

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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, 2004



**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, 2004

Name		Representing
Board Members		
Katy Wortel	*	Blue Earth County
Dave Hansen		Dodge County
Mark Behrends		Freeborn County
Richard Cummings	2004 Vice Chair**	Mower County
Jim Bier		Olmsted County
Heather Robins		Rice County
Jerry Peterson	2004 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 Vrieze	Executive Director	

*2005 Chair

**2005 Vice Chair

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southeast Minnesota Recyclers' Exchange
Services 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, 2004. These financial statements are the responsibility of the Southeast Minnesota Recyclers' Exchange Joint Powers Board 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 Southeast Minnesota Recyclers' Exchange Joint Powers Board, as of December 31, 2004, 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.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**SOUTHEASTERN MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)

The Southeastern Minnesota Recyclers' Exchange (SEMREX) Management's Discussion and Analysis (MD&A) 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 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 \$11,782 (or 50 percent) during 2004. Net assets were \$23,646 and \$35,428 for 2003 and 2004 respectively.
- The operating revenue increased by \$119,587 (or 33 percent) during 2004, and were \$361,456 and \$481,043 for 2003 and 2004, respectively.
- The total operating expenses increased by \$115,790 (or 33 percent). Total operating expenses were \$353,794 and \$469,584 for 2003 and 2004, respectively.
- Net operating revenues/expenses increased by \$3,797 (or 50 percent) during 2004, and were \$7,662 and \$11,459 for 2003 and 2004, respectively.

Membership

SEMREX full membership declined from 2003 to 2004. In 2003, SEMREX members consisted of 9 full members and 2 "marketing only" members. In 2004, there were 8 full members and 4 "marketing only" members.

Commodities Marketed

Commodity prices were, on the average, 42 percent higher in 2004 than in 2003. Some of the largest changes were seen in the fiber market with an average of 33 percent increase in price; in the plastics market there was an average of 30 percent increase. The largest average increase, however, was in the tin markets where the average price increased by an amazing 189 percent.

The tons marketed by SEMREX were, on the average, up 9 percent from 2003 to 2004. Tons of tin and aluminum marketed were up 39 percent and 37 percent respectively from 2003. SEMREX's largest increases were seen in old newspaper increasing by 214 percent and white office paper increasing by 412 percent. These large increases are due to Olmsted County beginning to market more through SEMREX in 2004.

Marketing Fees

There were two changes made in the marketing fee structure from 2003 to 2004. The rate for OCC was changed to 6 percent for all members from the previous 7 percent for Fenske (as negotiated) and 5 percent for full members with buy-back programs. The rate for aluminum was changed to 4 percent for all aluminum versus the previous rate of 4 percent for loose aluminum and 10 percent for baled aluminum. These marketing fees were decreased in order to retain the "marketing only" members and to make things more equitable based on the material marketed.

BASIC FINANCIAL STATEMENTS

The basic financial statements are designed to provide readers with a broad overview of the SEMREX's finances, in a manner similar to a private-sector business. SEMREX financial statements use the full accrual basis of accounting and the economic 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 equal liabilities plus "Net Assets", formerly known as equity. 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 (noncapital) assets, net of liabilities, for the SEMREX.

The basic financial statements also include a Statement of Activities (similar to an Income Statement). This Statement includes Revenues, such as sale of materials and interest on investments, Expenses, such as administrative, and cooperative marketing. The focus of the Statement of Activities 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.

Major Factors Affecting the Statement of Net Assets

Current assets increased by \$12,962, and current liabilities increased by \$1,180. Current assets (primarily cash and investments) will be used to extinguish the current liabilities.

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets

Sale of materials increased in 2004. This is primarily due to the 42 percent average increase in commodity prices and the 9 percent average increase of tons of material marketed through SEMREX.

Cooperative marketing fees increased in 2004. The increase is proportionate to the increase in sales 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 SEMREX pays them.

ECONOMIC FACTORS

Significant economic factors affecting SEMREX are as follows:

- Fluctuations in demand and market price for recycled materials.
- 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 Susan W. Parker, CPA, Controller of Olmsted County Public Works Department at 507-287-2485. Specific requests may be submitted to Susan W. Parker, CPA, Olmsted County-Public Works, 2122 Campus Drive Southeast, Rochester, Minnesota 55904-4744.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets

Current assets	
Cash and pooled investments	\$ 40,382
Accounts receivable	<u>38,125</u>
Total Assets	\$ <u>78,507</u>

Liabilities

Current liabilities	
Accounts payable	\$ 19,803
Due to other governments	<u>23,276</u>
Total Liabilities	\$ <u>43,079</u>

Net Assets

Unrestricted	<u><u>\$ 35,428</u></u>
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**SOUTHEAST MINNESOTA RECYCLERS' EXCHANGE
ROCHESTER, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues	
Charges for services	\$ 469,431
Miscellaneous	11,612
	<hr/>
Total Operating Revenues	\$ 481,043
Operating Expenses	
Contracted services	\$ 24,720
Other services and charges	7,070
Supplies	33
Payments to individuals	120,270
Payments to other governments	317,491
	<hr/>
Total Operating Expenses	\$ 469,584
Operating Income	\$ 11,459
Nonoperating Revenues (Expenses)	
Interest income	323
	<hr/>
Change in Net Assets	\$ 11,782
Net Assets - January 1	23,646
	<hr/>
Net Assets - December 31	\$ 35,428
	<hr/> <hr/>

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 483,284
Payments to suppliers	<u>(468,403)</u>
Net cash provided by (used in) operating activities	\$ 14,881
Cash Flows From Investing Activities	
Investment earnings received	<u>323</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 15,204
Cash and Cash Equivalents at January 1	<u>25,178</u>
Cash and Cash Equivalents at December 31	<u>\$ 40,382</u>
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income	<u>\$ 11,459</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
(Increase) decrease in accounts receivable	\$ 2,242
Increase (decrease) in accounts payable	10,843
Increase (decrease) in due to other governments	<u>(9,663)</u>
Total adjustments	<u>\$ 3,422</u>
Net cash provided by operating activities	<u>\$ 14,881</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, 2004**

1. Summary of Significant Accounting Policies

Southeast Minnesota Recyclers' Exchange (SEMREX) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 business-type activities and enterprise funds, SEMREX has chosen not to do so. The more significant accounting policies established in GAAP and used by the County 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 Activities, 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, 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

All SEMREX's cash and cash equivalents are on deposit with Olmsted County.

E. Net Assets

The unrestricted net asset account indicates the portion of net assets that are 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 \$40,382 are on deposit with Olmsted County.

**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; injuries to employees; and natural disasters. Workers' Compensation and general liability are 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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PATRICIA ANDERSON
STATE AUDITOR

REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Southeast Minnesota Recyclers' Exchange

We have audited the financial statements of Southeast Minnesota Recyclers' Exchange as of and for the year ended December 31, 2004, and have issued our report thereon dated October 12, 2005.

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 five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories except that we did not test for compliance in cash and investments and claims and disbursements, which are in the custody of another party and miscellaneous provisions because none of the provisions were applicable.

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 and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 12, 2005