# STATE OF MINNESOTA

## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

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# EAST CENTRAL SOLID WASTE COMMISSION
# MORA, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

# 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 150 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 700 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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# EAST CENTRAL SOLID WASTE COMMISSION
# MORA, MINNESOTA

## Year Ended December 31, 2014

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

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**EAST CENTRAL SOLID WASTE COMMISSION**
**MORA, MINNESOTA**

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# Introductory Section

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**EAST CENTRAL SOLID WASTE COMMISSION**
**MORA, MINNESOTA**

ORGANIZATION
2014

| | Position | County | Term Expires |
|---|---|---|---|
| Board of Commissioners | | | |
| Richard Greene | Chair | Chisago | December 31, 2014 |
| Phil Peterson | Vice Chair | Mille Lacs | December 31, 2014 |
| Stephen Hallan | Treasurer | Pine | December 31, 2014 |
| Kim Smith | Member | Kanabec | December 31, 2014 |
| George Larson | Member | Isanti | December 31, 2014 |

Executive Director
Janelle Troupe

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# Financial Section

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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# INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

## Report on the Financial Statements

We have audited the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Central Solid Waste Commission as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*/s/Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 3, 2015

# MANAGEMENT’S DISCUSSION AND ANALYSIS

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**EAST CENTRAL SOLID WASTE COMMISSION**
**MORA, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)

## FINANCIAL HIGHLIGHTS

There are several items included in the financial highlights for 2014.

- Municipal solid waste (MSW) disposed of in the landfill was 91,087.61 tons. The demolition landfill took in 14,702 cubic yards.

- Landfill gas was sold to Southern Minnesota Municipal Power Agency for conversion into electricity. The income realized on this sale was $42,379.

## OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the East Central Solid Waste Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Commission's operating budget, and other management tools were used for this analysis.

The financial statements report information about the Commission using accrual accounting methods.

The financial statements include: a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents assets, liabilities, and net position, which is further broken down into investment in capital assets and unrestricted net position. The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets. The statement of cash flows presents the cash flows from operating activities, financing activities, capital and related activities, investment activities, and the net cash provided by (used in) operating activities. The statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Commission's staff from the detailed books and records of the Commission. The financial statements were audited and adjusted, if material, during the independent external audit process.

## SUMMARY OF ORGANIZATION AND BUSINESS

The East Central Solid Waste Commission was formed through a joint powers agreement in 1988 between the Minnesota Counties of Chisago, Isanti, Kanabec, Mille Lacs, and Pine. The Commission owns and operates an integrated solid waste management disposal system consisting of a municipal solid waste landfill (located in Arthur Township in Kanabec County); two transfer stations (one located near Cambridge in Isanti Township, Isanti County, and the other located near Hinckley in Mission Creek Township, Pine County); and an inactive compost facility (located adjacent to the municipal solid waste landfill).

## FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

As can be seen from the table below, total assets increased by $754,647, from $13,928,012 in 2013 to $14,682,659 in 2014. Liabilities increased by $505,266 in 2014 due to additional postclosure care requirements.

**Condensed Statement of Net Position**

| | | | Change | |
|---|---|---|---|---|
| | 2014 | 2013 | Dollar | Percent (%) |
| Assets | | | | |
| Current assets | $ 5,944,468 | $ 4,702,305 | $ 1,242,163 | 26.4 |
| Capital assets - net | 4,388,946 | 5,216,998 | (828,052) | (15.9) |
| Other assets | 4,349,245 | 4,008,709 | 340,536 | 8.5 |
| Total Assets | $ 14,682,659 | $ 13,928,012 | $ 754,647 | 5.4 |
| Liabilities | | | | |
| Current liabilities | $ 317,532 | $ 317,791 | $ (259) | (0.1) |
| Noncurrent liabilities | 6,051,705 | 5,546,180 | 505,525 | 9.1 |
| Total Liabilities | $ 6,369,237 | $ 5,863,971 | $ 505,266 | 8.6 |
| Net Position | | | | |
| Investment in capital assets | $ 4,388,946 | $ 5,216,998 | $ (828,052) | (15.9) |
| Unrestricted | 3,924,476 | 2,847,043 | 1,077,433 | 37.8 |
| Total Net Position | $ 8,313,422 | $ 8,064,041 | $ 249,381 | 3.1 |

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

| | 2014 Actual | 2014 Budget | 2013 Actual | Variance 2014 Actual to Budget (%) | Changes in Actual 2013 to 2014 Dollar | Changes in Actual 2013 to 2014 Percent (%) |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Operating revenues | $ 5,615,547 | $ 4,857,300 | $ 5,356,795 | 15.6 | $ 258,752 | 4.8 |
| Nonoperating revenues | 238,833 | 107,000 | 122,614 | 123.2 | 116,219 | 94.8 |
| Total Revenues | $ 5,854,380 | $ 4,964,300 | $ 5,479,409 | 17.9 | $ 374,971 | 6.8 |
| Expenses | | | | | | |
| Operating expenses | $ 5,578,689 | $ 4,909,469 | $ 4,985,261 | 13.6 | $ 593,428 | 11.9 |
| Nonoperating expenses | 26,310 | 27,000 | 27,448 | (2.6) | (1,138) | (4.1) |
| Total Expenses | $ 5,604,999 | $ 4,936,469 | $ 5,012,709 | 13.5 | $ 592,290 | 11.8 |
| Change in Net Position | $ 249,381 | $ 27,831 | $ 466,700 | 796.1 | $ (217,319) | (46.6) |
| Net Position - January 1 | 8,064,041 | 8,064,041 | 7,597,341 | - | 466,700 | 6.1 |
| Net Position - December 31 | $ 8,313,422 | $ 8,091,872 | $ 8,064,041 | 2.7 | $ 249,381 | 3.1 |

## Revenues

The Commission's operating revenues are derived from various sources: mixed municipal solid waste tipping fees, appliance disposal fees, electronics recycling fees, tire disposal fees, mattress disposal fees, and other miscellaneous tipping fees. Nonoperating income includes investment income and the sale of landfill gas to the Southern Minnesota Municipal Power Agency. Other income is partly comprised of refunds received from the Minnesota Counties Intergovernmental Trust for rebates.

Operating revenues were $5,615,547, a 4.8 percent increase over 2013. Total revenues were up 6.8 percent from 2013.

Total revenues were $890,080 more than budgeted with the major additions caused by an additional 11,067 tons of MSW being delivered over the budgeted amount of 80,000 tons. During the budget process, there was discussion of one hauler not signing a hauling contract and the State of Minnesota therefore not allowing the Commission to accept metro waste, so a lower number was budgeted. There was also a large amount of demolition delivered that was not anticipated adding $86,592 over the budgeted amount for demolition income. Nonoperating revenues were also higher than budgeted because of interest earned on the financial assurance account.

## Expenses

Operating expenses were up 11.9 percent, $593,428 higher than 2013, and 13.6 percent higher than budgeted.

Expenses such as Kanabec County host fee, Arthur Township host fee, and transfer stations operations contract with Patnode Trucking were all over budget because the expenses are in direct relation to the increased tonnage over budget. In addition to increased tonnage, 85,450 of the tons instead of the budgeted contract 77,000 tons were delivered under the hauling contract, increasing the hauler rebate. There were also increased equipment repairs including a new walking floor on a walking floor trailer and new wheels on the Bomag compactor.

## Budgetary Highlights

The Commission creates an annual operating budget, which includes proposed expenses and capital expenditures. Staff prepare the draft budget using historical information to determine operating expenses. This proposed draft budget is presented to the Board of Commissioners for review. Necessary changes are made to the draft budget before the Board approves the final budget. The Commission's operating budget remains in effect the entire year, but individual items in that budget may be revised. The Board is presented with detailed monthly financial statements; however, they are not reported on nor shown in the financial statement section of this report.

## Capital Assets

At the end of fiscal year 2014, the Commission had invested an additional $231,301 in capital assets. Major capital purchases for 2014 included continued expansion of gas wells in the landfill, landfill permitting, Cambridge fence, used Cat compactor, and a walking floor trailer.

Capital assets totaled $24,916,467 at December 31, 2014, versus $24,685,166 at December 31, 2013. These assets, after being decreased by accumulated depreciation, provided a net book value of $4,388,946 at December 31, 2014, and $5,216,998 at December 31, 2013.

## Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $5,966,255 and compensated absences payable of $85,450. The balance at year-end in the restricted asset for financial assurance was $4,349,245. Monthly deposits are made into the financial assurance fund and interest earned on that fund remains in the restricted asset.

## MSW Changes in Tonnage

Tonnage increased 2,437 tons, or 2.8 percent, from 2013.

## ECONOMIC AND OTHER FACTORS

The Commission considered many factors when setting the fiscal year 2014 budget.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2014, the budget was based on 80,000 tons of MSW being delivered; actual numbers were 91,088 tons.

## CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our five member counties, citizens of the five counties, commercial customers, and creditors with a general overview of the Commission's accountability of the revenue and expenses. If you have questions about this report or need additional financial information, contact the Executive Director/Fiscal Officer, Janelle Troupe, East Central Solid Waste Commission, 1756 - 180th Avenue, P. O. Box 29, Mora, Minnesota 55051, or at JanelleTroupe@gmail.com.

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# BASIC FINANCIAL STATEMENTS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

*EXHIBIT 1*

**STATEMENT OF NET POSITION**
**DECEMBER 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ | 5,396,605 |
| Accounts receivable | | 545,030 |
| Prepaid items | | 2,833 |
| **Total current assets** | **$** | **5,944,468** |
| **Noncurrent assets** | | |
| Assets restricted for financial assurance escrow account | | |
| Cash and investments | $ | 4,349,245 |
| Capital assets | | |
| Nondepreciable | | 519,741 |
| Depreciable - net | | 3,869,205 |
| **Total noncurrent assets** | **$** | **8,738,191** |
| **Total Assets** | **$** | **14,682,659** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | $ | 268,987 |
| Salaries payable | | 10,619 |
| Due to other governments | | 37,926 |
| **Total current liabilities** | **$** | **317,532** |
| **Noncurrent liabilities** | | |
| Compensated absences | $ | 85,450 |
| Estimated liability for landfill closure/postclosure | | 5,966,255 |
| **Total noncurrent liabilities** | **$** | **6,051,705** |
| **Total Liabilities** | **$** | **6,369,237** |
| **Net Position** | | |
| Investment in capital assets | $ | 4,388,946 |
| Unrestricted | | 3,924,476 |
| **Total Net Position** | **$** | **8,313,422** |

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

## EAST CENTRAL SOLID WASTE COMMISSION
## MORA, MINNESOTA

***EXHIBIT 2***

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
### FOR THE YEAR ENDED DECEMBER 31, 2014

| | | |
|---|---|---|
| **Operating Revenues** | | |
| Charges for services | $ | 5,583,668 |
| Miscellaneous | | 31,879 |
| **Total Operating Revenues** | **$** | **5,615,547** |
| **Operating Expenses** | | |
| Salaries and benefits | $ | 679,646 |
| Administration and overhead | | 4,283 |
| Professional services | | 252,192 |
| Contracted services | | 496,216 |
| Repair and maintenance | | 332,270 |
| Landfill operations | | 430,862 |
| Recycling | | 48,121 |
| Host fees | | 490,666 |
| Hauler rebate expense | | 1,196,302 |
| Utilities | | 70,247 |
| Insurance | | 50,049 |
| Miscellaneous | | 7,654 |
| Landfill closure and postclosure costs | | 460,828 |
| Depreciation | | 1,059,353 |
| **Total Operating Expenses** | **$** | **5,578,689** |
| **Operating Income (Loss)** | **$** | **36,858** |
| **Nonoperating Revenues (Expenses)** | | |
| Intergovernmental revenue | $ | 26,310 |
| Investment income (loss) | | 170,144 |
| Sale of landfill gas | | 42,379 |
| Household hazardous waste | | (26,310) |
| **Total Nonoperating Revenues (Expenses)** | **$** | **212,523** |
| **Change in Net Position** | **$** | **249,381** |
| **Net Position - January 1** | | **8,064,041** |
| **Net Position - December 31** | **$** | **8,313,422** |

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

## EAST CENTRAL SOLID WASTE COMMISSION
## MORA, MINNESOTA

***EXHIBIT 3***

### STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED DECEMBER 31, 2014
### Increase (Decrease) in Cash and Cash Equivalents

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers and users | $ | 5,554,713 |
| Payments to suppliers | | (3,332,391) |
| Payments to employees | | (679,584) |
| **Net cash provided by (used in) operating activities** | **$** | **1,542,738** |
| **Cash Flows from Noncapital Financing Activities** | | |
| Intergovernmental revenue | $ | 26,310 |
| Household hazardous waste payments to counties | | (26,310) |
| Payments to financial assurance account | | (340,536) |
| Proceeds from the sale of landfill gas | | 42,379 |
| **Net cash provided by (used in) noncapital financing activities** | **$** | **(298,157)** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchases of capital assets | **$** | **(231,301)** |
| **Cash Flows from Investing Activities** | | |
| Investment earnings received | **$** | **170,144** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **$** | **1,183,424** |
| **Cash and Cash Equivalents at January 1** | | **4,213,181** |
| **Cash and Cash Equivalents at December 31** | **$** | **5,396,605** |
| | | |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities** | | |
| **Operating income (loss)** | **$** | **36,858** |
| **Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities** | | |
| Depreciation expense | $ | 1,059,353 |
| (Increase) decrease in accounts receivable | | (58,739) |
| Increase (decrease) in accounts payable | | 29,196 |
| Increase (decrease) in salaries payable | | (27,399) |
| Increase (decrease) in due to other governments | | (2,056) |
| Increase (decrease) in compensated absences payable | | 44,697 |
| Increase (decrease) in landfill closure liability | | 460,828 |
| **Total adjustments** | **$** | **1,505,880** |
| **Net Cash Provided by (Used in) Operating Activities** | **$** | **1,542,738** |

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

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1. Summary of Significant Accounting Policies

The financial reporting policies of the East Central Solid Waste Commission conform to generally accepted accounting principles.

A. Financial Reporting Entity

The East Central Solid Waste Commission is a joint powers authority between Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties, formed under an agreement in 1988, which was entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

The Commission was formed to fulfill the counties' obligation pursuant to Minn. Stat. chs. 400 and 115A to provide for the management and disposal of solid waste in each respective county. It is the intention of the counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous five-county area in planning, management, and implementation of programs that deal with solid waste issues.

The Commission is governed by a Board of Commissioners composed of five members, one voting member from each county. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the county. In the absence of the voting member, the alternate votes.

The Commission is a separate entity independent of the counties that formed it. In accordance with generally accepted accounting principles, the Commission's financial statements are not included in any member county's financial statements. No single member county retains control over the operations or is financially accountable for the Commission.

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The Commission's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily by charges to users of that service, and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Accounting records are maintained on the accrual basis of accounting under which revenues are recorded when they are earned, and expenses are recorded when the corresponding liabilities are incurred.

D. Budgetary Data

The Commission adopts an annual budget prepared on the accrual basis of accounting.

E. Assets and Liabilities

1. Assets

Cash and Cash Equivalents

The Commission's cash consists of cash on hand, petty cash, checking accounts, savings accounts, money market mutual funds, and U.S. government agency securities. Investments are reported at their fair value at December 31, 2014, based on market value prices.

For the purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. These are reported as current assets. The cash balance restricted for the financial assurance escrow account is not considered to be a cash equivalent.

1. Summary of Significant Accounting Policies

   E. Assets and Liabilities

      1. Assets (Continued)

         Accounts Receivable

         No allowance was made for uncollectible accounts. The Commission uses the direct write-off method of recording uncollectible accounts receivable.

         Restricted Assets

         The Commission is required by bond agreements to maintain certain resources on deposit with its fiscal agent for future bond and interest payments and financial assurance requirements.

         Capital Assets

         It is the policy of the Commission to use the half-year convention for calculating the amount of depreciation to claim in the year an asset is purchased or first placed into service. Pursuant to this policy, all assets have one-half year of depreciation applied to them in the year the asset is purchased or first placed into service, regardless of the date when the asset is purchased or first placed into service. Capital assets are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for office furniture and equipment, 3 to 20 years for the landfill, 7 to 20 years for plant and equipment, and 5 to 20 years for transfer stations.

         In accordance with the vote of the Board of the East Central Solid Waste Commission on November 30, 1999, and pursuant to Resolution No. 1-99, it is the policy of the Commission to capitalize tangible capital assets greater than or equal to $1,000. Assets below this threshold are expensed in the year acquired.

         The Commission has tagged all tangible capital assets valued at $300 or more utilizing a numeric inventory control numbering system. On an annual basis, during the first quarter of the year, the Commission conducts a physical inventory of assets.

1. Summary of Significant Accounting Policies

E. Assets and Liabilities (Continued)

2. Liabilities

Long-term liabilities consist of compensated absences and closure and postclosure care costs for the landfill.

The compensated absences liability represents amounts for earned but unpaid vacation, unpaid compensatory time, and severance pay. Employees' unused sick leave that has reached 800 hours is included as a liability; individual employee's sick leave under 800 hours is not included as a liability as it does not vest. There is one employee that reached 800 hours and one employee that is very close to reaching 800 hours. Those hours have been included in compensated absences.

F. Classification of Net Position

Equity is classified as net position and displayed in three components:

1. Investment in capital assets - consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings (net of unspent related debt proceeds, if any) attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net position - consists of net position with constraints placed on its use either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net position - all other assets that do not meet the definition of "restricted" or "investment in capital assets." The Commission first utilizes restricted resources to finance qualifying activities.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as needed.

1. Summary of Significant Accounting Policies (Continued)

G. Revenues and Expenses

1. Revenues

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as miscellaneous sales and investment earnings, result from nonexchange transactions or incidental activities.

Charges for Services

Charges for services consist of tipping fees (fees charged to local refuse haulers) and are recognized as revenue when earned.

Other Revenues

Other revenues, such as material sales of recyclables and landfill gas along with miscellaneous revenues, are recognized when received in cash because they generally are not measurable until then. Investment income is recognized when earned.

2. Expenses

Enterprise funds recognize expenses when they are incurred.

H. 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.

1. Summary of Significant Accounting Policies (Continued)

   I. Future Change in Accounting Standards

   GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Commission's calendar year 2015. The Commission has not yet determined the financial statement impact of adopting the new standard.

2. Detailed Notes

   A. Assets

   1. Deposits and Investments

   a. Deposits

   The Commission's total cash and investments are reported as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 5,396,605 |
| Restricted assets | | |
| Financial assurance escrow account | | 4,349,245 |
| Total Cash and Investments | $ | 9,745,850 |

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2014, the Commission's deposits were not exposed to custodial credit risk.

b. Investments

The Commission may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

2. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

            (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

            (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

            (4) bankers' acceptances of United States banks;

            (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

            (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

            Interest Rate Risk

            Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

            Credit Risk

            Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Commission's investment in a single issuer.

The Commission does not have a policy addressing any of the above-listed risks.

The following table presents the Commission's deposit and investment balances at December 31, 2014, and information relating to potential investment risks:

| Investment Type | Credit Risk: Credit Rating | Credit Risk: Rating Agency | Concentration Risk: Percent of Portfolio | Interest Rate Risk: Maturity Date | Carrying (Fair) Value |
|---|---|---|---|---|---|
| Money Market | | | | | |
| Federated Government Obligations Tax-Managed Fund | NR | N/A | 4.2% | N/A | $ 181,364 |
| U.S. Government Agency Securities | | | | | |
| Federal Home Loan Bank Bonds | AAA | Moody | | 06/12/15 | $ 75,875 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 06/09/17 | 68,399 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 07/24/17 | 9,906 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 08/06/18 | 99,582 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 02/25/19 | 150,276 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 09/13/19 | 196,303 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 03/12/21 | 81,725 |
| Federal Home Loan Bank Bonds | AAA | Moody | | 12/01/21 | 68,576 |
| Total Federal Home Loan Bank Bonds | | | 17.3% | | $ 750,642 |

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk: Credit Rating | Credit Risk: Rating Agency | Concentration Risk: Percent of Portfolio | Interest Rate Risk: Maturity Date | Carrying (Fair) Value |
|---|---|---|---|---|---|
| U.S. Government Agency Securities (Continued) | | | | | |
| Federal Home Loan Mortgage Corporation | AAA | Moody | | 02/09/15 | $ 10,022 |
| Federal Home Loan Mortgage Corporation | AA+ | Moody | | 12/01/15 | 239,134 |
| Federal Home Loan Mortgage Corporation | AAA | Moody | | 07/28/17 | 24,991 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody | | 05/30/19 | 125,693 |
| Federal Home Loan Mortgage Corporation Note | AAA | Moody | | 01/13/22 | 303,087 |
| Federal Home Loan Mortgage Corporation Gold Pool | NR | N/A | | 02/01/24 | 24,659 |
| Federal Home Loan Mortgage Corporation Gold Pool | NR | N/A | | 09/01/24 | 41,657 |
| Federal Home Loan Mortgage Corporation | NR | N/A | | 03/15/27 | 63,021 |
| Federal Home Loan Mortgage Corporation Gold Pool | NR | N/A | | 06/01/40 | 37,591 |
| Federal Home Loan Mortgage Corporation Gold Pool | NR | N/A | | 07/01/40 | 16,991 |
| Federal Home Loan Mortgage Corporation Gold Pool | NR | N/A | | 10/01/40 | 18,913 |
| Total Federal Home Loan Mortgage Corporation | | | 20.8% | | $ 905,759 |
| Government National Mortgage Association (Pool #782772) | NR | N/A | | 09/15/24 | $ 32,177 |
| Government National Mortgage Association | NR | N/A | | 10/20/37 | 27,417 |
| Government National Mortgage Association | NR | N/A | | 12/20/37 | 11,698 |
| Government National Mortgage Association II (Pool #004187) | NR | N/A | | 07/20/38 | 8,774 |
| Government National Mortgage Association | NR | N/A | | 04/20/39 | 86,185 |
| Government National Mortgage Association | NR | N/A | | 06/16/39 | 31,688 |
| Government National Mortgage Association | NR | N/A | | 08/16/39 | 25,585 |
| Government National Mortgage Association II (Pool #004573) | NR | N/A | | 11/20/39 | 24,743 |
| Government National Mortgage Association | NR | N/A | | 05/16/40 | 25,047 |
| Government National Mortgage Association | NR | N/A | | 08/20/40 | 32,359 |
| Government National Mortgage Association II (Pool #005175) | NR | N/A | | 09/20/41 | 50,153 |
| Total Government National Mortgage Association | | | 8.2% | | $ 355,826 |
| Federal Farm Credit Bank Bond | AAA | Moody | | 06/14/17 | $ 158,013 |
| Federal Farm Credit Bank Bond | AAA | Moody | | 03/06/19 | 51,001 |
| Federal Farm Credit Bank Bond | AAA | Moody | | 12/12/22 | 72,075 |
| Federal Farm Credit Bank Bond | AAA | Moody | | 01/30/23 | 77,248 |
| Total Farm Credit Bank Bonds | | | 8.2% | | $ 358,337 |

## 2. Detailed Notes

### A. Assets

#### 1. Deposits and Investments (Continued)

| Investment Type | Credit Risk: Credit Rating | Credit Risk: Rating Agency | Concentration Risk: Percent of Portfolio | Interest Rate Risk: Maturity Date | Carrying (Fair) Value |
|---|---|---|---|---|---|
| U.S. Government Agency Securities (Continued) | | | | | |
| Federal National Mortgage Association | AAA | Moody | | 04/17/19 | $ 147,411 |
| Federal National Mortgage Association | AAA | Moody | | 04/15/20 | 217,472 |
| Federal National Mortgage Association (Pool #AJ7718) | NR | N/A | | 12/01/26 | 25,543 |
| Federal National Mortgage Association (Pool #257163) | NR | N/A | | 04/01/28 | 24,116 |
| Federal National Mortgage Association (Pool #932620) | NR | N/A | | 03/01/30 | 6,839 |
| Federal National Mortgage Association (Pool #Ma0949) | NR | N/A | | 01/01/32 | 28,733 |
| Federal National Mortgage Association | NR | N/A | | 12/25/39 | 18,093 |
| Federal National Mortgage Association (Pool #Ae8393) | NR | N/A | | 11/01/40 | 54,426 |
| Federal National Mortgage Association | NR | N/A | | 08/25/41 | 67,022 |
| Federal National Mortgage Association | NR | N/A | | 09/25/41 | 29,780 |
| Federal National Mortgage Association | NR | N/A | | 06/25/42 | 34,208 |
| Total Federal National Mortgage Association | | | 15.0% | | $ 653,643 |
| U.S. Treasury Bill | AAA | Moody | | 02/15/15 | $ 150,029 |
| U.S. Treasury N/B | AAA | Moody | | 09/30/16 | 120,881 |
| U.S. Treasury Bill | AAA | Moody | | 11/30/18 | 104,795 |
| U.S. Treasury N/B | AAA | Moody | | 02/15/19 | 117,827 |
| U.S. Treasury N/B | AAA | Moody | | 04/30/19 | 100,344 |
| U.S. Treasury N/B | AAA | Moody | | 07/31/19 | 155,037 |
| U.S. Treasury N/B | AAA | Moody | | 11/15/22 | 145,512 |
| Total U.S. Treasuries | | | 20.6% | | $ 894,425 |
| Total U.S. Government Agency Securities | | | | | $ 3,918,632 |
| Negotiable Certificate of Deposit | | | | | |
| Luana Savings Bank | | | | | $ 249,249 |
| Total Investments | | | | | $ 4,349,245 |
| Deposits | | | | | 5,395,805 |
| Petty cash | | | | | 800 |
| Total Deposits and Investments | | | | | $ 9,745,850 |

NR - Not rated
N/A - Not applicable

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Carrying values of the Commission's cash and investments at December 31, 2014, are:

| | |
|---|---|
| Current assets | |
| Cash on deposit at the Commission | |
| Cash on hand | $ 800 |
| Checking | 2,165,692 |
| Certificates of deposit | 3,230,113 |
| Total unrestricted cash and cash equivalents | $ 5,396,605 |
| Restricted assets | |
| Financial assurance escrow account | |
| First American Corporate Trust Treasury Fund | 4,349,245 |
| Total Cash and Investments | $ 9,745,850 |

2. Capital Assets

A summary of capital assets at December 31, 2014, follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 371,813 | $ - | $ - | $ 371,813 |
| Intangible assets | 147,928 | - | - | 147,928 |
| Total capital assets not depreciated | $ 519,741 | $ - | $ - | $ 519,741 |
| Capital assets depreciated | | | | |
| Buildings | $ 11,601,767 | $ - | $ - | $ 11,601,767 |
| Equipment | 1,504,465 | 75,159 | - | 1,579,624 |
| Furniture and fixtures | 39,855 | - | - | 39,855 |
| Improvements other than buildings | 10,320,679 | 86,690 | - | 10,407,369 |
| Vehicles | 698,659 | 69,452 | - | 768,111 |
| Total capital assets depreciated | $ 24,165,425 | $ 231,301 | $ - | $ 24,396,726 |

2. Detailed Notes

A. Assets

2. Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Less: accumulated depreciation for | | | | |
| Buildings | $ (9,622,030) | $ (186,112) | $ - | $ (9,808,142) |
| Equipment | (992,362) | (141,580) | - | (1,133,942) |
| Furniture and fixtures | (39,855) | - | - | (39,855) |
| Improvements other than buildings | (8,339,286) | (648,964) | - | (8,988,250) |
| Vehicles | (474,635) | (82,697) | - | (557,332) |
| Total accumulated depreciation | $ (19,468,168) | $ (1,059,353) | $ - | $ (20,527,521) |
| Total capital assets depreciated, net | $ 4,697,257 | $ (828,052) | $ - | $ 3,869,205 |
| Net Capital Assets | $ 5,216,998 | $ (828,052) | $ - | $ 4,388,946 |

B. Liabilities

1. Long-Term Debt

Changes in long-term debt are summarized below:

| | Compensated Absences | Accrued Closure and Postclosure Care |
|---|---|---|
| Payable - January 1, 2014 | $ 40,753 | $ 5,505,427 |
| Additions (Deductions) | | |
| Net change in compensated absences | 44,697 | - |
| Change in accrual for closure and postclosure care | - | 460,828 |
| Payable - December 31, 2014 | $ 85,450 | $ 5,966,255 |

2. Detailed Notes

B. Liabilities (Continued)

2. Compensated Absences

Under the Commission's personnel policies and union contracts, employees are granted vacation and sick leave in varying amounts based on their length of service.

Unused accumulated vacation is paid to employees upon termination. Unvested sick leave, valued at $65,513 at December 31, 2014, is available to employees in the event of illness-related absences and is not paid to them at termination unless the employee has accrued 800 hours. Two employees have vested sick leave in the amount of $56,334.

3. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 20 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Commission reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date, in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.

The $5,966,255 reported as the accrued closure and postclosure care liability at December 31, 2014, represents the cumulative amount reported to date based on the use of 91 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $254,239 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission's current permit expires July 3, 2025.

2. Detailed Notes

B. Liabilities

3. Landfill Closure and Postclosure Care Costs (Continued)

The Commission is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. An escrow balance of $4,349,245 is held for these purposes. The Commission is underfunded in this account by $1,617,010 at December 31, 2014. The financial assurance escrow account is reported as a restricted asset on the balance sheet. The Commission expects future inflation costs to be covered from future unobligated cash held by the Commission. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

3. Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of the East Central Solid Waste Commission are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

3. Defined Benefit Pension Plan

Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The East Central Solid Waste Commission makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

3. Defined Benefit Pension Plan

Funding Policy (Continued)

In 2014, the East Central Solid Waste Commission is required to contribute the following percentage of annual covered payroll:

| | |
|---|---|
| General Employees Retirement Fund<br>Coordinated Plan members | 7.25% |

The East Central Solid Waste Commission's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| General Employees Retirement Fund | $ 32,883 | $ 35,321 | $ 32,712 |

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Commission has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. The Commission purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $480,000 per claim in 2014 and $490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

4. Summary of Significant Contingencies and Other Items

Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and the Commission pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

**Management and Compliance Section**

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**EAST CENTRAL SOLID WASTE COMMISSION**
**MORA, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

## I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2005-001

Segregation of Duties

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** The East Central Solid Waste Commission lacks proper segregation of duties. The Commission has one staff person who is responsible for billing, collecting, recording, and depositing receipts.

**Context:** Due to the limited number of office personnel within the Commission, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the East Central Solid Waste Commission; however, the Commission's 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 accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the Commission's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The Commission informed us that it does not have the economic resources needed to hire additional qualified staff in order to adequately segregate duties.

**Recommendation:** We recommend the Commission's management be aware of the lack of segregation of the accounting functions and continue oversight procedures to ensure that the Commission's internal control policies and procedures are followed by staff.

Client's Response:

*The ECSWC Board is aware of the lack of segregation of duties. The Commission has taken many steps to separate duties. The weighmasters are assisting with the reconciliation of the bank statement. They check to see that all deposits are made and also check off the cleared checks on the statement. Checks are posted in the register by a weighmaster, and the secretary has taken on the task of reconciling petty cash. Deposits from the scale house continue to be taken to the bank in locked bags; the Executive Director does not have access to the keys. In 2013, a part-time fiscal officer was hired to assist with accounts payable and accounts receivable functions.*

## II. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Commission's government-wide statement of financial position. The Commission's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the Commission's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the Commission to report the net pension liability and deferred outflows/inflows of resources.

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# COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 3, 2015.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This significant deficiency is reported in the Schedule of Findings and Recommendations as item 2005-001.

**Other Matters**

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the East Central Solid Waste Commission, and it is reported for that purpose.

**The East Central Solid Waste Commission's Response to Finding**

The East Central Solid Waste Commission'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 the Commission's response and, accordingly, we express no opinion on it.

**Purpose of This Report**

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the Commission, 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<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

November 3, 2015

REBECCA OTTO
STATE AUDITOR

# STATE OF MINNESOTA
## OFFICE OF THE STATE AUDITOR

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**INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE**

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 3, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Commission's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and contracting and bidding because the Commission had no debt and did not enter into any contracts.

In connection with our audit, nothing came to our attention that caused us to believe that the East Central Solid Waste Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the East Central Solid Waste Commission and the State Auditor 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<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

November 3, 2015