STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

Year Ended December 31, 2005

Audit Practice Division
Office of the State Auditor
State of Minnesota

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TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

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Introductory Section

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TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

ORGANIZATION
2005

Board of Directors	Position	County	Term Expires
Felix Schmiesing	Chair	Sherburne	December 31, 2005
Larry Haws	Vice Chair	Stearns	December 31, 2005
Duane Grandy	Member	Benton	December 31, 2005
Dan Lieser	Member	Benton	December 31, 2005
John Riebel	Member	Sherburne	December 31, 2005
Leigh Lenzmeier	Member	Stearns	December 31, 2005
Don Otte	Member	Stearns	December 31, 2005
Vince Schaefer	Member	Stearns	December 31, 2005

Coordinator			
Jerry Johnson			Indefinite

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Financial Section

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REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Tri-County Solid Waste Commission

We have audited the basic financial statements of the Tri-County Solid Waste Commission as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the management of the Tri-County Solid Waste Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Tri-County Solid Waste Commission at December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: October 16, 2006

MANAGEMENT’S DISCUSSION AND ANALYSIS

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TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(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, 2005. 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 assets compares the assets and liabilities to give an overall view of the financial health of the Commission.

- The statement of revenues, expenses, and changes in net assets 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

Net Assets

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Assets				
Current and other assets	$ 348,403	$ 478,792	$ (130,389)	(27.23)
Capital assets, net	219,048	244,314	(25,266)	(10.34)
Total Assets	$ 567,451	$ 723,106	$ (155,655)	(21.53)
Liabilities				
Current liabilities	$ 86,427	$ 39,092	$ 47,335	121.09
Noncurrent liabilities	41,590	35,758	5,832	16.31
Total Liabilities	$ 128,017	$ 74,850	$ 53,167	71.03
Net Assets				
Invested in capital assets	$ 219,048	$ 244,314	$ (25,266)	(10.34)
Unrestricted	220,386	403,942	(183,556)	(45.44)
Total Net Assets	$ 439,434	$ 648,256	$ (208,822)	(32.21)

The decrease in total assets from 2004 to 2005 is due mainly to payment of the waste processing credit from the State of Minnesota. This processing credit revenue was received by the Commission in 2004 and was used to reduce tipping fees at the Elk River and Perham facilities in 2005. The State of Minnesota no longer pays this credit.

Changes in Net Assets

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Operating Revenues				
Miscellaneous	$ 68,454	$ 79,186	$ (10,732)	(13.55)
Operating Expenses				
Administration and overhead	$ 484,695	$ 394,912	$ 89,783	22.73
Disposal of waste	374,139	197,078	177,061	89.84
Depreciation	25,266	33,779	(8,513)	(25.20)
Total Operating Expenses	$ 884,100	$ 625,769	$ 258,331	41.28
Operating Income (Loss)	$ (815,646)	$ (546,583)	$ (269,063)	(49.23)
Nonoperating Revenues (Expenses)				
Intergovernmental	$ 121,822	$ 257,908	$ (136,086)	(52.77)
Contributions from counties	485,002	368,725	116,277	31.53
Total Nonoperating Revenues (Expenses)	$ 606,824	$ 626,633	$ (19,809)	(3.16)
Change in Net Assets	$ (208,822)	$ 80,050	$ (288,872)	(360.86)

The increased operating expenses for administration and overhead reflect the cost of consultants reviewing a new tri-county waste to energy facility. The increases in waste disposal costs reflect payment of the processing credit and increased tipping fees at NRG Elk River.

CAPITAL ASSETS

Capital Assets
(Net of Depreciation)

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Land	$ 40,000	$ 40,000	$ -	-
Buildings and improvements	173,162	196,118	(22,956)	(11.71)
Machinery, furniture, and equipment	5,886	8,196	(2,310)	(28.18)
Total Capital Assets	$ 219,048	$ 244,314	$ (25,266)	(10.34)

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, Jerry Johnson, 601 North 20th Avenue, St. Cloud, Minnesota 56303.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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BASIC FINANCIAL STATEMENTS

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TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

Assets		
Current assets		
Cash and investments	$	334,944
Accounts receivable		237
Due from other governments		13,222
Total current assets	**$**	**348,403**
Capital assets		
Nondepreciable	$	40,000
Depreciable - net		179,048
Total capital assets	**$**	**219,048**
Total Assets	**$**	**567,451**
Liabilities		
Current liabilities		
Accounts payable	$	67,050
Salaries payable		15,359
Due to other governments		32
Compensated absences payable - current		3,986
Total current liabilities	**$**	**86,427**
Noncurrent liabilities		
Compensated absences payable - long-term		41,590
Total Liabilities	**$**	**128,017**
Net Assets		
Invested in capital assets	$	219,048
Unrestricted		220,386
Total Net Assets	**$**	**439,434**

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

Operating Revenues		
Miscellaneous	**$**	**68,454**
Operating Expenses		
Administration and overhead	$	484,695
Disposal of waste		374,139
Depreciation		25,266
Total Operating Expenses	**$**	**884,100**
Operating Income (Loss)	**$**	**(815,646)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	121,822
Contributions from counties		485,002
Total Nonoperating Revenues (Expenses)	**$**	**606,824**
Change in Net Assets	**$**	**(208,822)**
Net Assets - January 1		**648,256**
Net Assets - December 31	**$**	**439,434**

The notes to the financial statements are an integral part of this statement.

TRI-COUNTY SOLID WASTE COMMISSION
ST. CLOUD, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities		
Receipts from customers and users	$	56,426
Payments to suppliers		(512,975)
Payments to employees		(292,692)
Net cash provided by (used in) operating activities	**$**	**(749,241)**
Cash Flows From Noncapital Financing Activities		
Intergovernmental	$	183,172
Contributions		485,002
Net cash provided by (used in) noncapital financing activities	**$**	**668,174**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(81,067)**
Cash and Cash Equivalents at January 1		**416,011**
Cash and Cash Equivalents at December 31	**$**	**334,944**
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**(815,646)**
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	$	25,266
(Increase) decrease in accounts receivable		1,194
(Increase) decrease in due from other governments		(13,222)
Increase (decrease) in accounts payable		55,555
Increase (decrease) in salaries payable		1,013
Increase (decrease) in due to other governments		(11,226)
Increase (decrease) in compensated absences payable		7,825
Total adjustments	**$**	**66,405**
Net Cash Provided by (Used in) Operating Activities	**$**	**(749,241)**

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

The Tri-County Solid Waste Commission's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Commission has the option to apply FASB pronouncements issued after that date, the Commission has chosen not to do so. 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 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. At its annual meeting, each County Board chooses its respective members to sit on the Board. Each member county appoints one staff person as an ex officio (non-voting) member.

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

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 assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

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.

D. Assets, Liabilities, and Net Assets or Equity

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.

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Capital Assets (Continued)

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 is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Furniture	7
Equipment	5
Buildings	15

4. 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.

Earned but unpaid vacation, vested sick leave, and sick leave expected to vest are shown on the statement of net assets as compensated absences. Unvested sick leave is not included as a liability.

5. 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.

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. Receivables

The Commission has no receivables scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 40,000	$ -	$ -	$ 40,000
Capital assets depreciated				
Buildings	$ 458,998	$ -	$ -	$ 458,998
Machinery, furniture, and equipment	27,531	-	-	27,531
Total capital assets depreciated	$ 486,529	$ -	$ -	$ 486,529
Less: accumulated depreciation for				
Buildings	$ 262,880	$ 22,957	$ -	$ 285,837
Machinery, furniture, and equipment	19,335	2,309	-	21,644
Total accumulated depreciation	$ 282,215	$ 25,266	$ -	$ 307,481
Total capital assets depreciated, net	$ 204,314	$ (25,266)	$ -	$ 179,048
Total Capital Assets, Net	$ 244,314	$ (25,266)	$ -	$ 219,048

2. Detailed Notes (Continued)

   B. Liabilities

   Changes in Long-Term Liabilities

   Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 37,751	$ 7,825	$ -	$ 45,576	$ 3,986

3. Pension Plans

   A. Plan Description

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

   Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

   The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

   Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

3. Pension Plans

A. Plan Description (Continued)

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. The Commission is required to contribute the following percentages of annual covered payroll:

In 2005	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

3. Pension Plans

   B. Funding Policy (Continued)

      The Commission's contributions for the years ending December 31, 2005, 2004, and 2003, were $12,853, $12,388, and $11,934, respectively, equal to the contractually required contributions for each year as set by state statute.

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 Insurance 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.

   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 $760,000 per claim in 2005 and $390,000 per claim in 2006. 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.

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Management and Compliance Section

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Tri-County Solid Waste Commission

We have audited the basic financial statements of the Tri-County Solid Waste Commission as of and for the year ended December 31, 2005, and have issued our report thereon dated October 16, 2006.

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories except public indebtedness, because the Tri-County Solid Waste Commission has no long-term debt other than compensated absences.

The results of our tests indicate that, for the items tested, the Tri-County Solid Waste Commission complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners and management 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

End of Fieldwork: October 16, 2006