

MARK TWAIN SOLID  
WASTE MANAGEMENT DISTRICT  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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To the Board of Directors  
Mark Twain Solid Waste Management District  
Hannibal, Missouri

I have audited the accompanying financial statements of the governmental activities and major fund of Mark Twain Solid Waste Management District (the District) as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Mark Twain Solid Waste Management District as of December 31, 2005, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements.



Charles E. Montgomery, CPA

October 1, 2007

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
GOVERNMENTAL FUNDS –  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

	General Fund
	-----
<b>ASSETS</b>	
Cash – restricted	\$ 2,487
Due from Mark Twain Waste and Energy Corporation	169,640
Receivable – other	61,622
Capital assets net of depreciation	1,331
	-----
Total Assets	235,080
 <b>LIABILITIES</b>	
Notes payable	30,000
Accounts payable	13,689
Accrued interest	701
Deferred grant revenue	64,595
Accrued payroll taxes	2,136
	-----
Total Liabilities	111,121
	-----
NET ASSETS	\$123,959
	=====
Fund Balances Restricted	\$122,628
Investment in Capital Assets	1,331
	-----
Total Net Assets	\$123,959
	=====

See notes to financial statements.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
STATEMENT OF GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund
REVENUES	
State grants	\$326,036
Interest income	203
Total Revenues	326,239
EXPENDITURES	
Program grants	277,164
Director salary	42,700
Advertising	328
Depreciation	266
Office expenses and data processing	2,833
Telephone	6,909
Professional fees	8,110
Travel and meeting expenses	3,115
Other expenses	409
Insurance	607
Payroll taxes	4,832
Total Expenditures	347,273
Excess of Expenditures Over Revenues/Expenses	(21,034)
Fund Balances – January 1, 2005	144,993
Fund Balances – December 31, 2005	\$123,959

See notes to financial statements.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Mark Twain Solid Waste Management District (the District) was formed in April 1992 to develop and implement a plan for the reduction in solid waste. This plan has a goal set by the State to reduce solid waste by forty percent. The District is administered by a local board of directors.

The accounting policies of the District conform to generally accepted accounting principles applicable to governments. The following is a summary of the significant policies.

**Reporting Entity**

The District defines its reporting entity in accordance with the provisions of GASB Statement No. 14, The Financial Reporting Entity (GASB 14). GASB 14 requirements for inclusion of component units are based primarily upon whether the District's governing body has any significant amount of financial accountability for potential component units. The District is financially accountable if it appoints a voting majority of a potential component unit, or there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the District.

Based on these criteria, the District's financial statements include all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the District.

**Fund Accounting**

The District has organized its accounts on the basis of funds. Each fund is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses. District resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the fund financial statements. The District uses only one category of fund, which is the general fund.

**Governmental Fund Types**

Governmental funds are those through which governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of and changes in financial position rather than upon net income. The following is the District's major governmental fund:

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NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**General**

General Fund resources may be used for any District purpose. This fund is used to account for all financial resources except those required to be accounted for in another fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared. For the District, the governmental fund financial statements and government-wide financial statements are the same.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available. The term available is defined as collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For the District, available means expected to be received within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**Net Assets/Fund Balances**

In the government-wide financial statements, net assets are classified as follows:

Unrestricted – the difference between the assets and liabilities that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

A governmental fund may set up “designations” of fund balance to indicate tentative plans for financial resource utilization in a future period. All of the District’s fund balance is unreserved – undesignated.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**Management's Use of Estimates**

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

**Budgetary Data**

The District was not legally required to prepare or adopt a budget and, therefore, a budgetary comparison is not presented.

**Restricted Cash**

Restricted cash consists of cash received for grant purposes, but not yet expended. The cash and interest income is restricted to use under conditions specified in grant documents. All of the District's cash is restricted because it is grant revenue or interest earned on grant revenues, which has a specified purpose.

**2. DUE FROM MARK TWAIN WASTE AND ENERGY CORPORATION**

The District has advanced \$169,640 to or on behalf of Mark Twain Waste and Energy Corporation (MTWEC) as of December 31, 2005. Advanced funds bear no interest and have no stated terms of repayment. For the year 2005 the advances were in the form of expenses paid on behalf of MTWEC. Through the date of this report, the advance has not been repaid and additional advances have been made. These advances do not include a grant of \$107,000 that was paid during 2005.

Management is unable to determine what the impact might be to the District should MTWEC be unable to repay the advances.

MTWEC was created and incorporated by the District to facilitate the waste to energy (WTE) project due to the statutory prohibition against districts owning or operating waste processing facilities. The Boards of the District and MTWEC shared common Board members through 2003. However, as of December 31, 2003, the separate Boards had no members in common.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Since its incorporation, MTWEC has been supported by the District and the two energy customers for the WTE facility, Hercules Incorporated and Dyno Nobel. However, the project has been in development since 1996 and there have been many times when funding from the energy customers has been exhausted and MTWEC has turned to the District to help sustain the momentum of the project. These funding requests became more important since the District began guaranteeing the operating loans for MTWEC (Note 3). As a guarantor, the District decided to not let any interest or principal payments lapse.

While there are no official instruments executed to collect from MTWEC, there is an understanding between the governing Boards of both entities that once the construction financing is completed for the WTE facility, MTWEC will repay the guaranteed bank loans and the operating funds that have been advanced by the District, as well as any grant funds awarded.

Management, with the approval of the Missouri Department of Natural Resources Solid Waste Management Program, has established a debt service line item in the District's annual operating budget of \$50,000. In the event that MTWEC were to default on the guaranteed loans, the District would negotiate the repayment of the guaranteed loans with the banks, to begin in the next year's operations funding. The \$50,000 annual debt service line item would be used for the principal and interest payments needed to repay the loans. Once the loans are repaid, the debt service line item would not be needed and the amount would be redirected to operations or grant funding.

**3. GUARANTEE OF INDEBTEDNESS OF OTHER ENTITY**

As of December 31, 2005, the District is contingently liable as guarantor with respect to \$220,150 of indebtedness of the Mark Twain Waste and Energy Corporation. On August 18, 2005, the District guaranteed a third loan in the amount of \$110,050. The term of the guarantee has been extended through the date of this report. At any time through that date, should the Mark Twain Waste and Energy Corporation be delinquent on its debt payments, the District will be obligated to perform under the guarantee by primarily making the required payments, including late fees and penalties. The maximum potential amount of future payments that the District is required to make under the guarantee is \$220,150 plus interest and any applicable late fees.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**4. MISSOURI DEPARTMENT OF NATURAL RESOURCES GRANTS**

**District Grants**

The District has been awarded annual grants from the local funds collected by MDNR that were generated from the tonnage fees imposed on landfills and transfer stations within the District's solid waste management region. These grants are passed-through from the District to recipients who are engaged in various waste reductions, education, recycling, composting and market development activities related to achieving Missouri's waste reduction goals.

Revenue derived from MDNR grant allocations accounts for 99.9% of total revenue.

**Debt Service Grant**

During 2005, the District requested and received a \$50,000 grant from MDNR to assist with the guarantee of indebtedness of MTWEC. The agreement that the District signed required the funds to be deposited with the financial institution to secure the guarantee. The District instead deposited the money into their accounts and expended the funds on District business. This places the District in violation of this grant agreement.

**5. RECEIVABLES - OTHER**

Receivables other in the amount of \$61,622 represents payments made to the District's Executive Director in excess of the contracts between the District and the Director in 2004 and 2005. The District's Board was not aware of these payments and is waiting for the audit of the 2006 fiscal year to be completed before deciding on a course of action. At this time a total amount is unknown. It is also uncertain as to whether any of these funds can be recovered.

**6. CAPITAL ASSETS**

Capital assets consist of computer equipment. This equipment is being depreciated using the straight line method over a seven year useful life.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**7. NOTE PAYABLE**

In March 2001, \$50,000 was loaned to MTWEC by UMB Bank of Monroe City, Missouri. The loan was drawn up with the District as the borrower and not a guarantor as the District believed. Prior to January 1, 2004 the loan was paid down to \$30,000. As of December 31, 2005 the District was liable for \$30,000. The loan is a demand loan and had been extended through September 10, 2007. On September 11, 2007, the Bank issued a demand that payment be made. The District is currently negotiating an extension.

Note payable balance due at December 31, 2005 is \$30,000.

**8. UNDER FUNDED GRANT OBLIGATIONS/DEFERRED REVENUE**

As of December 31, 2005, the District had obligations of \$77,353 outstanding on 2004 and 2005 grants. Of this amount \$12,758 was requested prior to December 31, 2005 and was paid in January 2006. This amount is included in accounts payable. The balance of \$64,595 had not been requested as of December 31, 2005. This amount is reported on the Balance Sheet as Deferred Grant Revenue. The following is the amount of under funded grant obligations as of December 31, 2005.

Outstanding grant obligations	\$77,353
Cash balances	2,487
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Under funded obligations	\$74,866
	=====

**9. DISTRICT'S ELIGIBLE AREA**

The following counties comprise the District's eligible area for grants: Macon, Marion, Monroe, Pike, Ralls, Randolph and Shelby.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT  
SCHEDULE OF OBLIGATED GRANTS  
AS OF DECEMBER 31, 2005

Grantee	Grant Number	Award Amount	Carryover From 2004	Funded In 2005	Unfunded Obligation	
City of Macon, MO	2004-102	N/A	375	375	-0-	
Holliday C-2 School	2004-104	N/A	3,000	3,000	-0-	
Department of Corrections	2004-105	N/A	61,600	40,600	21,000	
City of Paris, MO	2004-106	N/A	20,000	20,000	-0-	
Continental Cement Co.	2005-108	19,884	-0-	16,901	2,983	
Kan-Man Metal Recycling	2005-109	8,500	-0-	7,225	1,275	
City of Macon	2005-110	3,000	-0-	2,550	450	
Monroe City High School	2005-111	14,893	-0-	12,705	2,188	
Missouri Bio-Fuels, LLC	2005-112	77,000	-0-	48,442	28,558	
City of Paris	2005-113	20,000	-0-	20,000	-0-	
Pike County Sheltered Workshop	2005-114	8,800	-0-	7,480	1,320	
City of Palmyra	2005-115	19,000	-0-	-0-	19,000	
Mark Twain Waste and Energy	2005-229	107,579	-0-	107,000	579	
			278,656	84,975	286,278	77,353

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Mark Twain Solid Waste Management District

I have audited the general purpose financial statements of the Mark Twain Solid Waste Management District, as of and for the years ended December 31, 2005, and have issued my report thereon dated October 1, 2007. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Audit Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Mark Twain Solid Waste Management District general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed some instances of noncompliance that are required to be reported under Government Auditing Standards.

During the year of 2004 Grant Funds meant to be used for sub grantee project reimbursements were used for other purposes. These purposes include loans and expenses paid for Mark Twain Waste and Energy Corporation, whose project the, District is supporting and unauthorized advances to the Districts' Executive Director. Also the District secured a bank loan in a previous year to assist the MTWEC project. The only asset the District has to pay this loan is grant revenues which is not allowable.

During the year of 2005 in addition to the advances to MTWEC and the unauthorized advances to the Executive Director the District also violated the conditions of a one time agreement with the Missouri Department of Natural Resources (MODNR). The District received a one time grant of \$50,000 to assist in collateralizing loan guarantees on MTWEC loans. These funds were to be held in a separate bank account as collateral until the MTWEC loans were paid. Instead the money was put in the Districts general fund and used in daily operations.

During the year of 2006 the District continued its funding of the MTWEC project and advancing money to the Executive Director in violation of its contract with MODNR. During all three years details of the transactions between the District and MTWEC were not disclosed to MODNR or were disclosed significantly after the transaction took place.

## Internal Control over Financial Reporting

In planning and performing my audit I considered Mark Twain Solid Waste District's (District) internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the District's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District'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 District's financial statements that is more than inconsequential will not be prevented or detected.

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

I observed the following matters that I consider to be control deficiencies, significant deficiencies or material weaknesses.

### **Significant Deficiencies**

#### Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording and monitoring of transactions. In planning and performing the audit, I noted segregation of duties conflicts where an individual was performing conflicting duties.

#### Executive Director

The District's operation was done by one person, the Executive Director, with some assistance from an outside accounting firm. This person performed all accounting and financial duties including receiving checks, making deposits, ordering goods and services, receiving bills, writing checks, classifying receipts and payments receiving bank accounts and reconciling bank accounts.

#### Board of Directors Oversight

The organization of the District is common for entities of this type. This makes oversight by the Board of Directors critical to the operation of the entity. The District's Board was deficient in their oversight of the District's operations and the performance of the Executive Director. I noted that several board meetings were held by tele-conference since the District's office was in the Executive Director's home. Holding meetings in this way allowed the Executive Director to present incomplete reports to the Board. This combined with the fact that the Board never looked at bank statements and reconciliations allowed the Executive Director to issue advance checks, and additional payroll checks to himself. He was also able to advance MTWEC funds in excess of what the Board was aware. In essence with the lack of supervision from the Board, the Executive Director was in a position to handle the District's finances in any way he desired.

As a result of these actions I examined over 90% of the District's transactions as part of my audit. My audit work consisted of recreating the financial records from the source documents.

#### Conclusion

The District's internal control system has been almost nonexistent through the audit periods of December 31, 2004, 2005 and 2006. During 2007 a new Board was appointed and rather than try to fix a damaged system they elected to start over and develop a functional system. The Executive Director's contract was not renewed. Instead the District contracted with Regional Planning Commission for their area to handle the operations of the District. Based on suggestions from Board members who all have experience with governmental entities and assistance from the auditor and MODNR the District is adopting controls and implementing systems to establish a functioning system of internal controls to insure the protection of District assets and appropriate controls over financial reporting from this point forward.

This report is intended solely for the information and use of the audit committee, management, State of Missouri and its pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Montgomery  
Certified Public Accountant

October 23, 2007