STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

Year Ended December 31, 2016

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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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

ORGANIZATION
2016

	Position	County	Term Expires
Board of Commissioners			
Richard Greene	Chair	Chisago	December 31, 2016
Phil Peterson	Vice Chair	Mille Lacs	December 31, 2016
Stephen Hallan	Treasurer	Pine	December 31, 2016
Dennis McNally	Member	Kanabec	December 31, 2016
Dave Oslund	Member	Isanti	December 31, 2016

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

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2016, 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 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 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, 2016, and the results of its operations and its cash flows thereof 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 and Required Supplementary Information as listed in the table of contents 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 4, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(Unaudited)

FINANCIAL HIGHLIGHTS

There are several items included in the financial highlights for 2016.

- Municipal solid waste (MSW) disposed of in the landfill was 98,971 tons. The demolition landfill took in 7,091 cubic yards.

- On December 6, 2016, the Minnesota Pollution Control Agency issued a certificate of need (CON) for 1,209,800 cubic yards of MSW disposal capacity for a period from 2016 to 2025.

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 full 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, which is further broken down into net 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 the City of Cambridge in Isanti Township, Isanti County, and the other located near the City of 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 $1,192,928 from $15,899,464 in 2015, to $17,092,392 in 2016. Liabilities increased by $555,893 in 2016 due to landfill closure/postclosure.

Condensed Statement of Net Position

			Change	
	2016	2015 (Restated)	Dollar	Percent (%)
Assets				
Current assets	$ 6,472,678	$ 5,445,804	$ 1,026,874	18.9
Capital assets - net	5,767,971	5,841,990	(74,019)	(1.3)
Other assets	4,851,743	4,611,670	240,073	5.2
Total Assets	$ 17,092,392	$ 15,899,464	$ 1,192,928	7.5
Deferred Outflows of Resources				
Deferred pension outflows	$ 273,338	$ 59,654	$ 213,684	358.2
Liabilities				
Current liabilities	$ 436,702	$ 495,270	$ (58,568)	(11.8)
Noncurrent liabilities	5,614,828	5,000,367	614,461	12.3
Total Liabilities	$ 6,051,530	$ 5,495,637	$ 555,893	10.1
Deferred Inflows of Resources				
Deferred pension inflows	$ 69,610	$ 45,436	$ 24,174	53.2
Net Position				
Investment in capital assets	$ 5,767,971	$ 5,841,990	$ (74,019)	(1.3)
Unrestricted	5,476,619	4,576,055	900,564	19.7
Total Net Position	$ 11,244,590	$ 10,418,045	$ 826,545	7.9

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

	2016 Actual	2016 Budget	2015 Actual (Restated)	Variance 2016 Actual to Budget (%)	Changes in Actual 2015 to 2016 Dollar	Changes in Actual 2015 to 2016 Percent (%)
Revenues						
Operating revenues	$ 6,238,995	$ 5,264,689	$ 5,831,127	18.5	$ 407,868	7.0
Nonoperating revenues	137,611	72,000	136,506	91.1	1,105	0.8
Total Revenues	$ 6,376,606	$ 5,336,689	$ 5,967,633	19.5	$ 408,973	6.9
Expenses						
Operating expenses	$ 5,488,549	$ 5,088,677	$ 3,422,564	7.9	$ 2,065,985	60.4
Nonoperating expenses	61,512	27,000	44,479	127.8	17,033	38.3
Total Expenses	$ 5,550,061	$ 5,115,677	$ 3,467,043	8.5	$ 2,083,018	60.1
Change in Net Position	$ 826,545	$ 221,012	$ 2,500,590	274.0	$ (1,674,045)	(66.9)
Net Position - January 1	10,418,045	10,418,045	7,917,455	-	2,500,590	31.6
Net Position - December 31	$ 11,244,590	$ 10,639,057	$ 10,418,045	5.7	$ 826,545	7.9

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. There was a significant decrease in the income from sale of landfill gas because of problems with the gas system. Other income is partly comprised of rebates received from the Minnesota Counties Intergovernmental Trust.

Operating revenues were $6,238,995, a 7.0 percent increase over 2015. Total revenues were up 6.9 percent from 2015.

Total revenues were $1,039,917 more than budgeted, as 13,971 tons in additional municipal solid waste was delivered over the budgeted amount of 85,000 tons. Nonoperating revenues were also higher than budgeted because of interest earned on the financial assurance account.

Expenses

Operating expenses were up 60.4 percent; $2,065,985 higher than 2015, and $399,872 more 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.

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 Commission Board 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 2016, the Commission had invested an additional $805,827 in capital assets. Major capital purchases for 2016 included continued addition of gas wells and gas headers in the landfill, completion of Phase 6B/C landfill expansion, beginning permitting and engineering of Leachate Pond 3 to be constructed in 2017, a 2006 Sterling Truck, a 2000 Peterbuilt Truck, a 2012 JD 850K Dozer, and a new Cat 926 Loader for the Cambridge Transfer Station.

Total capital assets at December 31, 2016, were $28,137,379 versus $27,331,552 at December 31, 2015. These assets, after being decreased by accumulated depreciation, provided a net book value of $5,767,971 at December 31, 2016, and $5,841,990 at December 31, 2015.

Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $4,876,017, a net pension liability of $657,680, and compensated absences payable of $109,992. The balance at year-end in the restricted asset for financial assurance was $4,851,743. 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 4,901 tons, or 5.2 percent, from 2015.

ECONOMIC AND OTHER FACTORS

The Commission considered many factors when setting the fiscal year 2016 budget.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2016, the budget was based on 85,000 tons of MSW being delivered; actual numbers were 98,971 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 Janelle Troupe, Executive Director/Fiscal Officer, East Central Solid Waste Commission, 1756 - 180th Avenue, P. O. Box 29, Mora, Minnesota 55051, or 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, 2016

Assets		
Current assets		
Cash and cash equivalents	$	5,986,533
Accounts receivable		486,145
Total current assets	**$**	**6,472,678**
Noncurrent assets		
Assets restricted for financial assurance escrow account		
Cash and investments	$	4,851,743
Capital assets		
Nondepreciable		519,741
Depreciable - net		5,248,230
Total noncurrent assets	**$**	**10,619,714**
Total Assets	**$**	**17,092,392**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**273,338**
Liabilities		
Current liabilities		
Accounts payable	$	143,785
Salaries payable		19,519
Hauler rebate payable		195,233
Compensated absences		28,861
Due to other governments		49,304
Total current liabilities	**$**	**436,702**
Noncurrent liabilities		
Compensated absences	$	81,131
Estimated liability for landfill closure/postclosure care		4,876,017
Net pension liability		657,680
Total noncurrent liabilities	**$**	**5,614,828**
Total Liabilities	**$**	**6,051,530**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**69,610**
Net Position		
Investment in capital assets	$	5,767,971
Unrestricted		5,476,619
Total Net Position	**$**	**11,244,590**

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

EXHIBIT 2

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

Operating Revenues		
Charges for services	$	6,196,767
Miscellaneous		42,228
Total Operating Revenues	**$**	**6,238,995**
Operating Expenses		
Salaries and benefits	$	768,812
Administration and overhead		5,544
Professional services		162,037
Contracted services		494,766
Repair and maintenance		284,791
Landfill operations		434,335
Recycling		122,194
Host fees		532,821
Hauler rebate expense		1,273,331
Utilities		62,341
Insurance		59,885
Miscellaneous		9,574
Landfill closure and postclosure care costs		398,272
Depreciation		879,846
Total Operating Expenses	**$**	**5,488,549**
Operating Income (Loss)	**$**	**750,446**
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	$	64,071
Investment income (loss)		62,563
Sale of landfill gas		10,977
Household hazardous waste		(61,512)
Total Nonoperating Revenues (Expenses)	**$**	**76,099**
Change in Net Position	**$**	**826,545**
Net Position - January 1, as restated (Note 2)		**10,418,045**
Net Position - December 31	**$**	**11,244,590**

EAST CENTRAL SOLID WASTE COMMISSION
MORA, 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	$	6,236,224
Payments to suppliers		(3,511,253)
Payments to employees		(731,067)
Net cash provided by (used in) operating activities	**$**	**1,993,904**
Cash Flows from Noncapital Financing Activities		
Intergovernmental revenue	$	64,071
Household hazardous waste payments to counties		(61,512)
Payments to financial assurance account		(240,073)
Proceeds from the sale of landfill gas		10,977
Net cash provided by (used in) noncapital financing activities	**$**	**(226,537)**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	**$**	**(805,827)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**62,563**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**1,024,103**
Cash and Cash Equivalents at January 1		**4,962,430**
Cash and Cash Equivalents at December 31	**$**	**5,986,533**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**750,446**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	879,846
(Increase) decrease in accounts receivable		(2,771)
(Increase) decrease in deferred pension outflows		(213,684)
Increase (decrease) in accounts payable		(66,579)
Increase (decrease) in salaries payable		(17,795)
Increase (decrease) in hauler rebate payable		(345)
Increase (decrease) in due to other governments		(2,710)
Increase (decrease) in compensated absences payable		8,525
Increase (decrease) in estimated liability for landfill closure/postclosure care		398,272
Increase (decrease) in net pension liability		236,525
Increase (decrease) in deferred pension inflows		24,174
Total adjustments	**$**	**1,243,458**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,993,904**

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 with accounting principles generally accepted in the United States of America.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 full 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, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

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, 2016, 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, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

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. 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, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position (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 are two employees that have reached 800 hours. Those hours have been included in compensated absences. The current portion of compensated absences is determined by taking the average compensated absences taken over the previous two years.

3. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The Commission has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

      4. Deferred Outflows/Inflows of Resources (Continued)

         contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, the differences between projected and actual earnings on pension plan investments, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

         In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Commission has one item, deferred pension inflows, reported as deferred inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

   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.

1. Summary of Significant Accounting Policies

F. Classification of Net Position (Continued)

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.

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.

1. Summary of Significant Accounting Policies (Continued)

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.

2. Stewardship, Compliance and Accountability

Prior Period Adjustment

A prior period adjustment was made to the January 1, 2016, Enterprise Fund:

Net Position, January 1, 2016, as previously reported	$	9,057,487
Prior period adjustment		1,360,558
Net Position, January 1, 2017, as restated	$	10,418,045

The prior year adjustment was made to correct an error in the computation of the estimated liability for landfill closure/postclosure care costs.

3. 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	$	5,986,533
Restricted assets		
Financial assurance escrow account		4,851,743
Total Cash and Investments	$	10,838,276

3. Detailed Notes

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

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.

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, 2016, the Commission's deposits were not exposed to custodial credit risk.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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) 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.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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. As of December 31, 2016, the Commission's investments totaling $4,851,743 were exposed to custodial credit risk.

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.

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents the Commission's deposit and investment balances at December 31, 2016, 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	7.1%	N/A	$ 342,469
U.S. Government Agency Securities					
Federal Home Loan Bank Bonds	AAA	Moody		12/01/2021	$ 69,531
Federal Home Loan Bank Bonds	AAA	Moody		12/28/2018	100,014
Federal Home Loan Bank Bonds	AAA	Moody		06/09/2017	65,745
Federal Home Loan Bank Bonds	AAA	Moody		09/13/2019	188,844
Federal Home Loan Bank Bonds	AAA	Moody		01/27/2021	99,999
Federal Home Loan Bank Bonds	AAA	Moody		03/12/2021	79,866
Total Federal Home Loan Bank Bonds			12.4%		$ 603,999
Federal Home Loan Mortgage Corporation	AAA	Moody		07/28/2017	$ 25,038
Federal Home Loan Mortgage Corporation (Note)	AAA	Moody		05/30/2019	126,177
Federal Home Loan Mortgage Corporation (Note)	AAA	Moody		01/13/2022	304,923
Federal Home Loan Mortgage Corporation (Gold Pool)	NR	N/A		02/01/2024	13,278
Federal Home Loan Mortgage Corporation (Gold Pool)	NR	N/A		09/01/2024	20,637
Federal Home Loan Mortgage Corporation	NR	N/A		03/15/2027	34,973
Federal Home Loan Mortgage Corporation (Gold Pool)	NR	N/A		06/01/2040	22,073
Federal Home Loan Mortgage Corporation (Gold Pool)	NR	N/A		07/01/2040	10,215
Federal Home Loan Mortgage Corporation (Gold Pool)	NR	N/A		10/01/2040	12,789
Federal Home Loan Mortgage Corporation	AAA	Moody		05/01/2020	49,613
Total Federal Home Loan Mortgage Corporation			12.8%		$ 619,716
Government National Mortgage Association (Pool #782772)	NR	N/A		09/15/2024	$ 15,359
Government National Mortgage Association	NR	N/A		10/20/2037	8,918
Government National Mortgage Association	NR	N/A		12/20/2037	4,741
Government National Mortgage Association II (Pool #004187)	NR	N/A		07/20/2038	4,005
Government National Mortgage Association	NR	N/A		04/20/2039	38,412
Government National Mortgage Association	NR	N/A		06/16/2039	11,470
Government National Mortgage Association	NR	N/A		08/16/2039	15,832
Government National Mortgage Association II (Pool #004573)	NR	N/A		11/20/2039	11,702
Government National Mortgage Association	NR	N/A		05/16/2040	15,937
Government National Mortgage Association	NR	N/A		08/20/2040	18,478
Government National Mortgage Association II (Pool #005175)	NR	N/A		09/20/2041	28,742
Total Government National Mortgage Association			3.6%		$ 173,596

3. 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
Federal Farm Credit Bank	AAA	Moody		06/14/2017	$ 151,625
Federal Farm Credit Bank	AAA	Moody		05/23/2019	99,232
Federal Farm Credit Bank	AAA	Moody		08/24/2020	122,646
Federal Farm Credit Bank	AAA	Moody		08/17/2023	190,190
Federal Farm Credit Bank	AAA	Moody		10/20/2023	96,110
Federal Farm Credit Bank	AAA	Moody		03/06/2019	50,875
Federal Farm Credit Bank	AAA	Moody		03/28/2025	269,189
Federal Farm Credit Bank	AAA	Moody		06/23/2025	72,107
Federal Farm Credit Bank	AAA	Moody		09/30/2024	99,633
Total Federal Farm Credit Bank			23.7%		$ 1,151,607
Federal National Mortgage Association	AAA	Moody		04/17/2019	$ 149,489
Federal National Mortgage Association	AAA	Moody		04/15/2020	223,956
Federal National Mortgage Association (Pool #AJ7718)	NR	N/A		12/01/2026	15,565
Federal National Mortgage Association (Pool #257163)	NR	N/A		04/01/2028	13,689
Federal National Mortgage Association (Pool #932620)	NR	N/A		03/01/2030	4,727
Federal National Mortgage Association (Pool #Ma0949)	NR	N/A		01/01/2032	18,040
Federal National Mortgage Association	NR	N/A		12/25/2039	9,636
Federal National Mortgage Association (Pool #Ae8393)	NR	N/A		11/01/2040	34,561
Federal National Mortgage Association	NR	N/A		08/25/2041	39,389
Federal National Mortgage Association	NR	N/A		06/25/2042	13,844
Federal National Mortgage Association	NR	N/A		09/25/2041	15,346
Total Federal National Mortgage Association			11.1%		$ 538,242
U.S. Treasury Bill	AAA	Moody		11/30/2018	$ 105,381
U.S. Treasury N/B	AAA	Moody		12/15/2017	100,106
U.S. Treasury N/B	AAA	Moody		08/15/2023	203,546
U.S. Treasury N/B	AAA	Moody		10/31/2019	99,574
U.S. Treasury N/B	AAA	Moody		05/31/2020	99,367
U.S. Treasury N/B	AAA	Moody		11/15/2020	103,359
U.S. Treasury N/B	AAA	Moody		02/28/2021	100,797
U.S. Treasury N/B	AAA	Moody		11/15/2022	145,980
U.S. Treasury N/B	AAA	Moody		02/15/2019	115,518
U.S. Treasury N/B	AAA	Moody		07/31/2019	158,144
U.S. Treasury N/B	AAA	Moody		04/30/2018	89,561
U.S. Treasury N/B	AAA	Moody		04/30/2019	100,781
Total U.S. Treasuries			29.3%		$ 1,422,114
Total U.S. Government Agency Securities					$ 4,509,274

3. 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
Total Investments					$ 4,851,743
Deposits					5,985,733
Petty cash					800
Total Deposits and Investments					$ 10,838,276

N/R - Not rated
N/A - Not applicable

Carrying values of the Commission's cash and investments at December 31, 2016, are:

Current assets	
Cash on deposit at the Commission	
Cash on hand	$ 800
Checking	3,547,312
Certificates of deposit	2,438,421
Total unrestricted cash and cash equivalents	$ 5,986,533
Restricted assets	
Financial assurance escrow account	
First American Corporate Trust Treasury Fund	4,851,743
Total Cash and Investments	$ 10,838,276

The Commission measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

At December 31, 2016, the Commission had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury notes	$ 1,422,114	$ -	$ 1,422,114	$ -
U.S. government agencies	3,087,160	-	3,087,160	-
Money market mutual fund	342,469	342,469	-	-
Total Investments Included in the Fair Value Hierarchy	$ 4,851,743	$ 342,469	$ 4,509,274	$ -

Debt and equity securities classified in Level 1 are valued using a market approach quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: a market approach by utilizing quoted prices for identical securities in markets that are not active; and

- Money Market, Bond, and Equity Mutual Funds: a market approach using published fair value per share (unit) for each fund.

3. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of capital assets at December 31, 2016, 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	1,587,784	334,555	-	1,922,339
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	12,814,294	405,272	-	13,219,566
Vehicles	768,111	66,000	-	834,111
Total capital assets depreciated	$ 26,811,811	$ 805,827	$ -	$ 27,617,638
Less: accumulated depreciation for				
Buildings	$ (9,990,076)	$ (181,934)	$ -	$ (10,172,010)
Equipment	(1,261,832)	(130,975)	-	(1,392,807)
Furniture and fixtures	(39,855)	-	-	(39,855)
Improvements other than buildings	(9,577,200)	(523,347)	-	(10,100,547)
Vehicles	(620,599)	(43,590)	-	(664,189)
Total accumulated depreciation	$ (21,489,562)	$ (879,846)	$ -	$ (22,369,408)
Total capital assets depreciated, net	$ 5,322,249	$ (74,019)	$ -	$ 5,248,230
Net Capital Assets	$ 5,841,990	$ (74,019)	$ -	$ 5,767,971

3. Detailed Notes (Continued)

B. Liabilities

1. Long-Term Debt

Changes in long-term debt are summarized below:

	Compensated Absences	Accrued Closure and Postclosure Care
Payable - January 1, 2016, as restated (Note 2)	$ 101,467	$ 4,477,745
Additions to compensated absences	37,014	-
Deductions from compensated absences	(28,489)	-
Change in accrual for closure and postclosure care	-	398,272
Payable - December 31, 2016	$ 109,992	$ 4,876,017

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 $79,666 at December 31, 2016, 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 $51,240.

3. Detailed Notes

B. Liabilities (Continued)

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 $4,876,017 reported as the accrued closure and postclosure care liability at December 31, 2016, represents the cumulative amount reported to date based on the use of 76 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $1,522,421 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016. 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.

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 $4,851,743 is held for these purposes. The Commission is underfunded in this account by $24,274 at December 31, 2016. 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.

4. Pension Plans

   A. Defined Benefit Pension Plan

      1. Plan Description

All full-time and certain part-time employees of the East Central Solid Waste Commission are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

      2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

4. Pension Plans

A. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

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. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016.

4. Pension Plans

A. Defined Benefit Pension Plan

3. Contributions (Continued)

In 2016, the Commission was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The employee and employer contribution rates did not change from the previous year.

The Commission's contributions for the General Employees Retirement Plan for the year ended December 31, 2016, were $38,504. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2016, the Commission reported a liability of $657,680 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Commission's proportion was 0.0081 percent. It was 0.0081 percent measured as of June 30, 2015. The Commission recognized pension expense of $88,076 for its proportionate share of the General Employees Retirement Plan's pension expense.

4. Pension Plans

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The Commission also recognized $2,559 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Commission's proportionate share of the net pension liability	$	657,680
State of Minnesota's proportionate share of the net pension liability associated with the Commission		8,583
Total	$	666,263

The Commission reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 53,473
Changes in actuarial assumptions	128,774	-
Difference between projected and actual investment earnings	124,928	-
Changes in proportion	-	16,137
Contributions paid to PERA subsequent to the measurement date	19,636	-
Total	$ 273,338	$ 69,610

4. Pension Plans

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The $19,636 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 48,397
2018	48,397
2019	63,541
2020	23,757

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

4. Pension Plans

A. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

4. Pension Plans

   A. Defined Benefit Pension Plan (Continued)

      7. Changes in Actuarial Assumptions

         The following changes in actuarial assumptions occurred in 2016:

         General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

      8. Pension Liability Sensitivity

         The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 934,100
Current	7.50	657,680
1% Increase	8.50	429,985

4. Pension Plans

   A. Defined Benefit Pension Plan (Continued)

      9. Pension Plan Fiduciary Net Position

         Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

5. 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 $500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

   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.

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REQUIRED SUPPLEMENTARY INFORMATION

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT A-1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the East Central Solid Waste Commission (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0081%	$ 657,680	$ 8,583	$ 666,263	$ 515,375	127.61%	68.91%
2015	0.0081	421,155	N/A	421,155	477,876	88.13	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT A-2

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 38,504	$ 38,504	$ -	$ 513,390	7.50%
2015	36,961	36,961	-	492,818	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Commission's year-end is December 31.

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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Management and Compliance Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the East Central Solid Waste Commission's basic 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.

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 discussed below, we identified a deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2016-001 to be a material weakness.

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. We consider the deficiency in the Commission's internal control, identified as item 2005-001 in the Schedule of Findings and Recommendations, to be a significant deficiency.

Other Matters

The East Central Solid Waste Commission's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board of Commissioners, management, 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 STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 4, 2017

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 4, 2017.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, 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 public indebtedness and tax increment financing because the Commission has no public debt or tax increment financing districts.

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 Counties*, except as described in the Schedule of Findings and Recommendations as item 2016-002. 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.

The East Central Solid Waste Commission's written response to the legal compliance 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.

This report is intended solely for the information and use of the Board of Commissioners 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 STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 4, 2017

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 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.

View of Responsible Official: Concur

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. The fiscal officer reconciles the 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 nor the combination for the scale house safes. The Fiscal Officer enters both accounts payable and accounts receivable items into the accounting program. The Fiscal Officer writes the deposit for accounts receivable and the Executive Director takes the deposit to the bank. This is the normal practice unless either the Fiscal Officer or Executive Director is absent and duties are carried on by one or the other.

ITEM ARISING THIS YEAR

Finding Number 2016-001

Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control as the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During the audit, a prior period adjustment was identified that resulted in significant changes to the Commission's financial statements. The estimated liability for landfill closure/postclosure care and related expenses were previously overstated.

Context: The need for prior period adjustments can raise doubts as to the reliability of the County's financial information being presented.

Effect: The January 1, 2016, net position was restated (increased) by $1,360,558.

Cause: The Commission prepared the entry with incorrect information.

Recommendation: We recommend Commission staff review all journal entries and supporting information to ensure they are accurate.

View of Responsible Official: Concur

Client's Response:

This error was a carry-over of an error in the engineer's estimate that was on the landfill's annual report for the capacity and remaining capacity. Staff did not catch that the numbers were incorrect and used them on the spreadsheet to determine closure and postclosure care. Additional review will be done in the future.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2016-002

Contract Compliance

Criteria: Minn. Stat. § 270C.66 requires that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the Commission is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92. Minn. Stat. § 471.425, subd. 4a., requires that each contract of a municipality must require the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the municipality for undisputed services provided by the subcontractor. The contract must require the prime contractor to pay interest of one and one-half percent per month, or any part of a month, to the subcontractor on any undisputed amount not paid on time to the subcontractor. Pursuant to Minn. Stat. §§ 471.345 subd. 3 and 375.21, contracts estimated to exceed $100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified newspaper or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03.

Condition: In July 2016, the Commission entered into a contract for construction of gas wells and headers. This contract involved the employment of individuals for wages. Final payment was made on this contract before the Affidavit of Withholding Form (IC-134), which certifies withholding compliance, was received from the contractor. The contract also did not include language requiring the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the Commission for undisputed services provided by the subcontractor. The gas wells and headers project was over $100,000 but not advertised in the newspaper; it was only advertised on the Commission's website.

Context: Final payment for this project was paid on September 12, 2016. The required Affidavit of Withholding Forms were obtained by the Commission from the contractor in August 2017.

Effect: Noncompliance with Minn. Stat. §§ 270C.66; 471.425, subd. 4a.; and 471.345, subd. 3.

Cause: The Commission did not follow the proper statutory guidelines regarding contracting and bidding. The Affidavit of Withholding Forms were obtained after inquiry by the auditors.

Recommendation: We recommend the Commission implement procedures to ensure that for all contracts involving the employment of individuals for wages, the required Affidavit of Withholding Form is obtained before making final payment to contractors and subcontractors, contracts include all required language, and all projects estimated to be over $100,000 are advertised in a qualified newspaper.

View of Responsible Official: Acknowledged

Client's Response:

The engineer's estimate was less than $100,000 on this gas wells and headers construction project. There are only a few companies that do this type of work in the area so they were contacted for a quote. Staff did not feel it was necessary to solicit by public notice because staff did not believe that any potential contractors would view it.

The ECSWC Board and Commission staff will implement procedures to ensure that all contracts include the required language and all required submittals are received prior to final payment being made. The Board will also review the requirements for public notice and develop a policy to assure that all requirements are met including, but not limited to, Responsible Contractor Forms, Affidavit of Withholding Forms, required contract language, and proper public notice for solicitation of contracts.