

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**PRAIRIE LAKES MUNICIPAL SOLID
WASTE AUTHORITY
(A COMPONENT UNIT OF OTTER TAIL COUNTY)
FERGUS FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

The mission of the Office of the State Auditor 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 150 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 650 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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**PRAIRIE LAKES MUNICIPAL SOLID
WASTE AUTHORITY
(A COMPONENT UNIT OF OTTER TAIL COUNTY)
FERGUS FALLS, MINNESOTA**

Year Ended December 31, 2016



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

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2016

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Board of Directors			
Larry Knutson	Member	Becker	December 2016
Kevin Campbell	Chair	Clay	December 2016
Doug Huebsch	Member	Otter Tail	December 2016
Roger Froemming	Member	Otter Tail	December 2016
Gary Kneisl	Vice Chair	Todd	December 2016
Rodney Bounds*	Member	Wadena	December 2016
Officer			
Mike Hanan	Executive Director		Indefinite

*Replaced by David Hillukka effective January 1, 2017.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairie Lakes Municipal Solid Waste Authority
Fergus Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Prairie Lakes Municipal Solid Waste Authority, a component unit of Otter Tail County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Prairie Lakes Municipal Solid Waste Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Prairie Lakes Municipal Solid Waste Authority's preparation and fair presentation of

the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Prairie Lakes Municipal Solid Waste Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Lakes Municipal Solid Waste Authority as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2017, on our consideration of Prairie Lakes Municipal Solid Waste Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie Lakes Municipal Solid Waste Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 8, 2017

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BASIC FINANCIAL STATEMENTS

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Assets

Current assets

Accounts receivable - net	\$	149,474
Due from other governments		283,753
Due from primary government		166,059
		166,059

Total current assets **\$ 599,286**

Noncurrent assets

Capital assets		
Nondepreciable	\$	29,120,951
Depreciable - net		3,803,707
		3,803,707

Total noncurrent assets **\$ 32,924,658**

Total Assets **\$ 33,523,944**

Deferred Outflows of Resources

Deferred pension outflows **\$ 1,080,789**

Liabilities

Current liabilities

Accounts payable	\$	226,666
Salaries payable		85,427
Advance from primary government - current		1,085,000
Contracts payable		181,656
Due to other governments		82,137
Due to primary government		300,538
Compensated absences payable - current		118,810
		118,810

Total current liabilities **\$ 2,080,234**

Noncurrent liabilities

Advance from primary government	\$	28,288,620
Compensated absences payable - long-term		199,691
Net pension liability		2,094,832
		2,094,832

Total noncurrent liabilities **\$ 30,583,143**

Total Liabilities **\$ 32,663,377**

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Deferred Inflows of Resources

Deferred pension inflows	\$	<u>168,606</u>
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Net Position

Net investment in capital assets	\$	8,657,121
Unrestricted		<u>(6,884,371)</u>

Total Net Position	\$	<u><u>1,772,750</u></u>
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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating Revenues	
Charges for services	\$ 6,449,759
Miscellaneous	361,981
	<hr/>
Total Operating Revenues	\$ 6,811,740
Operating Expenses	
Personal services	\$ 2,516,209
Professional services	152,736
Contracted services	594,836
Office	190,297
Chemicals and consumables	635,840
Utilities	996,542
Insurance	99,806
Repairs and maintenance	19,085
Transportation and disposal	833,638
Depreciation	565,581
	<hr/>
Total Operating Expenses	\$ 6,604,570
Operating Income (Loss)	\$ 207,170
Nonoperating Revenues (Expenses)	
Intergovernmental	
State	
Pollution Control Agency	\$ 35,000
PERA contribution	8,146
Interest expense	(986,924)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (943,778)
Income (Loss) Before Capital Contributions	\$ (736,608)
Capital contributions	911,843
	<hr/>
Change in net position	\$ 175,235
Net Position - January 1	1,597,515
	<hr/>
Net Position - December 31	\$ 1,772,750
	<hr/> <hr/>

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 6,654,933
Payments to employees	(2,196,076)
Payments to suppliers	(3,461,732)
	<u>\$ 997,125</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	\$ 43,146
	<u>\$ 43,146</u>
Cash Flows from Capital and Related Financing Activities	
Advance from primary government	\$ 132,767
Contributions from member counties	911,843
Principal paid on advance	(1,060,000)
Interest paid on long-term debt	(986,924)
Purchases of capital assets	(43,727)
	<u>\$ (1,046,041)</u>
Cash Flows from Investing Activities	
Investment earnings received	\$ 5,770
	<u>\$ 5,770</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents - January 1	<u>-</u>
Cash and Cash Equivalents - December 31	<u><u>\$ -</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 207,170
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 565,581
(Increase) decrease in accounts receivable	(62,378)
(Increase) decrease in due from other governments	(102,589)
(Increase) decrease in due from primary government	8,160
(Increase) decrease in deferred pension outflows	(632,330)
Increase (decrease) in accounts payable	28,454
Increase (decrease) in salaries payable	3,627
Increase (decrease) in compensated absences payable	40,904
Increase (decrease) in due to other governments	31,647
Increase (decrease) in due to primary government	947
Increase (decrease) in deferred pension inflows	103,546
Increase (decrease) in net pension liability	804,386
	<u>804,386</u>
Total adjustments	\$ 789,955
Net Cash Provided by (Used in) Operating Activities	\$ 997,125

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

Prairie Lakes Municipal Solid Waste Authority's (Prairie Lakes) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Prairie Lakes are discussed below.

A. Financial Reporting Entity

Prairie Lakes is a joint enterprise operation of Becker, Clay, Otter Tail, Todd, and Wadena Counties (the Counties). Prairie Lakes was originally established by a Joint Powers Agreement dated May 4, 2010, pursuant to Minn. Stat. § 471.59, Joint Powers Act, and included the counties of Becker, Otter Tail, Todd, and Wadena. The original Joint Powers Agreement was later amended effective October 21, 2014, to include Clay County as a member.

Each of the Counties is authorized and obligated, pursuant to Minn. Stat. chs. 115A and 400, 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 operate and manage a waste management system within the Counties. This purpose, without limitation, shall include ownership and operation of the Perham Resource Recovery Facility. The facility is located in Perham, Minnesota, and the administrative office is located in Fergus Falls, Minnesota.

Prairie Lakes is governed by a six-member Board of Directors--one member appointed from Becker, Clay, Todd, and Wadena Counties and two from Otter Tail County. Receipts and disbursements are recorded in the Prairie Lakes Municipal Solid Waste Authority Fund by Otter Tail County. Contribution percentages for the Counties were set up in the Joint Powers Agreement as follows: Becker - 22 percent, Clay - 15 percent, Otter Tail - 39 percent, Todd - 14 percent, and Wadena - 10 percent.

Prairie Lakes is a component unit of Otter Tail County because Otter Tail County is financially accountable for Prairie Lakes. Prairie Lakes' financial statements are discretely presented in the Otter Tail County financial statements.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of Prairie Lakes are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activities of Prairie Lakes. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as interest income, result from nonexchange transactions or incidental activities. Prairie Lakes' net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

C. Measurement Focus and Basis of Accounting

Prairie Lakes' financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is Prairie Lakes' policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments. Prairie Lakes' cash is pooled and invested with Otter Tail County and is treated as a cash equivalent because Prairie Lakes can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Prairie Lakes Fund. Otter Tail County obtains collateral to cover the deposits in excess of insurance coverage.

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Prairie Lakes does not have a formal policy in place to define capital assets. Instead, it currently uses the capital asset listing developed by the City of Perham at the time of the sale of the facility from the City of Perham to the Counties. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, Prairie Lakes did not have any capitalized interest.

Property, plant, and equipment of Prairie Lakes are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Machinery, furniture, equipment, and vehicles	3 - 20

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred. The current portion consists of amounts earned in a one-year period. The noncurrent portion consists of the remaining amount of vacation and vested sick leave.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Long-Term Obligations

Long-term liabilities consist of advances from the primary government.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, Prairie Lakes has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, Prairie Lakes has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows consist of differences between expected and actual pension plan economic experience and, accordingly, are reported only in the statement of net position.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Equity Classifications

Equity is classified as net position. Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by debt attributed to the acquisition, construction, or improvement of the assets. Unrestricted net position is net position that does not meet the definition of “restricted” or “net investment in capital assets.”

E. Operating Revenues and Expenses

Prairie Lakes’ statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing services. Nonexchange revenues, including member county appropriations, investment income, grants, and contributions received for purposes other than for capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide services. Expenses not meeting this definition are reported as nonoperating expenses.

F. Use of Estimates

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

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

1. Deposits

Prairie Lakes did not report any cash or cash equivalents or investments at December 31, 2016.

Prairie Lakes is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Prairie Lakes is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Prairie Lakes' deposits may not be returned to it. Prairie Lakes does not have a deposit policy for custodial credit risk. Prairie Lakes pools its deposits with Otter Tail County. Otter Tail County, in a fiscal agent capacity, carries collateral to cover deposits in excess of FDIC coverage.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2016, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Accounts	\$ 149,474
Due from other governments	283,753
Due from primary government	166,059
Total	\$ 599,286

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 25,489	\$ -	\$ -	\$ 25,489
Construction in progress	29,343,780	38,377	286,695	29,095,462
Total capital assets not depreciated	\$ 29,369,269	\$ 38,377	\$ 286,695	\$ 29,120,951
Capital assets depreciated				
Buildings	\$ 5,563,415	\$ -	\$ -	\$ 5,563,415
Machinery, furniture, and equipment	1,548,682	-	-	1,548,682
Total capital assets depreciated	\$ 7,112,097	\$ -	\$ -	\$ 7,112,097
Less: accumulated depreciation for				
Buildings	\$ 2,120,075	\$ 462,562	\$ -	\$ 2,582,637
Machinery, furniture, and equipment	622,734	103,019	-	725,753
Total accumulated depreciation	\$ 2,742,809	\$ 565,581	\$ -	\$ 3,308,390
Total capital assets depreciated, net	\$ 4,369,288	\$ (565,581)	\$ -	\$ 3,803,707
Capital Assets, Net	\$ 33,738,557	\$ (527,204)	\$ 286,695	\$ 32,924,658

Depreciation expense for the year was \$565,581.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

A. Assets and Deferred Outflows of Resources (Continued)

4. Deferred Outflows of Resources

Deferred outflows of resources consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position. Deferred pension outflows for the year ended December 31, 2016, were \$1,080,789.

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

Accounts	\$	226,666
Salaries		85,427
Contracts		181,656
Due to other governments		82,137
Due to primary government		300,538
		<hr/>
Total Payables	\$	<u>876,424</u>

2. Advance From Primary Government

Prairie Lakes Municipal Solid Waste Authority has entered into an advance arrangement with Otter Tail County. The County issued \$10,475,000 in General Obligation Disposal System Revenue Bonds and \$19,380,000 in General Obligation Waste Disposal Revenue Bonds in order to finance the acquisition/expansion of the facility. The proceeds from the sale of these bonds were recognized by Otter Tail County. Prairie Lakes' advance payment back for these bond issues to the County is essentially equal to the principal and interest on the bonds for the year. On December 31, 2015, Otter Tail County advanced funds to Prairie Lakes to zero out a negative pooled cash balance. The advance balance consists of the following at December 31, 2016:

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

B. Liabilities and Deferred Inflows of Resources

2. Advance From Primary Government (Continued)

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original</u>	<u>Balance</u>
Advance from primary government - 2011	2030	\$405,000 - \$755,000	3.0 to 5.0	\$ 10,475,000	\$ 8,480,000
Advance from primary government - 2013	2034	\$630,000 - \$1,970,000	2.0 to 3.8	19,380,000	18,105,000
Advance from primary government - 2015	-	Varies	0.25	<u>2,788,620</u>	<u>2,788,620</u>
Total Advance from Primary Government				<u>\$ 32,643,620</u>	<u>\$ 29,373,620</u>

The outstanding balance for the advance from primary government - 2015 represents funds paid by Otter Tail County to cover a negative pooled cash balance at December 31, 2015. Repayment of this advance will be through a combination of \$1 per ton of waste received at the Prairie Lakes facility as well as 50 percent of any revenues above expenses at the end of each year, exclusive of the first \$200,000 set aside as major capital expenses. Because of the variable repayment amounts, a final debt payment schedule is not available. The following payment schedule does not include the debt service applicable to these advances.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

2. Detailed Notes

B. Liabilities and Deferred Inflows of Resources

2. Advance From Primary Government (Continued)

The future minimum obligations as of December 31, 2016, were as follows:

Year Ending December 31	Future Minimum Obligations
2017	\$ 2,046,961
2018	2,049,186
2019	2,044,793
2020	2,048,411
2021	2,044,524
2022 - 2026	10,235,748
2027 - 2031	10,235,035
2032 - 2034	6,139,235
Total future minimum advance payments	\$ 36,843,893
Less: amount representing interest	(10,258,893)
Advance Balance	\$ 26,585,000

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from primary government	\$ 30,433,620	\$ -	\$ 1,060,000	\$ 29,373,620	\$ 1,085,000
Compensated absences	277,597	171,261	130,357	318,501	118,810
Long-Term Liabilities	\$ 30,711,217	\$ 171,261	\$ 1,190,357	\$ 29,692,121	\$ 1,203,810

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of Prairie Lakes are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

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 General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan

C. Contributions (Continued)

In 2016, Prairie Lakes was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75

The employee and employer contribution rates did not change from the previous year.

Prairie Lakes' contributions for the General Employees Retirement Plan for the year ended December 31, 2016, were \$124,213. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2016, Prairie Lakes reported a liability of \$2,094,832 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Prairie Lakes' proportion of the net pension liability was based on its contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, Prairie Lakes' proportion was 0.0258 percent. It was 0.0249 percent measured as of June 30, 2015. Prairie Lakes' recognized pension expense of \$407,961 for its proportionate share of the General Employees Retirement Plan's pension expense.

Prairie Lakes also recognized \$8,146 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

Prairie Lakes' proportionate share of the net pension liability	\$ 2,094,832
State of Minnesota's proportionate share of the net pension liability associated with Prairie Lakes	<u>27,321</u>
Total	<u>\$ 2,122,153</u>

Prairie Lakes reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 168,606
Changes in actuarial assumptions	410,170	-
Difference between projected and actual investment earnings	394,297	-
Changes in proportion	213,487	-
Contributions paid to PERA subsequent to the measurement date	<u>62,835</u>	<u>-</u>
Total	<u>\$ 1,080,789</u>	<u>\$ 168,606</u>

The \$62,835 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 280,414
2018	280,414
2019	212,849
2020	75,671

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

H. Pension Liability Sensitivity

The following presents Prairie Lakes' proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what Prairie Lakes' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

3. Defined Benefit Pension Plan

H. Pension Liability Sensitivity (Continued)

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 2,975,282
Current	7.50	2,094,832
1% Increase	8.50	1,369,581

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Risk Management

Prairie Lakes 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. Prairie Lakes has entered into a joint powers agreement with other Minnesota entities to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. Prairie Lakes is a member of both the MCIT Workers’ Compensation and Property and Casualty Divisions. For other risk, Prairie Lakes carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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 \$500,000 per claim in 2016 and 2017. Should the MCIT Workers’ Compensation Division liabilities exceed assets, MCIT may assess Prairie Lakes in a method and amount to be determined by MCIT.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

4. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and Prairie Lakes 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 Prairie Lakes in a method and amount to be determined by MCIT.

Prairie Lakes retains the risk for the deductible portion of the policies, which is considered immaterial to the financial statements. At December 31, 2016, there are no other claims liabilities reported in the financial statements based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated.

5. Other Items

Operating Budgets

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 8,105,480	\$ 6,811,740	\$ (1,293,740)
Operating Expenses	<u>5,644,181</u>	<u>6,604,570</u>	<u>(960,389)</u>
Operating Income (Loss)	\$ 2,461,299	\$ 207,170	\$ (2,254,129)
Nonoperating Revenues (Expenses) and Contributions	<u>(2,458,715)</u>	<u>(943,778)</u>	<u>1,514,937</u>
Change in Net Position	<u>\$ 2,584</u>	<u>\$ (736,608)</u>	<u>\$ (739,192)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Prairie Lakes (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0258%	\$ 2,094,832	\$ 27,321	\$ 2,122,153	\$ 1,598,933	131.01%	68.91%
2015	0.0249	1,290,446	N/A	1,290,446	1,463,189	88.19	78.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A - Not Applicable

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 124,213	\$ 124,213	\$ -	\$ 1,656,187	7.50%
2015	115,685	115,685	-	1,542,467	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
Prairie Lakes' year-end is December 31.

**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Defined Benefit Pension Plan - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of Directors
Prairie Lakes Municipal Solid Waste Authority
Fergus Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Prairie Lakes Municipal Solid Waste Authority (Prairie Lakes) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Prairie Lakes' basic financial statements, and have issued our report thereon dated August 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Prairie Lakes' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of Prairie Lakes' financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2012-001 to be a material weakness and item 2012-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Lakes' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of Prairie Lakes' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Prairie Lakes has no tax increment financing, and public indebtedness because Prairie Lakes has no outstanding debt. The provisions for deposits and investments and claims and disbursements were tested in conjunction with the audit of the financial statements of Otter Tail County.

In connection with our audit, nothing came to our attention that caused us to believe that Prairie Lakes failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Prairie Lakes' noncompliance with the above referenced provisions.

Prairie Lakes' Response to Findings

Prairie Lakes' responses to the internal control findings identified in our audit are described in the Corrective Action Plan. Prairie Lakes' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of Prairie Lakes' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie Lakes' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 8, 2017

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**PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2012-001

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting 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 and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Prairie Lakes Municipal Solid Waste Authority's (Prairie Lakes) financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to Prairie Lakes' financial statements. Otter Tail County provides a general ledger which includes certain accruals and other supporting information. This general ledger facilitates the preparation of the financial statements.

Context: The inability to make all necessary accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An audit adjustment was necessary to recognize \$415,000 for principle retirement, \$496,843 for interest expense, and \$911,843 in capital contributions from member counties for a payment on the advance from primary government, not reflected in the general ledger. A second audit adjustment was necessary to reclassify \$494,419 from unrestricted net position to net investment in capital assets to reflect the net change in investment in capital assets.

Cause: Otter Tail County has assumed the duties for the management function and general ledger recording. Some transactions are infrequent and, thus, may have been overlooked in the preparation of the sources of information used to prepare the financial statements.

Recommendation: We recommend Prairie Lakes establish internal controls necessary to ensure its annual financial statements are reported in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

Finding Number 2012-002

Documenting and Monitoring Internal Controls

Criteria: Prairie Lakes' management is responsible for the internal controls over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Otter Tail County maintains narratives to document the controls in place over its significant transaction cycles for services it provides to Prairie Lakes. However, Prairie Lakes does not have a formal risk assessment process in place to determine if the internal controls that have been established by the Perham Resource Recovery Facility or by Otter Tail County are effective or if changes are needed to maintain a sound internal control structure.

Context: The internal control environment is constantly evolving with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls which may go unnoticed without a formal and timely risk assessment process in place.

Effect: Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Cause: Lack of resources dedicated to establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

Recommendation: Prairie Lakes' management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, changes required, and who performed the work.

View of Responsible Official: Concur

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**REPRESENTATION OF PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2012-001

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Wayne Stein

Corrective Action Planned:

Dedicate additional staff resources within the County's Finance Division for an ongoing review of all transactions submitted prior to processing and to implement a monthly review by supervisory staff of all posted transactions to determine that these transactions were properly coded on the front-end and, if not, for corrections to be processed prior to the annual audit.

Anticipated Completion Date:

January 31, 2018

Finding Number: 2012-002

Finding Title: Documenting and Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Wayne Stein

Corrective Action Planned:

The County's Finance Division Director will meet formally with the PLMSWA Board to establish a formal process to assess the risks unique to their operations, to establish a process that will provide adequate documentation of the internal control procedures that have been implemented, and establish a formal plan with the PLMSWA Board that will result in at least an annual monitoring of the established internal controls by the PLMSWA Board and their management staff. Basically, the Finance Division needs to develop a formalized process that will result in regular reviews that encourage risk assessments, reviews of existing internal control

procedures, and development and implementation of new internal control procedures that will ensure that County policies are being followed and the County is being protected from loss as much as reasonably possible.

Anticipated Completion Date:

Between January 1 and June 30 of 2018

**REPRESENTATION OF PRAIRIE LAKES MUNICIPAL SOLID WASTE AUTHORITY
FERGUS FALLS, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2012-001

Finding Title: Audit Adjustments

Summary of Condition: An audit adjustment was necessary to reclassify \$465,670 from unrestricted net position to net investment in capital assets to reflect the net change in investment in capital assets.

Summary of Corrective Action Previously Reported: In 2013, Prairie Lakes Municipal Solid Waste Authority began an expansion process which included issuing bonded debt and increasing its member partners. Prairie Lakes Municipal Solid Waste Authority staff and Otter Tail County staff (fiscal agent) will continue to work on efforts to ensure that postings are properly identified initially so that journal entries for changes are not necessary.

Status: Not Corrected. This audit finding's recurrence is the result of not dedicating additional resources to an internal audit of the transactions submitted prior to processing and not completing a monthly review of all posted transactions to determine that they were properly coded. The planned corrective action is the following: The Finance Division Director will assign additional staff resources within the County's Financial Division for an ongoing review of all transactions submitted prior to processing and to implement a procedure for monthly review by supervisory staff of all posted transactions to determine that these transactions were properly coded on the front-end and, if not, for corrections to be processed prior to the annual audit. The Finance Division is currently in the process of adding an additional staff member which should assist with this review process.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2012-002

Finding Title: Documenting and Monitoring Internal Controls

Summary of Condition: Otter Tail County maintains narratives to document the controls in place over its significant transaction cycles for services it provides to Prairie Lakes. However, Prairie Lakes does not have a formal risk assessment process in place to determine if the internal controls that have been established by the Perham Resource Recovery Facility or by Otter Tail County are effective or if changes are needed to maintain a sound internal control structure.

Summary of Corrective Action Previously Reported: Prairie Lakes Municipal Solid Waste Authority's Board, executive staff, and Otter Tail County staff (fiscal agent) are aware of the need and value of routinely reviewing and continually addressing internal controls. Staff will continue to address any weaknesses in regard to policies and procedures resulting from changes in programs and staffing as well as changes in reporting requirements.

Status: Not Corrected. This audit finding's recurrence is the result of not dedicating the resources necessary to establish the formal process necessary for assessing risks, documenting internal controls, and/or monitoring those controls. The planned corrective action will begin with the Finance Division Director making the documentation and monitoring of internal controls a priority. A partial corrective action was taken at the end of 2016/beginning of 2017 when the Finance Division Director did meet with the PLMSWA Board to have an informal discussion regarding internal controls and risk assessments.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X