

**SOUTHERN MISSOURI RECYCLING &
WASTE MANAGEMENT DISTRICT
LAKE ANDES, SOUTH DAKOTA**

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

**SOUTHERN MISSOURI RECYCLING & WASTE MANAGEMENT DISTRICT
Lake Andes, South Dakota**

**DISTRICT OFFICIALS
December 31, 2013**

GOVERNING BOARD:

John Fathke, Chairman
Ewald Fink, Vice Chairman
Von Denning, Secretary-Treasurer
Darrell Bentz
Russell Jelsma
Keith Mushitz
Floyd Muntefering
Ray Parker
Jeff Pistulka
Jarod Star
Kevin Tjeerdsma
Dennis Tronvold

MANAGER:

Mike Wentland

FINANCE OFFICER:

Ginger Hertz

ATTORNEY:

Kenneth Cotton

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

Governing Board
Southern Missouri Recycling and Waste Management District
Lake Andes, South Dakota

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 the business-type activities of the Southern Missouri Recycling and Waste Management District, Lake Andes, South Dakota (District), as of December 31, 2013, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2013-001 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with

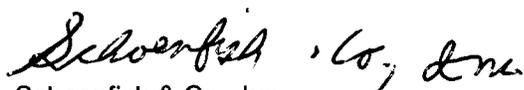
those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
November 4, 2014

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS

Prior Finding Number 2012-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This prior audit comment has not been corrected and is restated under current audit findings as finding number 2013-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2013-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the fifteenth consecutive audit in which a similar deficiency has occurred.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Manager collects receipts and makes deposits. The Finance Officer records receipts, posts receipts in the accounting records, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

RECOMMENDATION:

1. We recommend that the Southern Missouri Recycling and Waste Management District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Southern Missouri Recycling and Waste Management District Board Chairman, John Fathke, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Southern Missouri Recycling and Waste Management District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with the board, manager, and the finance officer on November 12, 2014.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Southern Missouri Recycling & Waste Management District
Lake Andes, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Southern Missouri Recycling & Waste Management District, Lake Andes, South Dakota, (District) as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Southern Missouri Recycling & Waste Management District as of December 31, 2013, and the respective changes in financial position and, where applicable, 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

The District has omitted the Management's Discussion and Analysis (MD&A) 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 considers 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 November 4, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 the District's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
November 4, 2014

Schoenfish & Co., Inc.

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STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>SOLID WASTE FUND</u>
	2013
ASSETS:	
<u>Current Assets:</u>	
Cash and Deposits	\$ 228,911.52
Restricted Cash in Bank	335,227.75
Accounts Receivable	39,696.69
Patronage Dividends Receivable	4,592.30
Prepaid Insurance	15,334.81
Restricted Deposits	11,206.55
Total Current Assets	\$ 634,969.62
<u>Capital Assets:</u>	
Land	\$ 277,141.60
Buildings	310,315.87
Accumulated Depreciation - Buildings	(164,279.30)
Improvements Other Than Buildings	1,855,681.86
Accum. Depr. - Improvements Other Than Buildings	(870,954.84)
Machinery and Equipment	946,108.28
Accum. Depr. - Machinery and Equipment	(333,781.68)
Construction Work in Progress	451,237.33
Total Capital Assets	\$ 2,471,469.12
TOTAL ASSETS	\$ 3,106,438.74
 LIABILITIES	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 33,180.59
Sales Tax Payable	205.96
Real Estate Taxes Payable	692.20
Accrued Wages Payable	3,259.20
Payroll Taxes Payable	1,939.47
South Dakota Retirement Payable	1,045.46
Accrued Interest Payable	6,828.10
Short Term Note Payable	154,052.97
Current Portion of Long-Term Liabilities	77,131.14
Total Current Liabilities	\$ 278,335.09
<u>Long-Term Liabilities:</u>	
Accrued Leave Payable	\$ 12,409.75
Closure & Postclosure Care Payable	299,777.10
<u>Notes Payable:</u>	
DENR-Baler Loan	165,000.00
DENR Leachate Pond Loan	123,679.71
DENR Land Loan	107,968.19
RECD	66,054.20
Revenue # 1	79,403.29
Revenue # 2	223,813.00
Financing (Capital Acquisition) Leases	41,715.13
Less Current Portion of Long-Term Liabilities	(77,131.14)
Total Long-Term Liabilities	\$ 1,042,689.23
TOTAL LIABILITIES	\$ 1,321,024.32
 NET POSITION	
Net Investment in Capital Assets	\$ 1,663,835.60
Restricted for Closure & Postclosure Care	35,450.65
Restricted for Cumulative Insurance Reserve	11,206.55
Unrestricted Net Position	74,921.62
Total Net Position	\$ 1,785,414.42
TOTAL LIABILITIES AND NET POSITION	\$ 3,106,438.74

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

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

	<u>SOLID WASTE FUND</u>
	2013
<u>OPERATING REVENUE:</u>	
Charges for Goods and Services	
Pledged as Security for Debt	\$ 429,545.43
Rental Revenue	9,687.20
<u>TOTAL OPERATING REVENUE</u>	<u>\$ 439,232.63</u>
<u>OPERATING EXPENSES:</u>	
Wages and Benefits	\$ 135,734.26
Licenses and Fees	503.00
Office Expense	2,768.29
Other Supplies	27,433.61
Telephone	1,377.84
Electricity	12,749.61
Other Utilities	10,574.00
Pest Control	1,487.65
Real Estate Taxes	697.40
Legal and Professional Fees	44,257.59
Board Member Fees	4,290.00
Water Test and Monitoring Fees	15,865.68
Gas and Diesel	4,614.65
Solid Waste Tipping Fees	9,439.19
Insurance and Bond	17,716.50
Repairs and Maintenance	28,209.01
Closure and Postclosure Care Expense	41,850.32
Miscellaneous	1,120.80
Depreciation	88,505.65
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 449,195.05</u>
<u>OPERATING INCOME (LOSS)</u>	<u>\$ (9,962.42)</u>
<u>NONOPERATING REVENUE (EXPENSE)</u>	
Earnings on Deposits and Investments	\$ 865.20
Miscellaneous Nonoperating Revenue	2,929.27
Interest Expense and Fiscal Charges	(30,224.25)
Gain on Sale of Capital Assets	9,000.00
Capital Contributions	300,265.21
Total Nonoperating Revenue (Expense)	<u>\$ 282,835.43</u>
<u>NET INCOME (LOSS)</u>	<u>\$ 272,873.01</u>
<u>NET POSITION, BEGINNING OF YEAR</u>	<u>\$ 1,512,541.41</u>
<u>NET POSITION, END OF YEAR</u>	<u>\$ 1,785,414.42</u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>SOLID WASTE FUND</u>
	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash Receipts from Customers	\$ 457,826.21
Cash Payments to Employees for Services	(138,825.01)
Cash Payments to Suppliers of Goods or Services	(190,982.18)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 128,019.02</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Miscellaneous Revenue	\$ 2,929.27
<u>Net Cash Provided by Noncapital Financing Activities</u>	<u>\$ 2,929.27</u>
<u>CASH FLOWS FROM CAPITAL & RELATED ACTIVITIES:</u>	
Proceeds from Long-Term and Short-Term Debt	\$ 750,457.97
Purchase of Capital Assets	(479,445.09)
Sale of Capital Assets	9,000.00
Capital Contributions	300,265.21
Interest Paid	(26,043.77)
Debt Paid	(473,439.66)
<u>Net Cash Provided by Capital & Related Activities</u>	<u>\$ 80,794.66</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Interest Received	\$ 865.20
<u>Net Cash Provided by Investing Activities</u>	<u>\$ 865.20</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>\$ 212,608.15</u>
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>\$ 351,531.12</u>
<u>Cash and Cash Equivalents at End of Year</u>	<u>\$ 564,139.27</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET</u>	
<u>CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	\$ (9,962.42)
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	88,505.65
Change in Assets and Liabilities:	
Receivables	18,593.58
Prepaid Insurance	(6,092.46)
Accounts and Other Payables	24,189.85
Accrued Leave Payable	1,199.25
Closure/Postclosure Care Payable	11,585.57
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 128,019.02</u>

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of Southern Missouri Recycling & Waste Management District consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds, may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into one major category: proprietary funds. An emphasis is placed on major fund. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenses of the enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenses of the enterprise fund are at least 5 percent of the corresponding total for all enterprise funds combined, or
3. Management has elected to classify one or more enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the District financial reporting entity are described below:

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste. (SDCL 9-32-11 and 9-34A-6) This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

In the Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position, business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Basis of Accounting:

In the financial statements, business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2013 balance of business-type capital assets are all valued at original cost.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 0.00	----N/A----	-----N/A-----
Improvements other than buildings	\$ 5,000.00	Straight-line	10-38 yrs.
Buildings	\$ 5,000.00	Straight-line	31.5 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	5-20 yrs.

Land is an inexhaustible capital asset and is not depreciated.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

Capital assets used in proprietary fund operations are accounted for on the accrual basis.

e. Long-Term Liabilities:

All long-term liabilities to be repaid from business-type resources are reported as liabilities in the statements. The long-term liabilities primarily consist of revenue notes, RECD loans, and financing (capital acquisition) leases.

The accounting for proprietary fund long-term debt is on the accrual basis.

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

g. Cash and Cash Equivalents:

For the purpose of the proprietary fund's Statement of Cash Flows, the District considers all highly liquid investments as deposits (including restricted assets) with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

h. Equity Classifications:

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

1. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

i. Application of Net Position:

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

NOTES TO THE FINANCIAL STATEMENTSDECEMBER 31, 2013(Continued)2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits – The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2013, is as follows:

	Balance 01/01/2013	Increases	Decreases	Balance 12/31/2013
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	277,141.60			277,141.60
Construction Work in Progress	420,595.31	30,642.02		451,237.33
Total, not being depreciated	<u>697,736.91</u>	<u>30,642.02</u>	<u>0.00</u>	<u>728,378.93</u>
Capital Assets, being Depreciated:				
Buildings	310,315.87			310,315.87
Improvements Other Than Buildings	1,855,681.86			1,855,681.86
Machinery and Equipment	659,047.87	467,469.74	(180,409.33)	946,108.28
Total, being depreciated	<u>2,825,045.60</u>	<u>467,469.74</u>	<u>(180,409.33)</u>	<u>3,112,106.01</u>
Less Accumulated Depreciation for:				
Buildings	(154,163.92)	(10,115.38)		(164,279.30)
Improvements Other Than Buildings	(836,248.47)	(34,706.37)		(870,954.84)
Machinery and Equipment	(451,840.44)	(43,683.90)	161,742.66	(333,781.68)
Total Accumulated Depreciation	<u>(1,442,252.83)</u>	<u>(88,505.65)</u>	<u>161,742.66</u>	<u>(1,369,015.82)</u>
Total Business-Type Activities Capital Assets, being Depreciated, Net	<u>1,382,792.77</u>	<u>378,964.09</u>	<u>(18,666.67)</u>	<u>1,743,090.19</u>
Business-Type Activity Capital Assets, Net	<u>2,080,529.68</u>	<u>409,606.11</u>	<u>(18,666.67)</u>	<u>2,471,469.12</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	2013
Solid Waste	<u>88,505.65</u>
Total Depreciation Expense - Business-Type Activities	<u>88,505.65</u>

Construction Work in Progress at December 31, 2013 is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2013	Committed	Required Future Financing
Trench #3/Close #1	458,740.00	451,237.33	7,502.67	0.00

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5. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>1/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2013</u>
Notes Payable	<u>0.00</u>	<u>572,427.97</u>	<u>418,375.00</u>	<u>154,052.97</u>

The above short-term debts were issued for the purpose of short term financing for the baler/bagger purchase.

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Beginning</u> <u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u> <u>12/31/13</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activities:					
S.D. Revolving Fund Loan # 1	97,737.94		18,334.65	79,403.29	19,272.89
Rural Development Loan	71,794.63		5,740.43	66,054.20	5,999.75
DENR Land Loan	113,042.55		5,074.36	107,968.19	5,240.61
DENR Baler/Bagger Loan Financing (Capital Acquisition)	0.00	165,000.00		165,000.00	14,888.84
Lease - Scale	54,566.29		12,851.16	41,715.13	13,364.30
DENR Leachate Collection Pond Loan	136,743.77		13,064.06	123,679.71	13,359.65
S.D. Revolving Fund Loan # 2	210,783.00	13,030.00		223,813.00	5,005.10
Total Debt	<u>684,668.18</u>	<u>178,030.00</u>	<u>55,064.66</u>	<u>807,633.52</u>	<u>77,131.14</u>
Accrued Compensated Absences - Business-Type Funds	<u>11,210.50</u>	<u>12,080.54</u>	<u>10,881.29</u>	<u>12,409.75</u>	<u>10,000.00</u>
Total Business-Type Activities	<u>695,878.68</u>	<u>190,110.54</u>	<u>65,945.95</u>	<u>820,043.27</u>	<u>87,131.14</u>

Debt payable at December 31, 2013 is comprised of the following:

South Dakota Revolving Fund Loan Borrower Bond, Series 1994, for Construction of Trench Type Balefill Solid Waste Landfill. Interest Rate: 5.00%, Maturity Date: October 1, 2017.	\$ 79,403.29
Rural Development Loan, for Phase I, Trench II Construction. Interest Rate: 4.625%, Maturity Date: January 15, 2023.	\$ 66,054.20
Department of Environment and Natural Resources Land Loan. Interest Rate 3.25%, Maturity Date: December 1, 2029.	\$107,968.19
Department of Environment and Natural Resources Leachate Collection Pond Loan. Interest Rate 2.25%, Maturity Date: June 1, 2022.	\$123,679.71

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Department of Environment and Natural Resources
Baler/Bagger Loan. Interest Rate 2.25%,
Maturity Date: December 1, 2023. \$165,000.00

South Dakota Revolving Fund Loan Borrower Bond,
Series 2012, for Trench # 2
Interest Rate: 2.25%,
Maturity Date: July 15, 2024. \$223,813.00

Compensated Absences:

Accrued Vacation and Sick leave of various
employees payable from waste management fund \$ 12,409.75

Financing (Capital Acquisition) Leases:

Lease Purchase Agreement with Kinetic
Leasing for the purchase of a Scale
Interest Rate: 3.99%, Maturity Date: November 1, 2016 \$ 41,715.13

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$74,360.00
Interest	<u>8,226.00</u>
TOTAL	<u>\$82,586.00</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2013, except for compensated absences, but including interest payments of \$117,671.11, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2013

Year Ending Dec. 31,	Rural Development Loan		S.D. Revolving Loan Fund #1		DENR Land Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	5,999.75	2,933.29	19,272.89	3,532.39	5,240.61	3,466.73
2015	6,283.19	2,649.85	20,258.91	2,546.37	5,412.32	3,295.02
2016	6,580.03	2,353.01	21,295.41	1,509.87	5,589.65	3,117.69
2017	6,890.90	2,042.14	18,576.08	426.88	5,772.78	2,934.56
2018	7,216.45	1,716.59			5,961.93	2,745.41
2019-2023	33,083.88	3,390.39			32,870.86	10,665.84
2024-2028					38,620.37	4,916.33
2029					8,499.67	207.74
Totals	<u>66,054.20</u>	<u>15,085.27</u>	<u>79,403.29</u>	<u>8,015.51</u>	<u>107,968.19</u>	<u>31,349.32</u>

Year Ending Dec. 31,	Financing (Capital Acquisition) Lease - Scale		DENR - Leachate Collection Pond Loan		S.D. Revolving Loan Fund #2	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	13,364.30	1,665.70	13,359.65	2,708.07	5,005.10	1,258.95
2015	13,897.94	1,132.06	13,661.94	2,405.78	20,303.51	4,752.69
2016	14,452.89	577.11	13,971.06	2,096.66	20,764.21	4,291.99
2017			14,287.18	1,780.54	21,235.37	3,820.83
2018			14,610.45	1,457.27	21,717.21	3,338.99
2019-2023			53,789.43	2,447.60	116,205.14	9,075.86
2024-2028					18,582.46	209.45
Totals	<u>41,715.13</u>	<u>3,374.87</u>	<u>123,679.71</u>	<u>12,895.92</u>	<u>223,813.00</u>	<u>26,748.76</u>

Year Ending Dec. 31,	DENR - Baler/Bagger Loan		Totals	
	Principal	Interest	Principal	Interest
2014	14,888.84	3,650.17	77,131.14	19,215.30
2015	15,225.73	3,292.33	95,043.54	20,074.10
2016	15,570.23	2,947.83	98,223.48	16,894.16
2017	15,922.53	2,595.53	82,684.84	13,600.48
2018	16,282.80	2,235.26	65,788.84	11,493.52
2019-2023	87,109.87	5,480.34	323,059.18	31,060.03
2024-2028			57,202.83	5,125.78
2029			8,499.67	207.74
Totals	<u>165,000.00</u>	<u>20,201.46</u>	<u>807,633.52</u>	<u>117,671.11</u>

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)

7. RETIREMENT PLAN

All employees, except for part-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions is found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, S. D. 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the years ended December 31, 2013, 2012 and 2011, was \$6,068.23, \$5,981.01, and \$5,617.70, respectively, equal to the required contributions each year.

8. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2013, the District was not involved in any significant litigation.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. During the period ended December 31, 2013, the District managed its risks as follows:

Employee Health Insurance:

The District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The District joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The district pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The District pays an annual premium to the pool to provide coverage for liability coverage and errors and omissions coverage.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
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The agreement with the SDPAA provides that the above coverage will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The District would be eligible to receive a refund for the percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of District's First Full Year	50%
End of District's Second Full Year	60%
End of District's Third Full Year	70%
End of District's Fourth Full Year	80%
End of District's Fifth Full Year	90%
End of District's Sixth Full Year and Thereafter	100%

As of December 31, 2013, the District has vested balance in the cumulative reserve fund of \$11,206.55.

The District carries a \$250 deductible for coverage for real and personal property, miscellaneous equipment and tools, and electronic data processing equipment. The district carries a \$500 deductible for coverage for boiler and equipment breakdown.

The District does not carry additional insurance coverage to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The District joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

10. LANDFILLS

State and federal laws and regulations require the District 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 thirty years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the District reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$299,777.10 reported as landfill closure and post closure care liability at December 31, 2013, represents the cumulative

NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

amount reported to date based on the use of 30.9 percent of the estimated capacity of the landfill. The District will recognize the remaining estimated cost of closure and post closure care of \$671,420.90 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2013. The District expects to close the landfill in the year 2056 which would indicate a remaining landfill life of 42 years and 11 months. Actual cost may be higher due to inflation changes in technology, or changes in regulations.

The District is required by state and federal laws and regulations to make annual contributions to an escrow to finance closure and post closure care. These are reported as restricted assets on the balance sheet. These assets being held in trust are not available to the District without prior approval of the State of South Dakota Department of Environment and Natural Resources. The District expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post closure 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.

11. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2013 were as follows:

Cumulative Insurance Reserve	\$11,206.55
Closure and Postclosure Care	<u>35,450.65</u>
Total Restricted Net Position	<u>\$46,657.20</u>

These balances are restricted due to federal grant and statutory requirements.