

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

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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**SOUTHEAST MINNESOTA
RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

For the Year Ended December 31, 2007



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2007

<u>Name</u>		<u>Representing</u>
Board Members		
Katy Wortel	2007 Chair	Blue Earth County
Dave Hansen		Dodge County
Mark Behrends		Freeborn County
Richard Cummings		Mower County
Jim Bier		Olmsted County
Milt Plaisance		Rice County
Doug Johnson	2007 Vice Chair	Steele County
Jim Peterson		Waseca County
Technical Committee		
Jean Lundquist		Blue Earth County
Mark Gamm		Dodge County
Randy Tuchtenhagen		Freeborn County
Jeff Weaver		Mower County
Scott Martin		Olmsted County
Paul Pieper		Rice County
Mary Overlee Olson		Steele County
Lee Williams		Waseca County
Officer		
Sharon Schriever	Executive Director	

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STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Minnesota Recyclers' Exchange Joint Powers Board

We have audited the accompanying financial statements of the Southeast Minnesota Recyclers' Exchange Joint Powers Board as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Southeast Minnesota Recyclers' Exchange Joint Powers Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Minnesota Recyclers' Exchange Joint Powers Board as of December 31, 2007, and the results of its operations 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 required supplementary information. However, we did not audit the information and express no opinion on it. The Southeast Minnesota Recyclers' Exchange Joint Powers Board has not presented condensed financial information derived from the financial statements comparing the current year to the prior year that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 28, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

The Southeast Minnesota Recyclers' Exchange (SEMREX) Management's Discussion and Analysis is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SEMREX's financial activity, (c) identify changes in SEMREX's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with SEMREX's financial statements.

FINANCIAL HIGHLIGHTS

- SEMREX's net assets increased by \$9,943 (or 21 percent) during 2007. Net assets were \$47,403 and \$57,346 for 2006 and 2007, respectively.
- The operating revenue increased by \$151,308 (or 28 percent) during 2007 and was \$549,193 and \$700,501 for 2006 and 2007, respectively.
- The total operating expenses increased by \$142,929 (or 26 percent). Total operating expenses were \$549,449 and \$692,378 for 2006 and 2007, respectively.
- Net operating revenue/expenses increased by \$8,379 (or 3,273 percent) during 2007 and were a loss of \$256 and a gain of \$8,123 for 2006 and 2007, respectively.

Membership

In 2007, SEMREX members consisted of eight full county members and six "marketing only" members--up from 2006.

Commodities Marketed

Total tonnage for material marketed was down by about 5 percent for 2007. However, the tonnage of sorted office paper was up significantly by 152 percent. This was due to Olmsted County receiving more of the material. Prices on average were up in 2007. The price for cardboard was, on average, \$75/ton in 2006, while it was \$114.44/ton on average in 2007.

Comparable prices were seen in all of the fiber commodities (old corrugated cardboard, old magazines, old newspaper, and sorted office paper) marketed through SEMREX. Also of note, was the increase in steel/tin prices, up on average 58 percent.

Marketing Fees

There were no changes made in the marketing fee structure from 2007 to 2008.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of SEMREX's finances in a manner similar to a private-sector business. SEMREX's financial statements use the full accrual basis of accounting and the economic resources measurement focus.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial resources for SEMREX. The statement is presented in the format where assets less liabilities equal "Net Assets". Assets and liabilities are presented in order of liquidity. The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for SEMREX.

The basic financial statements also include a Statement of Revenues, Expenses, and Changes in Net Assets (similar to an Income Statement). This Statement includes revenues, such as sale of materials, and interest on investments, and Expenses, such as administrative and cooperative marketing. The focus of the Statement of Revenues, Expenses, and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, and investing activities.

BASIC FINANCIAL STATEMENTS

Major Factors Affecting the Statement of Net Assets

Current assets increased by \$28,266, and current liabilities increased by \$18,323. Current assets (primarily cash and investments) will be used to extinguish the current liabilities.

Major Factors Affecting the Statement of Revenues, Expenses, and Changes in Net Assets

The revenue from sale of materials increased in 2007. This is primarily due to the increase in commodity prices.

Cooperative marketing disbursements increased in 2007. The increase is proportionate to the sale of materials and is due to the fact that the more material a member markets and the higher the price, the more cooperative marketing fees are paid to SEMREX, and the more cooperative marketing disbursements are made to members. In 2007, the disbursements to other governments increased due to the fact that they marketed more materials than the individual members.

ECONOMIC FACTORS

Significant economic factors affecting SEMREX are as follows:

- Fluctuations in demand and market price for recycled materials; and
- Local inflationary, recessionary, and employment trends, which can affect business profits and which in turn affect the amount businesses purchase, manufacture, or sell, which helps determine the amount of material sent to recycling markets.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Camy Iverson, Controller of Olmsted County Public Works Department, at (507) 328-7007. Specific requests may be submitted to Camy Iverson, Olmsted County - Public Works, 2122 Campus Drive S.E., Rochester, Minnesota 55904-4744.

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BASIC FINANCIAL STATEMENTS

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Assets

Current assets	
Cash and pooled investments	\$ 45,182
Accounts receivable - net	71,778
Due from other governments	10,414
Prepaid items	2,686
	<hr/>
Total Assets	\$ 130,060

Liabilities

Current liabilities	
Accounts payable	\$ 17,593
Due to other governments	55,121
	<hr/>
Total Liabilities	\$ 72,714

Net Assets

Unrestricted	\$ 57,346
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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Operating Revenues	
Charges for services	\$ 688,195
Miscellaneous	12,306
	<hr/>
Total Operating Revenues	\$ 700,501
	<hr/>
Operating Expenses	
Contracted services	\$ 32,226
Other services and charges	13,086
Supplies	38
Payments to individuals	114,961
Payments to other governments	532,067
	<hr/>
Total Operating Expenses	\$ 692,378
	<hr/>
Operating Income (Loss)	\$ 8,123
	<hr/>
Nonoperating Revenues (Expenses)	
Interest income	1,820
	<hr/>
Change in net assets	\$ 9,943
	<hr/>
Net Assets - January 1	47,403
	<hr/>
Net Assets - December 31	\$ 57,346
	<hr/> <hr/>

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 676,447
Payments to suppliers	<u>(676,741)</u>
Net cash provided by (used in) operating activities	\$ (294)
Cash Flows from Investing Activities	
Investment earnings received	<u>1,820</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,526
Cash and Cash Equivalents at January 1	<u>43,656</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 45,182</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ 8,123</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in accounts receivable	\$ (16,610)
(Increase) decrease in due from other governments	(7,444)
(Increase) decrease in prepaid items	(2,686)
Increase (decrease) in accounts payable	13,468
Increase (decrease) in due to other governments	<u>4,855</u>
Total adjustments	<u>\$ (8,417)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (294)</u></u>

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Summary of Significant Accounting Policies

The Southeast Minnesota Recyclers' Exchange's (SEMREX) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although SEMREX has the option to apply FASB pronouncements issued after that date to its activities, SEMREX has chosen not to do so. The more significant accounting policies established in GAAP and used by SEMREX are discussed below.

A. Financial Reporting Entity

SEMREX is an organization of counties focused on recycling and waste reduction. Informally allied since 1989, SEMREX was restructured in August 1997 as a Joint Powers Board, as provided by Minn. Stat. § 471.59. The Board has a chair and is composed of one representative from each of the nine members. The Board contracted with Olmsted County to act as fiscal agent and provide administrative services.

B. Financial Statement Presentation

SEMREX reports only one fund, which is used to account for all the financial resources of SEMREX. The financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to the time at which revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. SEMREX's enterprise fund is accounted for using the accrual basis of accounting and the economic resources measurement focus. Sales of materials are recognized when the sale occurs. Materials sold are generated by the cooperative marketing program. The

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Basis of Accounting and Measurement Focus (Continued)

cooperative marketing program markets recyclable materials for private recyclers and government programs. It was developed to overcome the obstacles facing rural recyclers by providing the increased bargaining power and transportation efficiencies of large volumes, so that greater sales revenues can be obtained. SEMREX is funded by a five to ten percent brokerage fee on each load marketed through the program. Expenses for administration and cooperative marketing are recognized when the liability is incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents are amounts SEMREX has on deposit with Olmsted County.

E. Net Assets

The unrestricted net asset account indicates the portion of net assets available for future period expenses.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

Deposits and Investments

SEMREX's total cash and investments of \$45,182 are on deposit with Olmsted County and are included in Olmsted County's pooled cash and investments.

**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

3. Summary of Significant Contingencies and Other Items

Risk Management

SEMREX is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. General liability is covered with a policy from the Minnesota Counties Insurance Trust. This insurance was first purchased in 1998 with no changes since that time. Settled claims have not exceeded this coverage for the past three years.

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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

**FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*--INTERNAL CONTROLS**

ITEM ARISING THIS YEAR

07-1 Audit Adjustment

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

Adjustments were made to the Enterprise Fund for the following:

- adjust due to other governments and
- adjust due from other governments.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend SEMREX design internal controls over financial reporting to detect misstatements in the financial statements. We encourage review of draft financial statements by the Board to identify potential misstatements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Southeast Minnesota Recyclers' Exchange Joint Powers Board

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Southeast Minnesota Recyclers' Exchange Joint Powers Board (SEMREX) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered SEMREX's (and its fiscal agent, Olmsted County) 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 SEMREX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SEMREX's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects SEMREX's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of SEMREX's financial statements that is more than inconsequential will not be prevented or detected by SEMREX's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 07-1 to be a significant deficiency in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the financial statements of the Southeast Minnesota Recyclers' Exchange Joint Powers Board as of and for the year ended December 31, 2007. 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, except that we did not test for compliance in deposits and investments and claims and disbursements, because these items were tested as part of the Olmsted County audit.

The results of our tests indicate that for the items tested, Southeast Minnesota Recyclers' Exchange complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within Southeast Minnesota Recyclers' Exchange 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

January 28, 2009