STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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.

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

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

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Introductory Section

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

ORGANIZATION
2011

	Position	County	Term Expires
Board of Commissioners			
George Larson	Chair	Isanti	December 31, 2011
Rick Greene	Vice Chair	Chisago	December 31, 2011
Stephen Hallan	Treasurer	Pine	December 31, 2011
Kim Smith	Member	Kanabec	December 31, 2011
Phil Peterson	Member	Mille Lacs	December 31, 2011

Executive Director
Janelle Troupe

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
East Central Solid Waste Commission

We have audited the accompanying basic financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Central Solid Waste Commission as of December 31, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 29, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)

FINANCIAL HIGHLIGHTS

There are several items included in the financial highlights for 2011.

- The Bomag Compactor that was purchased in 2008 was destroyed by fire in February 2011; insurance covered most of the cost, and a new Bomag was delivered to the landfill. Capital purchases included a walking floor trailer, an excavator, and an ATV.

- Contributed capital in the amount of $400,000 was returned to the five member counties

- Municipal solid waste (MSW) disposed of in the landfill was 86,065 tons. The demolition landfill took in 7,734 cubic yards.

- The East Central Solid Waste Commission (ECSWC) sold carbon credits through the California Action Registry in the amount of $220,415.

- The ECSWC recycled 72,130 pounds of electronics through an electronics grant from the State of Minnesota. The grant, requiring an in-kind match, reimbursed $8,865 to ECSWC.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the East Central Solid Waste Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the ECSWC operating budget, and other management tools were used for this analysis.

The financial statements report information about the ECSWC using accrual accounting methods.

The financial statements include: a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents assets, liabilities, and the net assets both invested in capital assets, net of related debt, and the unrestricted assets of the ECSWC. The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets. The statement of cash flows presents the cash flows from operating activities, financing activities, capital and related activities, investment activities, and the net cash provided by (used for) operating activities. The statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the ECSWC's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the ECSWC's staff from the detailed books and records of the ECSWC. The financial statements were audited and adjusted, if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

The East Central Solid Waste Commission was formed through a joint powers agreement in 1988, between the Minnesota counties of Chisago, Isanti, Kanabec, Mille Lacs, and Pine. The Commission owns and operates an integrated solid waste management disposal system consisting of a municipal solid waste landfill (located in Arthur Township in Kanabec County), two transfer stations (one located near Cambridge in Isanti Township, Isanti County, and the other located near Hinckley in Mission Creek Township, Pine County) and an inactive compost facility (located adjacent to the municipal solid waste landfill).

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

As can be seen from the table below, total assets decreased by $181,109, from $13,756,816 in 2010 to $13,575,707 in 2011. Liabilities increased by $583,464 in 2011 due to additional postclosure care requirements.

Condensed Statement of Net Assets

	2011	2010	Change: Dollar	Change: Percent (%)
Assets				
Current assets	$ 2,987,372	$ 2,933,221	$ 54,151	1.8
Capital assets - net	7,041,968	7,671,692	(629,724)	(8.2)
Other assets	3,546,367	3,151,903	394,464	12.5
Total Assets	$ 13,575,707	$ 13,756,816	$ (181,109)	(1.3)

	2011		2010		Change Dollar		Change Percent (%)
Liabilities							
Current liabilities	$	377,654	$	638,044	$	(260,390)	(40.8)
Noncurrent liabilities		5,083,131		4,239,277		843,854	19.9
Total Liabilities	$	5,460,785	$	4,877,321	$	583,464	12.0
Net Assets							
Invested in capital assets	$	7,041,968	$	7,671,692	$	(629,724)	(8.2)
Unrestricted		1,072,954		1,207,803		(134,849)	(11.2)
Total Net Assets	$	8,114,922	$	8,879,495	$	(764,573)	(8.6)

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

		2011 Actual		2011 Budget		2010 Actual	Variance 2011 Actual to Budget (%)		Changes in Actual 2010 to 2011 Dollar	Changes in Actual 2010 to 2011 Percent (%)
Revenues										
Operating revenues	$	5,151,294	$	4,640,560	$	4,982,122	11.0	$	169,172	3.4
Nonoperating revenues		281,274		41,000		121,160	586.0		160,114	132.2
Total Revenues	$	5,432,568	$	4,681,560	$	5,103,282	16.0	$	329,286	6.5
Expenses										
Operating expenses	$	5,797,141	$	4,519,107	$	5,685,170	28.3	$	111,971	2.0
Nonoperating expenses		400,000		30,000		27,386	1,233.3		372,614	1,360.6
Total Expenses	$	6,197,141	$	4,549,107	$	5,712,556	36.2	$	484,585	8.5
Change in Net Assets	$	(764,573)	$	132,453	$	(609,274)	(677.2)	$	(155,299)	(25.5)
Net Assets - January 1		8,879,495		8,879,495		9,488,769	-		(609,274)	(6.4)
Net Assets - December 31	$	8,114,922	$	9,011,948	$	8,879,495	(10.0)	$	(764,573)	(8.6)

Revenues

The ECSWC’s operating revenues are derived from various sources: mixed municipal solid waste tipping fees, appliance disposal fees, electronics recycling fees, tire disposal fees, mattress disposal fees, and other miscellaneous tipping fees. Other income is partly comprised of rebates received from the Minnesota Counties Intergovernmental Trust.

Operating revenues were $5,151,294; an increase of 3.4 percent over 2010. Total revenues were up 6.5 percent over 2010.

Scale fees were less than budget showing a continual decrease in self-hauls. Sales of scrap metal brought in $18,435, well over the budgeted $500.

Investment income was well over the budgeted amount of $11,000, with actual income for those accounts being $187,590.

Expenses

Operating expenses were 2.0 percent higher than 2010, and 28.3 percent higher than budgeted.

Budgeted amounts for cover materials purchased in 2011 were eliminated. With the use of latex paint, our ADC materials lasted longer, and with the purchase of the new excavator, we were able to provide our own dirt for daily cover on the landfill.

Leachate disposal and hauling costs were $281,008 more than budgeted because the anticipated approval from the Minnesota Pollution Control Agency (MPCA) for land application of leachate did not happen in 2011. Landfill equipment repairs were less than budgeted partly because of the purchase of new equipment.

Fuels were $40,293 more than budgeted because of the addition of the excavator that was used to excavate the demolition area and higher fuel costs.

Engineering costs increased because of added MPCA permitting for land application and leachate recirculation.

Expenses such as hauler rebate, Kanabec County Host Fee, Arthur Township Host Fee, and transfer stations operations contract with Patnode Trucking were all over budget because the expenses are in direct relation to the increased tonnage.

Budgetary Highlights

The ECSWC creates an annual operating budget, which includes proposed expenses and capital expenditures. Staff prepares the draft budget using historical information to determine operating expenses. This proposed draft budget is presented to the ECSWC Board for review. Necessary changes are made to the draft budget before the Board approves the final budget. The ECSWC's operating budget remains in effect the entire year, but individual items in that budget may be revised. The Board is presented with detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Capital Assets

Total capital assets at year end 2011 were $24,373,577, versus $24,102,648 in 2010. These assets, after being decreased by accumulated depreciation, provided a net book value of $7,041,968 in 2011 and $7,671,692 in 2010.

Major capital purchases and amounts for 2011 included: 2011 Bomag for $355,000, Volvo Excavator for $158,245, and Wilkens Walking Floor Trailer for $58,755. Assets were decreased by the 2008 Bomag, with a historical cost of $424,000, that burned early in 2011.

Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $5,044,176 and compensated absences payable of $38,955. The balance at year-end in the restricted asset for financial assurance was $3,546,367. Monthly deposits are made into the financial assurance fund, and interest earned on that fund remains in the restricted asset.

Changes in MSW Tonnage

Tonnage increased 5.6 percent, or 4,525 tons, from 2010.

ECONOMIC AND OTHER FACTORS

The ECSWC considered many factors when setting the fiscal year 2011 budget.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2011, the budget was based on 78,000 tons of MSW being delivered; actual numbers were 86,065 tons.

CONTACTING THE ECSWC FINANCIAL MANAGEMENT

This financial report is designed to provide our five member counties, citizens of the five counties, commercial customers, and creditors with a general overview of the ECSWC's accountability of the revenue and expenses. If you have questions about this report or need additional financial information, contact the Executive Director/Fiscal Officer, Janelle Troupe, East Central Solid Waste Commission, 1756 - 180th Avenue, P. O. Box 29, Mora, Minnesota 55051.

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BASIC FINANCIAL STATEMENTS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Assets		
Current assets		
Cash and cash equivalents	$	2,583,538
Accounts receivable		393,759
Prepaid items		10,075
Total current assets	**$**	**2,987,372**
Noncurrent assets		
Assets restricted for financial assurance escrow account		
Cash and cash equivalents	$	3,546,367
Capital assets		
Nondepreciable		519,741
Depreciable		6,522,227
Total noncurrent assets	**$**	**10,588,335**
Total Assets	**$**	**13,575,707**
Liabilities		
Current liabilities		
Accounts payable	$	250,663
Salaries payable		29,617
Contracts payable		18,294
Due to other governments		79,080
Total current liabilities	**$**	**377,654**
Noncurrent liabilities		
Compensated absences	$	38,955
Estimated liability for landfill closure/postclosure		5,044,176
Total noncurrent liabilities	**$**	**5,083,131**
Total Liabilities	**$**	**5,460,785**
Net Assets		
Invested in capital assets	$	7,041,968
Unrestricted		1,072,954
Total Net Assets	**$**	**8,114,922**

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

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues		
Charges for services	$	4,864,474
Miscellaneous		286,820
Total Operating Revenues	**$**	**5,151,294**
Operating Expenses		
Administration and overhead	$	170,781
Landfill operations		2,776,294
Compost facility operations		20,382
Transfer station operations		898,516
Landfill closure and postclosure costs		848,801
Depreciation		1,082,367
Total Operating Expenses	**$**	**5,797,141**
Operating Income (Loss)	**$**	**(645,847)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	(372,781)
Investment income		187,590
Gain (loss) on disposal of capital assets		93,684
Household hazardous waste		(27,219)
Total Nonoperating Revenues (Expenses)	**$**	**(118,726)**
Change in Net Assets	$	**(764,573)**
Net Assets - January 1		**8,879,495**
Net Assets - December 31	**$**	**8,114,922**

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

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	5,130,869
Payments to suppliers		(3,389,935)
Payments to employees		(666,427)
Net cash provided by (used in) operating activities	**$**	**1,074,507**
Cash Flows from Noncapital Financing Activities		
Intergovernmental	$	(372,781)
Household hazardous waste payments to counties		(27,219)
Payments to financial assurance account		(235,188)
Net cash provided by (used in) noncapital financing activities	**$**	**(635,188)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from insurance recovery	$	335,280
Proceeds from the sale of capital assets		691
Purchases of capital assets		(694,929)
Net cash provided by (used in) capital and related financing activities	**$**	**(358,958)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**28,313**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**108,674**
Cash and Cash Equivalents at January 1		**2,474,864**
Cash and Cash Equivalents at December 31	**$**	**2,583,538**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(645,847)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	1,082,367
(Increase) decrease in accounts receivable		64,598
(Increase) decrease in prepaid items		(10,075)
Increase (decrease) in accounts payable		(206,497)
Increase (decrease) in salaries payable		(19,376)
Increase (decrease) in compensated absences payable		(4,947)
Increase (decrease) in due to other governments		79,080
Increase (decrease) in contracts payable		(113,597)
Increase (decrease) in landfill closure liability		848,801
Total adjustments	**$**	**1,720,354**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,074,507**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

1. Summary of Significant Accounting Policies

The financial reporting policies of the East Central Solid Waste Commission conform with generally accepted accounting principles.

A. Financial Reporting Entity

The East Central Solid Waste Commission is a joint powers authority between Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties, formed under an agreement in 1988, which was entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

The East Central Solid Waste Commission was formed to fulfill the counties' obligation, pursuant to Minn. Stat. chs. 400 and 115A, to provide for the management and disposal of solid waste in each respective county. It is the intention of the counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous five-county area in planning, management, and implementation of programs that deal with solid waste issues.

The Commission is governed by a Board of Commissioners composed of five members, one voting member from each county. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the county. In the absence of the voting member, the alternate votes.

The Commission is a separate entity independent of the counties that formed it. In accordance with generally accepted accounting principles, the Commission's financial statements are not included in any member county's financial statements. No single member county retains control over the operations or is financially accountable for the Commission.

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The Commission's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to citizens financed primarily by charges to users of that service, and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Accounting records are maintained on the accrual basis of accounting under which revenues are recorded when they are earned, and expenses are recorded when the corresponding liabilities are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the Commission has elected to apply only those Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

D. Budgetary Data

The Commission adopts an annual budget prepared on the accrual basis of accounting.

E. Assets and Liabilities

1. Assets

Cash and Cash Equivalents

The Commission's cash consists of cash on hand, petty cash, checking accounts, savings accounts, money market mutual funds, and U.S. government agency securities.

For the purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. These are reported as current assets. The cash balance restricted for financial assurance escrow account is not considered to be a cash equivalent.

1. Summary of Significant Accounting Policies

E. Assets and Liabilities

1. Assets (Continued)

Accounts Receivable

No allowance was made for uncollectible accounts. The Commission uses the direct write-off method of recording uncollectible accounts receivable.

Restricted Assets

The Commission is required by bond agreements to maintain certain resources on deposit with its fiscal agent for future bond and interest payments and financial assurance requirements.

Capital Assets

It is the policy of the Commission to use the half-year convention for calculating the amount of depreciation to claim in the year an asset is purchased or first placed into service. Pursuant to this policy, all assets shall have a half year's worth of depreciation applied to them in the year the asset is purchased or first placed into service, regardless of the date when said asset is purchased or first placed into service. Capital assets are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for office furniture and equipment, 3 to 20 years for the landfill, 7 to 20 years for plant and equipment, and 5 to 20 years for transfer stations.

In accordance with the vote of the Board of the East Central Solid Waste Commission on November 30, 1999, and pursuant to Resolution No. 1-99, it is the policy of the Commission to capitalize tangible capital assets greater than or equal to $1,000. Assets below this threshold shall be expensed in the year acquired.

The Commission has tagged all tangible capital assets valued at $300 or more utilizing a numeric inventory control numbering system. On an annual basis, during the first quarter of the year, the Commission conducts a physical inventory of assets.

1. Summary of Significant Accounting Policies

E. Assets and Liabilities (Continued)

2. Liabilities

Long-term liabilities consist of compensated absences and closure and postclosure care costs for the landfill.

The compensated absences liability represents amounts for earned but unpaid vacation, unpaid compensatory time, and severance pay. Employees' unused sick leave that has reached 800 hours is included as a liability; individual employee's sick leave under 800 hours is not included as a liability as it does not vest. There are no employees that have reached 800 hours of sick leave.

F. Equity Classifications

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings (net of unspent related debt proceeds, if any) attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net assets - consists of net assets with constraints placed on their use either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net assets - all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." The Commission first utilizes restricted resources to finance qualifying activities.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as needed.

1. Summary of Significant Accounting Policies (Continued)

   G. Revenues and Expenses

      1. Revenues

         Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as miscellaneous sales and investment earnings, result from nonexchange transactions or incidental activities.

         Charges for Services

         Charges for services consist of tipping fees (fees charged to local refuse haulers) and are recognized as revenue when earned.

         Other Revenues

         Other revenues, such as material sales (sales of compost and recyclables), gravel sales, carbon credit sales, and miscellaneous revenues, are recognized when received in cash because they generally are not measurable until then. Investment income is recognized when earned.

      2. Expenses

         Enterprise funds recognize expenses when they are incurred.

2. Detailed Notes

   A. Assets

      1. Deposits and Investments

         a. Deposits

            The Commission's total cash and investments are reported as follows:

Cash and cash equivalents	$ 2,583,538
Restricted assets	
Financial assurance escrow account	3,546,367
Total Cash and Cash Equivalents	$ 6,129,905

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

The Commission is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Commission is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2011, the Commission's deposits were not exposed to custodial credit risk.

2. <u>Detailed Notes</u>

A. <u>Assets</u>

1. <u>Deposits and Investments</u> (Continued)

b. <u>Investments</u>

The Commission may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

<u>Interest Rate Risk</u>

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

2. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

            Credit Risk

            Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

            Custodial Credit Risk

            The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party.

            Concentration of Credit Risk

            The concentration of credit risk is the risk of loss that may be caused by the Commission's investment in a single issuer.

            The Commission does not have a policy addressing any of the above-listed risks.

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents the Commission's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Percent of Portfolio	Maturity Date	Carrying (Fair) Value
Mutual fund					
Federated Government Obligations Fund	AAA	S&P	6.5%	N/A	$ 229,742
U.S. Government Agency Securities					
Federal Home Loan Mortgage Grant	NR	S&P	2.7%	02/01/2024	$ 95,722
Federal Home Loan Mortgage Notes	AAA	S&P	9.1%	12/27/2018	$ 321,408
Federal Farm Credit Bank Bond	AAA	S&P		05/13/2015	$ 25,276
Federal Farm Credit Bank Bond	AAA	S&P		06/14/2017	164,528
Total Federal Farm Credit Bank Bonds			5.4%		$ 189,804
Federal Home Loan Bank Bond	AAA	S&P		06/10/2013	$ 203,716
Federal Home Loan Bank Bond	AAA	S&P		12/12/2014	12,046
Federal Home Loan Bank Bond	AAA	S&P		06/12/2015	80,336
Federal Home Loan Bank Bond	AAA	S&P		06/09/2017	72,098
Federal Home Loan Bank Bond	AAA	S&P		09/13/2019	206,584
Federal Home Loan Bank Bond	AAA	S&P		03/12/2021	83,019
Total Federal Home Loan Bank Bonds			18.5%		$ 657,799
Federal Home Loan Mortgage Corporation	AAA	S&P		02/09/2015	$ 10,665
Federal Home Loan Mortgage Corporation Gold Pool	NR	S&P		07/01/2040	41,703
Federal Home Loan Mortgage Corporation	AAA	S&P		02/15/2029	36,562
Federal Home Loan Mortgage Corporation	NR	S&P		11/15/2038	54,129
Federal Home Loan Mortgage Corporation Gold Pool	NR	S&P		06/01/2040	105,217
Federal Home Loan Mortgage Corporation Gold Pool	NR	S&P		09/01/2024	153,079
Federal Home Loan Mortgage Corporation	AAA	S&P		03/27/2019	199,768
Federal Home Loan Mortgage Corporation	AA+	S&P		12/01/2015	227,748
Total Federal Home Loan Mortgage Corporation			23.4%		$ 828,871

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Percent of Portfolio	Interest Rate Risk: Maturity Date		Carrying (Fair) Value
U.S. Government Agency Securities (Continued)						
Federal National Mortgage Association	NR	S&P		09/24/2012	$	55,186
Federal National Mortgage Association	NR	S&P		11/25/2034		70,886
Federal National Mortgage Association	NR	S&P		11/01/2040		116,021
Federal National Mortgage Association	NR	S&P		04/01/2028		117,372
Total Federal National Mortgage Association			10.1%		$	359,465
Government National Mortgage Association	NR	S&P		12/20/2037	$	19,430
Government National Mortgage Association	NR	S&P		05/16/2040		45,456
Government National Mortgage Association	NR	S&P		10/20/2037		46,066
Government National Mortgage Association	NR	S&P		08/20/2040		59,143
Government National Mortgage Association	NR	S&P		09/15/2024		69,041
Government National Mortgage Association	NR	S&P		08/16/2039		69,482
Government National Mortgage Association	NR	S&P		11/20/2039		97,473
Government National Mortgage Association	NR	S&P		07/20/2038		107,944
Government National Mortgage Association	NR	S&P		04/20/2039		157,134
Government National Mortgage Association	NR	S&P		06/16/2039		78,491
Total Government National Mortgage Association			21.1%		$	749,660
U.S. Treasury Bill	NR	S&P	1.3%	5/31/2012	$	45,992
U.S. Treasury N/B	AAA	S&P	1.9%	02/15/2019	$	67,904
Total U.S. Government Agency Securities					$	3,316,625
Total Investments					$	3,546,367
Deposits						2,582,738
Petty cash						800
Total Deposits and Investments					$	6,129,905

NR - Not rated
S&P - Standard and Poor’s
N/A - Not applicable

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Carrying values of the Commission's cash and investments at December 31, 2011, are:

Current assets		
Cash on deposit at the Commission		
Cash on hand	$	800
Checking		1,804,719
Savings and certificates of deposit		778,019
Total cash and cash equivalents	$	2,583,538
Restricted assets		
Cash with fiscal agents		
First American Corporate Trust Treasury Fund		3,546,367
Total Deposits and Investments	$	6,129,905

2. Capital Assets

A summary of capital assets at December 31, 2011, follows:

	Balance January 1, 2011	Additions	Deductions	Balance December 31, 2011
Land	$ 371,813	$ -	$ -	$ 371,813
Intangible assets	147,928	-	-	147,928
Buildings	11,601,767	-	-	11,601,767
Equipment	1,321,499	536,335	(424,000)	1,433,834
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	10,120,048	99,839	-	10,219,887
Vehicles	499,738	58,755	-	558,493
Total capital assets	$ 24,102,648	$ 694,929	$ (424,000)	$ 24,373,577
Less: accumulated depreciation	(16,430,956)	(1,082,367)	181,714	(17,331,609)
Net Capital Assets	$ 7,671,692	$ (387,438)	$ (242,286)	$ 7,041,968

2. Detailed Notes (Continued)

B. Liabilities

1. Long-Term Debt - Other

Changes in long-term debt other than bonds are summarized below:

		Compensated Absences		Accrued Closure and Postclosure Care
Payable - January 1, 2011	$	43,902	$	4,195,375
Additions (Deductions)				
Net change in compensated absences		(4,947)		-
Change in accrual for closure and postclosure care		-		848,801
Payable - December 31, 2011	$	38,955	$	5,044,176

2. Compensated Absences

Under the Commission's personnel policies and union contracts, employees are granted vacation and sick leave in varying amounts based on their length of service.

Unused accumulated vacation is paid to employees upon termination. Unvested sick leave, valued at $98,955 at December 31, 2011, is available to employees in the event of illness-related absences, and is not paid to them at termination unless the employee has accrued 800 hours. There are no employees that will reach 800 hours in the next year.

3. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 20 years after closure. Although closure and postclosure care costs will be paid only near or after the date

2. Detailed Notes

   B. Liabilities

      3. Landfill Closure and Postclosure Care Costs (Continued)

that the landfill stops accepting waste, the Commission reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date, in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.

The $5,044,176 reported as the accrued closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 83.2 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $1,017,455 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission's current permit expires June 10, 2015.

The Commission is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. An escrow balance of $3,546,367 is held for these purposes. The Commission is under funded in this account by $1,497,809 at December 31, 2011. The financial assurance escrow account is reported as a restricted asset on the balance sheet. The Commission expects future inflation costs to be covered from future unobligated cash held by the Commission. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the East Central Solid Waste Commission 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.

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 and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic 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 Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

3. Pension Plans

A. Plan Description (Continued)

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; 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.

B. 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. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The Commission is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

The Commission's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 31,523	$ 29,811	$ 27,673

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

4. Summary of Significant Contingencies and Other Items

Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Commission has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. The Commission purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in 2011 and $460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Commission pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The East Central Solid Waste Commission lacks proper segregation of duties. The Commission has one staff person who is responsible for billing, collecting, recording, and depositing receipts.

Context: Due to the limited number of office personnel within the Commission, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the East Central Solid Waste Commission; however, the Commission's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the Commission's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The Commission does not have the economic resources needed to hire additional qualified staff in order to adequately segregate duties.

Recommendation: We recommend the Commission's management be aware of the lack of segregation of the accounting functions and continue oversight procedures to ensure that the Commission's internal control policies and procedures are followed by staff.

Client's Response:

The ECSWC Board is aware of the lack of segregation of duties. The Commission has taken many steps to separate duties. The weighmasters are assisting with the reconciliation of the bank statement. They check to see that all deposits are made and also check off the cleared checks on the statement. Checks are posted in the register by a weighmaster, and the secretary has taken on the task of reconciling petty cash. Deposits from the scalehouses continue to be taken to the bank in locked bags; the Executive Director does not have access to the keys.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

REBECCA OTTO
STATE AUDITOR

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
East Central Solid Waste Commission

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the East Central Solid Waste Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency described in the accompanying Schedule of Findings and Recommendations as item 05-1. A significant deficiency is a deficiency, or a 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.

Minnesota Legal Compliance

We have audited the financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2011, which collectively comprise the Commission's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the Commission has no long-term debt.

The results of our tests indicate that for the items tested, the East Central Solid Waste Commission complied with the material terms and conditions of applicable legal provisions.

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

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the East Central Solid Waste Commission and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 29, 2012