

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2006

## **Description of the Office of the State Auditor**

The mission of the State Auditor's Office 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Year Ended December 31, 2006**



**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  
2006

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Commissioners			
Alan Hancock	Chair	Pine	December 31, 2006
Dennis McNally	Vice Chair	Kanabec	December 31, 2006
Robert Hoefert	Treasurer	Mille Lacs	December 31, 2006
George Larson	Member	Isanti	December 31, 2006
Bob Gustafson	Member	Chisago	December 31, 2006
Executive Director			
Eugene Kramer			

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
East Central Solid Waste Commission

We have audited the accompanying financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Central Solid Waste Commission as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 25, 2007

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(Unaudited)**

**FINANCIAL HIGHLIGHTS**

- In 2006, several projects began in anticipation for the upcoming landfill expansion project. It is estimated that, in 2009, the construction of Phase 6A will begin. Trees were harvested from the upcoming Phase 7 cell area in order to make way for stockpiling dirt close to the Phase 6 site. Nelson Forest Products paid \$4,500 to harvest the trees. The budget was amended to use \$708,147 from the Operating Contingency Fund for the Aggregate Mining Project. The Aggregate Mining Contract was awarded to Craig Bjorklund and Johnson Crushing at a cost of \$708,147. At the end of the year, there was still a portion of that contract to be completed with the amount paid towards the project being \$612,656. A hydrogeologic investigation including Phases 7 through 10 was completed in 2006, with \$130,057 invested in 2006. Expansion permitting began and will continue through 2008; the 2006 costs were \$36,619.
- The Commission sent new hauler contracts to the commercial haulers commencing January 1, 2008. Contract haulers could take advantage of an additional \$5 rebate beginning January 1, 2007, if a signed contract was returned in December 2006. All the present contract haulers took advantage of this opportunity, and one additional hauler also signed the new contract.
- In 2006, the Municipal Solid Waste (MSW) tonnage from all sources was 74,911.74, of which 398.11 tons was demolition that was taken in at a reduced price. The estimated tonnage budgeted for 2006 was 74,500 tons. MSW tonnage in 2005 was 271.77 tons greater than 2006, with 2005's total being 75,183.51 tons.
- In 2006, a permanent burn site opened at the Cambridge Transfer Station bringing in \$716 in revenue. The burn site was constructed by Leaf Construction, at a cost of \$18,860. Residential brush is accepted at the site for a charge of \$5 for a small load and \$10 for a large load. Commercial loads of brush are charged at a rate of \$3 per yard.

## **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 ECSWC 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 detailed between invested in capital assets, net of related debt, restricted for financial assurance, 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), two transfer stations (one located near Cambridge in Isanti Township, Isanti County, and the other located near Hinckley in Mission Creek Township, Pine County) and an inactive compost facility (located adjacent to the municipal solid waste landfill).

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 increased \$150,646; \$13,284,122 in 2006, up from \$13,133,476 in 2005.

### Condensed Statement of Net Assets

	2006	2005	Change	
			Dollar	Percent (%)
<b>Assets</b>				
Current assets	\$ 3,772,321	\$ 3,798,811	\$ (26,490)	0.70
Capital assets - net	6,840,998	6,814,653	26,345	0.39
Other assets	<u>2,670,803</u>	<u>2,520,012</u>	<u>150,791</u>	5.98
<b>Total Assets</b>	<u>\$ 13,284,122</u>	<u>\$ 13,133,476</u>	<u>\$ 150,646</u>	1.15
<b>Liabilities</b>				
Current liabilities	\$ 412,795	\$ 408,596	\$ 4,199	1.03
Current liabilities payable from restricted assets	1,188,411	1,570,000	(381,589)	(24.31)
Noncurrent liabilities	<u>1,998,422</u>	<u>2,961,448</u>	<u>(963,026)</u>	(32.52)
<b>Total Liabilities</b>	<u>\$ 3,599,628</u>	<u>\$ 4,940,044</u>	<u>\$ (1,340,416)</u>	(27.13)
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 5,652,587	\$ 4,228,058	\$ 1,424,529	33.69
Restricted for financial assurance	750,620	2,509,977	(1,759,357)	(70.09)
Unrestricted	<u>3,281,287</u>	<u>1,455,397</u>	<u>1,825,890</u>	125.46
<b>Total Net Assets</b>	<u>\$ 9,684,494</u>	<u>\$ 8,193,432</u>	<u>\$ 1,491,062</u>	18.20

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

	Fiscal Year	Fiscal Year	Fiscal Year	Variance	Change in Actual	
	2006 Actual	2006 Budget	2005 Actual	Actual to Budget (%)	2005 to 2006 Dollar	Percent (%)
<b>Revenues</b>						
Operating revenues	\$ 4,162,578	\$ 4,061,166	\$ 4,173,775	2.50	\$ (11,197)	(0.27)
Nonoperating revenues	<u>291,685</u>	<u>170,000</u>	<u>204,007</u>	71.58	<u>87,678</u>	42.98
Total Revenues	<u>\$ 4,454,263</u>	<u>\$ 4,231,166</u>	<u>\$ 4,377,782</u>	5.27	<u>\$ 76,481</u>	1.75
<b>Expenses</b>						
Operating expenses	\$ 3,465,438	\$ 4,220,270	\$ 3,432,456	17.89	\$ 32,982	0.96
Nonoperating expenses	<u>259,351</u>	<u>261,804</u>	<u>288,065</u>	(0.94)	<u>(28,714)</u>	(9.97)
Total Expenses	<u>\$ 3,724,789</u>	<u>\$ 4,482,074</u>	<u>\$ 3,720,521</u>	16.90	<u>\$ 4,268</u>	0.11
<b>Income (Loss) before Capital Contributions</b>						
Contributions	\$ 729,474	\$ (250,908)	\$ 657,261	(390.73)	\$ 72,213	10.99
Capital contributions	<u>761,588</u>	<u>761,588</u>	<u>803,769</u>	-	<u>(42,181)</u>	(5.25)
Change in Net Assets	\$ 1,491,062	\$ 510,680	\$ 1,461,030	191.98	\$ 30,032	2.06
Net Assets - January 1	<u>8,193,432</u>	<u>8,193,432</u>	<u>6,732,402</u>	-	<u>1,461,030</u>	21.70
Net Assets - December 31	<u>\$ 9,684,494</u>	<u>\$ 8,704,112</u>	<u>\$ 8,193,432</u>	11.26	<u>\$ 1,491,062</u>	18.20

### Revenues

The ECSWC operating revenues are derived from various sources: mixed municipal solid waste tipping fees, appliance disposal fees, electronics recycling fees, tire disposal fees, mattress disposal fees, and other miscellaneous tipping fees. In 2006, \$2,160 was received from Briquetting Marketing Services Inc., for lease of the processing building. Other income is mostly comprised of rebates from insurance policies and utility companies. Other items included in other income are grant money used to purchase a mattress trailer for \$5,000, computer rebates, reimbursement from Mille Lacs County for a mattress trailer the Commission purchased for them for \$6,431, and \$4,500 for the sale of timber off the site of future landfill expansion.

Operating revenues from charges for services decreased by \$11,197 to \$4,162,578 in 2006, down from \$4,173,755 in 2005. Two items that contributed to the decrease were: a 272-ton decrease in MSW and appliance recycling income being down \$10,019 from 2005. Private customers were charged tipping fees by weight with a scale fee added instead of by the yard as was done in 2005. During the budget process, it was anticipated that there would be a decrease in the amount of MSW in 2006, so the tipping fee revenue was actually higher than the budget amount. Some additional unexpected revenue was realized with contaminated soil income. During budget time, it was not planned that all private customers would be charged by weight instead of by the yard, so the scale fee income was much greater than was budgeted.

Nonoperating revenues increased by \$87,678 in 2006 due to a significant increase in interest rates on deposits. Investment earnings were budgeted for \$90,000, but the actual amount earned was \$155,534.

## **Expenses**

Operating expenses were slightly higher in 2006 than in 2005. Appliance recycling costs were down while electronics and mattress recycling costs increased. The recycling costs are directly related to the revenue received from these items. Appliance recycling decreased significantly due to the various county and township clean-ups being held in the five-county area. The landfill repairs account increased by \$88,884 over 2005; some of these costs assisted with providing a reduction on leachate hauling of \$58,873. Cost of engineering services and legal fees increased over 2005 and also exceeded the budgeted amounts. Employee wages and overtime costs decreased \$34,832. The cost of fuel for vehicles and equipment increased by \$14,239.

Because of reclassification of assets and the reduction in value of several assets in 2005, depreciation expense was \$747,295 less than budgeted.

Nonoperating expenses were less in 2006 because of the finance costs being closer to full amortization. The Household Hazardous Waste payment that is passed through to the counties was \$6,324 less than in 2005.

## **BUDGETARY HIGHLIGHTS**

The ECSWC 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 ECSWC Board for review. Necessary changes are made to the draft budget before the Board approves the final budget. The ECSWC operating budget remains in effect the entire year, but individual items in that budget may be revised. The ECSWC Board is presented with detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

## **Capital Assets**

By the end of fiscal year 2006, the ECSWC had invested value of \$20,618,955 in capital assets. Capital projects in 2006 added \$852,058 to capital assets. Those capital projects were LFG remediation, hydrogeologic investigation, final payment on the pretreatment pond and pump station, gravel mining of Phase 6 area, expansion permitting of the landfill, Cambridge burn site, and purchase of recycling containers and a pickup.

## **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. These bonds will be paid in full June 1, 2007.

## **Changes in Capital Assets**

Total capital assets at year-end 2006 were \$20,618,955 versus \$19,766,897 in 2005. These assets, after being decreased by accumulated depreciation, provided a net book value of \$6,840,998 in 2006 and \$6,814,653 in 2005.

## **MSW Changes in Tonnage**

Through the month of December 2006, municipal solid waste tonnage hauled to the combination of all three ECSWC facilities decreased 0.4 percent from 2005, or 271 tons. This decrease is very insignificant and could just be due to hauling dates.

## **ECONOMIC AND OTHER FACTORS**

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

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2006, the budget was based on 74,500 tons of MSW being delivered; actual numbers were 74,912 tons.

## **CONTACTING THE ECSWC FINANCIAL MANAGEMENT**

This financial report is designed to provide our five member counties, citizens of the five counties, commercial customers, and creditors with a general overview of the 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, 2006**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 2,577,991
Accounts receivable	323,453
Prepaid items	1,600
Accrued interest receivable	13,284
Assets restricted for debt service account	
Cash	<u>855,993</u>

**Total current assets** **\$ 3,772,321**

**Noncurrent assets**

Assets restricted for financial assurance escrow account	
Cash	<u>\$ 2,665,507</u>
Capital assets	\$ 20,618,955
Less: allowance for depreciation	<u>(13,777,957)</u>

**Capital assets - net** **\$ 6,840,998**

Other assets	
Unamortized bond issuance costs	<u>\$ 5,296</u>

**Total noncurrent assets** **\$ 9,511,801**

**Total Assets** **\$ 13,284,122**

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

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

**Liabilities**

**Current liabilities - payable from current assets**

Accounts payable	\$ 299,278
Salaries payable	54,653
Contracts payable	58,864
	<hr/>

**Total current liabilities - payable from current assets** **\$ 412,795**

**Current liabilities - payable from restricted assets**

Current portion of revenue bonds payable	\$ 1,260,000
Less	
Deferred amount on refunding	(71,033)
Unamortized discount	(556)
	<hr/>

**Total current liabilities - payable from restricted assets** **\$ 1,188,411**

**Total current liabilities** **\$ 1,601,206**

**Noncurrent liabilities**

Compensated absences	\$ 72,472
Accrued closure and postclosure care	1,925,950
	<hr/>

**Total noncurrent liabilities** **\$ 1,998,422**

**Total Liabilities** **\$ 3,599,628**

**Net Assets**

Invested in capital assets - net of related debt	\$ 5,652,587
Restricted for financial assurance	750,620
Unrestricted	3,281,287
	<hr/>

**Total Net Assets** **\$ 9,684,494**

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

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Operating Revenues</b>	
Charges for services	\$ 4,122,845
Miscellaneous	39,733
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 4,162,578</b>
<b>Operating Expenses</b>	
Administration and overhead	\$ 310,328
Landfill operations	1,340,756
Compost facility operations	38,630
Transfer station operations	902,623
Closure and postclosure care	47,388
Depreciation	825,713
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 3,465,438</b>
<b>Operating Income (Loss)</b>	<b>\$ 697,140</b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental revenue	\$ 26,212
Investment income	265,473
Interest expense	(48,615)
Amortization	(184,524)
Household hazardous waste	(26,212)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 32,334</b>
<b>Net Income (Loss) Before Capital Contributions</b>	<b>\$ 729,474</b>
<b>Capital grants</b>	
Local	761,588
	<hr/>
<b>Change in Net Assets</b>	<b>\$ 1,491,062</b>
<b>Net Assets - January 1</b>	<b>8,193,432</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 9,684,494</b>

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

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 4,202,538
Cash paid to suppliers	(2,041,819)
Cash paid to employees and related costs	(541,070)
	<b>\$ 1,619,649</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Intergovernmental	\$ 26,212
Household hazardous waste payments to counties	(26,212)
	<b>\$ -</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition and construction of capital assets	\$ (852,058)
Payment of revenue bond principal	(1,570,000)
Interest paid on bonds and installment purchases	(48,615)
Capital contributions	761,588
	<b>\$ (1,709,085)</b>
<b>Cash Flows from Investing Activities</b>	
Interest receipts	\$ 262,056
	<b>\$ 172,620</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	
	<b>\$ 5,926,871</b>
<b>Cash and Cash Equivalents at January 1</b>	
	<b>\$ 6,099,491</b>
<b>Cash and Cash Equivalents at December 31</b>	
	<b>\$ 6,099,491</b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Net operating income (loss)	\$ 697,140
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	825,713
Changes in assets and liabilities	
Decrease (increase) in receivables	39,960
Decrease (increase) in prepaid items	(933)
Decrease (increase) in accounts payable	(16,538)
Decrease (increase) in salaries payable	(9,578)
Decrease (increase) in contracts payable	30,315
Decrease (increase) in compensated absences	6,182
Decrease (increase) in accrued closure and postclosure care	47,388
	<b>\$ 1,619,649</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

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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, 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. Employees' unused sick leave that has reached 800 hours is included as a liability; individual employees' sick leave under 800 hours 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, 2006, are as follows:

Bond insurance and rating fees	\$ 13,625
Issuance costs	<u>35,095</u>
Total	\$ 48,720
Less: accumulated amortization	<u>(43,424)</u>
Net	<u>\$ 5,296</u>

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	\$ 2,577,991
Restricted assets	
Debt service account	855,993
Financial assurance escrow account	<u>2,665,507</u>
Total Cash and Cash Equivalents	<u>\$ 6,099,491</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.

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2006, Commission bank deposits were \$2,548,275. The carrying value of these deposits on the Commission's books was \$2,576,591. Minnesota statutes require that all Commission deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2006.

	<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	2,148,275
Uncollateralized	<u>-</u>
Total	<u>\$ 2,548,275</u>

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

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;
- (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.

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

The Commission does not have a policy addressing any of the above-listed risks. The following table presents the Commission's deposit and investment balances at December 31, 2006, 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%	\$ 855,993
First American Government Obligation Fund	AAA	Moody's	70%	2,665,507
Total investments				\$ 3,521,500
Deposits				2,576,591
Petty cash				1,400
Total Cash and Investments				\$ 6,099,491

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Carrying values of the Commission's investments at December 31, 2006, are:

Current assets		
Cash on deposit at the Commission		
Cash on hand	\$	1,400
Checking		1,509,199
Savings and certificates of deposit		<u>1,067,392</u>
Total unrestricted cash and cash equivalents	\$	<u>2,577,991</u>
Restricted assets		
Cash with fiscal agents		
Mutual funds		
Wells Fargo U.S. Government Money Market Fund	\$	855,993
First American Corporate Trust Treasury Fund		<u>2,665,507</u>
Total restricted cash and cash equivalents	\$	<u>3,521,500</u>
Total Cash and Cash Equivalents	\$	<u><u>6,099,491</u></u>

2. Capital Assets

A summary of capital assets at December 31, 2006, follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Land	\$ 353,463	\$ 18,350	\$ -	\$ 371,813
Buildings	11,579,329	-	-	11,579,329
Equipment	889,930	17,577	-	907,507
Furniture and fixtures	39,855	-	-	39,855
Improvements other than buildings	6,674,504	797,650	-	7,472,154
Vehicles	<u>229,816</u>	<u>18,481</u>	<u>-</u>	<u>248,297</u>
Total capital assets	\$ 19,766,897	\$ 852,058	\$ -	\$ 20,618,955
Less: accumulated depreciation	<u>(12,952,244)</u>	<u>(825,713)</u>	<u>-</u>	<u>(13,777,957)</u>
Net Capital Assets	<u>\$ 6,814,653</u>	<u>\$ 26,345</u>	<u>\$ -</u>	<u>\$ 6,840,998</u>

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

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2. Detailed Notes (Continued)

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, 2006.

Payable - January 1	\$	2,830,000
Retired		<u>(1,570,000)</u>
Payable - December 31	\$	<u>1,260,000</u>

Bonded debt payable at December 31, 2006, 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>1,260,000</u>
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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 \$16,065, at December 31, 2006.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 1,260,000</u>	<u>\$ 16,065</u>	<u>\$ 1,276,065</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.

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

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2. Detailed Notes

B. Liabilities

Long-Term Debt - Bonds (Continued)

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.

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

	Compensated Absences	Accrued Closure and Postclosure Care
Payable - January 1, 2006	\$ 66,290	\$ 1,878,562
Additions (Deductions)		
Net change in compensated absences	6,182	-
Change in accrual for closure and postclosure care	-	47,388
	\$ 72,472	\$ 1,925,950

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 \$35,470 at December 31, 2006, is available to employees in the event of illness-related absences, and is not paid to them at termination unless the employee has accrued 800 hours.

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

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

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2. Detailed Notes

B. Liabilities

Landfill Closure and Postclosure Care Costs (Continued)

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 \$1,925,950 reported as the accrued closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 76.7 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of \$583,454 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. 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, 2006, an escrow balance of \$2,665,507 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 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.

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

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3. Pension Plans

A. Plan Description (Continued)

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.

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 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 investment 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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Commission is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Commission's contributions for the years ending December 31, 2006, 2005, and 2004, were \$22,626, \$19,952, and \$18,921, 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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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 2006, 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 2006, the member counties contributed a total of \$761,588 to the Commission to make debt service payments when due. The Commission has indicated that the counties will not need to make cash contributions for debt service in 2007. 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, 2006**

**FINDINGS RELATED TO THE FINANCIAL STATEMENT**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-1 Segregation of Duties

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

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:

*East Central Solid Waste Commission's management is aware of the lack of segregation of accounting functions. An outside CPA is used to do a monthly review of journal entries and bank statements. The clerk-typist assists with accounts receivable and reviews all deposits that are made by the fiscal officer. The weighmasters prepare deposit slips for money that is collected from the scalehouses. That deposit is put in a locked bag and then deposited at the bank by the fiscal officer. The fiscal officer does not have a key to open the bag.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Contract Change Order Approval (05-2)**

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.

### **Resolution**

The Commission did not have change orders on any projects for the year ended December 31, 2006.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **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 East Central Solid Waste Commission as of and for the year ended December 31, 2006, and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Central Solid Waste Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 the Commission'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 the

Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control over financial reporting. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 05-1 to be a significant deficiency in internal control over financial reporting.

### 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, East Central Solid Waste Commission complied with the material terms and conditions of applicable legal provisions.

East Central Solid Waste Commission's written response to the significant deficiency identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners and management and others within East Central Solid Waste Commission 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

*Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 25, 2007