

Resource Recovery and Recycling Authority of Southwest Oakland County

**Financial Report
with Supplemental Information
June 30, 2015**

Resource Recovery and Recycling Authority of Southwest Oakland County

Contents

| | |
|---|-------|
| Report Letter | 1-2 |
| Management's Discussion and Analysis | 3-5 |
| Basic Financial Statements | |
| Statement of Net Position/Governmental Fund Balance Sheet | 6 |
| Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance | 7 |
| Notes to Financial Statements | 8-14 |
| Required Supplemental Information | 15 |
| Budgetary Comparison Schedules - Budgetary Presentation | 16-17 |
| Budgetary Comparison Schedule - General Administrative Fund | 18 |
| Budgetary Comparison Schedule - MRF - Operations | 19 |
| Budgetary Comparison Schedule - MRF - Recovery | 20 |



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Independent Auditor's Report

To the Board of Directors
Resource Recovery and Recycling Authority
of Southwest Oakland County

Report on the Financial Statements

We have audited the accompanying financial statements of the General Fund and the governmental activities (modified accrual and full accrual columns, respectively) of Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority") as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise Resource Recovery and Recycling Authority of Southwest Oakland County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

To the Board of Directors
Resource Recovery and Recycling Authority
of Southwest Oakland County

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 respective financial position of the General Fund and the governmental activities of Resource Recovery and Recycling Authority of Southwest Oakland County as of June 30, 2015 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

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

Plante & Moran, PLLC

September 16, 2015

Resource Recovery and Recycling Authority of Southwest Oakland County

Management's Discussion and Analysis

Our discussion and analysis of Resource Recovery and Recycling Authority of Southwest Oakland County's (RRRASOC or the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Authority's financial statements.

Using this Annual Report

This annual report presents the financial position and the results of operations for each of the Authority's funds, as well as for the Authority as a whole. The individual funds are presented on the modified accrual basis of accounting, which is a short-term view that tells us how resources were spent during the year, as well as how much is available for future spending. This information is then aggregated and adjusted to the full-accrual basis to present a longer-term view of the Authority as a whole. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the member communities have funded the full cost of providing waste management services.

The Authority as a Whole

The following table shows, in a condensed format, the net assets on a full accrual basis compared to the prior years:

| | 2013 | 2014 | 2015 | Current Year Change | |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------|
| | | | | Amount | Percent |
| Assets | | | | | |
| Current assets | \$ 497,457 | \$ 1,270,446 | \$ 2,388,480 | \$ 1,118,034 | 88.0 |
| Capital assets | <u>2,141,902</u> | <u>1,565,440</u> | <u>5,909,563</u> | <u>4,344,123</u> | 277.5 |
| Total assets | 2,639,359 | 2,835,886 | 8,298,043 | 5,462,157 | 192.6 |
| Liabilities | | | | | |
| Current liabilities | 119,746 | 387,680 | 560,420 | 172,740 | 44.6 |
| Noncurrent liabilities | <u>15,678</u> | <u>16,004</u> | <u>22,736</u> | <u>6,732</u> | 42.1 |
| Total liabilities | <u>135,424</u> | <u>403,684</u> | <u>583,156</u> | <u>179,472</u> | 44.5 |
| Net Position | | | | | |
| Investment in capital assets | 2,141,902 | 1,565,440 | 5,909,563 | 4,344,123 | 277.5 |
| Unrestricted | <u>362,033</u> | <u>866,762</u> | <u>1,805,324</u> | <u>938,562</u> | 108.3 |
| Total net position | <u>\$ 2,503,935</u> | <u>\$ 2,432,202</u> | <u>\$ 7,714,887</u> | <u>\$ 5,282,685</u> | 217.2 |

The Authority's combined net position increased approximately 217 percent from a year ago, from \$2,432,202 to \$7,714,887. The increase of net position investment in capital assets relates to the reconstruction of the MRF building following the May 2014 fire. The building was reconstructed during fiscal year 2015 with the use of insurance proceeds.

Resource Recovery and Recycling Authority of Southwest Oakland County

Management's Discussion and Analysis (Continued)

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased by \$938,562 for the governmental activities. This was largely related to insurance proceeds that have been received by the Authority and will be used in the future to replace equipment for the facility.

The following table shows the changes in net position during the current year as compared to the prior two years:

| | Year Ended June 30 | | | Current Year Change | |
|--|--------------------|--------------------|---------------------|---------------------|------------------|
| | 2013 | 2014 | 2015 | Amount | Percent |
| Revenue | | | | | |
| Contributions from members | \$ 291,795 | \$ 291,795 | \$ 291,795 | \$ - | - |
| MRF revenue sharing | 143,299 | 136,532 | 138,492 | 1,960 | 1.4 |
| Host fees | 262,626 | 157,662 | - | (157,662) | (100.0) |
| Interest income | 2,677 | 3,538 | 7,647 | 4,109 | 116.1 |
| Refunds and other | 5,605 | 13,645 | 19,966 | 6,321 | 46.3 |
| Insurance recovery | - | 57,971 | 5,598,659 | 5,540,688 | 9,557.7 |
| Total revenue | 706,002 | 661,143 | 6,056,559 | 5,395,416 | 816.1 |
| Expenses | | | | | |
| Salaries and benefits | 260,118 | 272,697 | 241,740 | (30,957) | (11.4) |
| Professional services | 18,690 | 33,142 | 91,249 | 58,107 | 175.3 |
| Other operating expenses | 74,518 | 80,190 | 66,479 | (13,711) | (17.1) |
| Drop-off expense | 81,932 | 89,176 | 99,445 | 10,269 | 11.5 |
| Revenue sharing distributed to communities | 88,807 | 49,759 | 266,032 | 216,273 | 434.6 |
| Depreciation | 70,254 | 128,452 | 1,738 | (126,714) | (98.6) |
| Fire-related costs | - | 79,460 | - | (79,460) | (100.0) |
| Loss on disposal of assets | - | - | 7,191 | 7,191 | 100.0 |
| Total expenses | 594,319 | 732,876 | 773,874 | 40,998 | 5.6 |
| Change in Net Position | \$ 111,683 | \$ (71,733) | \$ 5,282,685 | \$ 5,354,418 | (7,464.4) |

The MRF revenue sharing remained flat as a result of a drop in the value of various commodities. Those values tend to fluctuate significantly as a result of market forces and in general cannot be depended upon for future revenue levels. Revenue from host fees declined 100 percent due to the facility being closed for operations due to the fire in May 2014.

Resource Recovery and Recycling Authority of Southwest Oakland County

Management's Discussion and Analysis (Continued)

The Authority's Financial Statements

The financial statements are presented on both a modified accrual and full accrual basis of accounting. The Authority creates funds to help manage money for specific purposes as well as to show accountability for certain activities. For budgetary purposes, the Authority's funds include the General Administrative Fund, the Materials Recovery Facility - Operations Fund, and the Materials Recovery Facility - Recovery Fund. For financial statement reporting purposes, the three funds are combined into a single modified accrual fund.

Budgetary Highlights

Overall, the Authority's expenditures remained below budgeted amounts with the exception of capital repairs as a result of fire-related damage to the facility. These expenses were slightly over budget due to the estimating nature involved with the insurance claim process. The Authority's fund balance remained healthy. The Authority continued to use the MRF Recovery account to track insurance proceeds and expenditures related to the 2014 fire to the Materials Recovery Facility.

Capital Asset Administration

As described in Note 5, at the end of 2015, the Authority had \$5,909,563 invested in capital assets (net of depreciation), including land, building, and office furnishings and fixtures. Of this amount, \$1,550,000 relates to land. During 2015, there was a major addition for the restoration of the building.

Economic Factors and Next Year's Budgets and Rates

Commodity prices fell in the third quarter of the fiscal year due to variety of global and domestic factors, including weak overseas demand, inventory backups due to a west coast port strike, and the drop in oil prices. Industry experts continue to see relatively weak demand for commodities but anticipate a modest recovery throughout the year.

Contacting the Authority's Management

This financial report is intended to provide our member communities with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member communities. If you have questions about this report or need additional information, we welcome you to contact the Authority's office.

Resource Recovery and Recycling Authority of Southwest Oakland County

Statement of Net Position/Governmental Fund Balance Sheet June 30, 2015

| | Balance Sheet - Modified Accrual | Accrual Adjustments (Note 2) | Statement of Net Position - Full Accrual |
|---|--|------------------------------------|--|
| Assets | | | |
| Cash and cash equivalents (Note 4) | \$ 2,318,215 | \$ - | \$ 2,318,215 |
| Accounts receivable | 63,693 | - | 63,693 |
| Prepaid expenses | 6,572 | - | 6,572 |
| Capital assets: | | | |
| Nondepreciable capital assets (Note 5) | - | 1,550,000 | 1,550,000 |
| Depreciable capital assets - Net (Note 5) | - | 4,359,563 | 4,359,563 |
| Total assets | <u>\$ 2,388,480</u> | 5,909,563 | 8,298,043 |
| Liabilities | | | |
| Accounts payable | \$ 541,251 | - | 541,251 |
| Salaries payable | 5,990 | - | 5,990 |
| Compensated absences: | | | |
| Due within one year | - | 13,179 | 13,179 |
| Due in more than one year | - | 22,736 | 22,736 |
| Total liabilities | 547,241 | 35,915 | 583,156 |
| Equity | | | |
| Fund balance: | | | |
| Nonspendable | 6,572 | (6,572) | - |
| Unassigned | 1,834,667 | (1,834,667) | - |
| Total fund balance | 1,841,239 | (1,841,239) | - |
| Total liabilities and fund balance | <u>\$ 2,388,480</u> | | |
| Net position: | | | |
| Net investment in capital assets | | 5,909,563 | 5,909,563 |
| Unrestricted | | 1,805,324 | 1,805,324 |
| Total net position | | <u>\$ 7,714,887</u> | <u>\$ 7,714,887</u> |

Resource Recovery and Recycling Authority of Southwest Oakland County

Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2015

| | Modified Accrual | Accrual Adjustments (Note 2) | Full Accrual |
|---|---------------------|------------------------------------|---------------------|
| Revenue | | | |
| Contributions from members | \$ 291,795 | \$ - | \$ 291,795 |
| MRF revenue sharing | 138,492 | - | 138,492 |
| Interest income | 7,647 | - | 7,647 |
| Refunds and other | 19,966 | - | 19,966 |
| Insurance recovery | - | 5,598,659 | 5,598,659 |
| Total revenue | 457,900 | 5,598,659 | 6,056,559 |
| Expenditures/Expenses | | | |
| Salaries and benefits | 236,095 | 5,645 | 241,740 |
| Professional services | 91,249 | - | 91,249 |
| Supplies | 1,829 | - | 1,829 |
| Printing and publishing | 9,447 | - | 9,447 |
| Postage and mailing | 13,516 | - | 13,516 |
| Utilities | 4,814 | - | 4,814 |
| Training and travel | 6,641 | - | 6,641 |
| Equipment maintenance | 1,335 | - | 1,335 |
| Other operating expenses | 28,897 | - | 28,897 |
| Drop-off expenses | 99,445 | - | 99,445 |
| Revenue sharing distributed to communities | 266,032 | - | 266,032 |
| Capital outlay | 252,190 | (252,190) | - |
| Depreciation | - | 1,738 | 1,738 |
| Loss on disposal of assets | - | 7,191 | 7,191 |
| Total expenditures/expenses | 1,011,490 | (237,616) | 773,874 |
| Other Financing Sources - Insurance proceeds | 2,117,449 | (2,117,449) | - |
| Net Change in Fund Balance/Net Position | 1,563,859 | 3,718,826 | 5,282,685 |
| Fund Balance/Net Position - July 1, 2014 | 277,380 | 2,154,822 | 2,432,202 |
| Fund Balance/Net Position - June 30, 2015 | \$ 1,841,239 | \$ 5,873,648 | \$ 7,714,887 |

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note I - Summary of Significant Accounting Policies

Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority") is a municipal authority and body corporate, incorporated by the cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and was created pursuant to Act 179, Michigan Public Acts of 1947, as amended. Currently, the Authority is engaged in assisting the communities in the coordination of their solid waste management activities. Its ultimate purpose is the collection and disposal of rubbish and acquisition and operation of a waste management system.

The accounting policies of Resource Recovery and Recycling Authority of Southwest Oakland County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Resource Recovery and Recycling Authority of Southwest Oakland County:

Modified Accrual and Full Accrual Data

The Authority consists of a single fund, which is presented in these financial statements on both the modified accrual basis and full accrual basis. The modified accrual column represents the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenue to be available if it is collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The full accrual column represents the total economic resources measurement focus and the full accrual basis of accounting. Revenue is 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.

Assets, Liabilities, and Net Position or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land and building for the MRF site, machinery and equipment, and office furniture and fixtures, are reported in the full accrual column. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|-----------------|
| Land (MRF site) | Not depreciated |
| Building | 50 years |
| Machinery and equipment | 5-15 years |
| Office furniture and fixtures | 3-10 years |

Compensated Absences (Vacation and Sick Leave) - It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A portion of accumulated sick leave is payable upon death or retirement and is accrued. All vacation pay and the portion of sick leave eligible for payout upon death or retirement are accrued when incurred in the full accrual column. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 1 - Summary of Significant Accounting Policies (Continued)

- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed: Amounts that have been formally set aside by the board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- Assigned: Intent to spend resources on specific purposes expressed by the governing body
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been restricted, committed, or assigned to specific purposes in the General Fund.

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 revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities

Net position reported in the statement of net position column is different than the fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

| | |
|---|---------------------|
| Fund Balance - Modified Accrual Basis | \$ 1,841,239 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 5,909,563 |
| Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | <u>(35,915)</u> |
| Net Position - Full Accrual Basis | <u>\$ 7,714,887</u> |

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 2 - Reconciliation of Individual Fund Columns of the Statement of Net Position/Statement of Activities (Continued)

The change in net position reported in the statement of activities column is different than the change in fund balance reported in the individual fund column because of the different measurement focus and basis of accounting, as discussed in Note 1. Below is a reconciliation of the differences:

| | |
|--|----------------------------|
| Net Change in Fund Balances - Modified Accrual Basis | \$ 1,563,859 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capital outlay | 252,190 |
| Depreciation expense | (1,738) |
| Certain insurance proceeds are paid directly to contractors from escrow and are not considered a current financial resource on the modified accrual basis | 3,481,210 |
| Loss on disposal of assets | (7,191) |
| Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment | <u>(5,645)</u> |
| Change in Net Position of Governmental Activities | <u>\$ 5,282,685</u> |

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year end. The budget is prepared by the general manager and approved by the board of directors. The budget document presents information by fund and line items. The legal level of budgetary control adopted by the governing body is the line item level (i.e., the level at which expenditures may not legally exceed appropriations). Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to three types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$883,377 in bank deposits that were uninsured and uncollateralized. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. In accordance with its investment policy, the Authority manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to a range of 90 days to three years. The Authority's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. As of year end, the Authority held \$1,156,066 invested in an investment pool with a weighted average maturity of 478 days.

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 4 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the Authority held \$1,156,066 in investment pools that were not rated.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. More than 50 percent of the Authority's investments are in the Oakland County Local Government Investment Pool (the "LGIP"). The LGIP is not registered with the SEC and does not issue a separate report. The LGIP is managed as a 2(a)7 fund with its net asset value maintained at \$1. Fair value of the position in the pool is the same as the value of the pool shares.

Note 5 - Capital Assets

Capital asset activity was as follows:

| Governmental Activities | <u>Balance July 1, 2014</u> | <u>Additions</u> | <u>Disposals and Adjustments</u> | <u>Balance June 30, 2015</u> |
|---|---------------------------------|---------------------|--------------------------------------|----------------------------------|
| Capital assets not being depreciated - Land (MRF site) | \$ 1,550,000 | \$ - | \$ - | \$ 1,550,000 |
| Capital assets being depreciated: | | | | |
| Building | - | 4,345,863 | - | 4,345,863 |
| Machinery and equipment | 20,755 | - | (11,985) | 8,770 |
| Office furnishings and fixtures | 6,577 | 7,189 | (3,575) | 10,191 |
| Subtotal | 27,332 | 4,353,052 | (15,560) | 4,364,824 |
| Accumulated depreciation: | | | | |
| Machinery and equipment | 6,287 | 1,495 | (4,794) | 2,988 |
| Office furnishings and fixtures | 5,605 | 243 | (3,575) | 2,273 |
| Subtotal | 11,892 | 1,738 | (8,369) | 5,261 |
| Net capital assets being depreciated | 15,440 | 4,351,314 | (7,191) | 4,359,563 |
| Net capital assets | <u>\$ 1,565,440</u> | <u>\$ 4,351,314</u> | <u>\$ (7,191)</u> | <u>\$ 5,909,563</u> |

Resource Recovery and Recycling Authority of Southwest Oakland County

Notes to Financial Statements June 30, 2015

Note 5 - Capital Assets (Continued)

The land was donated to the Authority. The donation was comprised of a \$500,000 state grant, received in 1994, that was used to purchase machinery and equipment. In addition, the former operator donated \$1,550,000 in land at the initiation of its MRF contract in 1994 as well as \$320,000 in machinery and equipment upon the expiration of its contract in 2008.

Upon termination of the MRF Operations Agreement with ReCommunity Recycling, ownership of any fixed equipment installed by ReCommunity Recycling will be transferred to the Authority. The Authority will record the facility at its fair value, if any, at the time of transfer (the original cost of the ReCommunity-owned equipment to be installed during FY 2015-2016 is approximately \$6.5 million).

On May 27, 2014, a fire at the MRF caused extensive damage to the building and equipment, leaving the facility out of operation. The repair estimate for the building approved by the Authority's insurance carrier is \$4,286,800; all costs were incurred as of June 30, 2015. The Authority received \$50,000 from the insurance carrier to replace office furnishings. The replacement cost for Authority-owned processing equipment approved by the insurance company is \$2,664,120.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits, workers' compensation, and general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Upcoming Accounting Pronouncement

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's 2015-2016 fiscal year.

Required Supplemental Information

Resource Recovery and Recycling Authority of Southwest Oakland County

Required Supplemental Information Budgetary Comparison Schedules Year Ended June 30, 2015

Budgetary Presentation

For budgetary purposes, the Authority budgets the general administrative activities separately from the material recovery facilities activity. The MRF - recovery department was set up during the 2014 fiscal year to separately account and budget for insurance proceeds and costs associated with the fire at the facility in May 2014.

- a. The General Administrative Fund accounts for all financial activity that is not otherwise accounted for in the Materials Recovery Facility funds.
- b. The Materials Recovery Facility - Operations Fund reports the operation of the materials recovery facility. The fund's major revenue sources are revenue sharing, host fees, and a portion of member contributions.
- c. The Materials Recovery Facility - Recovery Fund accounts for the insurance proceeds and costs that relate to the fire at the facility building in May 2014.

Below is a reconciliation of the three separate activities to the modified accrual basis General Fund:

| | General Administrative | MRF - Operations | MRF - Recovery | Presentation and GAAP Adjustments | Total Modified Accrual |
|--|---------------------------|---------------------|---------------------|---|---------------------------|
| Total revenue | \$ 237,904 | \$ 461,237 | \$ 6,225,681 | \$ (6,466,922) | \$ 457,900 |
| Total expenditures | <u>(207,684)</u> | <u>(277,266)</u> | <u>(4,876,013)</u> | <u>4,349,473</u> | <u>(1,011,490)</u> |
| Excess of revenue over (under) expenditures | 30,220 | 183,971 | 1,349,668 | (2,117,449) | (553,590) |
| Other financing sources | - | - | - | 2,117,449 | 2,117,449 |
| Fund balance - Beginning of year | <u>88,847</u> | <u>(22,800)</u> | <u>211,333</u> | <u>-</u> | <u>277,380</u> |
| Fund balance - End of year | <u>\$ 119,067</u> | <u>\$ 161,171</u> | <u>\$ 1,561,001</u> | <u>\$ -</u> | <u>\$ 1,841,239</u> |

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all departments with exception that the Authority has included in its budgetary comparison schedules certain insurance proceeds revenue and capital outlay expenditures that are not included in the modified accrual statements. These items relate to activity in an escrow account beyond the full control of the Authority.

Resource Recovery and Recycling Authority of Southwest Oakland County

Required Supplemental Information Budgetary Comparison Schedules (Continued) Year Ended June 30, 2015

A reconciliation of the budgetary comparison schedules to the modified accrual governmental fund revenue, expenditures, and changes in fund balance is as follows:

| | <u>Total Revenue</u> | <u>Total Expenditures</u> |
|--|----------------------------|----------------------------|
| Amounts per operating statement | \$ 2,575,349 | \$ 1,011,490 |
| Escrow account activity | 4,103,450 | 4,103,450 |
| Departmental transfers for budget purposes | <u>246,023</u> | <u>246,023</u> |
| Amounts per budget statement | <u><u>\$ 6,924,822</u></u> | <u><u>\$ 5,360,963</u></u> |

Resource Recovery and Recycling Authority of Southwest Oakland County

Required Supplemental Information Budgetary Comparison Schedule - General Administrative Fund Year Ended June 30, 2015

| | Current Year | | | | |
|--|------------------|--------------------|------------------|-------------------|------------------|
| | Prior Year | Amended | | | Over (Under) |
| | Actual | Original Budget | Budget | Actual | Amended Budget |
| Revenue | | | | | |
| Member contributions | \$ 224,009 | \$ 224,009 | \$ 224,009 | \$ 224,009 | \$ - |
| Interest income | 990 | 500 | 780 | 996 | 216 |
| Other | 13,645 | 6,000 | 9,900 | 12,899 | 2,999 |
| Total revenue | 238,644 | 230,509 | 234,689 | 237,904 | 3,215 |
| Expenditures | | | | | |
| Supervisory salaries | 55,409 | 56,069 | 56,069 | 56,069 | - |
| Permanent salaries | 57,952 | 58,175 | 42,889 | 42,724 | (165) |
| Overtime | 4,855 | 4,953 | 4,353 | 4,353 | - |
| FICA | 9,663 | 9,294 | 8,465 | 8,292 | (173) |
| Medical and dental insurance | 43,773 | 49,796 | 34,580 | 32,224 | (2,356) |
| Unemployment insurance | 237 | 237 | 160 | 160 | - |
| Workers' compensation | 740 | 854 | 722 | 722 | - |
| ICMA contribution | 12,523 | 12,571 | 11,806 | 11,762 | (44) |
| Operating supplies | 652 | 750 | 600 | 279 | (321) |
| Office supplies | 2,293 | 3,500 | 1,500 | 1,470 | (30) |
| Postage and mailing | 681 | 1,000 | 1,350 | 1,172 | (178) |
| Magazines and periodicals | 404 | 800 | 220 | 218 | (2) |
| Books | - | - | - | - | - |
| Audit | 7,800 | 7,800 | 7,800 | 7,800 | - |
| Consulting services - Legal | 1,220 | - | - | - | - |
| Membership dues | 1,070 | 980 | 1,020 | 907 | (113) |
| Contractual services | 14,955 | 10,304 | 28,400 | 22,811 | (5,589) |
| Telephone | 3,358 | 3,358 | 3,514 | 3,053 | (461) |
| Vehicle allowance | 4,800 | 4,800 | 4,800 | 4,800 | - |
| Community relations | 2,140 | 2,640 | 2,640 | 788 | (1,852) |
| Printing and publishing | 610 | 700 | 450 | 371 | (79) |
| Equipment maintenance | 365 | 365 | 300 | - | (300) |
| Building and grounds maintenance | 6,486 | 500 | - | - | - |
| Office equipment rental | 2,292 | 1,400 | 2,000 | 1,826 | (174) |
| Conferences and workshops | 1,472 | 2,500 | 3,000 | 2,983 | (17) |
| Expenses and mileage | 2,370 | 2,500 | 2,500 | 2,462 | (38) |
| Education and training | - | - | - | - | - |
| Computer software | 480 | 500 | 410 | 406 | (4) |
| Office equipment | 1,915 | 1,850 | 2,100 | 32 | (2,068) |
| Contingency | - | 5,993 | 3,000 | - | (3,000) |
| Total expenditures | 240,515 | 244,189 | 224,648 | 207,684 | (16,964) |
| Excess of Revenue (Under) Over Expenditures | (1,871) | \$ (13,680) | \$ 10,041 | 30,220 | \$ 20,179 |
| Fund Balance - Beginning of year | 90,718 | | | 88,847 | |
| Fund Balance - End of year | \$ 88,847 | | | \$ 119,067 | |

Resource Recovery and Recycling Authority of Southwest Oakland County

Required Supplemental Information Budgetary Comparison Schedule - MRF - Operations Year Ended June 30, 2015

| | Current Year | | | | |
|--|--------------------|--------------------|-------------------|-------------------|------------------|
| | Prior Year | Amended | | Over (Under) | |
| | Actual | Original Budget | Budget | Actual | Amended Budget |
| Revenue | | | | | |
| Member contributions | \$ 67,786 | \$ 67,786 | \$ 67,786 | \$ 67,786 | \$ - |
| Interest income | 2,548 | 1,500 | 1,550 | 1,869 | 319 |
| Revenue sharing: | | | | | |
| Curbside | 120,690 | 100,000 | 123,000 | 125,496 | 2,496 |
| Drop-off | 15,842 | 10,000 | 19,600 | 19,366 | (234) |
| Host fees | 157,662 | 245,000 | 234,714 | 234,720 | 6 |
| Other | - | - | 12,000 | 12,000 | - |
| Total revenue | 364,528 | 424,286 | 458,650 | 461,237 | 2,587 |
| Expenditures | | | | | |
| Supervisory salaries | 45,335 | 45,875 | 45,875 | 45,780 | (95) |
| Permanent salaries | 14,277 | 14,332 | 7,569 | 7,539 | (30) |
| FICA | 5,183 | 4,870 | 4,665 | 4,536 | (129) |
| Medical and dental insurance | 14,802 | 16,709 | 14,551 | 13,354 | (1,197) |
| Unemployment insurance | 102 | 102 | 68 | 68 | - |
| Workers' compensation | 303 | 349 | 265 | 260 | (5) |
| ICMA contribution | 8,589 | 8,622 | 8,284 | 8,252 | (32) |
| Postage and mailing | 12,073 | 15,966 | 15,440 | 12,344 | (3,096) |
| Audit | 2,100 | 2,400 | 2,400 | 2,400 | - |
| Drop-off | 89,176 | 89,000 | 103,000 | 99,445 | (3,555) |
| Telephone | 1,856 | 2,000 | 2,000 | 1,761 | (239) |
| Printing and publishing | 8,816 | 11,735 | 11,300 | 9,076 | (2,224) |
| Building and liability insurance | 21,037 | 22,000 | 20,000 | 19,867 | (133) |
| Equipment maintenance | 1,330 | 1,335 | 1,335 | 1,335 | - |
| Conferences and workshops | 1,000 | 1,000 | 1,000 | 1,000 | - |
| Expenses and mileage | 23 | 500 | 500 | 196 | (304) |
| Office equipment | 527 | 1,250 | 1,250 | 53 | (1,197) |
| Capital outlay | 413,671 | 189,000 | - | - | - |
| Contingency | - | 5,195 | 2,500 | - | (2,500) |
| Revenue sharing distributed to communities | 49,759 | 50,100 | 50,000 | 50,000 | - |
| Total expenditures | 689,959 | 482,340 | 292,002 | 277,266 | (14,736) |
| Excess of Revenue (Under) Over Expenditures | (325,431) | \$ (58,054) | \$ 166,648 | 183,971 | \$ 17,323 |
| Fund Balance - Beginning of year | 302,631 | | | (22,800) | |
| Fund Balance - End of year | \$ (22,800) | | | \$ 161,171 | |

Resource Recovery and Recycling Authority of Southwest Oakland County

Required Supplemental Information Budgetary Comparison Schedule - MRF - Recovery Year Ended June 30, 2015

| | Current Year | | | | Over (Under) Amended Budget |
|--|-------------------|-----------------|---------------------|---------------------|-----------------------------------|
| | Prior Year | Amended | | Actual | |
| | Actual | Original Budget | Budget | Actual | |
| Revenue | | | | | |
| Miscellaneous income - Insurance | \$ 300,000 | \$ - | \$ 6,262,347 | \$ 6,220,899 | \$ (41,448) |
| Interest income | - | - | 3,180 | 4,782 | 1,602 |
| Total revenue | 300,000 | - | 6,265,527 | 6,225,681 | (39,846) |
| Expenditures | | | | | |
| Office supplies | 604 | - | 100 | 80 | (20) |
| Postage and mailing | 3 | - | - | - | - |
| Consulting services - Engineers | - | - | 12,000 | 11,954 | (46) |
| Consulting services - Legal | 3,274 | - | 15,000 | 12,515 | (2,485) |
| Consulting services - Accounting | 3,793 | - | 76,200 | 33,769 | (42,431) |
| Printing and publishing | 510 | - | - | - | - |
| Equipment maintenance | 200 | - | - | - | - |
| Mileage/Expenses | 196 | - | - | - | - |
| Capital outlay | - | - | 4,349,743 | 4,355,640 | 5,897 |
| Office equipment | 627 | - | - | - | - |
| Transfer | - | - | 488,161 | 462,055 | (26,106) |
| Fire-related costs* | 79,460 | - | - | - | - |
| Total expenditures | 88,667 | - | 4,941,204 | 4,876,013 | (65,191) |
| Excess of Revenue Over Expenditures | 211,333 | <u>\$ -</u> | <u>\$ 1,324,323</u> | 1,349,668 | <u>\$ 25,345</u> |
| Fund Balance - Beginning of year | - | | | 211,333 | |
| Fund Balance - End of year | <u>\$ 211,333</u> | | | <u>\$ 1,561,001</u> | |

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Authority incurred capital outlay expenditures that were in excess of the amounts budgeted for in the MRF - Recovery Fund in the amount of \$5,897.