STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013

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
2013

	Position	County	Term Expires
Board of Commissioners			
Richard Greene	Chair	Chisago	December 31, 2013
Phil Peterson	Vice Chair	Mille Lacs	December 31, 2013
Stephen Hallan	Treasurer	Pine	December 31, 2013
Kim Smith	Member	Kanabec	December 31, 2013
George Larson	Member	Isanti	December 31, 2013

Executive Director
Janelle Troupe

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Central Solid Waste Commission as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

October 27, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)

FINANCIAL HIGHLIGHTS

There are several items included in the financial highlights for 2013.

- Municipal solid waste (MSW) disposed of in the landfill was 88,651 tons. The demolition landfill took in 5,773 cubic yards.
- The East Central Solid Waste Commission (ECSWC) sold carbon credits through the California Action Registry in the amount of $99,176.
- Landfill gas was sold to Southern Minnesota Municipal Power Agency for conversion into electricity. The income realized on this sale was $47,801.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

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

The financial statements include: a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents assets, liabilities, and net position, which is further broken down into net investment in capital assets and unrestricted net position. The statement of revenues, expenses, and changes in net position 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 in) operating activities. The statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the ECSWC's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

FINANCIAL ANALYSIS

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

As can be seen from the table below, total assets increased by $677,294 from $13,250,718 in 2012, to $13,928,012 in 2013. Liabilities increased by $210,594 in 2013 due to additional postclosure care requirements.

Condensed Statement of Net Position

			Change	
	2013	2012	Dollar	Percent (%)
Assets				
Current assets	$ 4,702,305	$ 3,131,058	$ 1,571,247	50.2
Capital assets - net	5,216,998	6,245,993	(1,028,995)	(16.5)
Other assets	4,008,709	3,873,667	135,042	3.5
Total Assets	$ 13,928,012	$ 13,250,718	$ 677,294	5.1
Liabilities				
Current liabilities	$ 317,791	$ 314,587	$ 3,204	1.0
Noncurrent liabilities	5,546,180	5,338,790	207,390	3.9
Total Liabilities	$ 5,863,971	$ 5,653,377	$ 210,594	3.7

	2013	2012	Change Dollar	Change Percent (%)
Net Position				
Net investment in capital assets	$ 5,216,998	$ 6,245,993	$ (1,028,995)	(16.5)
Unrestricted	2,847,043	1,351,348	1,495,695	110.7
Total Net Position	$ 8,064,041	$ 7,597,341	$ 466,700	6.1

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

	2013 Actual	2013 Budget	2012 Actual	Variance 2013 Actual to Budget (%)	Changes in Actual 2012 to 2013 Dollar	Changes in Actual 2012 to 2013 Percent (%)
Revenues						
Operating revenues	$ 5,356,795	$ 5,152,150	$ 5,350,746	4.0	$ 6,049	0.1
Nonoperating revenues	122,614	150,000	295,732	(18.3)	(173,118)	(58.5)
Total Revenues	$ 5,479,409	$ 5,302,150	$ 5,646,478	3.3	$ (167,069)	(3.0)
Expenses						
Operating expenses	$ 4,985,261	$ 4,782,454	$ 4,935,422	4.2	$ 49,839	1.0
Nonoperating expenses	27,448	27,000	1,228,637	1.7	(1,201,189)	(97.8)
Total Expenses	$ 5,012,709	$ 4,809,454	$ 6,164,059	4.2	$ (1,151,350)	(18.7)
Change in Net Position	$ 466,700	$ 492,696	$ (517,581)	(5.3)	$ 984,281	190.2
Net Position - January 1	7,597,341	7,597,341	8,114,922	-	(517,581)	(6.4)
Net Position - December 31	$ 8,064,041	$ 8,090,037	$ 7,597,341	(0.3)	$ 466,700	6.1

Revenues

The ECSWC's operating revenues are derived from various sources: mixed municipal solid waste tipping fees, appliance disposal fees, electronics recycling fees, tire disposal fees, mattress disposal fees, and other miscellaneous tipping fees. Nonoperating income includes the sale of carbon credits through the California Action Registry and the sale of landfill gas to the Southern Minnesota Municipal Power Agency. Other income is partly comprised of checks received from the Minnesota Counties Intergovernmental Trust for rebates.

Operating revenues were $5,356,795, a very small increase over 2012. Total revenues were down 3.0 percent from 2012.

Total revenues were $177,259 more than budgeted with the major additions coming from increased tonnage, scale fees, and acceptance of contaminated soil.

Expenses

Operating expenses were $49,839 higher than 2012 and 4.2 percent higher than budgeted.

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

Budgetary Highlights

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

Capital Assets

At the end of fiscal year 2013, the ECSWC had invested a total of $24,685,166 in capital assets. Major capital purchases for 2013 included continued expansion of gas wells in the landfill.

Total capital assets at December 31, 2013, were $24,685,166 versus $24,622,850 at December 31, 2012. These assets, after being decreased by accumulated depreciation, provided a net book value of $5,216,998 at December 31, 2013, and $6,245,993 at December 31, 2012.

Long-Term Liabilities

Long-term liabilities consist of an estimated liability for landfill closure/postclosure of $5,505,427 and compensated absences payable of $40,753. The balance at year-end in the restricted asset for financial assurance was $4,008,709. Monthly deposits are made into the financial assurance fund and interest earned on that fund remains in the restricted asset.

MSW Changes in Tonnage

Tonnage decreased 565 tons, or 0.6 percent, from 2012.

ECONOMIC AND OTHER FACTORS

The ECSWC considered many factors when setting the fiscal year 2013 budget.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2013, the budget was based on 85,000 tons of MSW being delivered; actual numbers were 88,651 tons.

CONTACTING THE ECSWC FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2013

<u>Assets</u>		
Current assets		
Cash and cash equivalents	$	4,213,181
Accounts receivable		486,291
Prepaid items		2,833
Total current assets	**$**	**4,702,305**
Noncurrent assets		
Assets restricted for financial assurance escrow account		
Cash and investments	$	4,008,709
Capital assets		
Nondepreciable		519,741
Depreciable - net		4,697,257
Total noncurrent assets	**$**	**9,225,707**
Total Assets	**$**	**13,928,012**
<u>Liabilities</u>		
Current liabilities		
Accounts payable	$	239,791
Salaries payable		38,018
Due to other governments		39,982
Total current liabilities	**$**	**317,791**
Noncurrent liabilities		
Compensated absences	$	40,753
Estimated liability for landfill closure/postclosure		5,505,427
Total noncurrent liabilities	**$**	**5,546,180**
Total Liabilities	**$**	**5,863,971**
<u>Net Position</u>		
Net investment in capital assets	$	5,216,998
Unrestricted		2,847,043
Total Net Position	**$**	**8,064,041**

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 POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

Operating Revenues		
Charges for services	$	5,310,554
Miscellaneous		46,241
Total Operating Revenues	**$**	**5,356,795**
Operating Expenses		
Administration and overhead	$	162,349
Landfill operations		2,535,883
Compost facility operations		20,467
Transfer station operations		981,491
Landfill closure and postclosure costs		233,760
Depreciation		1,051,311
Total Operating Expenses	**$**	**4,985,261**
Operating Income (Loss)	**$**	**371,534**
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	$	27,448
Investment income (loss)		(51,811)
Sale of carbon credits and landfill gas		146,977
Household hazardous waste		(27,448)
Total Nonoperating Revenues (Expenses)	**$**	**95,166**
Change in Net Position	**$**	**466,700**
Net Position - January 1		**7,597,341**
Net Position - December 31	**$**	**8,064,041**

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, 2013
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	5,270,625
Payments to suppliers		(3,051,564)
Payments to employees		(664,527)
Net cash provided by (used in) operating activities	**$**	**1,554,534**
Cash Flows from Noncapital Financing Activities		
Intergovernmental revenue	$	27,448
Household hazardous waste payments to counties		(27,448)
Payments to financial assurance account		(135,042)
Proceeds from sale of carbon credits		99,176
Proceeds from the sale of landfill gas		47,801
Net cash provided by (used in) noncapital financing activities	**$**	**11,935**
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	**$**	**(22,316)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**(51,811)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**1,492,342**
Cash and Cash Equivalents at January 1		**2,720,839**
Cash and Cash Equivalents at December 31	**$**	**4,213,181**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**371,534**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	1,051,311
(Increase) decrease in accounts receivable		(81,739)
(Increase) decrease in prepaid items		2,834
Increase (decrease) in accounts payable		15,329
Increase (decrease) in salaries payable		4,008
Increase (decrease) in compensated absences payable		(26,370)
Increase (decrease) in due to other governments		2,161
Increase (decrease) in contracts payable		(18,294)
Increase (decrease) in landfill closure liability		233,760
Total adjustments	**$**	**1,183,000**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,554,534**

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 East Central Solid Waste 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 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.

D. Budgetary Data

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

E. Assets and Liabilities

1. Assets

Cash and Cash Equivalents

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

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

1. Summary of Significant Accounting Policies

   E. Assets and Liabilities

      1. Assets (Continued)

         Accounts Receivable

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

         Restricted Assets

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

         Capital Assets

         It is the policy of the Commission to use the half-year convention for calculating the amount of depreciation to claim in the year an asset is purchased or first placed into service. Pursuant to this policy, all assets have one-half year of depreciation applied to them in the year the asset is purchased or first placed into service, regardless of the date when the 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 are expensed in the year acquired.

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

1. Summary of Significant Accounting Policies

E. Assets and Liabilities (Continued)

2. Liabilities

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

The compensated absences liability represents amounts for earned but unpaid vacation, unpaid compensatory time, and severance pay. Employees' unused sick leave that has reached 800 hours is included as a liability; individual employee's sick leave under 800 hours is not included as a liability as it does not vest. There is one employee that reached 800 hours of sick leave that is included in compensated absences and one employee who was paid sick leave because of retirement; that pay is included in salaries payable at year-end.

F. Classification of Net Position

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

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

G. Revenues and Expenses

1. Revenues

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

Charges for Services

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

Other Revenues

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

2. Expenses

Enterprise funds recognize expenses when they are incurred.

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

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

Cash and cash equivalents	$	4,213,181
Restricted assets		
Financial assurance escrow account		4,008,709
Total Cash and Investments	$	8,221,890

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2013, the Commission's deposits were not exposed to custodial credit risk.

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

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;

(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.

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents the Commission's deposit and investment balances at December 31, 2013, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Percent of Portfolio	Maturity Date	Carrying (Fair) Value
Money Market					
Federated Government Obligations Tax-Managed Fund			13.0%	N/A	$ 520,845
U.S. Government Agency Securities					
Federal Farm Credit Bank Bond	AAA	S&P		06/14/2017	$ 160,612
Federal Farm Credit Bank Bond	AAA	S&P		08/07/2020	99,151
Federal Farm Credit Bank Bond	AAA	S&P		12/12/2022	66,485
Federal Farm Credit Bank Bond	AAA	S&P		01/30/2023	72,436
Total Federal Farm Credit Bank Bonds			10.0%		$ 398,684
Federal Home Loan Bank Bond	AAA	S&P		06/12/2015	$ 77,756
Federal Home Loan Bank Bond	AAA	S&P		06/09/2017	69,720
Federal Home Loan Bank Bond	AAA	S&P		07/24/2017	9,841
Federal Home Loan Bank Bond	AAA	S&P		09/13/2019	194,927
Federal Home Loan Bank Bond	AAA	S&P		03/12/2021	78,442
Federal Home Loan Bank Bond	AAA	S&P		12/01/2021	64,003
Total Federal Home Loan Bank Bonds			12.3%		$ 494,689
Federal Home Loan Mortgage Corporation	AAA	S&P		02/09/2015	$ 10,292
Federal Home Loan Mortgage Corporation	AA+	S&P		12/01/2015	236,182
Federal Home Loan Mortgage Corporation	AAA	S&P		07/28/2017	24,842
Federal Home Loan Mortgage Corporation Note	AAA	S&P		05/30/2019	122,787
Federal Home Loan Mortgage Corporation Note	AAA	S&P		01/13/2022	286,788
Federal Home Loan Mortgage Corporation Gold Pool	NR	NA		02/01/2024	33,151
Federal Home Loan Mortgage Corporation Gold Pool	NR	NA		09/01/2024	52,626
Federal Home Loan Mortgage Corporation	NR	NA		03/15/2027	77,590
Federal Home Loan Mortgage Corporation Gold Pool	NR	NA		06/01/2040	43,976
Federal Home Loan Mortgage Corporation Gold Pool	NR	NA		07/01/2040	19,089
Federal Home Loan Mortgage Corporation Gold Pool	NR	NA		10/01/2040	22,688
Total Federal Home Loan Mortgage Corporation			23.2%		$ 930,011
Government National Mortgage Association Pool	NR	NA		09/15/2024	$ 39,147
Government National Mortgage Association	NR	NA		10/20/2037	33,211
Government National Mortgage Association	NR	NA		12/20/2037	14,123
Government National Mortgage Association Pool	NR	NA		07/20/2038	22,109
Government National Mortgage Association	NR	NA		04/20/2039	108,478
Government National Mortgage Association	NR	NA		06/16/2039	42,303
Government National Mortgage Association	NR	NA		08/16/2039	33,611
Government National Mortgage Association Pool	NR	NA		11/20/2039	36,161
Government National Mortgage Association	NR	NA		05/16/2040	30,720

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. Government Agency Securities (Continued)					
Government National Mortgage Association	NR	NA		08/20/2040	40,903
Government National Mortgage Association Pool	NR	NA		09/20/2041	59,887
Total Government National Mortgage Association			11.5%		$ 460,653
Federal National Mortgage Association	AAA	S&P		04/17/2019	$ 143,573
Federal National Mortgage Association	AAA	S&P		04/15/2020	212,152
Federal National Mortgage Association	NR	NA		12/01/2026	29,982
Federal National Mortgage Association	NR	NA		04/01/2028	33,568
Federal National Mortgage Association	NR	NA		03/01/2030	8,802
Federal National Mortgage Association	NR	NA		01/01/2032	31,561
Federal National Mortgage Association	NR	NA		12/25/2039	19,815
Federal National Mortgage Association	NR	NA		11/01/2040	59,116
Federal National Mortgage Association	NR	NA		08/25/2041	71,054
Federal National Mortgage Association	NR	NA		09/25/2041	32,216
Federal National Mortgage Association	NR	NA		06/25/2042	39,496
Total Federal National Mortgage Association			17.0%		$ 681,335
U.S. Treasury Bill	NR	NA		02/06/2014	$ 99,998
U.S. Treasury Bill	AAA	NA		11/30/2018	103,425
Total U.S. Treasury Bills			5.1%		$ 203,423
U.S. Treasury N/B	AAA	S&p		11/15/2022	$ 76,726
U.S. Treasury N/B	AAA	S&)		02/15/2019	117,355
Total U.S. Treasury N/Bs			4.8%		$ 194,081
U.S. Treasury Strip	NR	NA	3.1%	02/15/2014	$ 124,988
Total U.S. Government Agency Securities					$ 3,487,864
Total Investments					$ 4,008,709
Deposits					4,212,381
Petty cash					800
Total Deposits and Investments					$ 8,221,890

NR - Not rated
S&P - Standard and Poor's
NA - Not applicable

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Carrying values of the Commission's cash and investments at December 31, 2013, are:

Current assets		
Cash on deposit at the Commission		
Cash on hand	$	800
Checking		1,992,944
Savings and certificates of deposit		2,219,437
Total unrestricted cash and cash equivalents	$	4,213,181
Restricted assets		
Financial assurance escrow account		
First American Corporate Trust Treasury Fund		4,008,709
Total Cash and Investments	$	8,221,890

2. Capital Assets

A summary of capital assets at December 31, 2013, follows:

	Beginning Balance		Increase		Decrease		Ending Balance	
Capital assets not depreciated								
Land	$	371,813	$	-	$	-	$	371,813
Intangible assets		147,928		-		-		147,928
Total capital assets not depreciated	$	519,741	$	-	$	-	$	519,741
Capital assets depreciated								
Buildings	$	11,601,767	$	-	$	-	$	11,601,767
Equipment		1,494,706		9,759		-		1,504,465
Furniture and fixtures		39,855		-		-		39,855
Improvements other than buildings		10,308,122		12,557		-		10,320,679
Vehicles		698,659		-		-		698,659
Total capital assets depreciated	$	24,143,109	$	22,316	$	-	$	24,165,425

2. Detailed Notes

A. Assets

2. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ (9,431,538)	$ (190,492)	$ -	$ (9,622,030)
Equipment	(855,430)	(136,932)	-	(992,362)
Furniture and fixtures	(39,855)	-	-	(39,855)
Improvements other than buildings	(7,693,135)	(646,151)	-	(8,339,286)
Vehicles	(396,899)	(77,736)	-	(474,635)
Total accumulated depreciation	$ (18,416,857)	$ (1,051,311)	$ -	$ (19,468,168)
Total capital assets depreciated, net	$ 5,726,252	$ (1,028,995)	$ -	$ 4,697,257
Net Capital Assets	$ 6,245,993	$ (1,028,995)	$ -	$ 5,216,998

B. Liabilities

1. Long-Term Debt

Changes in long-term debt are summarized below:

	Compensated Absences	Accrued Closure and Postclosure Care
Payable - January 1, 2013	$ 67,123	$ 5,271,667
Additions (Deductions)		
Net change in compensated absences	(26,370)	-
Change in accrual for closure and postclosure care	-	233,760
Payable - December 31, 2013	$ 40,753	$ 5,505,427

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 $83,687 at December 31, 2013, 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. One employee has vested sick leave in the amount of $16,592.

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 $5,505,427 reported as the accrued closure and postclosure care liability at December 31, 2013, represents the cumulative amount reported to date based on the use of 91 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of $564,403 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission's current permit expires June 10, 2015.

2. Detailed Notes

B. Liabilities

3. Landfill Closure and Postclosure Care Costs (Continued)

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 $4,008,709 is held for these purposes. The Commission is underfunded in this account by $1,496,718 at December 31, 2013. The financial assurance escrow account is reported as a restricted asset on the balance sheet. The Commission expects future inflation costs to be covered from future unobligated cash held by the Commission. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

3. 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 General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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. 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.

3. Defined Benefit Plans

Plan Description (Continued)

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 remaining year. 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 remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. 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 General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

3. Defined Benefit Plans

Funding Policy (Continued)

The East Central Solid Waste Commission is required to contribute the following percentages of annual covered payroll in 2013:

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

The East Central Solid Waste Commission's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

	2013	2012	2011
General Employees Retirement Fund	$ 35,321	$ 32,712	$ 31,523

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 Intergovernmental Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. The Commission purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $470,000 per claim in 2013 and $480,000 per claim in 2014. 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, 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2005-001

Segregation of Duties

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

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

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

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

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

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

Client's Response:

The ECSWC Board is aware of the lack of segregation of duties. The Commission has taken many steps to separate duties. The weighmasters are assisting with the reconciliation of the bank statement. They check to see that all deposits are made and also check off the cleared checks on the statement. Checks are posted in the register by a weighmaster, and the secretary has taken on the task of reconciling petty cash. Deposits from the scalehouse continue to be taken to the bank in locked bags; the Executive Director does not have access to the keys. In 2013, a part-time fiscal officer was hired to assist with accounts payable and accounts receivable functions.

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the East Central Solid Waste Commission, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This significant deficiency is reported in the Schedule of Findings and Recommendations as item 2005-001.

The East Central Solid Waste Commission's Response to Finding

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

Purpose of This Report

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the 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]*

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

October 27, 2014

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
East Central Solid Waste Commission
Mora, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 27, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Commission's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and contracting and bidding because the Commission had no debt and did not enter into any contracts.

In connection with our audit, nothing came to our attention that caused us to believe that the East Central Solid Waste Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 27, 2014