

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

EAST CENTRAL SOLID WASTE COMMISSION
MORA, MINNESOTA

YEARS ENDED DECEMBER 31, 2004 AND 2003

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**

Years Ended December 31, 2004 and 2003



**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
2004

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Commissioners			
Alan Hancock	Chair	Pine	December 31, 2004
Bob Gustafson	Vice Chair	Chisago	December 31, 2004
Dennis McNally	Treasurer	Kanabec	December 31, 2004
George Larson	Member	Isanti	December 31, 2004
Robert Hoefert	Member	Mille Lacs	December 31, 2004
Executive Director			
Eugene Kramer			December 31, 2007

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STATE OF MINNESOTA

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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 basic financial statements of the East Central Solid Waste Commission as of and for the years ended December 31, 2004 and 2003, 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 audits.

We conducted our audits 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 audits provide 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, 2004 and 2003, and the results of its operations and its cash flows for the years 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 Statements No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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: October 3, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

A Kanabec County host fee was signed on September 1, 2004, by and between the East Central Solid Waste Commission (ECSWC) and Kanabec County. Payment was retroactive back to April 1. This new agreement replaced the Kanabec County surcharge of \$3.33 per ton on all mixed municipal solid waste (MMSW) that is placed in the landfill. The new rate is \$4.55 per ton with payment reduced by 12 percent in acknowledgement of Kanabec County waste received. In 2008, an adjustment will be made to the Host Fee increasing it to \$5.00 per ton. An increase was expected during the budget process, but the increase per ton was greater than anticipated. The host fee, along with a 5,605 increase of tons of MMSW being disposed of in the landfill, created an added expense of \$32,290 that was not budgeted.

Two projects began in 2004: Landfill Gas Extraction and Destruction System (LFG) originally budgeted at \$140,000 and the Leachate Recirculation Project originally budgeted for \$275,000. On April 12, 2004, the Commission moved to allow only \$200,000 for the two projects; \$75,000 for the Landfill Gas Extraction and Destruction System and \$125,000 for the Leachate Recirculation Project. Actual amounts spent on the two projects in 2004 were \$119,619 for LFG Remediation and \$203,953 for the Leachate Recirculation Project. Both projects are still in progress to be completed in 2005.

Final payment was made to Volvo Commercial Financial in the amount of \$188,828 for the lease purchase of the Sweeney Bomag compactor on January 22, 2004. The 2004 Budget showed \$74,643 for principal and \$8,701 for interest on the Cash Flow Budget for 2004. This lease-purchase was to have been paid in full in June 2006. The reason for early payment was to save interest charges of 5.65 percent.

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 ECSWC's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the ECSWC'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 comparative statement of net assets; a comparative statement of revenues, expenses, and changes in net assets; a comparative statement of cash flows; and notes to the financial statements. The comparative 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 ECSWC. The comparative 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 comparative 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 for) operating activities. The comparative statement of cash flows presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the ECSWC's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

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

SUMMARY OF ORGANIZATION AND BUSINESS

The East Central Solid Waste Commission was formed through a Joint Powers Agreement in 1988 between the Minnesota counties of Chisago, Isanti, Kanabec, Mille Lacs, and Pine. The Commission owns and operates an integrated solid waste management disposal system consisting of a municipal solid waste landfill (located in Arthur Township in Kanabec County), 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).

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 net assets decreased \$501,641 to \$14,970,583 in 2004, down from \$15,472,224 in 2003. The decrease in total net assets was primarily due to depreciation.

Condensed Statement of Net Assets

	FY2004	FY2003	Change From 2003 To 2004		FY 2002
			Dollar	%	
Assets					
Current assets	\$ 6,293,762	\$ 5,737,993	\$ 555,769	9.69	\$ 5,958,522
Capital assets - net	8,646,106	9,690,806	(1,044,700)	(10.78)	9,993,242
Other assets	<u>30,715</u>	<u>43,425</u>	<u>(12,710)</u>	<u>(29.27)</u>	<u>83,602</u>
Total Assets	<u>\$ 14,970,583</u>	<u>\$ 15,472,224</u>	<u>\$ (501,641)</u>	<u>(3.24)</u>	<u>\$ 16,035,366</u>
Liabilities					
Current liabilities	\$ 354,221	\$ 498,502	\$ (144,281)	(28.94)	\$ 602,589
Current liabilities payable from restricted assets	1,547,670	1,544,909	2,761	0.18	1,388,375
Noncurrent liabilities	<u>4,273,933</u>	<u>5,736,866</u>	<u>(1,462,933)</u>	<u>(25.50)</u>	<u>6,651,967</u>
Total Liabilities	<u>\$ 6,175,824</u>	<u>\$ 7,780,277</u>	<u>\$ (1,604,453)</u>	<u>(20.62)</u>	<u>\$ 8,642,931</u>
Net Assets					
Invested in capital assets, net of related debt	\$ 4,691,325	\$ 4,372,842	\$ 318,483	7.28	\$ 3,574,906
Restricted for financial assurance	2,293,242	2,111,834	181,408	8.59	2,086,804
Unrestricted	<u>1,810,192</u>	<u>1,207,271</u>	<u>602,921</u>	<u>49.94</u>	<u>1,730,725</u>
Total Net Assets	<u>\$ 8,794,759</u>	<u>\$ 7,691,947</u>	<u>\$ 1,102,812</u>	<u>14.34</u>	<u>\$ 7,392,435</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	FY2004	FY2003	Change From 2003 To 2004		FY 2002
			Dollar	%	
Operating revenue	\$ 4,224,039	\$ 3,777,970	\$ 446,069	11.81	\$ 3,510,003
Nonoperating revenue	<u>96,107</u>	<u>347,533</u>	<u>(251,426)</u>	<u>(72.35)</u>	<u>303,286</u>
Total Revenue	<u>\$ 4,320,146</u>	<u>\$ 4,125,503</u>	<u>\$ 194,643</u>	<u>4.72</u>	<u>\$ 3,813,289</u>
Operating expenses	\$ 3,852,380	\$ 4,266,575	\$ (414,195)	(9.71)	\$ 3,555,127
Nonoperating expenses	<u>318,383</u>	<u>541,719</u>	<u>(223,336)</u>	<u>(41.23)</u>	<u>595,163</u>
Total Expenses	<u>\$ 4,170,763</u>	<u>\$ 4,808,294</u>	<u>\$ (637,531)</u>	<u>(13.26)</u>	<u>\$ 4,150,290</u>
Income (loss) before capital contributions	\$ 149,383	\$ (682,791)	\$ 832,174	121.88	\$ (337,001)
Capital contributions	<u>953,429</u>	<u>982,303</u>	<u>(28,874)</u>	<u>(2.94)</u>	<u>1,111,150</u>
Change in Net Assets	\$ 1,102,812	\$ 299,512	\$ 803,300	268.20	\$ 774,149
Net Assets - January 1	<u>7,691,947</u>	<u>7,392,435</u>	<u>299,512</u>	<u>4.05</u>	<u>6,618,286</u>
Net Assets - December 31	<u>\$ 8,794,759</u>	<u>\$ 7,691,947</u>	<u>\$ 1,102,812</u>	<u>14.34</u>	<u>\$ 7,392,435</u>

**Condensed Budgetary Statements of
Revenues, Expenses, and Changes in Net Assets**

	Fiscal Year 2004 Actual	Fiscal Year 2004 Budget	2004 Actual to Budget Variance	2003 to 2004 Budget % Change	Fiscal Year 2003 Actual
Operating revenues	\$ 4,224,039	\$ 4,001,740	\$ 222,299	5.56	\$ 3,777,970
Nonoperating revenues	96,107	75,000	21,107	28.14	347,533
Total Revenues	\$ 4,320,146	\$ 4,076,740	\$ 243,406	5.97	\$ 4,125,503
Operating expenses	\$ 3,852,380	\$ 4,021,900	\$ (169,520)	(4.21)	\$ 4,266,575
Nonoperating expenses	318,383	-	318,383	100.00	541,719
Total Expenses	\$ 4,170,763	\$ 4,021,900	\$ 148,863	3.70	\$ 4,808,294
Income (loss) before capital contributions	\$ 149,383	\$ 54,840	\$ 94,543	172.40	\$ (682,791)
Capital contributions	953,429	926,581	26,848	2.90	982,303
Change in Net Assets	\$ 1,102,812	\$ 981,421	\$ 121,391	12.37	\$ 299,512
Net Assets-January 1	7,691,947	9,690,806	(1,998,859)	(20.63)	7,392,435
Net Assets-December 31	<u>\$ 8,794,759</u>	<u>\$ 10,672,227</u>	<u>\$ (1,877,468)</u>	(17.59)	<u>\$ 7,691,947</u>

Revenues

The ECSWC'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 2004, \$1,620 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. In August 2004, Minnesota Counties Insurance Trust paid \$24,954 to ECSWC for a claim that was filed for hail damage on the Mora Scale House, Office Building, Hangar Building, Processing Building, and Green Maintenance Building. Repairs were not completed in 2004, and at year-end ECSWC was not sure if it wanted to make repairs on certain buildings. Those repairs were made in 2005.

Operating revenues from charges for services increased by \$446,069 to \$4,224,039 in 2004, up from \$3,777,970 in 2003. One factor contributing to this increased revenue is a four percent increase in tons of MMSW being disposed of at ECSWC facilities. In 2003, 73,331 tons were delivered versus 76,120 delivered in 2004. Another factor is noncommercial haulers were charged at a rate of \$12 per yard in 2003 versus \$52 per ton in previous years.

Expenses

The ECSWC 2004 operating expenses stayed approximately the same as they were in 2003 except for an \$84,937 increase in wages due to changes in position and contract increases, a \$33,876 increase in the cost of transporting waste from the transfer stations to the landfill due to

increased tonnage and annual contract increases, and a \$22,254 increase in equipment repairs. Engineering costs were reduced by \$79,720 because engineering costs were more closely associated with capital projects in 2004 instead of being expensed.

Nonoperating expenses were less in 2004 because of the expenses associated with the strategic planning process in 2003, such as a reduction in other professional fees of \$106,255.

Expenses based on tons of MMSW being delivered to the landfill were up such as the hauler rebate expense, Kanabec County host fee, Arthur Township host fee, and transfer station contractor expenses resulting in an increase of \$66,942 in expenses.

The reduction in the cost of financing because of the refunding of the bonds in 2003 amounted to a reduction in interest expense of \$80,741. The ECSWC also decided to pay off the lease early on the Sweeney Bomag compactor, which amounted to a \$13,038 reduction in interest expense from the previous year.

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's 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 2004, the ECSWC had invested \$24,186,623 in capital assets. Capital projects that began in 2004 added \$333,980 to capital assets. Those capital projects are LFG Remediation, Hydrogeologic Investigation, and the Leachate Recirculation Project. The ECSWC also traded a front-end loader for a backhoe loader, paying an additional \$12,900 for that piece of equipment. All capital expenditures were financed out of operating revenue.

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 properly assigned proportion.

The capital lease on the Sweeney Bomag compactor was paid in full in January 2004.

Changes in Capital Assets

Total capital assets at year ended 2004 were \$24,186,623 versus \$23,758,711 in 2003. These assets after being decreased by accumulated depreciation provided a net book value of \$8,646,106 in 2004 and \$9,690,806 in 2003.

ECSWC wrote off \$21,696 of fully depreciated assets that had no value in 2004. Items that were deleted from the capital asset schedule were mainly obsolete electronics.

MSW Changes in Tonnage

Through the month of December 2004, municipal solid waste tonnage combined with hard-to-handle waste tonnage that was hauled to the combination of all three ECSWC facilities increased four percent over 2003. This increase is due to increased population within the five counties.

ECONOMIC AND OTHER FACTORS

The ECSWC considered many factors when setting the fiscal year 2004 budget. In 2003, the ECSWC completed a strategic business planning process that identified the future goals of the ECSWC. The budget included amounts set aside to meet several of those goals.

Under Minnesota planning statutes, updates to the County Solid Waste Management Plans were due to the Minnesota Office of Environmental Assistance. The ECSWC took on the task of updating those plans as recommended in the Strategic Business Plan and turning five plans into one regional plan. At year-end, the Five-County Solid Waste Management Plan was not yet completed.

With the decision to extend the Joint Powers Agreement and go ahead with landfill expansion, several projects needed to begin in 2004. Money was set aside for capital projects such as a hydrogeologic investigation, permitting, and leachate recirculation.

Because of odor issues and gas migration issues, money was set aside for a landfill gas extraction/destruct system.

Many of the budget items are based on the tonnage of waste that is delivered to the facilities. For 2004, the budget was based on 70,000 tons of MMSW being delivered; actual numbers were 76,120 tons.

CONTACTING THE ECSWC'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 ECSWC'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.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	2004	2003 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,428,754	\$ 2,304,868
Accounts receivable	520,283	333,926
Prepaid items	2,000	3,333
Accrued interest receivable	3,744	1,230
Assets restricted for debt service account		
Cash	1,048,994	983,599
Assets restricted for financial assurance escrow account		
Cash	\$ 2,289,987	\$ 2,111,037
Total Current Assets	\$ 6,293,762	\$ 5,737,993
Capital assets	\$ 24,186,623	\$ 23,758,711
Less: allowance for depreciation	(15,540,517)	(14,067,905)
Capital Assets (net)	\$ 8,646,106	\$ 9,690,806
Other Assets		
Unamortized bond issuance costs	\$ 30,715	\$ 43,425
Total Assets	\$ 14,970,583	\$ 15,472,224

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

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	2004	2003 (Restated)
Liabilities		
Current Liabilities		
Accounts payable	\$ 326,211	\$ 289,460
Salaries payable	28,010	21,632
Accrued interest payable	-	1,217
Contracts payable	-	80,475
Due to other governments	-	31,075
Installment purchases	-	74,643
	\$ 354,221	\$ 498,502
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	\$ 7,670	\$ 9,909
Current portion of revenue bonds payable	1,540,000	1,535,000
	\$ 1,547,670	\$ 1,544,909
Noncurrent Liabilities		
Revenue bonds payable	\$ 2,830,000	\$ 4,370,000
Less:		
Deferred amount on refunding	(411,993)	(582,474)
Unamortized discount	(3,226)	(4,562)
Installment purchases	-	113,214
Compensated absences	19,490	24,668
Accrued closure and postclosure care	1,839,662	1,816,020
	\$ 4,273,933	\$ 5,736,866
Total Liabilities	\$ 6,175,824	\$ 7,780,277
Net Assets		
Invested in capital assets, net of related debt	\$ 4,691,325	\$ 4,372,842
Restricted for financial assurance	2,293,242	2,111,834
Unrestricted	1,810,192	1,207,271
	\$ 8,794,759	\$ 7,691,947

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

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Operating Revenues		
Charges for services	\$ 4,175,768	\$ 3,760,149
Miscellaneous	48,271	17,821
	\$ 4,224,039	\$ 3,777,970
Operating Expenses		
Administration and overhead	\$ 285,709	\$ 347,402
Landfill operations	1,185,000	1,201,002
Compost facility operations	25,305	27,722
Transfer station operations	838,416	810,769
Closure and postclosure care	23,642	469,750
Depreciation	1,494,308	1,409,930
	\$ 3,852,380	\$ 4,266,575
Operating Income (Loss)	\$ 371,659	\$ (488,605)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	\$ 30,863	\$ 270,893
Investment income	65,244	76,640
Interest expense	(102,996)	(297,000)
Amortization	(184,524)	(213,644)
Household hazardous waste	(30,863)	(31,075)
	\$ (222,276)	\$ (194,186)
Net Income (Loss)	\$ 149,383	\$ (682,791)
Capital Grants		
Local	953,429	982,303
Change in Net Assets	\$ 1,102,812	\$ 299,512
Net Assets - January 1 (Note 1.L)	7,691,947	7,392,435
Net Assets - December 31	\$ 8,794,759	\$ 7,691,947

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

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,037,682	\$ 3,741,614
Cash paid to suppliers	(1,902,686)	(2,113,772)
Cash paid to employees and related costs	(472,935)	(445,678)
Net cash provided by (used for) operating activities	\$ 1,662,061	\$ 1,182,164
Cash Flows from Noncapital Financing Activities		
Intergovernmental	\$ 30,863	\$ 270,893
Household hazardous waste payments to counties	(61,938)	-
Net cash provided by (used in) noncapital financing activities	\$ (31,075)	\$ 270,893
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	\$ (449,605)	\$ (1,107,494)
Proceeds from new issue	-	5,899,881
Payment of revenue bond principal	(1,535,000)	(7,125,000)
Bond issue costs	-	(48,720)
Payment on installment purchases	(187,857)	(70,553)
Interest paid on bonds and installment purchases	(106,452)	(315,466)
Capital contributions	953,429	982,303
Net cash provided by (used in) capital and related financing activities	\$ (1,325,485)	\$ (1,785,049)
Cash Flows from Investing Activities		
Interest receipts	\$ 62,730	\$ 77,836
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 368,231	\$ (254,156)
Cash and Cash Equivalents at January 1	5,399,504	5,653,660
Cash and Cash Equivalents at December 31	\$ 5,767,735	\$ 5,399,504
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities		
Net operating income (loss)	\$ 371,659	\$ (488,605)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	1,494,308	1,409,930
Changes in assets and liabilities		
Decrease (increase) in receivables	(186,357)	(36,357)
Decrease (increase) in prepaid items	1,333	1,534
Decrease (increase) in accounts payable	36,751	(137,937)
Decrease (increase) in salaries payable	6,378	(12,407)
Decrease (increase) in contracts payable	(80,475)	11,091
Decrease (increase) in compensated absences	(5,178)	(34,836)
Decrease (increase) in accrued closure and postclosure care	23,642	469,751
Net Cash Provided by (Used for) Operating Activities	\$ 1,662,061	\$ 1,182,164

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

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 entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

Each of the counties is authorized and obligated pursuant to Minn. Stat. chs. 400 and 115A to provide for the management and disposal of solid waste in its 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 methods to deal with solid waste in East Central Minnesota.

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 which 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**

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 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, Liabilities, and Fund Equity Accounts

1. Assets

Investments

All investments are stated at fair value.

Accounts Receivable

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

Restricted Assets

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

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Fund Equity Accounts

1. Assets (Continued)

Capital Assets

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.

2. Liabilities

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

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

F. Revenues and Expenses

1. Revenues

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**

1. Summary of Significant Accounting Policies (Continued)

G. Cash and Cash Equivalents

For the purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased or investments that are readily converted to cash are considered to be cash equivalents.

Cash and cash equivalents include the following balance sheet accounts:

	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$ 2,428,754	\$ 2,304,868
Restricted assets		
Debt service account	1,048,994	983,599
Financial assurance escrow account	<u>2,289,987</u>	<u>2,111,037</u>
Total Cash and Cash Equivalents	<u>\$ 5,767,735</u>	<u>\$ 5,399,504</u>

H. 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, 2004 and 2003, are as follows:

	<u>2004</u>	<u>2003</u>
Bond insurance and rating fees	\$ 13,625	\$ 13,625
Issuance costs	<u>35,095</u>	<u>35,095</u>
Total	\$ 48,720	\$ 48,720
Less: accumulated amortization	<u>(18,005)</u>	<u>(5,295)</u>
Net	<u>\$ 30,715</u>	<u>\$ 43,425</u>

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

1. Summary of Significant Accounting Policies (Continued)

I. Restatement

The Commission has implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the Commission to change the format and content of the financial statements. Comparative data from the previous year have been restated in the new format. This change must be considered when comparing financial statements of this report with those of prior reports.

Implementation of the new standard required the following restatement of fund equity to net assets:

	2003	2002
Retained earnings, as previously reported - December 31	\$ (3,375,940)	\$ (3,852,375)
Contributed capital, as previously reported - December 31	11,067,887	11,244,810
Net Assets (Restated) - January 1	\$ 7,691,947	\$ 7,392,435

Prior to January 1, 2003, capital contributions received were reported in an equity account and were amortized in amounts equal to depreciation recognized on fixed assets financed by capital contributions. GASB Statement 34 requires capital contributions to be reported as other revenues and transfers. Fund equity, in total, is now reported as net assets.

2. Detailed Notes

A. Assets

Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Commission to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all Commission deposits be covered by insurance, surety bond, or collateral.

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

2. Detailed Notes

A. Assets

Deposits and Investments (Continued)

At December 31, 2004, Commission bank deposits were \$2,472,700. The carrying value of these deposits on the Commission's books was \$2,427,454. At December 31, 2003, Commission bank deposits were \$2,353,045. The carrying value of these deposits on the Commission's books was \$2,303,668.

Following is a summary of the December 31 insurance and collateral as it relates to the Commission's custodial credit risk for deposits.

	Bank Balance	
	2004	2003
Covered Deposits		
Insured, or collateralized with securities held by the Commission or its agent in the Commission's name	\$ 300,000	\$ 200,000
Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name	1,762,472	2,153,045
Uncollateralized	410,228	-
Total	\$ 2,472,700	\$ 2,353,045

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**

2. Detailed Notes

A. Assets

Deposits and 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.

Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

- (1) insured or registered, or securities held by the Commission or its agent in the Commission's name;
- (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commission's name; and
- (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Commission's name.

The \$3,338,981 and \$3,094,636 of investments in mutual funds at December 31, 2004 and 2003, respectively, are not required to be classified by custodial credit risk in accordance with generally accepted accounting principles. Fair value is the same as the carrying value for the mutual funds.

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

	2004	2003
Current Assets		
Cash on deposit at the Commission		
Cash on hand	\$ 1,300	\$ 1,200
Checking	1,372,037	1,770,929
Savings and certificates of deposit	1,055,417	532,739
Total unrestricted cash and cash equivalents	\$ 2,428,754	\$ 2,304,868

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

2. Detailed Notes

A. Assets

Deposits and Investments (Continued)

	2004	2003
Restricted Assets		
Cash with fiscal agents		
Mutual funds		
Wells Fargo U.S. Government Money Market Fund	\$ 1,048,994	\$ 983,599
First American Corporate Trust Treasury Fund	2,289,987	2,111,037
Total restricted cash and cash equivalents	\$ 3,338,981	\$ 3,094,636
Total Cash and Cash Equivalents	\$ 5,767,735	\$ 5,399,504

Capital Assets

A summary of capital assets at December 31 follows:

	Balance January 1, 2004	Depreciation Expense	Additions	Deductions	Balance December 31, 2004
Landfill	\$ 6,240,819	\$ -	\$ 358,406	\$ -	\$ 6,599,225
Plant and equipment	15,628,006	-	-	(213)	15,627,793
Office furniture and equipment	58,660	-	-	(18,805)	39,855
Transfer stations	1,831,226	-	91,203	(2,679)	1,919,750
Total	\$ 23,758,711	\$ -	\$ 449,609	\$ (21,697)	\$ 24,186,623
Less: accumulated depreciation	(14,067,905)	(1,494,308)	-	21,696	(15,540,517)
Net	\$ 9,690,806	\$ (1,494,308)	\$ 449,609	\$ (1)	\$ 8,646,106

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

2. Detailed Notes

A. Assets

Capital Assets (Continued)

	Balance January 1, 2003	Depreciation Expense	Additions	Deletions	Balance December 31, 2003
Landfill	\$ 5,168,944	\$ -	\$ 1,071,875	\$ -	\$ 6,240,819
Plant and equipment	15,628,006	-	-	-	15,628,006
Office furniture and equipment	58,660	-	-	-	58,660
Transfer stations	1,788,582	-	42,644	-	1,831,226
Construction in progress	7,025	-	-	(7,025)	-
Total	\$ 22,651,217	\$ -	\$ 1,114,519	\$ (7,025)	\$ 23,758,711
Less: accumulated depreciation	(12,657,975)	(1,409,930)	-	-	(14,067,905)
Net	\$ 9,993,242	\$ (1,409,930)	\$ 1,114,519	\$ (7,025)	\$ 9,690,806

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 years ended December 31, 2004 and 2003.

	Solid Waste Resource Recovery Revenue Refunding Bonds, Series 03
Payable - January 1, 2003	\$ 5,905,000
Retired - 2003	-
Payable - December 31, 2003	\$ 5,905,000
Issued - 2004	-
Retired - 2004	1,535,000
Payable - December 31, 2004	<u>\$ 4,370,000</u>

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

2. Detailed Notes

B. Liabilities

Long-Term Debt - Bonds (Continued)

Bonded debt payable at December 31, 2004, 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. \$ 4,370,000

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

The following is a summary of the annual requirements to retire bonded debt outstanding, including interest of \$143,255, at December 31, 2004.

<u>Year Ended December 31</u>	<u>Solid Waste Resource Recovery Revenue Refunding Bonds, Series 03</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,540,000	\$ 78,575	\$ 1,618,575
2006	1,570,000	48,615	1,618,615
2007	1,260,000	16,065	1,276,065
Total	<u>\$ 4,370,000</u>	<u>\$ 143,255</u>	<u>\$ 4,513,255</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**

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.

Long-Term Debt - Other

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

	Installment Purchase	Compensated Absences	Accrued Closure and Postclosure Care
Payable - January 1, 2003	\$ 258,410	\$ 59,504	\$ 1,346,269
Additions (Deductions)			
Payments	(70,553)	-	-
Net change in compensated absences	-	(34,836)	-
Change in accrual for closure and postclosure care	-	-	469,751
Payable - January 1, 2004	\$ 187,857	\$ 24,668	\$ 1,816,020
Additions (Deductions)			
Payments	(187,857)	-	-
Net change in compensated absences	-	(5,178)	-
Change in accrual for closure and postclosure care	-	-	23,642
Payable - December 31, 2004	\$ -	\$ 19,490	\$ 1,839,662

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.

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

2. Detailed Notes

B. Liabilities

Long-Term Debt - Other

Compensated Absences (Continued)

Unused accumulated vacation is paid to employees upon termination. Unvested sick leave, valued at \$35,691 and \$26,332 at December 31, 2004 and 2003, respectively, 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 Governmental Accounting Standards Board (GASB) Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. The \$1,839,662 reported as the accrued closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of 66.6 percent of the estimated capacity of the currently permitted landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of \$1,246,031 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. 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, 2004, an escrow balance of \$2,289,987 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

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

2. Detailed Notes

B. Liabilities

Long-Term Debt - Other

Landfill Closure and Postclosure Care Costs (Continued)

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.

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

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

3. Pension Plans

A. Plan Description (Continued)

first ten years of service 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 web at 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.

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. The Commission is required to contribute the following percentages of annual covered payroll:

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

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

3. Pension Plans

B. Funding Policy (Continued)

The Commission's contributions for the years ending December 31, 2004, 2003, and 2002, were \$18,921, \$16,886, and \$17,440, 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.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2003 and 2004. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Commission in a method and amount to be determined by the MCIT.

The Property and Casualty Division of the MCIT is self-sustaining, and the Commission pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the Commission in a method and amount to be determined by the 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 2004, the Commission estimated that it would be able to cover the cost of operations, but its debt service requirements would

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

4. Summary of Significant Contingencies and Other Items

B. Financial Condition (Condition)

leave it with a cash shortfall. During 2004, the member counties contributed a total of \$953,429 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 2005. The 2005 estimated cash shortfall is \$939,973. 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 YEARS ENDED DECEMBER 31, 2004 AND 2003**

ITEM FOR CONSIDERATION

Governmental Accounting Standards Board Statements

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A change in the manner or expected duration of use of a capital asset is one indication of impairment. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

The Commission is currently reporting a composting facility with a cost basis of \$14.8 million and accumulated depreciated of \$9.45 million. This facility has not been operational for the past several years.

The Commission should review the new standard to determine if the composting facility is considered impaired. If the facility is determined to be impaired, the capital asset should be reported at its proper value and depreciated over a period of time in accordance with the statement.

GASB Statement 42 is effective for the year ended December 31, 2005, for the Commission.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
East Central Solid Waste Commission

We have audited the basic financial statements of the East Central Solid Waste Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated October 3, 2005.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains 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 and management and is not intended to be, and should not be, used by anyone other than those specified parties.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 3, 2005