

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**

FROM INCEPTION THROUGH DECEMBER 31, 2011

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**

From Inception Through December 31, 2011



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

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

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Statement of Net Assets	1	4
Statement of Revenues, Expenses, and Changes in Net Assets	2	5
Statement of Cash Flows	3	6
Notes to the Financial Statements		7
Management and Compliance Section		
Schedule of Findings and Recommendations		16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		18

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

**ORGANIZATION
DECEMBER 31, 2011**

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Directors			
Larry Knutson	Member	Becker	December 2011
Doug Huebsch	Chair	Otter Tail	December 2011
Roger Froemming	Member	Otter Tail	December 2011
Gary Kneisl	Member	Todd	December 2011
Bill Stearns	Vice Chair	Wadena	December 2011
Officers			
Executive Director	Mike Hanan		Indefinite
Finance Officer	Patti Stokke		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

We have audited the basic financial statements of Prairie Lakes Municipal Solid Waste Authority, a component unit of Otter Tail County, from inception through December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of Prairie Lakes Municipal Solid Waste Authority. 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 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 Prairie Lakes Municipal Solid Waste Authority as of December 31, 2011, and the changes in its financial position and its cash flows from inception through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2012, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2012

/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 ASSETS
DECEMBER 31, 2011**

Assets

Current assets

Cash and pooled investments	\$	3,094,800
Accounts receivable - net		176,159
Due from other governments		72,282
Due from primary government		246,958
		246,958

Total current assets **\$ 3,590,199**

Noncurrent assets

Capital assets		
Nondepreciable	\$	986,343
Depreciable - net		6,750,851
		6,750,851

Total noncurrent assets **\$ 7,737,194**

Total Assets **\$ 11,327,393**

Liabilities

Current liabilities

Accounts payable	\$	255,092
Advance from primary government - current		405,000
Due to other governments		73,319
Due to primary government		85,707
Capital leases payable - current		13,393
		13,393

Total current liabilities **\$ 832,511**

Noncurrent liabilities

Advance from primary government		10,070,000
		10,070,000

Total Liabilities **\$ 10,902,511**

Net Assets

Invested in capital assets - net of related debt	\$	1,406,726
Unrestricted		(981,844)
		(981,844)

Total Net Assets **\$ 424,882**

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FROM INCEPTION THROUGH DECEMBER 31, 2011**

Operating Revenues	
Charges for services	<u>\$ 2,371,050</u>
Operating Expenses	
Professional services	\$ 6,179
Contracted services	613,681
Office	72,166
Chemicals and consumables	162,463
Utilities	641,874
Insurance	60,451
Repairs and maintenance	123,011
Transportation and disposal	272,476
Depreciation	<u>361,246</u>
Total Operating Expenses	<u>\$ 2,313,547</u>
Operating Income (Loss)	<u>\$ 57,503</u>
Nonoperating Revenues (Expenses)	
Investment income	\$ 17,122
Interest expense	<u>(249,743)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (232,621)</u>
Income (Loss) Before Capital Contributions	<u>\$ (175,118)</u>
Capital contributions	<u>600,000</u>
Change in net assets	<u>\$ 424,882</u>
Net Assets - Beginning	<u>-</u>
Net Assets - December 31	<u>\$ 424,882</u>

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FROM INCEPTION THROUGH DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 1,966,698
Payments to suppliers	<u>(1,692,071)</u>
Net cash provided by (used in) operating activities	<u>\$ 274,627</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 509,460
Proceeds from capital lease	26,504
Advance from primary government	10,475,000
Principal paid on capital lease	(13,111)
Interest paid on long-term debt	(178,590)
Purchases of capital assets	<u>(8,015,705)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 2,803,558</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 16,615</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,094,800
Cash and Cash Equivalents - Beginning	<u>-</u>
Cash and Cash Equivalents - December 31	<u>\$ 3,094,800</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ 57,503</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 361,246
(Increase) decrease in accounts receivable	(176,159)
(Increase) decrease in due from other governments	(72,282)
(Increase) decrease in due from primary government	(155,911)
Increase (decrease) in accounts payable	172,357
Increase (decrease) in due to other governments	73,319
Increase (decrease) in due to primary government	<u>14,554</u>
Total adjustments	<u>\$ 217,124</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 274,627</u>

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

Page 6

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

**NOTES TO THE FINANCIAL STATEMENTS
FROM INCEPTION THROUGH DECEMBER 31, 2011**

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) from inception through December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although Prairie Lakes has the option to apply FASB pronouncements issued after that date, Prairie Lakes has chosen not to do so. 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

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

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

1. Summary of Significant Accounting Policies

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

4. Liabilities

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

5. Equity Classifications

Equity is classified as net assets. Unrestricted net assets are net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

E. Operating Revenues and Expenses

Prairie Lakes’ statement of revenues, expenses, and changes in net assets 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.

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

2. Detailed Notes

A. Assets

1. Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 176,159	\$ -
Due from other governments	72,282	-
Due from primary government	246,958	-
Total	\$ 495,399	\$ -

2. Capital Assets

Capital asset activity from inception through the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ -	\$ 25,489	\$ -	\$ 25,489
Construction in progress	-	960,854	-	960,854
Total capital assets not depreciated	\$ -	\$ 986,343	\$ -	\$ 986,343
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	\$ -	\$ 269,828
Machinery, furniture, and equipment	-	91,418	-	91,418
Total accumulated depreciation	\$ -	\$ 361,246	\$ -	\$ 361,246
Total capital assets depreciated, net	\$ -	\$ 6,750,851	\$ -	\$ 6,750,851
Capital Assets, Net	\$ -	\$ 7,737,194	\$ -	\$ 7,737,194

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

2. Detailed Notes

A. Assets

2. Capital Assets (Continued)

Depreciation expense for the period was \$ 361,246.

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

Accounts	\$	255,092
Due to other governments		73,319
Due to primary government		85,707
Total Payables	\$	414,118

2. Advance From Primary Government

Prairie Lakes Municipal Solid Waste Authority has entered into an advance arrangement with Otter Tail County. The County agreed to issue \$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 will be 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, 2011:

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

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

2. Detailed Notes on All Funds

B. Liabilities

2. Advance From Primary Government (Continued)

The future minimum obligations as of December 31, 2011, were as follows:

Year Ending December 31	Future Minimum Obligations
2012	\$ 824,906
2013	788,132
2014	786,581
2015	789,656
2016	787,357
2017 - 2021	3,921,700
2022 - 2026	3,912,953
2027 - 2030	3,912,350
Total future minimum advance payments	\$ 15,723,635
Less: amount representing interest	(5,248,635)
Advance Balance	\$ 10,475,000

3. Capital Lease

Prairie Lakes, at the time of the purchase of the facility from the City of Perham, assumed a lease for financing the acquisition of a loader. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The capital lease consists of the following at December 31, 2011:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2007 loader	2012	Semi-annual	\$ 13,750	\$ 122,040	\$ 13,393

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

2. Detailed Notes on All Funds

B. Liabilities

3. Capital Lease (Continued)

The future minimum lease obligations as of December 31, 2011, were as follows:

Year Ending December 31	Future Minimum Obligations
2012	\$ 13,750
Less: amount representing interest	(357)
Capital Lease Balance	\$ 13,393

4. Changes in Long-Term Liabilities

Long-term liability activity from inception through the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ -	\$ 10,475,000	\$ -	\$ 10,475,000	\$ 405,000
Capital lease	-	39,272	25,879	13,393	13,393
Long-Term Liabilities	\$ -	\$ 10,514,272	\$ 25,879	\$ 10,488,393	\$ 418,393

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, 2011, 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

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 2,689,028	\$ 2,371,050	\$ (317,978)
Operating Expenses	<u>3,061,825</u>	<u>2,313,547</u>	<u>748,278</u>
Operating Income (Loss)	\$ (372,797)	\$ 57,503	\$ 430,300
Nonoperating Revenues (Expenses) and Contributions	<u>17,500</u>	<u>367,379</u>	<u>349,879</u>
Change in Net Assets	<u>\$ (355,297)</u>	<u>\$ 424,882</u>	<u>\$ 780,179</u>

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

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FROM INCEPTION THROUGH DECEMBER 31, 2011**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

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 size of the City of Perham and its staffing 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:

Prairie Lakes Municipal Solid Waste Authority's management is aware that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal accounting control point of view. Prairie Lakes Municipal Solid Waste Authority's management does concur with the recommendation and will work toward formalizing existing oversight procedures and will implement additional oversight procedures as necessary, to ensure that internal control policies and procedures are being followed as directed.



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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
Prairie Lakes Municipal Solid Waste Authority

We have audited the basic financial statements of Prairie Lakes Municipal Solid Waste Authority from inception through December 31, 2011, and have issued our report thereon dated September 24, 2012. 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

Management of Prairie Lakes is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Prairie Lakes' 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 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.

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 Prairie Lakes' financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Recommendations as item 11-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Lakes Municipal Solid Waste Authority'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 Political Subdivisions*, 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 Political Subdivisions* 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.

The results of our tests indicate that, for the items tested, Prairie Lakes Municipal Solid Waste Authority complied with the material terms and conditions of applicable legal provisions.

Prairie Lakes Municipal Solid Waste Authority's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit Prairie Lakes' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within Prairie Lakes Municipal Solid Waste Authority 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

September 24, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR