STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

ORGANIZATION
2008

	Position	County	Term Expires
Board of Commissioners			
George Larson	Chair	Isanti	December 31, 2008
Les Nielsen	Vice Chair	Kanabec	December 31, 2008
Bob Gustafson	Treasurer	Chisago	December 31, 2008
Phil Peterson	Member	Mille Lacs	December 31, 2008
Roger Nelson	Member	Pine	December 31, 2008

Executive Director
Janelle Troupe

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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OFFICE OF THE STATE AUDITOR

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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, 2008, 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 respective financial position of the East Central Solid Waste Commission as of December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 28, 2009

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)

FINANCIAL HIGHLIGHTS

- In 2008, several projects were ongoing because of the upcoming landfill expansion project. It is estimated in 2010, the construction of Phase 6A will begin. Expansion permitting continued through 2008.

- Hauler contracts to the commercial haulers included an additional $4 rebate in 2008, bringing the total rebate to $14.

- In 2008, municipal solid waste (MSW) tonnage from all sources was 78,865.98 with an additional demolition amount of 14,457.31 tons. The budget was based on 75,000 tons of MSW.

- In 2007, the Commission joined the Chicago Climate Exchange to sell carbon credits. An income of $1,450 from sale of carbon credits was realized in 2008 with expenses of $24,940. There was an additional 65,000 credits that remained listed on the exchange at the end of 2008. Because the Commission is voluntarily flaring the landfill gas, there is eligibility to sell carbon credits. The Commission signed an agreement with Southern Minnesota Municipal Power Agency (SMMPA) to purchase the landfill gas and convert it to electricity. Construction for that project was put on hold because of a decision by the Minnesota Pollution Control Agency to require the Commission to get an air permit for the flare. This air permitting was not complete at the end of the year.

- In 2008, the Commission sold equipment through a broker in the amount of $430,000, less brokerage fees of $43,000. This equipment had been removed from the Statement of Assets during the 2005 audit. The side dump was also sold through a bid process showing a gain on sale of equipment of $11,046. The Commission Board decided to use some of the proceeds to purchase an off-road truck.

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 ECSWC 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 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 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, the total assets increased $780,228 to $13,575,333 in 2008 from $12,795,105 in 2007. Liabilities increased by $793,678 in 2008, and there is a decrease in total net assets of $13,450.

Condensed Statement of Net Assets

	2008	2007	Change Dollar	Change Percent (%)
Assets				
Current assets	$ 3,566,370	$ 3,672,955	$ (106,585)	(2.90)
Capital assets - net	7,145,496	6,326,873	818,623	12.94
Other assets	2,863,467	2,795,277	68,190	2.44
Total Assets	$ 13,575,333	$ 12,795,105	$ 780,228	6.10
Liabilities				
Current liabilities	$ 421,676	$ 336,565	$ 85,111	25.29
Noncurrent liabilities	2,919,702	2,211,135	708,567	32.05
Total Liabilities	$ 3,341,378	$ 2,547,700	$ 793,678	31.15
Net Assets				
Invested in capital assets, net of related debt	$ 7,145,496	$ 6,326,873	$ 818,623	12.94
Restricted for financial assurance	-	608,157	(608,157)	(100.00)
Unrestricted	3,088,459	3,312,375	(223,916)	(6.76)
Total Net Assets	$ 10,233,955	$ 10,247,405	$ (13,450)	(0.13)

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

	2008 Actual	2008 Budget	2007 Actual	Variance 2008 Actual to Budget (%)	Change in Actual 2007 to 2008 Dollar	Change in Actual 2007 to 2008 Percent (%)
Revenues						
Operating revenues	$ 4,411,028	$ 4,288,420	$ 4,339,554	2.86	$ 71,474	1.65
Nonoperating revenues	481,174	110,000	312,559	337.43	168,615	53.95
Total Revenues	$ 4,892,202	$ 4,398,420	$ 4,652,113	11.23	$ 240,089	5.16
Expenses						
Operating expenses	$ 4,883,467	$ 4,350,540	$ 3,962,641	12.25	$ 920,826	23.24
Nonoperating expenses	409,185	30,000	126,561	1,263.95	282,624	223.31
Total Expenses	$ 5,292,652	$ 4,380,540	$ 4,089,202	20.82	$ 1,203,450	29.43
Income (loss) before capital contributions	$ (400,450)	$ 17,880	$ 562,911	(2,339.65)	$ (963,361)	(171.14)
Special item: sale of equipment	387,000	-	-	100.00	387,000	N/A
Change in Net Assets	$ (13,450)	$ 17,880	$ 562,911	(175.22)	$ (576,361)	(102.39)
Net Assets - January 1	10,247,405	10,247,405	9,684,494	-	562,911	5.81
Net Assets - December 31	$ 10,233,955	$ 10,265,285	$ 10,247,405	(0.31)	$ (13,450)	(0.13)

Revenues

The ECSWC 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. Because of the increased value of steel in early 2008, Phillips Recycling paid $8,288 for steel from the recycling boxes. Other income is partly comprised of checks received from MCIT for rebates or insurance claims involved with the Cambridge transfer building fire and lightning strikes at Mora. The rest of the other income account is from the sale of equipment.

Operating revenues from charges for services were $4,358,126, with an additional $52,902 in miscellaneous operating revenue, bringing the total to $4,411,028, an increase of $71,474 over 2007. This increase was due to an increase in tonnage in 2008. Electronics recycling income decreased by $34,525 because of a price rate decrease and also because the Commission decided to accept electronics for free for a month. Appliance recycling prices were also reduced, resulting in a decrease of $19,428 in revenue.

Nonoperating revenue is decreased by the $100,000 reimbursement to the counties. Investment earnings were much less in 2008 than in 2007 because of much lower interest rates in the financial assurance account. In January 2008, that interest rate was 3.21 percent APY, and by year-end, it was 0.68 percent APY.

Expenses

2008 included a lot of changes that were unexpected. On April 4, 2008, a fire destroyed the transfer building in Cambridge with an expense cost of $309,715. The insurance policy with MCIT covered $298,831 of those costs. We are not sure what caused the fire, but we realized that all of our operating rules were not being followed, so we decided to dissolve the transfer station operations contract with Stockman Transfer. Because of this dissolution, ECSWC was immediately required to hire employees to work the transfer stations and purchase loaders and walking floor trailers to haul the garbage from Hinckley and Cambridge to Mora. The hauler rebate expense increased by $393,316 mainly because haulers were provided with an additional $4 rebate on January 1, 2008. Professional fees are down because many of the 2007 audit items were not completed until 2009. Leachate costs were up because we were not able to recirculate leachate in 2008, so leachate was hauled to the Metropolitan Council. Transfer station operations were down by $214,409 because the Commission hired employees to work in the transfer stations, and the transfer operations were changed to a contractor pulling Commission walking floor trailers. At the same time that transfer station operations are down, the employee costs related to transfer station operations increased. We used existing employees to work overtime to fill spots prior to hiring new employees. We added 110 hours of personnel time per week by taking over the transfer station operations which can be realized in the added insurance benefits and increased wages paid.

Recycling costs related to appliances and electronics were eliminated after the first quarter in 2008 because of increased value of steel and other recyclables.

Engineering costs increased by $76,370 due to extra expenses involved with air permitting, which required meetings with MPCA. Fuels increased by $56,813 because of increased fuel cost and because of the addition of two more loaders for the transfer station and an off-road truck to haul dirt at the landfill.

There was a return on investment to the counties in the amount of $100,000. This was based on the same proportional share that was used when the counties made contributions to the bond payments.

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 operating budget remains in effect the entire year, but individual items in that budget may be revised. The ECSWC Board is presented with detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Capital Assets

At the end of fiscal year 2008, the ECSWC had invested value of $21,851,514 in capital assets. Capital projects and equipment purchases in 2008 added $1,540,036 to capital assets. Those capital projects were the continued landfill expansion permitting; purchase of new Bomag, six walking floor trailers, two Caterpillar loaders, Volvo Off Road truck, and down-payment on wetland credits.

Changes in Capital Assets

Total capital assets at year-end 2008 were $21,851,514 versus $20,804,386 in 2007. These assets, after being decreased by accumulated depreciation, provided a net book value of $7,145,496 in 2008 and $6,326,873 in 2007.

Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $2,888,396 and compensated absences payable of $31,306. The balance at year-end in the restricted asset for financial assurance was $2,860,613.

MSW Changes in Tonnage

The first part of 2008 showed a significant increase in the amount of municipal solid waste tonnage especially with our newest hauler, Garrison Disposal, beginning to haul in MSW from Aitkin County. The last few months started showing a decrease in waste, which is the direct result of a recession.

ECONOMIC AND OTHER FACTORS

The ECSWC considered many factors when setting the fiscal year 2008 budget.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2008, the budget was based on 75,000 tons of MSW being delivered; actual numbers were 78,866 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 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.

BASIC FINANCIAL STATEMENTS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

Assets		
Current assets		
Cash and cash equivalents	$	3,190,426
Accounts receivable		375,944
Total current assets	**$**	**3,566,370**
Noncurrent assets		
Assets restricted for financial assurance escrow account		
Cash and cash equivalents	$	2,860,613
Accrued interest receivable		2,854
Capital assets		
Nondepreciable		394,139
Depreciable		6,751,357
Total noncurrent assets	$	**10,008,963**
Total Assets	**$**	**13,575,333**
Liabilities		
Current liabilities		
Accounts payable	$	384,494
Salaries payable		22,949
Accrued payroll taxes		14,233
Total current liabilities	**$**	**421,676**
Noncurrent liabilities		
Compensated absences	$	31,306
Estimated liability for landfill closure/postclosure		2,888,396
Total noncurrent liabilities	**$**	**2,919,702**
Total Liabilities	**$**	**3,341,378**
Net Assets		
Invested in capital assets	$	7,145,496
Unrestricted		3,088,459
Total Net Assets	**$**	**10,233,955**

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, 2008

Operating Revenues		
Charges for services	$	4,358,126
Miscellaneous		52,902
Total Operating Revenues	**$**	**4,411,028**
Operating Expenses		
Administration and overhead	$	184,843
Landfill operations		2,528,360
Compost facility operations		34,147
Transfer station operations		735,910
Landfill closure and postclosure costs		691,525
Depreciation		708,682
Total Operating Expenses	**$**	**4,883,467**
Operating Income (Loss)	**$**	**(472,439)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	(63,098)
Investment income		171,297
Gain (loss) on disposal of capital assets		11,046
Household hazardous waste		(36,372)
Insurance recovery: transfer station fire		298,831
Restoration of transfer station		(309,715)
Total Nonoperating Revenues (Expenses)	**$**	**71,989**
Income (Loss) Before Special Item	**$**	**(400,450)**
Special item: sale of equipment		387,000
Change in Net Assets	$	**(13,450)**
Net Assets - January 1		**10,247,405**
Net Assets - December 31	**$**	**10,233,955**

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, 2008
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	4,388,293
Payments to suppliers		(2,827,001)
Payments to employees		(554,106)
Net cash provided by (used in) operating activities	**$**	**1,007,186**
Cash Flows from Noncapital Financing Activities		
Intergovernmental	$	(63,098)
Household hazardous waste payments to counties		(36,372)
Other cash received		23,777
Net cash provided by (used in) noncapital financing activities	**$**	**(75,693)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	$	387,000
Proceeds from insurance recovery		298,831
Transfer station fire expense		(309,715)
Purchases of capital assets		(1,540,036)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,163,920)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**178,165**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(54,262)**
Cash and Cash Equivalents at January 1		**6,105,301**
Cash and Cash Equivalents at December 31	**$**	**6,051,039**
Cash and Cash Equivalents		
Cash and pooled investments	$	3,190,426
Restricted cash and pooled investments		2,860,613
Total Cash and Cash Equivalents	**$**	**6,051,039**

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

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(472,439)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	708,682
(Increase) decrease in accounts receivable		(22,735)
Increase (decrease) in accounts payable		83,575
Increase (decrease) in salaries payable		(12,697)
Increase (decrease) in compensated absences payable		17,042
Increase (decrease) in accrued payroll taxes		14,233
Increase (decrease) in landfill closure costs		691,525
Total adjustments	**$**	**1,479,625**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,007,186**

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

1. Summary of Significant Accounting Policies

The financial reporting policies of the Commission conform to 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.

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

1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

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

The Commission's cash consists of cash on hand, petty cash, checking accounts, savings accounts, money market mutual funds, and certificates of deposit.

Investments

The Commission's assets held by trustee are invested in a mutual fund.

Accounts Receivable

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

1. Summary of Significant Accounting Policies

E. Assets and Liabilities

1. Assets (Continued)

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 $100 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.

2. Liabilities

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

1. Summary of Significant Accounting Policies

E. Assets and Liabilities

2. Liabilities (Continued)

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. 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	$	3,190,426
Restricted assets		
Financial assurance escrow account		2,860,613
Total Cash and Cash Equivalents	$	6,051,039

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Commission to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all Commission deposits be protected by 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.

At December 31, 2008, Commission bank deposits were $3,214,790. The carrying value of these deposits on the Commission's books was $3,189,626. Minnesota statutes require that all Commission deposits be covered by insurance, surety bond, or collateral.

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2008:

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the Commission or its agent in the Commission's name	$ 1,000,000
Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	2,214,790
Uncollateralized	-
Total	$ 3,214,790

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Commission:

(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;

2. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

            (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.

            Interest Rate Risk

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

            Credit Risk

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

            Custodial Credit Risk

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

The following table presents the Commission's deposit and investment balances at December 31, 2008, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Percent of Portfolio	Carrying (Fair) Value
Mutual fund				
First American Government Obligation Fund	Aaa	Moody's	100%	$ 2,860,613
Deposits				3,189,626
Petty cash				800
Total Cash and Cash Equivalents				$ 6,051,039

Carrying values of the Commission's cash and investments at December 31, 2008, are:

Current assets	
Cash on deposit at the Commission	
Cash on hand	$ 800
Checking	523,860
Savings and certificates of deposit	2,665,766
Total unrestricted cash and cash equivalents	$ 3,190,426
Restricted assets	
Cash with fiscal agents	
First American Corporate Trust Treasury Fund	2,860,613
Total Cash and Cash Equivalents	$ 6,051,039

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of capital assets at December 31, 2008, follows:

	Balance January 1, 2008	Additions	Deductions	Balance December 31, 2008
Land	$ 371,813	$ -	$ -	$ 371,813
Intangible assets	-	22,326	-	22,326
Buildings	11,579,329	-	-	11,579,329
Equipment	908,907	773,840	395,339	1,287,408
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	7,656,185	398,637	3,777	8,051,045
Vehicles	248,297	345,233	93,792	499,738
Total capital assets	$ 20,804,386	$ 1,540,036	$ 492,908	$ 21,851,514
Less: accumulated depreciation	(14,477,513)	(708,682)	(480,177)	(14,706,018)
Net Capital Assets	$ 6,326,873	$ 831,354	$ 12,731	$ 7,145,496

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, 2008	$ 14,264	$ 2,196,871
Additions (Deductions)		
Net change in compensated absences	17,042	-
Change in accrual for closure and postclosure care	-	691,525
Payable - December 31, 2008	$ 31,306	$ 2,888,396

2. Detailed Notes

   B. Liabilities (Continued)

      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 $57,410 at December 31, 2008, 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 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 $2,888,396 reported as the accrued closure and postclosure care liability at December 31, 2008, represents the cumulative amount reported to date based on the use of 84.8 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $518,305 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission's current permit expires September 17, 2009.

         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 $2,860,613 is held for these purposes. The Commission is under funded in this account by $25,728 at December 31, 2008. The financial assurance

2. Detailed Notes

B. Liabilities

3. Landfill Closure and Postclosure Care Costs (Continued)

escrow account is reported as a restricted asset on the balance sheet. The Commission expects that future inflation costs will be paid from interest earnings on these annual contributions. 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. Defined Benefit Plans

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 Public 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.

Public 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. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 Public 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.

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 Public 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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The Commission is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Commission's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 24,807	$ 24,492	$ 22,626

These contribution amounts are equal to the contractually required contributions 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 Insurance 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 $410,000 per claim in 2008 and $430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

4. Summary of Significant Contingencies and Other Items

Risk Management (Continued)

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.

Management and Compliance Section

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. FINDINGS RELATED TO THE AUDIT OF THE FINANCIAL STATEMENTS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Segregation of Duties

Due to the limited number of office personnel within the East Central Solid Waste 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 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.

One basic objective of internal control is to provide for segregation of incompatible duties. Responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. Without proper segregation of duties, errors or irregularities may not be detected timely.

As of January 1, 2008, the Executive Director and Fiscal Officer positions were combined, which even further compounds the segregation of duties issue.

We recommend that the East Central Solid Waste Commission's management be aware of the lack of segregation of 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 Board and Executive Director continue to look at additional ways to accomplish more segregation of duties. Starting in 2008, Barb, a Mora weighmaster, took on the additional duty of preparing the claims list, including reviewing the bills that are to be paid. Either the clerk typist or a weighmaster posts the checks from the original check into the black book. A weighmaster also assists with reconciling the bank statement by assuring that all the deposits were made and writing on the statement if there is something missing or incorrect. The clerk-typist assists with accounts receivable by putting together the backup from the Transact Program with the statements printed off the Quickbooks Program. Prior to mailing, she checks her log of checks to assure that all checks received were posted to the correct accounts.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Performance and Payment Bonds (07-1)

Performance and payment bonds were not received from the contractor, as stated in the contract and as required by Minnesota statutes.

Resolution

The Commission received performance and payment bonds on contracts reviewed.

Depository Pledge Agreement (07-2)

The depository pledge agreement with Bremer Financial Services states that, if the bank defaults, the depositor (the Commission) needs to provide the bank at least three business days' prior written notice before the collateral can be released. Minn. Stat. § 118A.03, subd. 4, provides any collateral pledged shall be accompanied by a written assignment that states, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.

The depository pledge agreement with Kanabec State Bank did not include a section dealing with default. It is inconsistent with Minn. Stat. § 118A.03, subd. 4, to not include wording on default and demand in the agreement.

Resolution

The Commission no longer holds an account with Bremer Financial Services, and Kanabec State Bank has an updated agreement with the appropriate language.

Open Meeting Law (07-3)

The Commission held two Board meetings, in which the Board closed the meetings and did not state on record the specific grounds permitting the closed meeting, and the subject to be discussed was not listed.

Resolution

Board meeting minutes contained appropriate documentation on closed meetings.

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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, 2008, 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 opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be 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 the deficiency described in the accompanying Schedule of Findings and Recommendations as item 05-1 to be a significant deficiency in internal control over financial reporting.

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, 2008, 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 Local Government*, 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 Local Government* 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.

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.

East Central Solid Waste Commission's written response to the significant deficiency 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 28, 2009