

PIKES BAY SANITARY DISTRICT

BAYFIELD, WISCONSIN

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

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Maitland, Singler & Van Vlack, S.C.

Certified Public Accountants

306 West Third Street - Suite 101

Ashland, Wisconsin 54806

(715) 682-5544

FAX (715) 682-5545

Mark A. Van Vlack, C.P.A.

Richard A. Setzke, C.P.A.

Anthony J. Singler, C.P.A.

Consultant

Charles K. Singler, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Pikes Bay Sanitary District
Bayfield, Wisconsin

We have audited the accompanying financial statements of the business-type activities of Pikes Bay Sanitary District as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Pikes Bay Sanitary District, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, except that management has elected not to present the required Management Discussion and Analysis as required by GASB 34.

Maitland, Singler + Van Vlack S.C.

Ashland, Wisconsin

June 15, 2017

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

STATEMENT OF NET POSITION
DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash in Checking | \$ 50,896 | \$ 43,632 |
| Cash in Savings and Investments | 432,440 | 401,284 |
| Interest Receivable | 387 | 255 |
| Accounts Receivable | 1,521 | 2,304 |
| Other Receivables | - | 1,957 |
| Prepaid Expenses | 3,941 | 2,789 |
| Total Current Assets | 489,185 | 452,221 |
| SPECIAL ASSESSMENTS RECEIVABLE | 38,187 | 53,207 |
| NOTES RECEIVABLE | 21,765 | 25,480 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Old Sewer Plant | 120,712 | 120,712 |
| Sewer Equipment and Improvements | 55,974 | 55,974 |
| Office Equipment | 2,452 | 2,452 |
| Trailer Court Area Improvements | 640,115 | 640,115 |
| Old Orchard Lane / Apple Hill | 67,407 | 52,932 |
| Easements | 2,163 | 2,163 |
| Total Property, Plant and Equipment | 888,823 | 874,348 |
| Less: Accumulated Depreciation | (228,369) | (212,689) |
| Net Property, Plant and Equipment in Service | 660,454 | 661,659 |
| INVESTMENT IN GREATER BAYFIELD | | |
| WASTE WATER TREATMENT PLANT | 1,897,196 | 1,897,196 |
| Less: Accumulated Amortization | (414,766) | (376,822) |
| Net Investment | 1,482,430 | 1,520,374 |
| Total Assets | \$ 2,692,021 | \$ 2,712,941 |
| LIABILITIES AND NET POSITION | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 13,732 | \$ 8,168 |
| Current Portion of Long-Term Debt | 37,026 | 36,171 |
| Accrued Expenses | 2,675 | 5,546 |
| Unearned Revenue | 10,742 | 4,473 |
| Total Current Liabilities | 64,175 | 54,358 |
| LONG-TERM DEBT (Less Current Maturities) | | |
| Note Payable - State of Wisconsin | | |
| Environmental Improvement Fund | 284,899 | 321,925 |
| Total Liabilities | 349,074 | 376,283 |
| NET POSITION | | |
| Invested in Capital Assets | 1,820,960 | 1,823,937 |
| Restricted | 432,440 | 401,284 |
| Unrestricted | 89,547 | 111,437 |
| Total Net Position | \$ 2,342,947 | \$ 2,336,658 |

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|-------------------------|
| OPERATING REVENUE | | |
| User Fees | \$ 110,058 | \$ 99,324 |
| Miscellaneous | <u>212</u> | <u>190</u> |
| Total Operating Revenue | <u>110,270</u> | <u>99,514</u> |
| OPERATING EXPENSES | | |
| Wages | 42,434 | 39,178 |
| Payroll Taxes | 3,344 | 3,251 |
| Professional Fees | 24,198 | 28,962 |
| Plant Repairs and Maintenance | 14,514 | 15,155 |
| Utilities | 3,874 | 3,499 |
| Depreciation and Amortization | 53,624 | 52,646 |
| Contract Service - GBWWTP | 22,340 | 24,131 |
| Insurance | 4,315 | 5,026 |
| Office Expenses | 2,136 | 1,662 |
| Other Expenses | <u>3,738</u> | <u>4,299</u> |
| Total Operating Expenses | <u>174,517</u> | <u>177,809</u> |
| Operating (Loss) | <u>(64,247)</u> | <u>(78,295)</u> |
| NON OPERATING REVENUES (EXPENSES) | | |
| Tax Levy | 60,533 | 59,963 |
| Connection Fees | 15,000 | 5,000 |
| Investment Income | 3,044 | 4,590 |
| Customer Contributions | - | 39,000 |
| Interest Expense | <u>(8,041)</u> | <u>(8,887)</u> |
| Total Non-Operating Revenues (Expenses) | <u>70,536</u> | <u>99,666</u> |
| INCREASE IN NET POSITION | 6,289 | 21,371 |
| NET POSITION, BEGINNING OF YEAR | <u>2,336,658</u> | <u>2,315,287</u> |
| NET POSITION, END OF YEAR | <u>\$ 2,342,947</u> | <u>\$ 2,336,658</u> |

The accompanying Notes to Financial Statements
are an integral part of those statements

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|--------------------|
| Operating Activities | | |
| Receipts from Customers and Users | \$ 119,279 | \$ 98,734 |
| Payments to Vendors | (70,703) | (73,663) |
| Payments to Employees | <u>(48,649)</u> | <u>(41,318)</u> |
| Net Cash (Used) by Operating Activities | <u>(73)</u> | <u>(16,247)</u> |
| Capital and Related Financing Activities | | |
| Acquisition and Construction of Capital Assets | (14,475) | (60,328) |
| Long Term Debt (Retired) | (36,171) | (35,335) |
| Interest Paid | (8,041) | (8,887) |
| Capital Contributions Received | - | 19,500 |
| Tax Levy Received | 60,533 | 59,963 |
| Connection Fees Received | 15,000 | 10,000 |
| Net Notes Receivable (Issued) Collected | <u>18,735</u> | <u>20,009</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>35,581</u> | <u>4,922</u> |
| Investing Activities | | |
| Investment Income Received | <u>2,912</u> | <u>4,780</u> |
| Net Increase (Decrease) in Cash | 38,420 | (6,545) |
| Cash at Beginning of Year | <u>444,916</u> | <u>451,461</u> |
| Cash at End of Year | <u>\$ 483,336</u> | <u>\$ 444,916</u> |
| Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities | | |
| Operating (Loss) | \$ (64,247) | \$ (78,295) |
| Depreciation and Amortization | 53,624 | 52,646 |
| (Increase) Decrease in | | |
| Customer / Other Receivables | 2,740 | 3,432 |
| Prepayments | (1,152) | 960 |
| Increase (Decrease) in | | |
| Accounts Payable | 5,564 | 5,384 |
| Accrued Expenses | (2,871) | 1,561 |
| Unearned Revenue | <u>6,269</u> | <u>(1,935)</u> |
| Net Cash (Used) by Operating Activities | <u>\$ (73)</u> | <u>\$ (16,247)</u> |

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 Nature of Business and Significant Accounting Policies

Nature of business:

Pikes Bay Sanitary District operates a sewage utility plant in the Town of Bayfield in Northern Wisconsin.

Significant accounting policies:

The accounting policies of Pikes Bay Sanitary District conform to generally accepted accounting principles applicable to governmental enterprise units. The following is a summary of the significant policies.

Basis of Accounting . The accrual basis of accounting is followed by Pikes Bay Sanitary District. Under this method of accounting, revenues are recognized when earned and expenses are recorded as liabilities when incurred.

Cash and Cash Equivalents . For purposes of the cash flows statement, and cash note, cash is any deposit of three months maturity or less.

Accounts Receivable . Accounts receivable are considered by management to be fully collectible and accordingly no allowance for doubtful accounts is considered necessary.

Fixed Assets . Plant and equipment is stated at cost. Depreciation has been provided using the straight-line method. See accompanying Note 5.

Use of Estimates . The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amount and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 Cash and Investments

The District is required to invest its funds in accordance with Wisconsin Statute 66.04(2) and 67.11(2).

Deposits: Deposits in banks are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000. In addition, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per entity above the amount provided by the FDIC. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available. At year-end the carrying amount of the District's deposits was \$483,336 and the bank balance was \$483,469. \$250,000 of the bank balance was covered by the FDIC, and the State Guarantee Fund covered the remaining \$233,469.

The District has not adopted the disclosure policies as they relate to custodial and interest rate risk.

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 Special Assessments

In 2009 the District started a plant expansion project to bring sewer services to customers in what is called the Trailer Court area. As part of this project property owners were charged a construction fee for this project. The total fee was \$100,800. The property owners were given an opportunity to pay the fee up front or finance the project through a special assessment over ten years at four percent interest. Of the \$100,800 original fee \$79,200 was special assessed to the property owners. The balance of \$21,600 was paid in full by property owners.

In 2015 the District extended services to what is called Old Orchard Lane. As part of this project, owners were assessed \$39,000 in fees; of this amount \$19,500 was paid up front with the remaining amount of \$19,500 subject to a special assessment over ten years at four percent interest.

The following is a schedule of special assessments to be collected in future years.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2017 | \$ 9,151 | \$ 1,477 | \$ 10,628 |
| 2018 | 6,574 | 1,074 | 7,648 |
| 2019 | 6,836 | 809 | 7,645 |
| 2020 | 1,788 | 534 | 2,322 |
| 2021 | 1,860 | 462 | 2,322 |
| 2022-2024 | <u>10,502</u> | <u>1,108</u> | <u>11,610</u> |
| Totals | <u>\$ 36,711</u> | <u>\$ 5,464</u> | <u>\$ 42,175</u> |

Note 4 Notes Receivable

During the years of 2010 through 2016, the District loaned \$62,171 of the funds to four customers to help finance their sewer construction costs. Terms of the notes and annual payments due October 1st each year including interest at 4% amortized over a ten-year period. The following is a schedule of note payments remaining to be collected in future years:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2017 | \$ 13,592 | \$ 700 | \$ 14,292 |
| 2018 | 3,616 | 327 | 3,943 |
| 2019 | 3,650 | 182 | 3,832 |
| 2020 | <u>907</u> | <u>36</u> | <u>943</u> |
| Totals | <u>\$ 21,765</u> | <u>\$ 1,245</u> | <u>\$ 23,010</u> |

Note 5 Property, Plant and Equipment

Additions and removals to the utility plant are recorded at cost. Depreciation is computed by the straight-line method over the estimated useful life of the assets. Depreciation expense for 2016 and 2015 was \$15,680 and \$14,702.

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 Property, Plant and Equipment (Continued)

Changes in Property, Plant and Equipment

| | Balances 01/01/16 | Additions | Removals | Balances 12/31/16 |
|----------------------------------|----------------------|------------|----------|----------------------|
| Original Sewer Utility Plant | \$ 120,712 | \$ - | \$ - | \$ 120,712 |
| Sewer Equipment and Improvements | 55,974 | - | - | 55,974 |
| Office Equipment | 2,452 | - | - | 2,452 |
| Trailer Court Area Improvements | 640,115 | - | - | 640,115 |
| Old Orchard Lane / Apple Hill | 52,932 | 14,475 | - | 67,407 |
| Easements | 2,163 | - | - | 2,163 |
| Accumulated Depreciation | (212,689) | (15,680) | - | (228,369) |
| Net Plant | \$ 661,659 | \$ (1,205) | \$ - | \$ 660,454 |

Note 6 Investment in Greater Bayfield Waste Water Treatment Plant

On March 26, 2004 Pikes Bay Sanitary District entered into a 50 year intermunicipal agreement with the City of Bayfield to construct a waste water treatment plant. As part of this agreement a commission was to be formed to own and operate the facility and to charge Pikes Bay Sanitary and the City of Bayfield for treatment of waste water. Early in 2007 legal ownership of the plant was transferred to the Greater Bayfield Waste Water Treatment Plant Commission. As of December 31, 2016 Pikes Bay Sanitary District's cost of this plant was \$1,897,196. Pikes Bay Sanitary District has recorded their costs as an investment on the Statement of Net Assets and has elected to amortize the cost of this investment over a 50 year period. Amortization expense for 2016 and 2015 was \$37,944 and \$37,944.

Note 7 Long-Term Debt

Long-term debt obligations of the District are as follows:

| | 2016 | 2015 |
|---|------------|------------|
| 2.365% Note Payable to the State of Wisconsin Environmental Improvement Fund, due in semi-annual installments dated May 1 and November 1 matures 5/1/2024 | \$ 321,925 | \$ 358,096 |
| Less current maturities | 37,026 | 36,171 |
| Net Long-term Debt | \$ 284,899 | \$ 321,925 |

PIKES BAY SANITARY DISTRICT
BAYFIELD, WISCONSIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 7 Long-Term Debt (Continued)

Total Aggregate maturities required for the retirement of long-term debt at December 31, 2016 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|-------------------|------------------|-------------------|
| 2017 | \$ 37,026 | \$ 7,176 | \$ 44,202 |
| 2018 | 37,902 | 6,290 | 44,192 |
| 2019 | 38,799 | 5,382 | 44,181 |
| 2020 | 39,716 | 4,454 | 44,170 |
| 2021 | 40,655 | 3,504 | 44,159 |
| 2022-2024 | <u>127,827</u> | <u>4,582</u> | <u>132,409</u> |
| Total | <u>\$ 321,925</u> | <u>\$ 31,388</u> | <u>\$ 353,313</u> |

Note 8 Restricted Net Assets

The bond issue requires the annual tax levy revenue be deposited and maintained in a debt service reserve account. The balance in this account at December 31, 2016 and 2015 is \$65,842 and \$34,870. The District has segregated a separate account for these funds.

Also the bond issue requires an amount of \$12,874 annually be deposited to an equipment replacement fund. As of December 31, 2016 the District has restricted \$125,093 for this purpose by segregating these funds in a separate bank account. This substantially satisfies the amount that should have been set aside as of December 31, 2016.

In addition the District has set aside \$241,505 of net position for future system needs.

Maitland, Singler & Van Vlack, S.C.

Certified Public Accountants

306 West Third Street - Suite 101

Ashland, Wisconsin 54806

(715) 682-5544

FAX (715) 682-5545

Mark A. Van Vlack, C.P.A.

Richard A. Setzke, C.P.A.

Anthony J. Singler, C.P.A.

Consultant

Charles K. Singler, C.P.A.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Generally Accepted Auditing Standards

To the Board of Commissioners
Pikes Bay Sanitary District
Bayfield, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the business-type activities of Pikes Bay Sanitary District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Pikes Bay Sanitary District's basic financial statements and have issued our report thereon dated June 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pikes Bay Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pikes Bay Sanitary District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and management's response, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* 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, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be a material weaknesses. 2016-001, 2016-002 and 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pikes Bay Sanitary District'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.

Pikes Bay Sanitary District's Response to Findings

Pikes Bay Sanitary District's response to the findings identified in our audit is described in the accompanying schedule of findings and management's response. Pikes Bay Sanitary District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pikes Bay Sanitary District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Matthias, Smigler & VanVleet S.C.

Ashland, Wisconsin
June 15, 2017

Pikes Bay Sanitary District

Schedule of Findings and Management's Response

Year Ended December 31, 2016

Section I - Financial Statement Findings

2016-001 Financial Accounting and Reporting

This matter was noted in prior year audits.

Condition . The District's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and notes. As part of our professional services for the year ended December 31, 2016, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Because the District relies on its auditors to provide the necessary understanding of current accounting and disclosure principles in the preparation of the financial statements, a material weakness exists in the District's internal controls.

Criteria . *Government Auditing Standards* consider the inability to report financial data reliably in accordance with accounting principles generally accepted in the United States (GAAP) to be an internal control weakness.

Effect . As a result of not having an individual trained in the preparation of GAAP basis financial statements, the District has an internal control problem.

Recommendation . We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response

We are aware how the above finding affects our internal control. We believe it is in the best interest of our organization to ask its auditors to draft the financial statements and accompanying notes to financial statements.

2016-002 Significant Audit Adjustments

Condition . The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements. During the audit, we proposed material adjustments to convert the District's financial records to the financial statements as reported.

Criteria . Controls should be in place to ensure accurate period-end financial reporting.

Effect . Without controls over procedures that will detect or prevent a misstatement when entering transactions or making adjustments to the financial statements, the financial statements may be misstated.

Recommendation . The District should reconcile all asset and liability accounts at year-end and make the appropriate journal entries to ensure accurate financial records are available for audit.

Pikes Bay Sanitary District

Schedule of Findings and Management's Response

Year Ended December 31, 2016

Section I - Financial Statement Findings (continued)

2016-002 Significant Audit Adjustments (continued)

Management's response

The District will continue to work on reducing the number of adjusting journal entries needed to be made at audit by reviewing current year audit adjusting entries and performing reconciliations.

2016-003 Segregation of Duties

Condition . The size of the office staff precludes a proper segregation of function to ensure adequate internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. This is not unusual in organizations this size, but the Board should continue to be aware of this condition and to realize the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under those conditions, the most effective controls lie in the Board's knowledge of matters relating to the district's operations; however, a significant deficiency exists in the organization's internal controls.

Criteria . The lack of proper segregation of duties is considered an internal control weakness.

Effect . As a result of not having a sufficient number of individuals in the accounting department to segregate duties, the district has an internal control weakness.

Recommendation . We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response

The District does not have the resources available to increase staff size and address this internal control deficiency. The Board and management are aware of the incompatible duties and will continue to provide oversight and monitor the district's operations.

Pikes Bay Sanitary District

Schedule of Prior Year's Findings

Year Ended December 31, 2016

Financial Statement Finding

See current Finding 2016-001