

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**PRAIRIE LAKES MUNICIPAL SOLID  
WASTE AUTHORITY  
(A COMPONENT UNIT OF OTTER TAIL COUNTY)  
FERGUS FALLS, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2013**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PRAIRIE LAKES MUNICIPAL SOLID  
WASTE AUTHORITY  
(A COMPONENT UNIT OF OTTER TAIL COUNTY)  
FERGUS FALLS, MINNESOTA**

**Year Ended December 31, 2013**



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

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

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

ORGANIZATION  
DECEMBER 31, 2013

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Directors			
Larry Knutson	Member	Becker	December 2013
Doug Huebsch	Vice Chair	Otter Tail	December 2013
Roger Froemming	Member	Otter Tail	December 2013
Gary Kneisl	Member	Todd	December 2013
Bill Stearns	Chair	Wadena	December 2013
Officer			
Mike Hanan	Executive Director		Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Prairie Lakes Municipal Solid Waste Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of Prairie Lakes Municipal Solid Waste Authority, a component unit of Otter Tail County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Prairie Lakes Municipal Solid Waste Authority'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority'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 Prairie Lakes Municipal Solid Waste Authority as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013 Prairie Lakes Municipal Solid Waste Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

Management has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2014, on our consideration of Prairie Lakes Municipal Solid Waste Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie Lakes Municipal Solid Waste Authority’s internal control over financial reporting and compliance.

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 18, 2014

## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

**Assets**

**Current assets**

Cash and pooled investments	\$	10,887,578
Accounts receivable - net		175,550
Due from other governments		1,951,816
Due from primary government		131,856
Prepaid item		209,235
		209,235

**Total current assets** **\$ 13,356,035**

**Noncurrent assets**

Capital assets		
Nondepreciable	\$	20,470,993
Depreciable - net		5,523,686
		5,523,686

**Total noncurrent assets** **\$ 25,994,679**

**Total Assets** **\$ 39,350,714**

**Liabilities**

**Current liabilities**

Accounts payable	\$	134,677
Salaries payable		40,448
Advance from primary government - current		390,000
Contracts payable		3,928,318
Due to other governments		118,893
Due to primary government		76,063
Compensated absences payable - current		76,544
		76,544

**Total current liabilities** **\$ 4,764,943**

**Noncurrent liabilities**

Advance from primary government	\$	28,680,000
Compensated absences payable - long-term		115,364
		115,364

**Total noncurrent liabilities** **\$ 28,795,364**

**Total Liabilities** **\$ 33,560,307**

**Net Position**

Net investment in capital assets	\$	7,892,099
Unrestricted		(2,101,692)
		(2,101,692)

**Total Net Position** **\$ 5,790,407**

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

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Operating Revenues</b>	
Charges for services	\$ 3,527,170
Miscellaneous	57,888
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 3,585,058</b>
<b>Operating Expenses</b>	
Personal services	\$ 1,182,076
Professional services	26,243
Contracted services	1,251,925
Office	133,510
Chemicals and consumables	268,952
Utilities	1,268,138
Insurance	232,961
Repairs and maintenance	3,615
Transportation and disposal	449,490
Depreciation	607,888
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 5,424,798</b>
<b>Operating Income (Loss)</b>	<b>\$ (1,839,740)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental	
State	
Pollution Control Agency	\$ 7,479,201
Investment income	3,229
Interest expense	(836,288)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 6,646,142</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ 4,806,402</b>
Capital contributions	183,425
	<hr/>
<b>Change in net position</b>	<b>\$ 4,989,827</b>
<b>Net Position - January 1</b>	<b>800,580</b>
	<hr/>
<b>Net Position - December 31</b>	<b>\$ 5,790,407</b>
	<hr/> <hr/>

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

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 3,584,809
Payments to employees	(949,720)
Payments to suppliers	(3,673,537)
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (1,038,448)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Intergovernmental	<b><u>\$ 5,993,038</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital contributions	\$ 264,375
Advance from primary government	19,380,000
Principal paid on advance	(380,000)
Interest paid on long-term debt	(1,047,423)
Purchases of capital assets	(13,651,541)
	<hr/>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ 4,565,411</u></b>
<b>Cash Flows from Investing Activities</b>	
Investment earnings received	<b><u>\$ 3,068</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 9,523,069</b>
<b>Cash and Cash Equivalents - January 1</b>	<b><u>1,364,509</u></b>
<b>Cash and Cash Equivalents - December 31</b>	<b><u><u>\$ 10,887,578</u></u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b><u>\$ (1,839,740)</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 607,888
(Increase) decrease in accounts receivable	(24,489)
(Increase) decrease in due from other governments	12,175
(Increase) decrease in due from primary government	12,065
Increase (decrease) in accounts payable	(74,906)
Increase (decrease) in salaries payable	40,448
Increase (decrease) in compensated absences payable	191,908
Increase (decrease) in due to other governments	47,168
Increase (decrease) in due to primary government	(10,965)
	<hr/>
<b>Total adjustments</b>	<b><u>\$ 801,292</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u><u>\$ (1,038,448)</u></u></b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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1. Summary of Significant Accounting Policies

Prairie Lakes Municipal Solid Waste Authority's (Prairie Lakes) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Prairie Lakes are discussed below.

Changes in Accounting Principles

During 2013, Prairie Lakes adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.6. in the notes to the financial statements for additional information regarding Prairie Lakes' deferred outflows/inflows of resources.

A. Financial Reporting Entity

Prairie Lakes is a joint enterprise operation of Becker, Otter Tail, Todd, and Wadena Counties (the Counties). Prairie Lakes was established by a Joint Powers Agreement dated May 4, 2010, pursuant to Minn. Stat. § 471.59, Joint Powers Act.

Each of the Counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400, to provide for the management and disposal of solid waste in its respective county. It is the intention of the Counties to cooperate in a joint venture to operate and manage a waste management system within the Counties. This purpose, without limitation, shall include ownership and operation of the Perham Resource Recovery Facility. The facility is located in Perham, Minnesota, and the administrative office is located in Fergus Falls, Minnesota.

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Prairie Lakes is governed by a five-member Board of Directors--one member appointed from Becker, Todd, and Wadena Counties and two from Otter Tail County. Receipts and disbursements are recorded in the Prairie Lakes Municipal Solid Waste Authority Fund by Otter Tail County. Contribution percentages for the Counties were set up in the Joint Powers Agreement as follows: Becker - 26.42 percent, Otter Tail - 45.26 percent, Todd - 16.19 percent, and Wadena - 12.13 percent.

Prairie Lakes is a component unit of Otter Tail County because Otter Tail County is financially accountable for Prairie Lakes. Prairie Lakes' financial statements are discretely presented in the Otter Tail County financial statements.

B. Basic Financial Statements

The accounts of Prairie Lakes are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activities of Prairie Lakes. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or incidental activities. Prairie Lakes' net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

C. Measurement Focus and Basis of Accounting

Prairie Lakes' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is Prairie Lakes' policy to use restricted resources first and then unrestricted resources as needed.

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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments. Prairie Lakes' cash is pooled and invested with Otter Tail County and is treated as a cash equivalent because Prairie Lakes can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Prairie Lakes Fund. Otter Tail County obtains collateral to cover the deposits in excess of insurance coverage.

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Prairie Lakes does not have a formal policy in place to define capital assets. Instead, it currently uses the capital asset listing developed by the City of Perham at the time of the sale of the facility from the City of Perham to the Counties. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, Prairie Lakes did not have any capitalized interest.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Capital Assets (Continued)

Property, plant, and equipment of Prairie Lakes are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Machinery, furniture, equipment, and vehicles	3 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report 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 (expense) until then. Currently, Prairie Lakes has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, Prairie Lakes has no items that qualify for reporting in this category.



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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

7. Long-Term Obligations

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

8. Equity Classifications

Equity is classified as net position. Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by debt attributed to the acquisition, construction, or improvement of the assets. Unrestricted net position is net position that do not meet the definition of “restricted” or “net investment in capital assets.”

E. Operating Revenues and Expenses

Prairie Lakes’ statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, investment income, grants, and contributions received for purposes other than for capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

Prairie Lakes' total cash and cash equivalents are reported as follows:

Cash and pooled investments	\$ 10,887,578
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Prairie Lakes is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Prairie Lakes 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 or 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, Prairie Lakes' deposits may not be returned to it. Prairie Lakes does not have a deposit policy for custodial credit risk. Prairie Lakes pools its deposits with Otter Tail County. Otter Tail County in a fiscal agent capacity carries collateral to cover deposits in excess of FDIC coverage. As of December 31, 2013, Otter Tail County had deposits uncollateralized in the amount of \$162,481. A portion of these deposits could be attributed to Prairie Lakes. The amount uncollateralized at year-end is not material to the financial statements of Prairie Lakes.

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

2. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 175,550	\$ -
Due from other governments	1,951,816	-
Due from primary government	131,856	-
Total	\$ 2,259,222	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 25,489	\$ -	\$ -	\$ 25,489
Construction in progress	3,141,822	17,303,682	-	20,445,504
Total capital assets not depreciated	\$ 3,167,311	\$ 17,303,682	\$ -	\$ 20,470,993
Capital assets depreciated				
Buildings	\$ 5,563,415	\$ -	\$ -	\$ 5,563,415
Machinery, furniture, and equipment	1,548,682	-	-	1,548,682
Total capital assets depreciated	\$ 7,112,097	\$ -	\$ -	\$ 7,112,097
Less: accumulated depreciation for				
Buildings	\$ 732,389	\$ 462,562	\$ -	\$ 1,194,951
Machinery, furniture, and equipment	248,134	145,326	-	393,460
Total accumulated depreciation	\$ 980,523	\$ 607,888	\$ -	\$ 1,588,411
Total capital assets depreciated, net	\$ 6,131,574	\$ (607,888)	\$ -	\$ 5,523,686
Capital Assets, Net	\$ 9,298,885	\$ 16,695,794	\$ -	\$ 25,994,679

Depreciation expense for the year was \$ 607,888.

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

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2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

Accounts	\$	134,677
Salaries		40,448
Contracts		3,928,318
Due to other governments		118,893
Due to primary government		76,063
		76,063
Total Payables	\$	4,298,399

2. Advance From Primary Government

Prairie Lakes Municipal Solid Waste Authority has entered into an advance arrangement with Otter Tail County. The County issued \$10,475,000 in General Obligation Disposal System Revenue Bonds and \$19,380,000 in General Obligation Waste Disposal Revenue Bonds in order to finance the acquisition/expansion of the facility. The proceeds from the sale of these bonds were recognized by Otter Tail County. Prairie Lakes' advance payment back to the County is essentially equal to the principal and interest on the bonds for the year. The advance balance consists of the following at December 31, 2013:

Type of Indebtedness	Maturity	Installment Amounts	Interest Rate (%)	Original	Balance
Advance from primary government - 2011	2030	\$380,000 - \$755,000	3.0 to 5.0	\$ 10,475,000	\$ 9,690,000
Advance from primary government -2013	2034	\$630,000 - \$1,970,000	2.0 to 3.8	19,380,000	19,380,000
Total Advance from Primary Government				\$ 29,855,000	\$ 29,070,000

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

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2. Detailed Notes

B. Liabilities

2. Advance From Primary Government (Continued)

The future minimum obligations as of December 31, 2013, were as follows:

Year Ending December 31	Future Minimum Obligations
2014	\$ 1,414,286
2015	2,047,361
2016	2,047,461
2017	2,046,961
2018	2,049,187
2019 - 2023	10,235,147
2024 - 2028	10,230,844
2029 - 2033	10,237,880
2034	2,043,875
Total future minimum advance payments	\$ 42,353,002
Less: amount representing interest	(13,283,002)
Advance Balance	\$ 29,070,000

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ 10,070,000	\$ 19,380,000	\$ 380,000	\$ 29,070,000	\$ 390,000
Compensated absences	-	249,791	57,883	191,908	76,544
Long-Term Liabilities	\$ 10,070,000	\$ 19,629,791	\$ 437,883	\$ 29,261,908	\$ 466,544

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

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2. Detailed Notes

B. Liabilities (Continued)

4. Construction and Other Significant Commitments

Prairie Lakes has active construction project commitments as of December 31, 2013.

	Spent-to-Date	Remaining Commitment
WTE expansion	\$ 8,377,303	\$ 5,401,578
MRF expansion	3,568,774	235,348
Site work and building construction	5,807,594	1,001,974
Total	\$ 17,753,671	\$ 6,638,900

3. Pension Plans

Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Prairie Lakes has no Basic Plan members.

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

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

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3. Pension Plans

Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Prairie Lakes makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Coordinated Plan members are required to contribute 6.25 percent of their annual covered salary.

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

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3. Pension Plans

Defined Benefit Plans

Funding Policy (Continued)

Prairie Lakes is required to contribute 7.25 percent of annual covered payroll in 2013 for the General Employees Retirement Fund Coordinated Plan members.

Prairie Lakes' contributions for the year ending December 31, 2013, for the General Employees Retirement Fund were \$56,343.

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

4. Risk Management

Prairie Lakes purchases commercial insurance coverage through Western National Mutual Insurance Company. Prairie Lakes pays an annual premium for its insurance coverage. Prairie Lakes retains the risk for the deductible portion of the policies, which is considered immaterial to the financial statements. At December 31, 2013, there are no other claims liabilities reported in the financial statements based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.

5. Other Items

Operating Budgets

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues	\$ 4,227,748	\$ 3,585,058	\$ (642,690)
Operating Expenses	<u>3,957,375</u>	<u>5,424,798</u>	<u>(1,467,423)</u>
Operating Income (Loss)	\$ 270,373	\$ (1,839,740)	\$ (2,110,113)
Nonoperating Revenues (Expenses) and Contributions	<u>(222,753)</u>	<u>6,829,567</u>	<u>7,052,320</u>
Change in Net Position	<u>\$ 47,620</u>	<u>\$ 4,989,827</u>	<u>\$ 4,942,207</u>





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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

INTERNAL CONTROL

REVIUOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2011-001

Segregation of Duties

**Criteria:** Management is responsible for establishing and maintain internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect Prairie Lakes' assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place. Prairie Lakes Municipal Solid Waste Authority contracts with Otter Tail County for administration and accounting services.

**Condition:** Due to the limited number of personnel performing the business functions of Prairie Lakes Municipal Solid Waste Authority, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

**Context:** This is not unusual in operations the size of Prairie Lakes Municipal Solid Waste Authority; however, Prairie Lakes' management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

**Effect:** Inadequate segregation of duties could adversely affect Prairie Lakes' ability to detect misstatements in a timely period by contracted employees in the normal course of performing their assigned functions.

**Cause:** Staffing size limits the internal control that management can design and implement into the organization.

**Recommendation:** We recommend that Prairie Lakes Municipal Solid Waste Authority officials and management be mindful that limited staffing increases the risks in safeguarding Prairie Lakes' assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed.

Client's Response:

*PLMSWA continues to contract with Otter Tail County and, specifically, the Auditor's Office for primary financial services. Some of the billing is completed by PLMSWA staff, and some is completed by Otter Tail County staff. In all instances, copies of all billings are sent to the Otter Tail County Auditor's Office, and payments are required to be sent to the Auditor's Office. The OTC Auditor's Office provides both the PLMSWA staff and the OTC Solid Waste staff with information regarding who has paid and who has an account receivable. The PLMSWA Board is aware that having limited staff performing concentrated duties is not desirable. PLMSWA will continue to work to assure that oversight is available to ensure that internal control policies and procedures are being followed.*

Finding 2012-001

Audit Adjustments

**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. Clarified Auditing Standards AU-C Section 265 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Prairie Lakes' financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to Prairie Lakes' financial statements. Otter Tail County provides a general ledger which includes certain accruals and other supporting information. This general ledger facilitates the preparation of the financial statements.

**Context:** The inability to make all necessary accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to reclassify \$5,597,239 from miscellaneous revenue to intergovernmental revenue; reclassify \$7,892,099 from unrestricted net position to net investment in capital assets to reflect the balance of net position not available for operations. Other adjustments were necessary to correctly reflect \$19,380,000 in bonds issued by Otter Tail County on behalf of Prairie Lakes and establish the necessary related advance from primary government. The bond activity was originally posted to the Prairie Lakes fund within Otter Tail County's general ledger.

**Cause:** Otter Tail County has assumed the duties for management function and general ledger recording. Some transactions are infrequent and thus may have been overlooked in the preparation of the sources of information used to prepare the financial statements.

**Recommendation:** We recommend that Prairie Lakes' establish internal controls necessary to ensure its annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

*2013 was a continuation of the ownership transition started in 2012. 2013 was the beginning of the first time that PLMSWA had implemented a major capital improvement project. PLMSWA will continue its efforts with the OTC Auditor's staff to establish and reinforce procedures that assure that all postings and account activities are completed accurately. Review of monthly IFS reports is currently being completed by PLMSWA staff and OTC staff to review and to assure that postings are in accordance with accounting principles and procedures.*

Finding 2012-002

Documenting and Monitoring Internal Controls

**Criteria:** Prairie Lakes' management is responsible for the internal controls over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

**Condition:** Otter Tail County maintains narratives to document the controls in place over their significant transaction cycles for services they provide to Prairie Lakes. However, there is no formal risk assessment process in place to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure.

**Context:** Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

**Effect:** The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls which may go unnoticed without a formal and timely risk assessment process in place.

**Causes:** Lack of resources dedicated to establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

**Recommendation:** Prairie Lakes' management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

*PLMSWA's Board and management are aware and have discussed the importance of annually reviewing and monitoring internal controls in respect to accounting practices. The reviews are intended to identify and correct weaknesses, establish policies and procedures to address weaknesses, and to monitor implementation of policies and procedures.*



REBECCA OTTO  
STATE AUDITOR

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### Independent Auditor's Report

Board of Directors  
Prairie Lakes Municipal Solid Waste Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Prairie Lakes' basic financial statements, and have issued our report thereon dated July 18, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Prairie Lakes' internal control over financial reporting to determine the 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 Prairie Lakes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of Prairie Lakes' financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2012-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2011-001 and 2012-002 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Prairie Lakes' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Prairie Lakes' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

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



## **Prairie Lakes' Response to Findings**

Prairie Lakes' responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. Prairie Lakes' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie Lakes' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 18, 2014