

# 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, 2009**

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

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

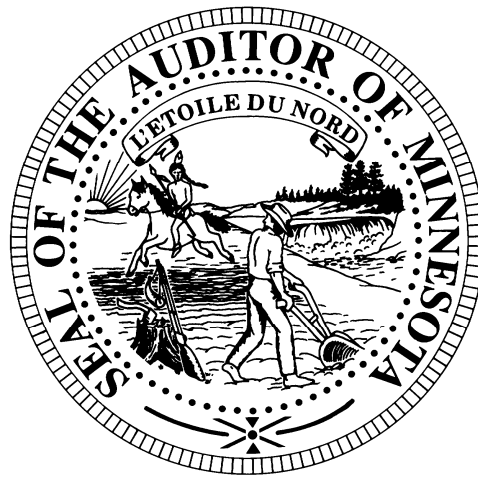
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**For the Year Ended December 31, 2009**



**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, 2009

<u>Board of Directors</u>	<u>Position</u>	<u>Township</u>	<u>Term Ending</u>
Duayne Anderson	Chair	Grand Lake	November 30, 2011
Kevin Comnick	Vice Chair	Canosia	March 31, 2011
Scott Campbell	Supervisor	Canosia	March 31, 2012
Louis Dubla	Supervisor	Canosia	March 31, 2010
John Holcomb	Supervisor	Grand Lake	November 30, 2011
Steve Torgeson	Supervisor	Grand Lake	November 30, 2011

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Pike Lake Area Wastewater Collection System

We have audited the accompanying basic financial statements of the Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Pike Lake Area Wastewater Collection System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pike Lake Area Wastewater Collection System as of December 31, 2009, 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.

The Pike Lake Area Wastewater Collection System 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.

Our audit was made for the purpose of forming opinions 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 financial statements of the Pike Lake Area Wastewater Collection System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2011, on our consideration of the Pike Lake Area Wastewater Collection System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 31, 2011

## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT A**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

**Assets**

**Current assets**

Cash	\$ 191,838
Taxes receivable	7,690
Accounts receivable	19,401
Due from other governments	170,515
Customer deposits	65
Assets restricted for debt service	
Cash	123,990
Assets restricted for capital replacement	
Cash	135,453

**Total current assets** **\$ 648,952**

**Capital assets**

Depreciable - net of accumulated depreciation	5,209,689
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**Total Assets** **\$ 5,858,641**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 9,329
Salaries payable	509

**Total Liabilities** **\$ 9,838**

**Net Assets**

Invested in capital assets	\$ 5,209,689
Restricted for	
Debt service	294,505
Capital replacement	135,453
Unrestricted	209,156

**Total Net Assets** **\$ 5,848,803**

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

**EXHIBIT B**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Operating Revenues</b>	
Charges for services	<u>\$ 339,192</u>
<b>Operating Expenses</b>	
Wages and benefits	\$ 36,822
Western Lake Superior Sanitary District fees	56,245
Operations and maintenance	114,581
Supplies	7,233
Travel	3,567
Professional services	47,250
Insurance	5,173
Rent and storage	5,400
Miscellaneous	1,005
Depreciation	<u>285,435</u>
<b>Total Operating Expenses</b>	<u>\$ 562,711</u>
<b>Operating Income (Loss)</b>	<b>\$ (223,519)</b>
<b>Nonoperating Revenues</b>	
Interest income	<u>7,203</u>
<b>Change in Net Assets</b>	<b>\$ (216,316)</b>
<b>Net Assets - January 1</b>	<u><b>6,065,119</b></u>
<b>Net Assets - December 31</b>	<u><u><b>\$ 5,848,803</b></u></u>

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

*EXHIBIT C*

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Cash Flows from Operating Activities</b>	
Cash receipts from customers	\$ 342,051
Cash paid to suppliers	(277,055)
Payments to employees	(37,099)
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 27,897</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Special assessments received from towns	\$ 203,550
Principal paid on behalf of towns for long-term debt	(258,262)
Interest paid on behalf of towns for long-term debt	(31,431)
	<hr/>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ (86,143)</b>
<b>Cash Flows from Investing Activities</b>	
Interest income	\$ 7,203
	<hr/>
<b>Net Increase (Decrease) in Cash</b>	<b>\$ (51,043)</b>
<b>Cash - January 1</b>	<b>502,324</b>
	<hr/>
<b>Cash - December 31</b>	<b>\$ 451,281</b>
	<hr/>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ (223,519)</b>
	<hr/>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities</b>	
Depreciation	\$ 285,435
Decrease (increase) in receivables	7,385
Decrease (increase) in taxes receivable	(4,760)
Decrease (increase) in customer deposits	234
Increase (decrease) in payables	(36,601)
Increase (decrease) in salaries payable	(277)
	<hr/>
<b>Total adjustments</b>	<b>\$ 251,416</b>
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<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 27,897</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, 2009**

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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 assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets.

C. Basis of Accounting

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

D. Assets and Liabilities

Cash

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

Accounts Receivable

Accounts receivable consists primarily of the December user charges.

Due From Other Governments

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

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

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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, 2009, the System's deposits totaled \$466,631, all of which were cash deposits insured as required by Minnesota statutes. The carrying value of these deposits was \$451,218. During 2009, 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, 2009, follows:

	Balance January 1	Additions	Deletions	Balance December 31
Capital assets depreciated				
Sewer lines	\$ 6,289,172	\$ -	\$ -	\$ 6,289,172
Lift stations	1,518,510	-	-	1,518,510
Equipment	155,275	-	-	155,275
Total capital assets depreciated	\$ 7,962,957	\$ -	\$ -	\$ 7,962,957
Less: accumulated depreciation for				
Sewer lines	\$ 1,057,234	\$ 125,783	\$ -	\$ 1,183,017
Lift stations	1,275,841	151,854	-	1,427,695
Equipment	134,758	7,798	-	142,556
Total capital assets depreciated	\$ 2,467,833	\$ 285,435	\$ -	\$ 2,753,268
Total Capital Assets, Net	\$ 5,495,124	\$ (285,435)	\$ -	\$ 5,209,689

C. Net Assets

Net assets are reported in three broad components--invested in capital assets, restricted, and unrestricted. In addition, the System's Board has designated a portion of unrestricted net assets for capital improvements. These designations are internal and can be changed by the System's Board. The amount designated for capital improvements at December 31, 2009, was \$100,000.

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**

**Statement 1**

**COMBINING STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

	<b>Canosia</b>	<b>Grand Lake</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash	\$ 279,730	\$ (87,892)	\$ 191,838
Taxes receivable	5,306	2,384	7,690
Accounts receivable	13,387	6,014	19,401
Due from other governments	115,358	55,157	170,515
Customer deposits	45	20	65
Assets restricted for debt service			
Cash	85,553	38,437	123,990
Assets restricted for capital replacement			
Cash	93,463	41,990	135,453
<b>Total current assets</b>	<b>\$ 592,842</b>	<b>\$ 56,110</b>	<b>\$ 648,952</b>
<b>Capital assets</b>			
Depreciable - net of accumulated depreciation	3,594,685	1,615,004	5,209,689
<b>Total Assets</b>	<b>\$ 4,187,527</b>	<b>\$ 1,671,114</b>	<b>\$ 5,858,641</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,437	\$ 2,892	\$ 9,329
Salaries payable	351	158	509
<b>Total Liabilities</b>	<b>\$ 6,788</b>	<b>\$ 3,050</b>	<b>\$ 9,838</b>
<b><u>Net Assets</u></b>			
Invested in capital assets	\$ 3,594,685	\$ 1,615,004	\$ 5,209,689
Restricted for			
Debt service	200,911	93,594	294,505
Capital replacement	93,463	41,990	135,453
Unrestricted	291,680	(82,524)	209,156
<b>Total Net Assets</b>	<b>\$ 4,180,739</b>	<b>\$ 1,668,064</b>	<b>\$ 5,848,803</b>

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

**Statement 2**

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for services	<u>\$ 234,042</u>	<u>\$ 105,150</u>	<u>\$ 339,192</u>
<b>Operating Expenses</b>			
Wages and benefits	\$ 25,407	\$ 11,415	\$ 36,822
Western Lake Superior Sanitary District fees	38,809	17,436	56,245
Operations and maintenance	79,061	35,520	114,581
Supplies	4,991	2,242	7,233
Travel	2,461	1,106	3,567
Professional services	32,603	14,647	47,250
Insurance	3,569	1,604	5,173
Rent and storage	3,726	1,674	5,400
Miscellaneous	693	312	1,005
Depreciation	<u>196,950</u>	<u>88,485</u>	<u>285,435</u>
<b>Total Operating Expenses</b>	<u>\$ 388,270</u>	<u>\$ 174,441</u>	<u>\$ 562,711</u>
<b>Operating Income (Loss)</b>	<u>\$ (154,228)</u>	<u>\$ (69,291)</u>	<u>\$ (223,519)</u>
<b>Nonoperating Revenues</b>			
Interest income	<u>4,971</u>	<u>2,232</u>	<u>7,203</u>
<b>Change in Net Assets</b>	<u>\$ (149,257)</u>	<u>\$ (67,059)</u>	<u>\$ (216,316)</u>
<b>Net Assets - January 1</b>	<u>4,329,996</u>	<u>1,735,123</u>	<u>6,065,119</u>
<b>Net Assets - December 31</b>	<u><u>\$ 4,180,739</u></u>	<u><u>\$ 1,668,064</u></u>	<u><u>\$ 5,848,803</u></u>

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

*Statement 3*

**COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash receipts from customers	\$ 236,015	\$ 106,036	\$ 342,051
Cash paid to suppliers	(191,168)	(85,887)	(277,055)
Payments to employees	(25,598)	(11,501)	(37,099)
	<b>\$ 19,249</b>	<b>\$ 8,648</b>	<b>\$ 27,897</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Special assessments received from towns	\$ 120,854	\$ 82,696	\$ 203,550
Principal paid on behalf of towns for long-term debt	(188,385)	(69,877)	(258,262)
Interest paid on behalf of towns for long-term debt	(21,659)	(9,772)	(31,431)
	<b>\$ (89,190)</b>	<b>\$ 3,047</b>	<b>\$ (86,143)</b>
<b>Cash Flows from Investing Activities</b>			
Interest income	\$ 4,970	\$ 2,233	\$ 7,203
	<b>\$ (64,971)</b>	<b>\$ 13,928</b>	<b>\$ (51,043)</b>
<b>Net Increase (Decrease) in Cash</b>			
	<b>\$ 523,717</b>	<b>(21,393)</b>	<b>502,324</b>
<b>Cash - January 1</b>			
	<b>\$ 458,746</b>	<b>(7,465)</b>	<b>\$ 451,281</b>
<b>Cash - December 31</b>			
	<b>\$ 458,746</b>	<b>(7,465)</b>	<b>\$ 451,281</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
	<b>\$ (154,228)</b>	<b>\$ (69,291)</b>	<b>\$ (223,519)</b>
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities</b>			
Depreciation	\$ 196,950	\$ 88,485	\$ 285,435
Decrease (increase) in receivables	5,096	2,289	7,385
Decrease (increase) in taxes receivable	(3,284)	(1,476)	(4,760)
Decrease (increase) in customer deposits	161	73	234
Increase (decrease) in payables	(25,255)	(11,346)	(36,601)
Increase (decrease) in salaries payable	(191)	(86)	(277)
	<b>\$ 173,477</b>	<b>\$ 77,939</b>	<b>\$ 251,416</b>
<b>Total adjustments</b>			
	<b>\$ 173,477</b>	<b>\$ 77,939</b>	<b>\$ 251,416</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>			
	<b>\$ 19,249</b>	<b>\$ 8,648</b>	<b>\$ 27,897</b>

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Internal Control/Segregation of Duties

The Pike Lake Area Wastewater Collection System's Board of Directors is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Pike Lake Area Wastewater Collection System and its staffing limits the internal control that management can design and implement into the organization. The Board of Directors should be aware that segregation of duties is not adequate from an internal control point of view.

The Board of Directors is responsible for the accuracy and completeness of all financial records and related information. Also, the Board of Directors is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries in the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

The Board of Directors has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Pike Lake Area Wastewater Collection System. This decision was based on the availability of the System's staff and the cost benefit of using our expertise.

During our audit, we proposed an adjustment to convert the System's financial records to the financial statements as reported. This adjustment, which was determined to be material to the financial statements, increased assets and net assets, decreased expenses, and did not affect liabilities or revenues.

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

Client's Response:

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

*User Fee and Related Billings/Cash Receipts - Through October of 2009 monthly invoicing and cash receipts were processed by PLAWCS employee Carrie Torgeson. In late 2008 PLAWCS hired RRM Financial Services, Inc. to expand the oversight, provide general bookkeeping assistance and to expand controls. In late 2009 the arrangement with RRM Financial Services was expanded to include the day-to-day financial functions previously provided by part-time employee, Ms. Torgeson. Billing is processed in QuickBooks hosted on RRM Financial Services, Inc.'s secure, remote server. Billing and Accounts Receivable is reviewed monthly by the billing office and by the Board as part of the monthly Board meeting duties. Beginning in 2009, PLAWCS segregated cash handling duties related to customer billings between Carrie Torgeson (internal processing) and RRM Financial Services, Inc. which processes customer payments through the North Shore Bank of Commerce remote depository system. Customer payments were mailed to the PLAWCS P.O. Box until late 2009 and then to the FiOp PO Box for processing. Payment irregularities, customer questions and growing past due balances are followed up on directly with the customer on an as-needed basis. Customer-related notes are maintained in QuickBooks to aid in accurate processing.*

*Accounts Payable and Banking - Payables are received at the PLAWCS P.O. Box or sent electronically to PLAWCS by select vendors. The office manager reviews and approves all invoices, requesting backup and approval from key operational vendors, operation-related invoices following comparison with the PLAWCS budget currently in force. Upon approval, invoices are sent electronically, with the appropriate approval (initials) and coding, to the PLAWCS Bookkeeper for entry into QuickBooks. The Bookkeeper enters the payables, also comparing activity with the PLAWCS budget. Once entered into QuickBooks and compared with budget and supporting documentation they are prepared for printing. The Bookkeeper prepares the checks in QuickBooks and Carrie Torgeson prints the checks at the PLAWCS office and prepares the checks for presentation and signature by the Board at the regular monthly Board meeting. By the end of 2009 the complete financial function was attended to and covered by the Engagement between PLAWCS and RRM Financial Services, Inc.*

*A summary of all checks presented for signature, along with account balances, is provided to all Board members. Checks require one signature, however most disbursements are signed by a representative from each Township and one administrative representative - a total of three. Transfers are made monthly from the appropriate funds to cover the monthly disbursements. Bank accounts segregate funds into Operational funds, Debt Service funds and Capital funds; each with a sweep account that earns interest. Bank reconciliation duties are completed by RRM Financial Services, Inc., with the Board Chair receiving electronic copies of all bank reconciliation documents monthly for review.*

*Monthly Reporting and Communication - includes Budget versus Actual reporting, monthly financial statements from QuickBooks for current period and year-to-date, along with supporting schedules for accounts payable, accounts receivable and cash flow. The Board packet is provided electronically in advance to the Board for review and in hard-copy at the monthly Board meeting. The Bookkeeper regularly communicates with the Board Chair regarding financial transactions and user correspondence. NTS is contacted as necessary by the Board and the financial team for additional support for operations-related expenditures. The Board works in tandem with contractors to prepare, review and approve an annual budget, which is available to users and the public upon request. The annual budget includes expectations for operational costs, debt reduction and capital repairs and replacements. Extensive support is used to prepare and analyze the annual budget and ongoing activity is regularly compared to these assumptions to identify areas of possible divergence. All Board meetings are open to the Public.*

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

*Minimum Standards - PLAWCS attempts to ensure that all material transactions receive review by a minimum of three parties; typically Board, PLAWCS Treasurer and Bookkeeper. Full documentation is kept for all transactions.*

#### **PREVIOUSLY REPORTED ITEMS RESOLVED**

##### **Signature Requirements on Checks (08-2)**

In the prior year, the Pike Lake Area Wastewater Collection System was not properly following its disbursement controls. The System requires that checks contain three signatures: a signature of a Board Director from the Town of Canosia, a signature of a Board Director from the Town of Grand Lake, and the employee signature. In 2008, seven checks were found that did not contain three signatures.

##### **Resolution**

All checks tested as part of the 2009 audit contained the three signatures as required by the System's disbursement controls.

**Signature Cards (08-3)**

In 2008, the Pike Lake Area Wastewater Collection System did not update its signature cards after two Board Directors left the System's Board and were replaced by two new Board Directors.

**Resolution**

The System's signature cards are current and properly reflect the System's Board of Directors.



REBECCA OTTO  
STATE AUDITOR

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

Board of Directors  
Pike Lake Area Wastewater Collection System

We have audited the basic financial statements of the Pike Lake Area Wastewater Collection System as of and for the year ended December 31, 2009, and have issued our report thereon dated January 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 08-1 to be a material weakness.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except for public indebtedness since there was no debt issued or outstanding during 2009.

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 31, 2011