services they provide to Prairie Lakes. However, there is no formal risk assessment process in place to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure.

Context: Local governments tend to establish controls, but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

Causes: Lack of resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

Recommendation: Prairie Lakes' management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

PLMSWA Board and management is aware and has discussed the importance of reviewing and monitoring internal controls in regard to accounting practices. The purpose of these reviews is to identify and address any weaknesses, establish policies and procedures to address these weaknesses, and to monitor implementation of these policies and procedures.



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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 Directors
Prairie Lakes Municipal Solid Waste Authority

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 Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Prairie Lakes' basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Prairie Lakes' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prairie Lakes' 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 certain deficiencies in internal control over financial reporting that we consider to be a material weakness and significant deficiencies.

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 Prairie Lakes' 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 12-1 to be a material weakness.

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 11-1 and 12-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Lakes' 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 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.

In connection with our audit, nothing came to our attention that caused us to believe that Prairie Lakes 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 Prairie Lakes' noncompliance with the above referenced provisions.

Other Matters

Prairie Lakes' responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. Prairie Lakes' responses were not subject 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 Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of Prairie Lakes' 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 Prairie Lakes' 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

September 25, 2013