STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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, 2009

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
2009

	Position	County	Term Expires
Board of Commissioners			
George Larson	Chair	Isanti	December 31, 2009
Les Nielsen	Vice Chair	Kanabec	December 31, 2009
Phil Peterson	Treasurer	Mille Lacs	December 31, 2009
Rick Greene	Member	Chisago	December 31, 2009
Ed Montbriand	Member	Pine	December 31, 2009

Executive Director
Janelle Troupe

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Financial Section

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STATE OF MINNESOTA
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, 2009, 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, 2009, 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 | */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 17, 2010

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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, 2009
(Unaudited)

FINANCIAL HIGHLIGHTS

- In 2009, several projects were ongoing because of the upcoming landfill expansion project. It is estimated in 2010, the construction of Phase 6A will be completed. Expansion permitting continued through 2009.

- Hauler contracts to the commercial haulers include a hauler rebate in the amount of $14. In 2009, an additional commercial hauler, Ace Solid Waste, signed a contract to haul to East Central Solid Waste.

- In 2009, municipal solid waste (MSW) tonnage from all sources was 77,104.23, with an additional demolition amount of 7,795.48 tons. The budget was based on 75,000 tons of MSW.

- In 2009, the Commission sold carbon credits through the Chicago Climate Exchange, showing income of $136,710. During 2009, the East Central sanitary landfill project was listed with the California Action Registry. At year-end, verification was approaching completion in anticipation of approving 42,000 credits from the last half of 2008 through June 26, 2009. Because the Commission is voluntarily flaring the landfill gas, it is eligible to sell carbon credits. The Commission signed an agreement with Southern Minnesota Municipal Power Agency (SMMPA) in 2008 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 began in December 2008 and was not complete at the end of 2009.

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 Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Commission's operating budget, and other management tools were used for this analysis.

The financial statements report information about the Commission 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 Commission. 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 Commission'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 Commission's staff from the detailed books and records of the Commission. 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 decreased $435,105; $13,140,228 in 2009 down from $13,575,333 in 2008. Liabilities increased by $310,081 in 2009, and there is a decrease in total net assets of $745,186.

Condensed Statement of Net Assets

	2009	2008	Change Dollar	Change Percent (%)
Assets				
Current assets	$ 3,031,978	$ 3,566,370	$ (534,392)	(14.98)
Capital assets - net	7,113,743	7,145,496	(31,753)	(0.44)
Other assets	2,994,507	2,863,467	131,040	4.58
Total Assets	$ 13,140,228	$ 13,575,333	$ (435,105)	(3.21)
Liabilities				
Current liabilities	$ 594,350	$ 421,676	$ 172,674	40.95
Noncurrent liabilities	3,057,109	2,919,702	137,407	4.71
Total Liabilities	$ 3,651,459	$ 3,341,378	$ 310,081	9.28
Net Assets				
Invested in capital assets	$ 7,113,743	$ 7,145,496	$ (31,753)	(0.44)
Unrestricted	2,375,026	3,088,459	(713,433)	(23.10)
Total Net Assets	$ 9,488,769	$ 10,233,955	$ (745,186)	(7.28)

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

	2009 Actual	2009 Budget	2008 Actual	Variance 2009 Actual to Budget (%)	Change in Actual 2008 to 2009 Dollar	Change in Actual 2008 to 2009 Percent (%)
Revenues						
Operating revenues	$ 4,456,968	$ 4,291,920	$ 4,411,028	3.85	$ 45,940	1.04
Nonoperating revenues	82,032	115,000	481,174	(28.67)	(399,142)	(82.95)
Total Revenues	$ 4,539,000	$ 4,406,920	$ 4,892,202	3.00	$ (353,202)	(7.22)
Expenses						
Operating expenses	$ 5,088,802	$ 4,262,852	$ 4,883,467	19.38	$ 205,335	4.20
Nonoperating expenses	195,384	30,000	409,185	551.28	(213,801)	(52.25)
Total Expenses	$ 5,284,186	$ 4,292,852	$ 5,292,652	23.09	$ (8,466)	(0.16)
Income (loss) before capital contributions	$ (745,186)	$ 114,068	$ (400,450)	(753.28)	$ (344,736)	(86.09)
Special item: sale of equipment	-	-	387,000	-	(387,000)	N/A
Change in Net Assets	$ (745,186)	$ 114,068	$ (13,450)	(753.28)	$ (731,736)	5,440.42
Net Assets - January 1	10,233,955	10,233,955	10,247,405	-	(13,450)	(0.13)
Net Assets - December 31	$ 9,488,769	$ 10,348,023	$ 10,233,955	(8.30)	$ (745,186)	(7.28)

Revenues

The Commission'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 checks received from Minnesota Counties Intergovernmental Trust for rebates.

Operating revenues from charges for services were $4,288,137, a decrease of $69,989 from 2008. This decrease was partly due to less tonnage and self-haul customers in 2009.

Demolition income was $34,000 less than budgeted. Scale fee income was down from both the 2008 actual and the 2009 budgeted amounts. Recycling income on tires, appliances, and mattresses increased from both 2008 actual numbers and 2009 budgeted numbers.

Nonoperating revenue decreased by the insurance recovery received in 2008 and a decrease in investment income. Interest income on checking, savings, and CDs was $79,993, while investment earnings attributed to the financial assurance account did not earn any significant interest and ended the year with an unrealized loss of $20,998. This unrealized loss changed to a gain in early 2010.

Expenses

Recycling costs related to appliances and electronics increased because of steel prices being down. Costs for engineering services reached $202,462; $89,962 over the 2009 budgeted amount. The air permitting contributed $52,970 to that overage.

There were no significant legal issues, reducing the legal fees cost by approximately $9,000. Laboratory services are down approximately $10,000 from what was budgeted. Leachate hauling shows the greatest increase from the budgeted amount of $50,000 to the actual amount of $203,764. During budgeting, a decision was made to build a leachate pond and land apply leachate, but construction and permitting problems made it so leachate could not be land applied in 2009. The cost of fuels for the landfill was $72,902 less than budgeted. This can be attributed to a lower cost of fuel in 2009 than in 2008. Transfer station costs are approximately $96,000 less than budgeted. A portion of that would be because the Cambridge Transfer Station was closed for two weeks in August for a floor replacement and also because the tonnage at the transfer stations has been decreasing these past two years.

The actual cost of operating supplies for the landfill increased by $28,031 over budget. The reason for that increase was that sand purchased from Hass Construction is included in that number. Sand was purchased as part of a contract agreement to get the rest of Phase 6A excavated.

Employee expenses, including wages, overtime, retirement, and health insurance, were budgeted to total $606,932, and actual was $605,203.

There was a return on investment to the counties in the amount of $200,000. Individual county returns were based on the same proportional share that was used when the counties made contributions to the bond payments.

Budgetary Highlights

The Commission 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 East Central Solid Waste Commission's Board for review. Necessary changes are made to the draft budget before the Board approves the final budget. The Commission'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

At the end of fiscal year 2009, the Commission had invested value of $22,617,577 in capital assets. Capital projects in 2009 added $766,063 to capital assets. Those capital projects were the continued landfill expansion permitting, leachate pond 2, and final payment on wetland credits.

Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $3,018,863 and compensated absences payable of $38,246. The balance at year-end in the restricted asset for financial assurance was $2,994,507.

Changes in Capital Assets

Total capital assets at year-end 2009 were $22,617,577 versus $21,851,514 in 2008. These assets, after being decreased by accumulated depreciation, provided a net book value of $7,113,743 in 2009 and $7,145,496 in 2008.

MSW Changes in Tonnage

Tonnage is down 1,762 tons from 2008, even with new hauler Ace Solid Waste adding 1,432 tons in 2009.

ECONOMIC AND OTHER FACTORS

The Commission considered many factors when setting the fiscal year 2009 budget.

Many of the budget items are based on the tonnage of waste delivered to the facilities. For 2009, the budget was based on 75,000 tons of MSW being delivered; actual numbers were 77,104.23 tons.

CONTACTING THE COMMISSION'S 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 Commission'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.

BASIC FINANCIAL STATEMENTS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

Assets		
Current assets		
Cash and cash equivalents	$	2,655,455
Accounts receivable		376,523
Total current assets	**$**	**3,031,978**
Noncurrent assets		
Assets restricted for financial assurance escrow account		
Cash and cash equivalents	$	2,994,507
Capital assets		
Nondepreciable		519,741
Depreciable		6,594,002
Total noncurrent assets	**$**	**10,108,250**
Total Assets	**$**	**13,140,228**
Liabilities		
Current liabilities		
Accounts payable	$	460,623
Salaries payable		47,931
Accrued payroll taxes		85,796
Total current liabilities	**$**	**594,350**
Noncurrent liabilities		
Compensated absences	$	38,246
Estimated liability for landfill closure/postclosure		3,018,863
Total noncurrent liabilities	**$**	**3,057,109**
Total Liabilities	**$**	**3,651,459**
Net Assets		
Invested in capital assets	$	7,113,743
Unrestricted		2,375,026
Total Net Assets	**$**	**9,488,769**

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, 2009

Operating Revenues		
Charges for services	$	4,288,137
Miscellaneous		168,831
Total Operating Revenues	**$**	**4,456,968**
Operating Expenses		
Administration and overhead	$	236,950
Landfill operations		2,526,135
Compost facility operations		16,416
Transfer station operations		781,018
Landfill closure and postclosure costs		730,467
Depreciation		797,816
Total Operating Expenses	**$**	**5,088,802**
Operating Income (Loss)	**$**	**(631,834)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	(167,008)
Investment income		82,032
Household hazardous waste		(28,376)
Total Nonoperating Revenues (Expenses)	**$**	**(113,352)**
Change in Net Assets	$	**(745,186)**
Net Assets - January 1		**10,233,955**
Net Assets - December 31	**$**	**9,488,769**

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, 2009
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	4,456,389
Payments to suppliers		(3,355,850)
Payments to employees		(625,054)
Net cash provided by (used in) operating activities	**$**	**475,485**
Cash Flows from Noncapital Financing Activities		
Intergovernmental	$	(167,008)
Household hazardous waste payments to counties		(28,376)
Net cash provided by (used in) noncapital financing activities	**$**	**(195,384)**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	**$**	**(766,063)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**84,885**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(401,077)**
Cash and Cash Equivalents at January 1		**6,051,039**
Cash and Cash Equivalents at December 31	**$**	**5,649,962**
Cash and Cash Equivalents		
Cash and pooled investments	$	2,655,455
Restricted cash and pooled investments		2,994,507
Total Cash and Cash Equivalents	**$**	**5,649,962**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(631,834)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	797,816
(Increase) decrease in accounts receivable		(579)
Increase (decrease) in accounts payable		76,129
Increase (decrease) in salaries payable		24,982
Increase (decrease) in compensated absences payable		6,940
Increase (decrease) in contacts payable		71,564
Increase (decrease) in landfill closure liability		130,467
Total adjustments	**$**	**1,107,319**
Net Cash Provided by (Used in) Operating Activities	**$**	**475,485**

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

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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.

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

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.

Investments

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

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 $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.

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. 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	$	2,655,455
Restricted assets		
Financial assurance escrow account		2,994,507
Total Cash and Cash Equivalents	$	5,649,962

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.

At December 31, 2009, Commission bank deposits were $2,672,584. The carrying value of these deposits on the Commission's books was $2,654,655. 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, 2009:

		Bank Balance
Covered Deposits		
Insured, or collateralized with securities held by the Commission or its agent in the Commission's name	$	500,000
Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name		2,172,584
Uncollateralized		-
Total	$	2,672,584

b. Investments

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;

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 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.

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

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, 2009, 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				
Federated Municipal Obligations Fund #852	A	Fitch	53.7%	$ 1,608,846
U.S. Government Agency Securities				
Federal Home Loan Mortgage Notes	AAA	Moody's	13.1%	$ 394,528
Federal Home Loan Bank Bond	AAA	Moody's		$ 50,890
Federal Home Loan Bank Bond	AAA	Moody's		50,094
Federal Home Loan Bank Bond	AAA	Moody's		49,969
Federal Home Loan Bank Bond	AAA	Moody's		196,876
Total Federal Home Loan Bank Bonds			11.6%	$ 347,829
Federal Home Loan Mortgage Corporation	AAA	Moody's	6.3%	$ 190,870
Federal Home Loan Mortgage Association	N/A	N/A		$ 157,837
Federal Home Loan Mortgage Association	N/A	N/A		202,122
Total Federal Home Loan Mortgage Association			12.0%	$ 359,959
U.S. Treasury Bill	AAA	Moody's	1.7%	$ 53,809
U.S. Treasury N/B	AAA	Moody's	1.2%	$ 38,666
Total investments				$ 2,994,507
Deposits				2,654,655
Petty cash				800
Total Cash and Cash Equivalents				$ 5,649,962

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Carrying values of the Commission's cash and investments at December 31, 2009, are:

Current assets	
Cash on deposit at the Commission	
Cash on hand	$ 800
Checking	263,249
Savings and certificates of deposit	2,391,406
Total unrestricted cash and cash equivalents	$ 2,655,455
Restricted assets	
Cash with fiscal agents	
First American Corporate Trust Treasury Fund	2,994,507
Total Cash and Cash Equivalents	$ 5,649,962

2. Capital Assets

A summary of capital assets at December 31, 2009, follows:

	Balance January 1, 2009	Additions	Deductions	Balance December 31, 2009
Land	$ 371,813	$ -	$ -	$ 371,813
Intangible assets	22,326	125,602	-	147,928
Buildings	11,579,329	-	-	11,579,329
Equipment	1,287,408	-	-	1,287,408
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	8,051,045	640,461	-	8,691,506
Vehicles	499,738	-	-	499,738
Total capital assets	$ 21,851,514	$ 766,063	$ -	$ 22,617,577
Less: accumulated depreciation	(14,706,018)	(797,816)	-	(15,503,834)
Net Capital Assets	$ 7,145,496	$ (31,753)	$ -	$ 7,113,743

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, 2009	$ 31,306	$ 2,888,396
Additions (Deductions)		
Net change in compensated absences	6,940	-
Change in accrual for closure and postclosure Care	-	130,467
Payable - December 31, 2009	$ 38,246	$ 3,018,863

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 $77,638 at December 31, 2009, 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.

2. Detailed Notes

   B. Liabilities (Continued)

      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 $3,018,863 reported as the accrued closure and postclosure care liability at December 31, 2009, represents the cumulative amount reported to date based on the use of 92.8 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $233,246 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission’s current permit expires June 11, 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 $2,994,507 is held for these purposes. The Commission is under funded in this account by $23,982 at December 31, 2009. The financial assurance 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 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.

3. Pension Plans

A. Defined Benefit Plans

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 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. 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. 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.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The Commission's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 27,673	$ 24,807	$ 24,492

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), formerly the Minnesota Counties Insurance Trust, 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 $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.

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**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, 2009

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 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 of which the Executive Director does not have access to keys.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-1 Money Market Mutual Fund

As allowed by Minn. Stat. § 118A.05, subd. 4, governments may invest in money market mutual funds rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization.

The East Central Solid Waste Commission had $1,608,846 invested in the Federated Municipal Obligations Fund #852 at December 31, 2009. This fund was not rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; therefore, it is not a permissible investment for local governments under Minnesota statutes.

We recommend the Commission invest only in money market funds that meet the requirements of Minn. Stat. § 118A.05, subd. 4.

Client's Response:

Bremer Investment and Trust was made aware of the following requirements prior to the investment:

The State Auditor says there is a requirement for investment: shares of an investment company which is registered under the Federal Investment Company Act of 1949 and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization.

The Commission was assured by Bremer that the investments were meeting all requirements.

Bremer transferred the money market fund to one with an AAA rating which does meet all requirements.

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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, 2009, 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 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 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, 2009, 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, except as described in the Schedule of Findings and Recommendations as item 09-1.

The East Central Solid Waste Commission's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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

December 17, 2010