

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED DECEMBER 31,
2007 AND 2008

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 Years Ended December 31,
2007 and 2008**



**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, 2008**

<u>Board of Directors</u>	<u>Position</u>	<u>Township</u>	<u>Term Ending</u>
Duayne Anderson	Chair	Grand Lake	December 31, 2012
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	December 31, 2012
Steve Torgeson	Supervisor	Grand Lake	December 31, 2010

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REBECCA OTTO
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 years ended December 31, 2007 and 2008, 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 and for the years ended December 31, 2007 and 2008, 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 8, 2010, 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 8, 2010

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2008**

	2007	2008
<u>Assets</u>		
Current assets		
Cash	\$ 210,333	\$ 175,536
Taxes receivable	-	2,930
Accounts receivable	27,834	26,786
Due from other governments	19,604	84,372
Customer deposits	584	299
Assets restricted for debt service		
Cash	269,083	220,096
Assets restricted for capital replacement		
Cash	81,121	106,692
Total current assets	\$ 608,559	\$ 616,711
Capital assets		
Depreciable - net of accumulated depreciation	5,787,803	5,495,124
Total Assets	\$ 6,396,362	\$ 6,111,835
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 31,757	\$ 45,930
Salaries payable	-	786
Total Liabilities	\$ 31,757	\$ 46,716
<u>Net Assets</u>		
Invested in capital assets	\$ 5,787,803	\$ 5,495,124
Restricted for		
Debt service	288,687	304,468
Capital replacement	81,121	106,692
Unrestricted	206,994	78,835
Total Net Assets	\$ 6,364,605	\$ 6,065,119

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

EXHIBIT B

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008**

	2007	2008
Operating Revenues		
Charges for services	\$ 272,395	\$ 282,481
Operating Expenses		
Wages and benefits	\$ 42,370	\$ 32,987
Western Lake Superior Sanitary District fees	51,281	56,007
Operations and maintenance	89,802	179,899
Supplies	4,719	2,485
Travel	1,149	2,301
Professional services	6,982	6,712
Insurance	3,862	3,917
Rent and storage	5,115	5,345
Miscellaneous	20,187	14,121
Depreciation	292,679	292,679
Total Operating Expenses	\$ 518,146	\$ 596,453
Operating Income (Loss)	\$ (245,751)	\$ (313,972)
Nonoperating Revenues		
Interest income	17,606	14,486
Change in Net Assets	\$ (228,145)	\$ (299,486)
Net Assets - January 1	6,592,750	6,364,605
Net Assets - December 31	\$ 6,364,605	\$ 6,065,119

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

EXHIBIT C

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008**

	2007	2008
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 276,415	\$ 280,884
Cash paid to suppliers	(157,721)	(256,614)
Payments to employees	(42,370)	(32,201)
	\$ 76,324	\$ (7,931)
Net cash provided by (used in) operating activities		
Cash Flows from Noncapital Financing Activities		
Special assessments received from Towns	\$ 202,217	\$ 161,869
Principal paid on behalf of Towns for long-term debt	(189,000)	(192,000)
Interest paid on behalf of Towns for long-term debt	(37,075)	(34,637)
	\$ (23,858)	\$ (64,768)
Net cash provided by (used in) noncapital financing activities		
Cash Flows from Investing Activities		
Interest income	\$ 17,606	\$ 14,486
	\$ 17,606	\$ 14,486
Net Increase (Decrease) in Cash	\$ 70,072	\$ (58,213)
Cash - January 1	490,465	560,537
Cash - December 31	\$ 560,537	\$ 502,324
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
	\$ (245,751)	\$ (313,972)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	292,679	292,679
Decrease (increase) in receivables	4,604	1,048
Decrease (increase) in taxes receivable	-	(2,930)
Decrease (increase) in customer deposits	(584)	285
Increase (decrease) in payables	25,376	14,173
Increase (decrease) in salaries payable	-	786
	\$ 322,075	\$ 306,041
Total adjustments		
Net Cash Provided by (Used in) Operating Activities	\$ 76,324	\$ (7,931)

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

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.

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

1. Summary of Significant Accounting Policies (Continued)

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.

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.

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

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

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.

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.

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

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, 2007 and 2008, the System's deposits totaled \$571,230 and \$504,583, respectively, all of which were cash deposits insured as required by Minnesota statutes. The carrying value of these deposits was \$560,537 and \$502,324, respectively. During 2007 and 2008, the System had an adequate amount of insurance and collateral pledged to cover its deposits.

B. Capital Assets

A summary of the changes in capital assets for the years ended December 31, 2007 and 2008, follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
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	<u>\$ 7,962,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,962,957</u>
Less: accumulated depreciation for				
Sewer lines	\$ 805,667	\$ 125,784	\$ -	\$ 931,451
Lift stations	972,139	151,851	-	1,123,990
Equipment	104,669	15,044	-	119,713
Total capital assets depreciated	<u>\$ 1,882,475</u>	<u>\$ 292,679</u>	<u>\$ -</u>	<u>\$ 2,175,154</u>
Total Capital Assets, Net	<u>\$ 6,080,482</u>	<u>\$ (292,679)</u>	<u>\$ -</u>	<u>\$ 5,787,803</u>

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

2. Detailed Notes

B. Capital Assets (Continued)

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
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	<u>\$ 7,962,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,962,957</u>
Less: accumulated depreciation for				
Sewer lines	\$ 931,451	\$ 125,783	\$ -	\$ 1,057,234
Lift stations	1,123,990	151,851	-	1,275,841
Equipment	119,713	15,045	-	134,758
Total capital assets depreciated	<u>\$ 2,175,154</u>	<u>\$ 292,679</u>	<u>\$ -</u>	<u>\$ 2,467,833</u>
Total Capital Assets, Net	<u><u>\$ 5,787,803</u></u>	<u><u>\$ (292,679)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,495,124</u></u>

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. Amounts designated for capital improvements at December 31, 2007 and 2008, were \$60,000 and \$80,000, respectively.

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 audit period.

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SUPPLEMENTARY INFORMATION

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

Statement 1

**COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Canosia	Grand Lake	Total
<u>Assets</u>			
Current assets			
Cash	\$ 310,227	\$ (99,894)	\$ 210,333
Accounts receivable	19,205	8,629	27,834
Due from other governments	(6,507)	26,111	19,604
Customer deposits	403	181	584
Assets restricted for debt service			
Cash	185,667	83,416	269,083
Assets restricted for capital replacement			
Cash	55,973	25,148	81,121
Total current assets	\$ 564,968	\$ 43,591	\$ 608,559
Capital assets			
Depreciable - net of accumulated depreciation	3,993,584	1,794,219	5,787,803
Total Assets	\$ 4,558,552	\$ 1,837,810	\$ 6,396,362
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 21,912	\$ 9,845	\$ 31,757
<u>Net Assets</u>			
Invested in capital assets	\$ 3,993,584	\$ 1,794,219	\$ 5,787,803
Restricted for			
Debt service	179,160	109,527	288,687
Capital replacement	55,973	25,148	81,121
Unrestricted	307,923	(100,929)	206,994
Total Net Assets	\$ 4,536,640	\$ 1,827,965	\$ 6,364,605

**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, 2007**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
Operating Revenues			
Charges for services	<u>\$ 198,008</u>	<u>\$ 74,387</u>	<u>\$ 272,395</u>
Operating Expenses			
Wages and benefits	\$ 29,235	\$ 13,135	\$ 42,370
Western Lake Superior Sanitary District fees	35,384	15,897	51,281
Operations and maintenance	61,963	27,839	89,802
Supplies	3,256	1,463	4,719
Travel	793	356	1,149
Professional services	4,818	2,164	6,982
Insurance	2,665	1,197	3,862
Rent and storage	3,529	1,586	5,115
Miscellaneous	13,929	6,258	20,187
Depreciation	<u>201,949</u>	<u>90,730</u>	<u>292,679</u>
Total Operating Expenses	<u>\$ 357,521</u>	<u>\$ 160,625</u>	<u>\$ 518,146</u>
Operating Income (Loss)	<u>\$ (159,513)</u>	<u>\$ (86,238)</u>	<u>\$ (245,751)</u>
Nonoperating Revenues			
Interest income	<u>12,148</u>	<u>5,458</u>	<u>17,606</u>
Change in Net Assets	<u>\$ (147,365)</u>	<u>\$ (80,780)</u>	<u>\$ (228,145)</u>
Net Assets - January 1	<u>4,684,005</u>	<u>1,908,745</u>	<u>6,592,750</u>
Net Assets - December 31	<u><u>\$ 4,536,640</u></u>	<u><u>\$ 1,827,965</u></u>	<u><u>\$ 6,364,605</u></u>

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

Statement 3

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Canosia	Grand Lake	Total
Cash Flows from Operating Activities			
Cash receipts from customers	\$ 200,783	\$ 75,632	\$ 276,415
Cash paid to suppliers	(108,829)	(48,892)	(157,721)
Payments to employees	(29,235)	(13,135)	(42,370)
	\$ 62,719	\$ 13,605	\$ 76,324
Cash Flows from Noncapital Financing Activities			
Special assessments received from Towns	\$ 147,476	\$ 54,741	\$ 202,217
Principal paid on behalf of Towns for long-term debt	(130,000)	(59,000)	(189,000)
Interest paid on behalf of Towns for long-term debt	(25,581)	(11,494)	(37,075)
	\$ (8,105)	\$ (15,753)	\$ (23,858)
Cash Flows from Investing Activities			
Interest income	\$ 12,148	\$ 5,458	\$ 17,606
	\$ 66,762	\$ 3,310	\$ 70,072
Net Increase (Decrease) in Cash	\$ 66,762	\$ 3,310	\$ 70,072
Cash - January 1	485,105	5,360	490,465
Cash - December 31	\$ 551,867	\$ 8,670	\$ 560,537
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	\$ (159,513)	\$ (86,238)	\$ (245,751)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	201,949	90,730	292,679
Decrease (increase) in receivables	3,177	1,427	4,604
Decrease (increase) in customer deposits	(403)	(181)	(584)
Increase (decrease) in payables	17,509	7,867	25,376
	\$ 222,232	\$ 99,843	\$ 322,075
Net Cash Provided by (Used in) Operating Activities	\$ 62,719	\$ 13,605	\$ 76,324

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

Statement 4

**COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Canosia	Grand Lake	Total
<u>Assets</u>			
Current assets			
Cash	\$ 298,233	\$ (122,697)	\$ 175,536
Taxes receivable	2,022	908	2,930
Accounts receivable	18,482	8,304	26,786
Due from other governments	26,168	58,204	84,372
Customer deposits	206	93	299
Assets restricted for debt service			
Cash	151,866	68,230	220,096
Assets restricted for capital replacement			
Cash	73,617	33,075	106,692
Total current assets	\$ 570,594	\$ 46,117	\$ 616,711
Capital assets			
Depreciable - net of accumulated depreciation	3,791,636	1,703,488	5,495,124
Total Assets	\$ 4,362,230	\$ 1,749,605	\$ 6,111,835
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 31,692	\$ 14,238	\$ 45,930
Salaries payable	542	244	786
Total Liabilities	\$ 32,234	\$ 14,482	\$ 46,716
<u>Net Assets</u>			
Invested in capital assets	\$ 3,791,636	\$ 1,703,488	\$ 5,495,124
Restricted for			
Debt service	178,034	126,434	304,468
Capital replacement	73,617	33,075	106,692
Unrestricted	286,709	(127,874)	158,835
Total Net Assets	\$ 4,329,996	\$ 1,735,123	\$ 6,065,119

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

Statement 5

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
Operating Revenues			
Charges for services	<u>\$ 194,912</u>	<u>\$ 87,569</u>	<u>\$ 282,481</u>
Operating Expenses			
Wages and benefits	\$ 22,761	\$ 10,226	\$ 32,987
Western Lake Superior Sanitary District fees	38,645	17,362	56,007
Operations and maintenance	124,130	55,769	179,899
Supplies	1,715	770	2,485
Travel	1,588	713	2,301
Professional services	4,631	2,081	6,712
Insurance	2,703	1,214	3,917
Rent and storage	3,688	1,657	5,345
Miscellaneous	9,743	4,378	14,121
Depreciation	<u>201,949</u>	<u>90,730</u>	<u>292,679</u>
Total Operating Expenses	<u>\$ 411,553</u>	<u>\$ 184,900</u>	<u>\$ 596,453</u>
Operating Income (Loss)	<u>\$ (216,641)</u>	<u>\$ (97,331)</u>	<u>\$ (313,972)</u>
Nonoperating Revenues			
Interest income	<u>9,997</u>	<u>4,489</u>	<u>14,486</u>
Change in Net Assets	<u>\$ (206,644)</u>	<u>\$ (92,842)</u>	<u>\$ (299,486)</u>
Net Assets - January 1	<u>4,536,640</u>	<u>1,827,965</u>	<u>6,364,605</u>
Net Assets - December 31	<u>\$ 4,329,996</u>	<u>\$ 1,735,123</u>	<u>\$ 6,065,119</u>

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

Statement 6

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Canosia</u>	<u>Grand Lake</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash receipts from customers	\$ 193,810	\$ 87,074	\$ 280,884
Cash paid to suppliers	(177,064)	(79,550)	(256,614)
Payments to employees	(22,219)	(9,982)	(32,201)
Net cash provided by (used in) operating activities	<u>\$ (5,473)</u>	<u>\$ (2,458)</u>	<u>\$ (7,931)</u>
Cash Flows from Noncapital Financing Activities			
Special assessments received from Towns	\$ 123,229	\$ 38,640	\$ 161,869
Principal paid on behalf of Towns for long-term debt	(132,000)	(60,000)	(192,000)
Interest paid on behalf of Towns for long-term debt	(23,904)	(10,733)	(34,637)
Net cash provided by (used in) noncapital financing activities	<u>\$ (32,675)</u>	<u>\$ (32,093)</u>	<u>\$ (64,768)</u>
Cash Flows from Investing Activities			
Interest income	<u>\$ 9,997</u>	<u>\$ 4,489</u>	<u>\$ 14,486</u>
Net Increase (Decrease) in Cash	\$ (28,151)	\$ (30,062)	\$ (58,213)
Cash - January 1	<u>551,867</u>	<u>8,670</u>	<u>560,537</u>
Cash - December 31	<u><u>\$ 523,716</u></u>	<u><u>\$ (21,392)</u></u>	<u><u>\$ 502,324</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	<u>\$ (216,641)</u>	<u>\$ (97,331)</u>	<u>\$ (313,972)</u>
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	\$ 201,949	\$ 90,730	\$ 292,679
Decrease (increase) in receivables	723	325	1,048
Decrease (increase) in taxes receivable	(2,022)	(908)	(2,930)
Decrease (increase) in customer deposits	197	88	285
Increase (decrease) in payables	9,779	4,394	14,173
Increase (decrease) in salaries payable	542	244	786
Total adjustments	<u>\$ 211,168</u>	<u>\$ 94,873</u>	<u>\$ 306,041</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (5,473)</u></u>	<u><u>\$ (2,458)</u></u>	<u><u>\$ (7,931)</u></u>

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

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 numerous adjustments to convert the System's financial records to the financial statements as reported. These adjustments, which were determined to be material to the financial statements, decreased assets and net assets, increased liabilities and expenses, and did not affect revenues in 2007 and 2008.

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:

The Board has shifted responsibilities from internal processing of receivables and payables to allocating these duties to an outside consulting firm - RRM Financial Services, Inc., dba Fiop. Fiop, as an independent accounting firm, has responsibility for ensuring sufficient internal control and accounting accuracy.

08-2 Signature Requirement on Checks

As part of the Pike Lake Area Wastewater Collection System's disbursement controls, checks are to 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 totaling \$2,630.08 contained only one Board Director signature and the employee signature. Upon further review of the Pike Lake Area Wastewater Collection System's internal controls on signature requirements, we determined that the bank requires only one signature on checks from the Pike Lake Area Wastewater Collection System, and the System has no formal policy on the three-signature requirement.

We recommend that the Board develop a policy that identifies a signature requirement for the System's checks and that the Board follows this policy when signing checks. The Board should also update its banking information to reflect the signature requirement.

Client's Response:

As is recommended by Audit staff, the Board will adopt a formal policy to ensure that checks are signed according to PLAWCS policy of three signatures. In addition, the Board will advise the bank of our preference for three signatures.

08-3 Signature Cards

During 2008, two Board Directors left the Pike Lake Area Wastewater Collection System and were replaced by two new Board Directors. The Pike Lake Area Wastewater Collection System did not update its signature cards until February 2009.

We recommend that the Pike Lake Area Wastewater Collection System update the signature cards immediately when any changes to the Board occur. This is a key internal control designed to manage and reduce risk.

Client's Response:

The signature cards have been updated already and presently reflect proper Board authority. The Board will adopt a formal policy of updating the signature cards upon and change in the Board composition.

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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 years ended December 31, 2007 and 2008, and have issued our report thereon dated January 8, 2010. 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 of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 08-1 to 08-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 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 2007 or 2008.

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 responses to the significant deficiencies and material weakness identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the System's responses and, accordingly, we express no opinion on them.

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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 8, 2010