

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**EAST CENTRAL SOLID WASTE COMMISSION**  
**MORA, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

## **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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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**Year Ended December 31, 2005**



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

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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

ORGANIZATION  
2005

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Commissioners			
Alan Hancock	Chair	Pine	December 31, 2005
Bob Gustafson	Vice Chair	Chisago	December 31, 2005
Dennis McNally	Treasurer	Kanabec	December 31, 2005
George Larson	Member	Isanti	December 31, 2005
Robert Hoefert	Member	Mille Lacs	December 31, 2005
Executive Director			
Eugene Kramer			December 31, 2007

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# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
East Central Solid Waste Commission

We have audited the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Central Solid Waste Commission as of December 31, 2005, 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.

As discussed in the notes to the financial statements, the East Central Solid Waste Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 40, *Deposit and Investment Risk Disclosures*, and No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, as of and for the year ended December 31, 2005. These statements result in a change in the note presentation and a restatement of the carrying value of capital assets.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 29, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(Unaudited)**

**FINANCIAL HIGHLIGHTS**

Several projects were completed in 2005 that would enable the East Central Solid Waste Commission to realize improved utilization of airspace in the landfill, improve environmental monitoring operations at the landfill, and allow the Commission to better ensure that the natural environment is being protected to the maximum extent possible.

- At the January 10, 2005, meeting of the East Central Solid Waste Commission's Board of Commissioners, the bid in the amount of \$32,440 from Landwehr Construction Inc., was accepted to remove the eastern portion of the final cover over Phases 1, 2, and 3. In February 2005, \$5,800 additional funding was approved for this project. The increase in cost was due to the discovery of several feet of soil overburden present above the waste in the tear off area. The additional soils had to be removed to a stockpile in order to complete the tear off in a manner conducive to future use as landfill airspace. By reopening this closed area, additional waste could be placed in the current footprint, as was permitted. The process effectively extends the operational life of the landfill. After the cover was removed, waste was placed in the cover tear off area through February 2005 and then covered with intermediate cover. Additional waste will be placed in this area in 2006. The total cost for this project was \$45,123. At the time the budget was developed, it was anticipated that the cover removal project would be accomplished by Commission employees with Commission equipment. However, the approval of the project by the Minnesota Pollution Control Agency required the tear off be accomplished during winter months. The Commission does not own the necessary equipment to affect a winter soil project.
- Prior to the Commission beginning permitting and construction for the next phase (Phase 6) of the landfill, a hydrogeologic investigation is required. The Board approved the bid from Aqua-Plus in the amount of \$23,798 for the well drilling portion of the work. The total budgeted for the hydrogeologic investigation in 2005 was \$65,000 with the year-end cash flow budget showing \$80,552 spent. In 2006, another \$144,000 has been budgeted for a subsequent hydrogeologic investigation for future expansion (Phases 7 through 10).
- The Landfill Gas Extraction and Destruction System (LFG) budgeted at \$150,000 in 2005 was for Phase 1 of the project. Partial completion of the landfill gas control project would not have resulted in a complete odor management or landfill gas migration control system. A bid was accepted for completing this project in its entirety and awarded to Carl Bolander

and Sons for \$194,080, with Landwehr Construction installing the flare and blower and making the pipe connections for a cost of \$16,000. At year-end, the total project costs were \$350,157. An additional \$110,000 has been budgeted for expanding the LFG system in 2006. The active LFG system is a proactive step addressing the issue of odor, greenhouse gas reduction, and to prevent LFG migration beyond the landfill boundary.

- The Leachate Recirculation Project budgeted for \$21,000 in 2005 had a year-end balance of \$147,320. The combination of recirculation and the additional storage capacity provided by the pond will minimize off-site leachate hauling and treatment.
- At the April 11, 2005, meeting of the Board of Commissioners, the bid for the leachate pond project was awarded to Landwehr Construction at a cost of \$335,910. Alternative equipment was also to be purchased for the leachate pond in the amount of approximately \$44,000. An aeration system for the pond was approved at a cost of \$15,000. The amount of leachate generated and diverted to the pond in 2005 was 241,356 gallons. This diversion results in a savings to the Commission of approximately \$16,000 in avoided trucking and treatment costs. The savings in costs associated with trucking and treating leachate at a Publicly Owned Treatment Wastewater facility will continue to pay back the cost of constructing the pond and the ancillary equipment for leachate recirculation. The budgeted amount for this project was \$200,000 and, at year-end, \$460,129 had been invested in this capital project.

## **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 Commission's operating budget, and other management tools were used for this analysis.

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

The financial statements include: a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents assets, liabilities, and the net assets both invested in capital assets, net of related debt, and the unrestricted assets of the Commission. The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and also includes depreciation of capital assets. The statement of cash flows presents the cash flows from operating activities, financing activities, capital and related activities, investment activities, and the net cash provided by (used 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 Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

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

## **SUMMARY OF ORGANIZATION AND BUSINESS**

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

Employees belong to the Minnesota Teamsters Public and Law Enforcement Employee's Union, Local No. 320. A new union contract was approved in February 2005 that covers the years 2005, 2006, and 2007. Management employees include three employees who are not part of the union.

## **FINANCIAL ANALYSIS**

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

As can be seen from the table, the total assets decreased \$1,837,107; \$13,133,476 in 2005, down from \$14,970,583 in 2004. The decrease is due to the write-off of obsolete capital assets. Some items were fully depreciated because the Commission has no present use for them, such as the Arens Mill, Theco Screen, Arens Repair Mill and Dryer, loader repairs, and Buhler Hammertmill. The value of the hangar and composting buildings were also decreased to more accurately reflect the value of the actual usage of those buildings.

### Condensed Statement of Net Assets

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Percent (%) Change
<b>Assets</b>				
Current assets	\$ 6,300,817	\$ 6,293,762	\$ 7,055	0.11
Capital assets, net	6,814,653	8,646,106	(1,831,453)	(21.18)
Other assets	18,006	30,715	(12,709)	(41.38)
Total Assets	\$ 13,133,476	\$ 14,970,583	\$ (1,837,107)	(12.27)
<b>Liabilities</b>				
Current liabilities	\$ 408,596	\$ 354,221	\$ 54,375	15.35
Current liabilities payable from restricted assets	1,570,000	1,547,670	22,330	1.44
Noncurrent liabilities	2,961,448	4,273,933	(1,312,485)	(30.71)
Total Liabilities	\$ 4,940,044	\$ 6,175,824	\$ (1,235,780)	(20.01)
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 4,228,058	\$ 4,691,325	\$ (463,267)	(9.87)
Restricted for financial assurance	2,509,977	2,293,242	216,735	9.45
Unrestricted	1,455,397	1,810,192	(354,795)	(19.60)
Total Net Assets	\$ 8,193,432	\$ 8,794,759	\$ (601,327)	(6.84)

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

	Fiscal Year 2005 Actual	Fiscal Year 2005 Budget	Fiscal Year 2004 Actual	Budget Percent (%)	Change Actual Dollar	Actual Percent (%)
Operating revenues	\$ 4,173,775	\$ 4,075,176	\$ 4,224,039	2.42	\$ (50,264)	(1.19)
Nonoperating revenues	204,007	85,010	96,107	139.98	107,900	112.27
Total Revenues	\$ 4,377,782	\$ 4,160,186	\$ 4,320,146	5.23	\$ 57,636	1.33
Operating expenses	\$ 3,432,456	\$ 3,854,661	\$ 3,852,380	(10.95)	\$ (419,924)	(10.90)
Nonoperating expenses	288,065	286,764	318,383	0.45	(30,318)	(9.52)
Total Expenses	\$ 3,720,521	\$ 4,141,425	\$ 4,170,763	(10.16)	\$ (450,242)	(10.80)
Income (loss) before capital contributions	\$ 657,261	\$ 18,761	\$ 149,383	3403.34	\$ 507,878	339.98
Capital contributions	803,769	809,287	953,429	(0.68)	(149,660)	(15.70)
Change in Net Assets	\$ 1,461,030	\$ 828,048	\$ 1,102,812	76.44	\$ 358,218	32.48
Net Assets - January 1	6,732,402	8,794,759	7,691,947	(23.45)	(959,545)	(12.47)
Net Assets - December 31	\$ 8,193,432	\$ 9,622,807	\$ 8,794,759	(14.85)	\$ (601,327)	(6.84)

(Unaudited)

## **Revenues**

The East Central Solid Waste Commission's operating revenues are derived from various sources: mixed municipal solid waste tipping fees, appliance disposal fees, tire disposal fees, mattress disposal fees, and other miscellaneous tipping fees. In 2005, \$2,160 was received from Briquetting Marketing Services, Inc., (BMSI) for lease of the processing building. Other income is mostly comprised of rebates from insurance policies and utility companies. Some compost equipment was sold to Creek Side Composting for \$10,200 for use in their composting facility. Scrap metal that had been stored behind the buildings was sold to Phillips Recycling for \$2,523. Using a sealed bid process, hail-damaged steel was sold for \$815.

Total operating revenues decreased by \$50,264 to \$4,173,775 in 2005, down from \$4,224,039 in 2004. With a tonnage decrease of 937 tons in 2005, revenue associated with municipal solid waste (MSW) decreased by \$64,987. Until November 2005, private customers were charged on a per yard rate instead of by weight, so a scale fee was not charged. Demolition debris was no longer separated from MSW, and the hard to handle category was no longer used. In 2005, 75,183.51 tons were delivered versus 76,120.18 tons in 2004. Contaminated soil was not included in tonnage in 2005, and demolition was not included in tonnage in 2004.

In July 2005, the Board approved a waste reduction venture to begin mattress recycling and to apply for supplemental grant monies for the purchase of two semi-trailers. As an incentive to recycle mattresses, the price was raised to \$12 for non-recycled mattresses and remained at \$8 for mattresses recycled. This program resulted in an increase of \$7,187 to mattress disposal income. Mattress recycling could not commence until October 2005 because of the need to purchase trailers. The grant money was not received until 2006.

Recycling of cathode ray tubes as found in computer monitors and televisions became mandatory on July 1, 2005, at the East Central Solid Waste Commission. This resulted in an increase of \$21,291 to electronics waste income.

Nonoperating revenues increased by \$107,900 in 2005 greatly due to a significant increase in interest rates on deposits.

## **Expenses**

The East Central Solid Waste Commission's 2005 operating expenses decreased by \$419,924. Prior to the adjustment for depreciation expense caused by the write-off of equipment of \$691,234, the operating expenses had actually increased by \$271,310. Reasons for the prior increase were increased cost of recycling electronics and mattresses of \$15,804, increase in wages and benefits of \$100,469 due to contract increases and compensated absences, and a \$19,502 increase in the cost of transporting waste from the transfer stations to the landfill due to annual contract increases. Professional fees increased by \$24,164, greatly because of payments to RW Beck for assistance with Chapter 3 of the Regional Solid Waste Management Plan. Kanabec County signed a new host fee agreement, increasing the cost by \$12,112. Increased

cost of hauling leachate, \$11,206, and a diesel fuel cost increase of \$17,230 can be directly linked to the increase in fuel prices. Engineering costs were reduced by \$22,307 due to engineering costs being directly linked to capital projects whenever possible.

Wages are increased over the amount budgeted because of compensated absences that are required to be accrued at year-end. Compensated absences include severance for the executive director and three full-time union employees who have over five years of service with the Commission. Compensated absences also include amounts that could be paid out for vacation and sick time. The total charged to compensated absences in 2005 was \$66,290. This accrual charge does not change the current year's cash flow.

Nonoperating expenses were less in 2005 because of the finance costs being closer to full amortization. Other professional fees were over the budgeted amount due to hiring a consultant to draft an alternatives analysis to land disposal for the East Central Solid Waste Commission Regional Solid Waste Management Plan.

## **BUDGETARY HIGHLIGHTS**

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

### **Capital Assets**

By the end of fiscal year 2005, the East Central Solid Waste Commission had invested \$25,283,184 in capital assets. Capital projects in 2005 added \$1,096,562 to capital assets. Those capital projects are LFG remediation, hydrogeologic investigation, leachate recirculation, and the pretreatment pond and pump station. An adjustment was made to reduce the value of those assets by \$5,516,287, leaving a balance of \$19,766,897 invested in capital assets.

### **Long-Term Debt**

In prior years, the counties incurred a significant amount of debt through the issuance of bonds with the proceeds used to build a municipal solid waste compost facility. The compost facility was to have been the primary facility serving the disposal needs of the five member counties of the Commission but, because of several problems, the facility closed in 1994. On August 1, 2003, the Commission authorized issuance of \$5,905,000 Taxable Solid Waste Resource Recovery Revenue Refunding Bonds, Series 2003A. The counties included in the joint powers authority guarantee payment of these bonds and are responsible for levying taxes sufficient to pay 105 percent of the bond principal and interest payments in their proper assigned proportion.

## **Changes in Capital Assets**

Total capital assets at December 31, 2005, were \$19,766,897, versus \$24,186,623 in 2004. These assets, after being decreased by accumulated depreciation, provided a net book value of \$6,814,653 in 2005 and \$8,646,106 in 2004.

## **MSW Changes in Tonnage**

Through the month of December 2005, municipal solid waste tonnage hauled to the combination of all three East Central Solid Waste Commission facilities decreased two percent from 2004. This decrease is due to increased competition among contract haulers.

## **ECONOMIC AND OTHER FACTORS**

The Commission considered many factors when setting the fiscal year 2006 budget.

- Under Minnesota planning statutes, updates to the County Solid Waste Management Plans were due to the Minnesota Office of Environmental Assistance. The Commission took on the task of updating those plans as recommended in the Strategic Business Plan, turning five plans into one regional plan. At year-end, the Five County Solid Waste Management Plan was still being reviewed by the Minnesota Pollution Control Agency prior to submitting to the counties for public hearing.
- Because of concern for and public comment on odor issues and safety issues connected with gas migration, the initial landfill gas extraction/destruct system for Phases 1 through 5 was constructed in its entirety in 2005. Initially, the financial plan was to complete portions of the collection system from year to year to preclude a large capital expenditure. A decision was made to construct the complete system to improve odor management and to control the dangerous gas migration.
- In February, the Board approved an Electronic Waste Disposal Policy that included convenient recycling of electronics. This policy bans from the landfill cathode ray tubes found primarily in televisions and computer monitors.
- In order to better understand where the waste is coming from and also to ensure proper payment for any waste that is delivered, driver's license scanners were installed in each of the scale houses.
- Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2005, the budget was based on 74,500 tons of MSW being delivered; actual numbers were 75,183 tons.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

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

## **FINANCIAL STATEMENTS**

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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

**Assets**

**Current assets**

Cash and cash equivalents	\$	2,359,112
Accounts receivable		363,413
Prepaid items		667
Accrued interest receivable		9,866
Assets restricted for debt service account		
Cash		1,065,753
Assets restricted for financial assurance escrow account		
Cash		2,502,006

**Total current assets** **\$ 6,300,817**

**Capital assets**

Less: allowance for depreciation	\$	19,766,897
		(12,952,244)

**Capital assets - net** **\$ 6,814,653**

**Other assets**

Unamortized bond issuance costs	\$	18,006
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**Total Assets** **\$ 13,133,476**

**Liabilities**

**Current liabilities**

Accounts payable	\$	315,816
Salaries payable		64,231
Contracts payable		28,549

**Total current liabilities** **\$ 408,596**

**Current liabilities payable from restricted assets**

Current portion of revenue bonds payable	\$	1,570,000
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**Noncurrent liabilities**

Revenue bonds payable	\$	1,260,000
Less		
Deferred amount on refunding		(241,513)
Unamortized discount		(1,891)
Compensated absences		66,290
Accrued closure and postclosure care		1,878,562

**Total noncurrent liabilities** **\$ 2,961,448**

**Total Liabilities** **\$ 4,940,044**

**Net Assets**

Restricted for financial assurance	\$	2,509,977
Invested in capital assets - net of related debt		4,228,058
Unrestricted		1,455,397

**Total Net Assets** **\$ 8,193,432**

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Operating Revenues</b>	
Charges for services	\$ 4,140,510
Miscellaneous	33,265
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 4,173,775</b>
<b>Operating Expenses</b>	
Administration and overhead	\$ 349,258
Landfill operations	1,191,594
Compost facility operations	54,784
Transfer station operations	932,262
Closure and postclosure care	38,900
Depreciation	865,658
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 3,432,456</b>
<b>Operating Income (Loss)</b>	<b>\$ 741,319</b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental revenue	\$ 32,636
Investment income	171,371
Interest expense	(70,905)
Amortization	(184,524)
Household hazardous waste	(32,636)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (84,058)</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ 657,261</b>
<b>Capital Grants</b>	
Local	803,769
	<hr/>
<b>Change in Net Assets</b>	<b>\$ 1,461,030</b>
<b>Net Assets - January 1 (Note 1.H.)</b>	<b>6,732,402</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 8,193,432</b>

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 4,330,645
Cash paid to suppliers	(1,942,943)
Cash paid to employees and related costs	(482,447)
	<b>\$ 1,905,255</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Intergovernmental	\$ 32,636
Household hazardous waste payments to counties	(32,636)
	<b>\$ -</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	\$ (1,096,561)
Payment of revenue bond principal	(1,540,000)
Interest paid on bonds and installment purchases	(78,575)
Capital contributions	803,769
	<b>\$ (1,911,367)</b>
<b>Cash Flows from Investing Activities</b>	
Interest receipts	\$ 165,249
	<b>\$ 159,136</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	
	<b>\$ 5,767,735</b>
<b>Cash and Cash Equivalents at January 1</b>	
	<b>\$ 5,926,871</b>
<b>Cash and Cash Equivalents at December 31</b>	
	<b>\$ 5,926,871</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Net operating income (loss)	\$ 741,319
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	865,658
Changes in assets and liabilities	
Decrease (increase) in receivables	156,870
Decrease (increase) in prepaid items	1,333
Decrease (increase) in accounts payable	(10,395)
Decrease (increase) in salaries payable	36,221
Decrease (increase) in contracts payable	28,549
Decrease (increase) in compensated absences	46,800
Decrease (increase) in accrued closure and postclosure care	38,900
	<b>\$ 1,905,255</b>

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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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1. Summary of Significant Accounting Policies

The financial reporting policies of the Commission conform to generally accepted accounting principles.

A. Financial Reporting Entity

The East Central Solid Waste Commission is a joint powers authority between Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties, formed under an agreement in 1988, which was entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

The East Central Solid Waste Commission was formed to fulfill the counties' obligation pursuant to Minn. Stat. chs. 400 and 115A to provide for the management and disposal of solid waste in each respective county. It is the intention of the counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous five-county area in planning, management, and implementation of programs that deal with solid waste issues.

The Commission is governed by a Board of Commissioners composed of five members, one voting member from each county. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the county. In the absence of the voting member, the alternate votes.

The Commission is a separate entity independent of the counties that formed it. In accordance with generally accepted accounting principles, the Commission's financial statements are not included in any member county's financial statements. No single member county retains control over the operations or is financially accountable for the Commission.

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,

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

Accounting records are maintained on the accrual basis of accounting under which revenues are recorded when they are earned, and expenses are recorded when the corresponding liabilities are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the Commission has elected to apply only those Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

D. Budgetary Data

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

E. Assets and Liabilities

1. Assets

Cash

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

Investments

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

Accounts Receivable

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

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets and Liabilities

1. Assets (Continued)

Restricted Assets

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

Capital Assets

It is the policy of the Commission to use the half-year convention for calculating the amount of depreciation to claim in the year an asset is purchased or first placed into service. Pursuant to this policy, all assets shall have a half year's worth of depreciation applied to them in the year the asset is purchased or first placed into service, regardless of the date when said asset is purchased or first placed into service. Capital assets are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for office furniture and equipment, 3 to 20 years for the landfill, 7 to 20 years for plant and equipment, and 5 to 20 years for transfer stations.

In accordance with the vote of the Board of the East Central Solid Waste Commission on November 30, 1999, and pursuant to Resolution No. 1-99, it is the policy of the Commission to capitalize tangible capital assets greater than or equal to \$1,000. Assets below this threshold shall be expensed in the year acquired.

The Commission has tagged all tangible capital assets valued at \$100 or more utilizing a numeric inventory control numbering system. On an annual basis, during the first quarter of the year, the Commission conducts a physical inventory of assets.

2. Liabilities

Long-term liabilities consist of bonds payable, compensated absences, installment purchases, and closure and postclosure care costs for the landfill.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets and Liabilities

2. Liabilities (Continued)

The compensated absences liability represents amounts for earned but unpaid vacation, unpaid compensatory time, and severance pay. Unused sick leave is not included as a liability as it does not vest.

F. Revenues and Expenses

1. Revenues

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

Charges for Services

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

Other Revenues

Other revenues, such as material sales (sales of compost and recyclables), gravel sales, 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.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

G. Deferred Charges

Bond insurance, rating fees, and issuance costs are reported as deferred charges in accordance with the Accounting Principles Board's Opinion No. 12. These deferred charges are amortized over the life of the bonds. The deferred charges at December 31, 2005, are as follows:

Bond insurance and rating fees	\$	13,625
Issuance costs		35,095
 Total	 \$	 48,720
 Less: accumulated amortization		 (30,714)
 Net	 \$	 18,006

H. Restatement

The Commission built a solid waste facility in 1991 that is not currently being utilized as designed. GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, required the Commission to revalue the impaired facility for its current use. The facility buildings are being depreciated over an extended 20 years, beginning January 1, 2005, based on their estimated useful life.

Since the facility has never been used as designed, capital assets and net assets as of January 1, 2005, have been restated to report the impairment. The effect on previously reported amounts is as below:

	Capital Assets (Net)	Net Assets
As previously reported, December 31, 2004	\$ 8,646,106	\$ 8,794,759
Restatement		
Decrease in capital assets, net of accumulated depreciation	(2,062,357)	(2,062,357)
Restated, January 1, 2005	\$ 6,583,749	\$ 6,732,402

In addition, several account balances were reclassified for the year ended December 31, 2005, as previously reported. These reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

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

Cash and cash equivalents	\$ 2,359,112
Restricted assets	
Debt service account	1,065,753
Financial assurance escrow account	<u>2,502,006</u>
Total Cash and Cash Equivalents	<u>\$ 5,926,871</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Commission to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better, irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2005, Commission bank deposits were \$2,371,450. The carrying value of these deposits on the Commission's books was \$2,357,712. Minnesota statutes require that all Commission deposits be covered by insurance, surety bond, or collateral.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2005.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the Commission or its agent in the Commission's name	\$ 400,000
Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	1,971,450
Uncollateralized	<u>-</u>
Total	<u>\$ 2,371,450</u>

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

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.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The Commission does not have a policy addressing any of the above-listed risks. The following table presents the Commission's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent of Portfolio	
Mutual Funds				
Wells Fargo U.S. Government Money Market	AAA	S&P	30%	\$ 1,065,753
First American Government Obligation Fund	AAA	Moody's	70%	2,502,006
Total investments				\$ 3,567,759
Deposits				2,357,712
Petty cash				1,400
Total Cash and Investments				\$ 5,926,871

Carrying values of the Commission's investments at December 31, 2005, are:

Current assets		
Cash on deposit at the Commission		
Cash on hand	\$	1,400
Checking		1,019,537
Savings and certificates of deposit		1,338,175
Total unrestricted cash and cash equivalents	\$	2,359,112
Restricted assets		
Cash with fiscal agents		
Mutual funds		
Wells Fargo U.S. Government Money Market Fund	\$	1,065,753
First American Corporate Trust Treasury Fund		2,502,006
Total restricted cash and cash equivalents	\$	3,567,759
Total Cash and Cash Equivalents	\$	5,926,871

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

A summary of capital assets at December 31 follows:

	Balance January 1, 2005 (Restated)	Additions	Deductions	Balance December 31, 2005
Land	\$ 353,463	\$ -	\$ -	\$ 353,463
Buildings	11,579,329	-	-	11,579,329
Equipment	886,980	2,950	-	889,930
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	5,591,223	1,083,281	-	6,674,504
Vehicles	219,485	10,331	-	229,816
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets	\$ 18,670,335	\$ 1,096,562	\$ -	\$ 19,766,897
Less: accumulated depreciation	(12,086,586)	(865,658)	-	(12,952,244)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Capital Assets	\$ 6,583,749	\$ 230,904	\$ -	\$ 6,814,653

B. Liabilities

Long-Term Debt - Bonds

The following is a summary of the long-term bonded debt transactions of the East Central Solid Waste Commission for the year ended December 31, 2005.

Payable - January 1	\$ 4,370,000
Retired	<u>(1,540,000)</u>
Payable December 31	<u>\$ 2,830,000</u>

Bonded debt payable at December 31, 2005, comprises the following issue:

\$5,905,000 East Central Solid Waste Commission Solid Waste Resource Recovery Revenue Refunding Bonds, Series 2003, dated August 1, 2003: serial bonds maturing in amounts ranging from \$1,260,000 to \$1,535,000 each June 1 in the years 2004 to 2007 with interest due each June 1 and December 1 at rates from 1.75 to 2.55 percent.	<u>\$ 2,830,000</u>
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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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2. Detailed Notes

B. Liabilities

Long-Term Debt - Bonds (Continued)

Bond discounts of \$5,119 are being amortized to interest expense over the life of the bonds.

The following is a summary of the annual requirements to retire bonded debt outstanding, including interest of \$64,680, at December 31, 2005.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,570,000	\$ 48,615	\$ 1,618,615
2007	1,260,000	16,065	1,276,065
Total	<u>\$ 2,830,000</u>	<u>\$ 64,680</u>	<u>\$ 2,894,680</u>

On August 1, 2003, the Commission issued \$5,905,000 in Solid Waste Resource Recovery Revenue Refunding Bonds with interest rates of 1.75 percent to 2.55 percent to current refund 1994 and 1997 Solid Waste Resource Recovery Revenue Refunding Bonds. The 1994 bonds would have matured on June 1, 2007. The balance of the outstanding maturities was \$4,790,000, and interest rates were from 4.70 percent to 5.00 percent. The 1997 bonds would have matured on June 1, 2006. The balance of the outstanding maturities was \$975,000, and interest rates were from 4.60 percent to 4.75 percent.

These outstanding maturities were called on October 1, 2003. The current refunding reduced total debt service payments over the next four years by \$266,206. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$258,437.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

Long-Term Debt - Other

Changes in long-term debt other than bonds are summarized below:

	Compensated Absences	Accrued Closure and Postclosure Care
Payable - January 1, 2005	\$ 19,490	\$ 1,839,662
Additions (Deductions)		
Net change in compensated absences	46,800	-
Change in accrual for closure and postclosure care	-	38,900
	\$ 66,290	\$ 1,878,562
Payable - December 31, 2005		

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 \$31,701 at December 31, 2005, is available to employees in the event of illness-related absences, and is not paid to them at termination.

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 \$1,878,562 reported as the accrued closure and postclosure care liability at December 31, 2005,

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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2. Detailed Notes

B. Liabilities

Landfill Closure and Postclosure Care Costs (Continued)

represents the cumulative amount reported to date based on the use of 73.4 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of \$679,813 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Commission's current permit expires September 17, 2009.

The Commission is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Commission is in compliance with these requirements and, at December 31, 2005, an escrow balance of \$2,502,006 is held for these purposes. The financial assurance escrow account is reported as a restricted asset on the balance sheet. The Commission expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the East Central Solid Waste Commission are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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3. Pension Plans

A. Plan Description (Continued)

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://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.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investments of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. The Commission is required to contribute the following percentages of annual covered payroll:

In 2005

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

In 2006

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

The Commission's contributions for the years ending December 31, 2005, 2004, and 2003, were \$19,952, \$18,921, and \$16,886, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Commission has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. The Commission purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

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.

B. Financial Condition

The Commission is required to deposit with the fiscal agent one-twelfth of its annual bond and interest expense each month. In 2005, the Commission estimated that it would be able to cover the cost of operations, but its debt service requirements would leave it with a cash shortfall. During 2005, the member counties contributed a total of \$803,769 to the Commission to make debt service payments when due. The Commission has indicated that the counties will again need to make cash contributions for debt service in 2006. The 2006 estimated cash shortfall is \$761,588. Currently, the Commission evaluates its cash needs annually and, if a determination is made that the participating counties need to make contributions, they are assessed according to their proportionate share.



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**EAST CENTRAL SOLID WASTE COMMISSION  
MORA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

05-1 Segregation of Duties

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

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

Client's Response:

*The East Central Solid Waste Commission's management is aware that segregation of accounting functions is not possible because of limited personnel. In 2005, the Board asked for added reporting to show total debits and credits to all cash accounts monthly. The East Central Solid Waste Commission will also continue to hire an outside accountant to review journal entries and bank reconciliations.*

05-2 Contract Change Order Approval

Two of the four Leachate Pond project change orders did not have approved change orders on file. Board policy requires all change orders over \$5,000 be approved by the executive director and Board chair. Change orders over \$10,000 need to be approved by the Board, chair, and executive director.

We recommend the East Central Solid Waste Commission have all change orders approved according to Board policy and kept on file.

Client's Response:

*The East Central Solid Waste Commission's management will have all change orders approved according to the Board policy and kept on file.*



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Commissioners  
East Central Solid Waste Commission

We have audited the financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2005, and have issued our report thereon dated August 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The management of the East Central Solid Waste Commission is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the East Central Solid Waste Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable

conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the East Central Solid Waste Commission complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: August 29, 2006