

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 650 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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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

Year Ended December 31, 2016



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

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

ORGANIZATION
2016

Name	Representing
Board Members	
Mark Piepho	Blue Earth County
Tim Tjosaas	Dodge County
Mike Lee	Freeborn County
Mike Ankeny	Mower County
Ken Brown	Olmsted County
Jake Gillen	Rice County
John Glynn	Steele County
James Peterson	Waseca County
Peggy Rehder	City of Red Wing
2016 Chair	
Technical Committee	
Jean Lundquist	Blue Earth County
Rita Cole	Dodge County
Mark Goskeson	Freeborn County
Jeff Weaver	Mower County
Scott Martin	Olmsted County
Paul Pieper	Rice County
Scott Golberg	Steele County
Georgette Hanson	Waseca County
Jeff Schneider	City of Red Wing
Officer	
Sharon Schriever	Executive Director

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Southeast Minnesota Recyclers' Exchange
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the Southeast Minnesota Recyclers' Exchange (SEMREX) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the SEMREX'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 the cash basis of accounting as described in Note 1.C.; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 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 SEMREX'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 SEMREX'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 cash basis financial position of the Southeast Minnesota Recyclers' Exchange as of December 31, 2016, and the respective changes in cash basis financial position and cash flows for the year then ended in accordance with the cash basis of accounting described in Note 1.C.

Basis of Accounting

We draw attention to Note 1.C. to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 4, 2017

BASIC FINANCIAL STATEMENTS

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET CASH POSITION ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2016**

<u>Assets</u>	
Cash and cash equivalents	<u>\$ 153,882</u>
<u>Net Cash Position</u>	
Unrestricted	<u>\$ 153,882</u>

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 2

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN NET CASH POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating Receipts	
Materials marketed for others	\$ 964,566
Shipping reimbursement	4,717
Membership fees	11,700
Miscellaneous	805
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Total Operating Receipts	\$ 981,788
Operating Disbursements	
Administration	
Contracted services	\$ 47,000
Other services and charges	12,821
Supplies	88
Cooperative Marketing	
Payments to individuals	164,603
Payments to other governments	715,440
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Total Operating Disbursements	\$ 939,952
Net Change in Cash	\$ 41,836
Cash Balance - January 1	112,046
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Cash Balance - December 31	\$ 153,882
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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 981,788
Payments to suppliers	<u>(939,952)</u>
Net cash provided by (used in) operating activities	\$ 41,836
Cash and Cash Equivalents at January 1	<u>112,046</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 153,882</u></u>

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

The Southeast Minnesota Recyclers' Exchange's (SEMREX) financial statements are prepared in accordance with the cash basis of accounting as of and for the year ended December 31, 2016. This basis of accounting differs from accounting principles generally accepted in the United States of America. The more significant accounting policies established in GAAP and used by the SEMREX are discussed below.

A. Financial Reporting Entity

The Southeast Minnesota Recyclers' Exchange is an organization of counties and one city focused on recycling and waste reduction. Informally allied since 1989, the SEMREX was restructured in August 1997 as a Joint Powers Board, as provided by Minn. Stat. § 471.59. The Board has a chair and is composed of one representative from each of the nine members. The Board contracted with Olmsted County to act as fiscal agent and provide administrative services.

B. Financial Statement Presentation

The financial statements include a Statement of Net Cash Position Arising From Cash Transactions; a Statement of Receipts, Disbursements, and Changes in Net Cash Position; and a Statement of Cash Flows. Operating receipts, such as charges for services, result from exchange transactions associated with the principal activity of the SEMREX. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating receipts, such as interest income, result from nonexchange transactions or incidental activities.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The SEMREX is accounted for using the cash basis of accounting. Sales of materials are recognized when the cash is received, and disbursements are recognized when checks are issued. These statements do not give effect to accounts receivable, accounts payable, or other accrued items and, therefore, are not presented in accordance with generally

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Basis of Accounting and Measurement Focus (Continued)

accepted accounting principles. The cooperative marketing program markets recyclable materials for private recyclers and government programs. It was developed to overcome the obstacles facing rural recyclers by providing the increased bargaining power and transportation efficiencies of large volumes, so that greater sales revenues can be obtained. The SEMREX is funded by a brokerage fee on each load marketed through the program.

D. Cash and Cash Equivalents

Cash and cash equivalents are amounts the SEMREX has on deposit with Olmsted County.

E. Net Position

The unrestricted net position account indicates the portion of net position available for future period expenses.

2. Detailed Notes

Assets

Cash transactions are administered by Olmsted County, who is authorized to deposit cash in financial institutions designated by the County Board pursuant to Minn. Stat. § 118A.02. The County is authorized to invest in the investments listed in Minn. Stat. §§ 118A.04 and 118A.05. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral. The SEMREX's total cash and cash equivalents of \$153,882 are on deposit with Olmsted County and are included in Olmsted County's pooled cash and investments.

3. Summary of Significant Contingencies and Other Items

Risk Management

The SEMREX is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. General liability is covered with a policy from the Minnesota Counties Intergovernmental Trust. This insurance was first purchased in 1998 with no changes since that time. Settled claims have not exceeded this coverage for the past three years.

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Southeast Minnesota Recyclers' Exchange
Rochester, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying cash basis financial statements of the Southeast Minnesota Recyclers' Exchange as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Southeast Minnesota Recyclers' Exchange's basic financial statements, and have issued our report thereon dated October 4, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing and contracting and bidding because the Southeast Minnesota Recyclers' Exchange does not administer tax increment financing districts and had no contracts. The testing of compliance with the provisions for deposits and investments and claims and disbursements was performed in conjunction with the Olmsted County audit.

In connection with our audit, nothing came to our attention that caused us to believe that Southeast Minnesota Recyclers' Exchange failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other 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 Southeast Minnesota Recyclers' Exchange's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of the Joint Powers Board and management of the Southeast Minnesota Recyclers' Exchange 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 4, 2017