

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**TRI-COUNTY SOLID WASTE  
MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2015**

## **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 700 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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**TRI-COUNTY SOLID WASTE  
MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**Year Ended December 31, 2015**



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

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

ORGANIZATION  
2015

<u>Board of Directors</u>	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Jake Bauerly	Chair	Benton	December 31, 2015
Felix Schmiesing	Vice Chair	Sherburne	December 31, 2015
Ed Popp	Member	Benton	December 31, 2015
John Riebel	Member	Sherburne	December 31, 2015
Mark Bromenschenkel	Member	Stearns	December 31, 2015
Leigh Lenzmeier	Member	Stearns	December 31, 2015
DeWayne Mareck	Member	Stearns	December 31, 2015
Jeff Mergen	Member	Stearns	December 31, 2015
<u>Coordinator</u>			
Doug Lien			Indefinite

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Tri-County Solid Waste Management Commission  
St. Cloud, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Tri-County Solid Waste Management Commission as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission'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. 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 the Commission'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 the Commission'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 the Tri-County Solid Waste Management Commission as of December 31, 2015, 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.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1.E. to the financial statements, in 2015 the Tri-County Solid Waste Management Commission adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 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.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 11, 2016

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

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015  
(Unaudited)**

The Tri-County Solid Waste Management Commission's (Commission) Management's Discussion and Analysis (MD&A) provides an overview of the Commission's financial activities for the fiscal year ended December 31, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Commission's financial statements.

The Commission is a joint powers enterprise operation of Benton, Sherburne, and Stearns Counties, created with the intention of the counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous three-county area in planning, management, and implementation of methods to deal with solid waste in Central Minnesota.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The Commission's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present different views of the Commission's financial activities and consist of the following:

- The statement of net position reports the assets, deferred outflows of resources, liabilities, and deferred inflows of resources to give an overall view of the financial health of the Commission.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the Commission's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Commission.

## FINANCIAL ANALYSIS

	<b>Net Position</b>			
	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
<b>Assets</b>				
Current and other assets	\$ 526,660	\$ 572,336	\$ (45,676)	(7.98)
Capital assets, net	<u>-</u>	<u>40,000</u>	<u>(40,000)</u>	-
Total Assets	<u>\$ 526,660</u>	<u>\$ 612,336</u>	<u>\$ (85,676)</u>	(14.00)
<b>Deferred Outflows of Resources</b>				
Deferred pension outflows	<u>\$ 11,002</u>	<u>\$ -</u>	<u>\$ 11,002</u>	-
<b>Liabilities</b>				
Current liabilities	\$ 19,221	\$ 41,592	\$ (22,371)	(53.79)
Noncurrent liabilities	<u>81,663</u>	<u>2,384</u>	<u>79,279</u>	3325.46
Total Liabilities	<u>\$ 100,884</u>	<u>\$ 43,976</u>	<u>\$ 56,908</u>	129.41
<b>Deferred Inflows of Resources</b>				
Deferred pension inflows	<u>\$ 9,247</u>	<u>\$ -</u>	<u>\$ 9,247</u>	-
<b>Net Position</b>				
Investment in capital assets	\$ -	\$ 40,000	\$ (40,000)	-
Unrestricted	<u>427,531</u>	<u>528,360</u>	<u>(100,829)</u>	(19.08)
Total Net Position, as reported	<u>\$ 427,531</u>	<u>\$ 568,360</u>	<u>\$ (140,829)</u>	(24.78)
Change in accounting principles*		<u>(75,162)</u>		
Total Net Position, as restated		<u>\$ 493,198</u>		

\*This is the first year the Commission implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. The Commission had to make a prior year change in accounting principles to record the Commission's net pension liability and related deferred outflows of resources.

The Commission's total net position for the year ended December 31, 2015, was \$427,531. Unrestricted net position, totaling \$427,531, is available to finance the Commission's day-to-day operations.

### Changes in Net Position

	2015	2014	Increase/ (Decrease)	Percent (%) Change
Operating Revenues				
Miscellaneous	\$ 2,016	\$ 3,367	\$ (1,351)	(40.12)
Operating Expenses				
Administration and overhead	\$ 159,267	\$ 247,849	\$ (88,582)	(35.74)
Disposal of waste	-	118,766	(118,766)	-
Total Operating Expenses	\$ 159,267	\$ 366,615	\$ (207,348)	(56.56)
Operating Income (Loss)	\$ (157,251)	\$ (363,248)	\$ 205,997	56.71
Nonoperating Revenues (Expenses)				
Intergovernmental revenues	\$ 6,560	\$ 98,919	\$ (92,359)	(93.37)
Intergovernmental expenses	(252,174)	(58,056)	(194,118)	(334.36)
Contributions from counties	145,024	316,714	(171,690)	(54.21)
Gain on sale/disposal of capital assets	192,174	-	192,174	-
Total Nonoperating Revenues (Expenses)	\$ 91,584	\$ 357,577	\$ (265,993)	(74.39)
Change in Net Position	\$ (65,667)	\$ (5,671)	\$ (59,996)	(1057.94)

During 2015, the Commission sold land and buildings which resulted in a gain on the sale of capital assets of \$192,174.

At the end of 2014, Stearns County took over the operations of the household hazardous waste program formally run by the Commission. This resulted in a \$118,766 decrease of disposal of waste operating expenses.

### CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Coordinator, Doug Lien, 3601 - 5th Street South, Waite Park, Minnesota 56387.

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## **BASIC FINANCIAL STATEMENTS**

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

**Assets**

**Current assets**

Cash and investments \$ 526,660

**Deferred Outflows of Resources**

Deferred pension outflows \$ 11,002

**Liabilities**

**Current liabilities**

Accounts payable \$ 201  
Salaries payable 4,914  
Due to other governments 1,806  
Compensated absences payable - current 12,300

**Total current liabilities** **\$ 19,221**

**Noncurrent liabilities**

Compensated absences payable - long-term \$ 2,439  
Net pension liability 79,224

**Total noncurrent liabilities** **\$ 81,663**

**Total Liabilities** **\$ 100,884**

**Deferred Inflows of Resources**

Deferred pension inflows \$ 9,247

**Net Position**

Unrestricted **\$ 427,531**

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Operating Revenues</b>	
Miscellaneous	\$ 2,016
<b>Operating Expenses</b>	
Administration and overhead	<u>159,267</u>
<b>Operating Income (Loss)</b>	<b><u>\$ (157,251)</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Intergovernmental revenues	\$ 6,560
Intergovernmental expenses	(252,174)
Contributions from counties	145,024
Gain on sale/disposal of capital assets	<u>192,174</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ 91,584</u></b>
<b>Change in Net Position</b>	<b>\$ (65,667)</b>
<b>Net Position - January 1, as restated (Note 1.E.)</b>	<b><u>493,198</u></b>
<b>Net Position - December 31</b>	<b><u><u>\$ 427,531</u></u></b>

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 2,016
Payments to suppliers	(61,484)
Payments to employees	<u>(117,792)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (177,260)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Intergovernmental revenue	\$ 6,560
Intergovernmental payments	(252,174)
Contributions from counties	<u>145,024</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b><u>\$ (100,590)</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from the sale of capital assets	<u>\$ 232,174</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (45,676)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>572,336</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 526,660</u></u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b><u>\$ (157,251)</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
(Increase) decrease in deferred outflows for pensions, as restated	\$ (7,351)
Increase (decrease) in accounts payable	(2,147)
Increase (decrease) in salaries payable	555
Increase (decrease) in due to other governments	(22,286)
Increase (decrease) in compensated absences payable	1,562
Increase (decrease) in net pension liability, as restated	411
Increase (decrease) in deferred inflows for pensions	<u>9,247</u>
<b>Total adjustments</b>	<b><u>\$ (20,009)</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u><u>\$ (177,260)</u></u></b>

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

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1. Summary of Significant Accounting Policies

The Tri-County Solid Waste Management Commission's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. 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 the Commission are discussed below.

A. Financial Reporting Entity

The Tri-County Solid Waste Management Commission is a joint powers authority between Benton, Sherburne, and Stearns Counties (the Counties) formed under a joint powers agreement entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act.

Each of the Counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400 to provide for the management and disposal of solid waste. It is the intention of the Counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous three-county area in planning, management, and implementation of methods to deal with solid waste in central Minnesota.

The Commission is governed by a Board of Directors composed of eight members. Each county is entitled to no less than two and no more than four of its own Commissioners on the Board. Population of the member counties determines how many Commissioners sit on the Board. Each member county chooses its respective members and one staff person as an ex officio (non-voting) member.

The Commission is a separate entity independent of the counties which formed it. No single county retains control over the operations or is financially accountable for the Commission. In accordance with generally accepted accounting principles, the Commission's financial statements are not included as a component unit in any member county's financial statements. However, Stearns County accounts for all transactions of the Commission and presents the Commission as an agency fund in its financial statements.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of the Commission are organized as an enterprise fund. The fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as intergovernmental revenues and contributions from counties, result from nonexchange transactions or incidental activities. The Commission's net position is reported as unrestricted. The Commission first utilizes restricted resources, if any, to finance qualifying activities.

C. Measurement Focus and Basis of Accounting

The Commission's financial statements are reported using the economic resources measurement focus and the 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 the Commission's policy to use restricted resources first and then unrestricted resources as needed.

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

1. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include all cash and pooled investments. The Commission's cash is pooled and invested with Stearns County. The County obtains collateral to cover deposits in excess of insurance coverage.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

2. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. The Commission defines capital assets as assets with an estimated useful life in excess of one year and with an individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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, the Commission did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Furniture	7
Equipment	5
Buildings	15

The Commission had no capital assets at December 31, 2015.

3. Compensated Absences

The Commission uses Stearns County's non-union personnel policies regarding paid leave. Paid leave is granted in varying amounts based on employee length of service. Unused accumulated paid leave is paid to employees in varying degrees upon termination based upon the severance option chosen by the employee.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

3. Compensated Absences (Continued)

Earned but unpaid vacation, vested sick leave, and sick leave expected to vest are shown on the statement of net position as compensated absences. Unvested sick leave is not included as a liability. 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 an amount based on a trend analysis of current usage of vacation and sick leave. The noncurrent portion consists of the remaining amount of vacation and sick leave.

4. 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 and liabilities 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.

5. 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.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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, the Commission has one item, deferred pension outflows that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported in the statement of net position.

In addition to liabilities, the statement of financial 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, the Commission has one type of deferred inflows, deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported in the statement of net position.

7. Classification of Net Position

Net position in the financial statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Classification of Net Position (Continued)

Unrestricted net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

E. Change in Accounting Principles

During the year ended December 31, 2015, the Commission adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the Commission to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Commission's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$ 568,360
Change in accounting principles	<u>(75,162)</u>
Net Position, January 1, 2015, as restated	<u>\$ 493,198</u>

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

2. Detailed Notes

A. Assets

1. Cash

Cash transactions are administered by the Stearns County Auditor/Treasurer, who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral.

2. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 40,000	\$ -	\$ 40,000	\$ -
Capital assets depreciated				
Buildings	\$ 69,900	\$ -	\$ 69,900	\$ -
Machinery, furniture, and equipment	2,419	-	-	2,419
Total capital assets depreciated	\$ 72,319	\$ -	\$ 69,900	\$ 2,419
Less: accumulated depreciation for				
Buildings	\$ 69,900	\$ -	\$ 69,900	\$ -
Machinery, furniture, and equipment	2,419	-	-	2,419
Total accumulated depreciation	\$ 72,319	\$ -	\$ 69,900	\$ 2,419
Total capital assets depreciated, net	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, Net	\$ 40,000	\$ -	\$ 40,000	\$ -

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 13,177	\$ 1,562	\$ -	\$ 14,739	\$ 12,300

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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3. Pension Plan

A. Defined Benefit Pension Plan

1. Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

2. 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.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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3. Pension Plan

A. Defined Benefit Pension Plan

2. 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 Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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.

For General Employees Retirement Fund 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.

3. 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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, the Commission was required to contribute the following percentages of annual covered salary:

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

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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3. Pension Plan

A. Defined Benefit Pension Plan

3. Contributions (Continued)

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Commission's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$6,477. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2015, the Commission reported a liability of \$79,224 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Commission's proportion was 0.0015 percent. It was 0.0017 percent measured as of June 30, 2014. The Commission recognized pension expense of \$8,784 for its proportionate share of the General Employees Retirement Fund's pension expense.

The Commission reported its proportionate share of the General Employees Retirement Fund'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	\$ -	\$ 3,994
Difference between projected and actual investment earnings	7,500	-
Changes in proportion	-	5,253
Contributions paid to PERA subsequent to the measurement date	3,502	-
Total	\$ 11,002	\$ 9,247

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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3. Pension Plan

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

A total of \$3,502 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, 2016. 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
2016	\$ (1,207)
2017	(1,207)
2018	(1,207)
2019	1,874

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
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3. Pension Plan

A. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position 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.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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3. Pension Plan

A. Defined Benefit Pension Plan (Continued)

7. Pension Liability Sensitivity

The following presents the Commission’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission’s 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 124,568	\$ 79,224	\$ 41,776

8. 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](http://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

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

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

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4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Commission pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Commission in a method and amount to be determined by MCIT.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.0015%	\$ 79,224	\$ 90,035	87.99%	78.19%

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.

**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

*EXHIBIT A-2*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b-a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2015	\$ 6,477	\$ 6,477	\$ -	\$ 86,366	7.50%

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

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**TRI-COUNTY SOLID WASTE MANAGEMENT COMMISSION  
ST. CLOUD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

ITEM ARISING THIS YEAR

Finding 2015-001

Audit Adjustment

**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 over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified a material adjustment that resulted in significant changes to the Commission's financial statements.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** An audit adjustment to record the 2015 sale of land and buildings owned by the Commission was required. The adjustment decreased capital assets by \$109,900, decreased accumulated depreciation by \$69,900, increased the gain on the disposal of capital assets by \$192,174, and increased intergovernmental expenses by \$232,174.

**Cause:** Procedures are not in place to consider the full extent of all entries needed for financial reporting.

**Recommendation:** We recommend the Commission review internal controls currently in place and design and implement procedures to improve the controls over financial reporting to ensure the Commission's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

*This finding was the result of what is in all probability a one-time real estate transaction. The Commission will review procedures over financial reporting to ensure all real estate transactions are properly recorded in the future.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Directors  
Tri-County Solid Waste Management Commission  
St. Cloud, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the Tri-County Solid Waste Management Commission as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 11, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the Tri-County Solid Waste Management Commission's basic financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing 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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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, such that there is a reasonable possibility that a

material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2015-001 to be a material weakness.

### **Other Matters**

The Tri-County Solid Waste Management Commission's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors, management, and others within the Commission, and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 11, 2016



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors  
Tri-County Solid Waste Management Commission  
St. Cloud, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the Tri-County Solid Waste Management Commission as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 11, 2016.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, 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 the Commission has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Tri-County Solid Waste Management Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 the Commission's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of the Board of Directors and management of the Tri-County Solid Waste Management Commission and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 11, 2016

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