Ramsey/Washington
RECYCLING & ENERGY BOARD

2785 White Bear Ave N, Suite 350, Maplewood MN 55109
MoreValueLessTrash.com | 651-266-1199

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2016

ANNUAL FINANCIAL REPORT

OF THE

RAMSEY/WASHINGTON RECYCLING AND ENERGY BOARD

Year Ended December 31, 2016

Prepared by:
Accounting Department
Ramsey/Washington Recycling and
Energy Board

RAMSEY/WASHINGTON RECYCLING AND ENERGY BOARD

TABLE OF CONTENTS

	Reference	Page
INTRODUCTORY SECTION		
LETTER OF TRANSMITTAL		1
ORGANIZATION		8
FINANCIAL SECTION		
Independent Auditor's Report		9
MANAGEMENT'S DISCUSSION AND ANALYSIS		11
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	Exhibit A	15
Statement of Activities	Exhibit B	16
Fund Financial Statements		
General Fund Financial Statements		
Balance Sheet	Exhibit C	17
Statement of Revenues, Expenditures, and Changes in Fund Balance	Exhibit D	18
Enterprise Fund Financial Statements		
Statement of Net Position	Exhibit E	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	Exhibit F	20
Statement of Cash Flows	Exhibit G	21
Notes to the Financial Statements		23
Required Supplementary Information		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparisons (Non-GAAP Budgetary Basis)	Schedule 1	34
Notes to the Required Supplementary Information		35

INTRODUCTORY SECTION

Ramsey/Washington
RECYCLING &
ENERGY BOARD

2785 White Bear Ave.
Suite 350
Maplewood, MN 55109
Office: 651-266-1199
Fax: 651-266-1177
info@morevaluelesstrash.com
morevaluelesstrash.com

May 17, 2017

Honorable Chair & Members
Ramsey/Washington Recycling and Energy Board
2785 White Bear Avenue, Suite 350
Maplewood, MN 55109

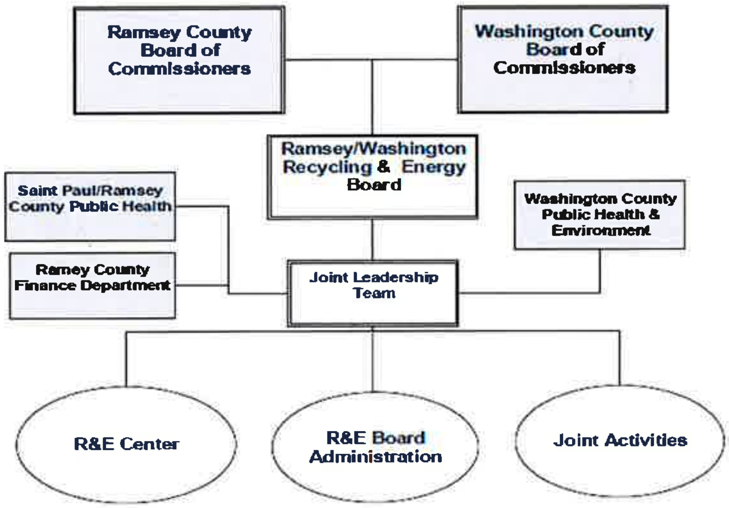
The annual financial report of the Ramsey/Washington Recycling and Energy Board (R&E Board) is submitted for the fiscal year ended December 31, 2016. This report was prepared by the R&E Board Accounting Department. Responsibility for both the accuracy of the presented data and completeness and fairness of the presentation, including all disclosures, rests with administration of the R&E Board. We have prepared this report in conformity with generally accepted accounting principles (GAAP) as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB).

We believe the data is accurate in all material aspects and sets forth the financial position and results of operations of the R&E Board, as measured by the financial activity of its funds, and all disclosures necessary to enable maximum understanding of the financial affairs of the R&E Board.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Organization and Purpose

The R&E Board (formerly Ramsey/Washington Resource Recovery Project Board, or "Project Board") was established according to a Joint Powers Agreement approved by Ramsey and Washington Counties, in recognition of the need for developing alternatives to landfill disposal of solid waste and for recovering valuable resources, and in response to the directives of the State of Minnesota. In 2016 the R&E Board consisted of five Ramsey County Commissioners, four Washington County Commissioners, and two ex-officio non-voting members, one from the Minnesota Pollution Control Agency (MPCA) and one from the City of Newport. The R&E Board provides joint solid waste services to all residents, businesses and institutions in the two counties.



At inception, the Project Board administered the responsibilities of both Counties regarding their joint Service Agreement with Northern States Power Company (NSP) for design, construction, ownership and operation of the Resource Recovery Facility located in the City of Newport. In 1993, the Service Agreement with NSP was amended to transfer ownership of the Newport Facility from NSP to NRG Energy, Inc. In June 2006, the Service Agreement was amended to transfer the ownership of, and responsibility for, the Facility from NRG to Resource Recovery Technologies (RRT). The Service Agreement remained in effect until December 31, 2006.

Beginning January 1, 2007, the Counties and RRT entered into a Processing Agreement that obligated the Counties to pay a processing payment to the owner of the facility for each ton of Ramsey/Washington waste delivered to the facility up to 350,000 tons, and also to pay a rebate to waste haulers that deliver waste to the Facility. RRT was responsible for contracting with waste haulers for delivery of waste, and for meeting a number of service guarantees. This agreement expired December 31, 2012.

Beginning January 1, 2013, a new three-year processing agreement with RRT became effective. From 2013 – 2015 RRT continued to accept mixed municipal solid waste generated in Ramsey and Washington Counties, as well as other counties, and process it into fuel that is used at two electric generating plants owned by Xcel Energy. The 2013-2015 agreement eliminated the processing payment to the owner of the facility, but continued the rebate payments to waste haulers for every ton delivered to the Facility. The rebate during the three-year term was $28 per ton and the Counties' 2015 exposure for this expense was capped at $8.4 million. Any hauler rebates above $8.4 million paid in a single year of the contract term were reimbursed to the Project Board by RRT. In addition, the Counties had an exclusive option to purchase the Facility at the end of the term. During the term of this processing agreement the counties conducted extensive analyses to determine whether to exercise their option to purchase. In addition, RRT and the counties, following a process set forth in the processing agreement, arrived at an option purchase price following negotiations and arbitration.

In September, 2015 the Ramsey and Washington County Boards adopted an amended and restated Joint Powers Agreement (JPA). That agreement broadened the powers of the former Project Board, and was renamed the Ramsey/Washington Recycling and Energy Board.

The administrative structure outlined in the current JPA includes:

- A Joint Leadership Team (JLT) comprised of one member of the Washington County Department of Public Health and Environment, one member of the Saint Paul – Ramsey County Public Health, Environmental Health Division, and one member of the Ramsey County Finance Department. Authorization to the JLT to carry out project management activities is provided for in the Joint Powers Agreement and Bylaws adopted by the R&E Board.

- The R&E Board is authorized to employ staff, and six staff positions were approved by the R&E Board in 2015. Other staff support is provided by the Saint Paul – Ramsey County Public Health, Environmental Health Division, and the Washington County Department of Public Health and Environment.

- The R&E Board entered into a Fiscal Agent Agreement with Ramsey County for financial management, and a purchase of services agreement with Ramsey County for Human Resources Services.

- Legal representation for the R&E Board is provided by the Ramsey and Washington County Attorney's Offices. Special legal counsel may be retained upon the advice of those offices. Risk management services are provided through a consultant.

The operations of the R&E Board have been financed by Ramsey and Washington Counties in proportion to the estimated quantity of waste generated by each county as set forth in the Joint Powers Agreement.

Reporting Entity Significant Events in 2016

2016 was a significant year for the R&E Board. Following substantial due diligence activity in late 2015, the R&E Board completed the purchase of the Ramsey/Washington Recycling & Energy Center (R&E Center) on December 31, 2015.

The R&E Board contracted with a transitional facility operator to assist with transferring from private to public operation. The operator's responsibilities were set forth in a Transitional Operations and Maintenance Agreement between the R&E Board and the operator. The R&E Board identified Great River Energy (GRE) to serve as the operator because GRE operates a facility similar to the R&E Center. For purposes of the agreement, GRE formed a Minnesota Limited Liability Corporation (LLC) named Great River Energy Newport Services (GRENS), which is exclusively owned by GRE. Under the terms of the agreement, GRENS performs operations and maintenance services for the facility with the intent of transitioning full operation and management to the R&E Board at the end of 2017. The agreement was entered into in December 2015, and went fully into effect with the purchase on December 31, 2015.

At midnight on December 31, the former Resource Recovery Technology employees became GRENS employees and continued to operate the facility seamlessly. GRENS is reimbursed for all costs incurred in connection with its responsibilities under the agreement and is also to be paid a management fee. This "pass-through" payment approach creates sufficient flexibility during the transition.

As part of the agreement with GRENS, an Operations Committee was established to guide operations and ensure a smooth transition. The committee consists of the JLT, the GRENS representative and the GRENS facility manager. In 2016, the committee met bi-monthly early in the year and monthly thereafter. The committee ensured consistent dialogue regarding a variety of topics related to ongoing operations. GRENS manages operational projects while the R&E Board staff manages administrative and policy-related projects.

In 2016, Ramsey and Washington Counties initiated the waste designation implementation process. Waste designation is the term used in Minnesota law that allows the Counties to enact an ordinance that requires all or a portion of solid waste to be delivered to a designated waste management facility. State law provides detailed direction, under the approval authority of the MPCA for implementing designation. The process included initial planning and engagement with affected parties, such as the waste industry and municipalities, followed by implementation through the development of contracts and ordinances. The process will take about two years. In order for Ramsey and Washington Counties to implement designation, both needed to amend their respective Solid Waste Master Plans to ensure they were consistent with the Metropolitan Solid Waste Policy Plan in relation to waste designation. The amendments solely affected the chapter on processing, which was identical in both county plans.

The R&E Board coordinated preparation of the Ramsey and Washington Counties Joint Waste Designation Plan (Designation Plan). The Designation Plan envisioned designating the R&E Center as the point of delivery for all acceptable mixed municipal solid waste generated in the two counties. The plan outlined state and regional policies related to designation, described the existing solid waste system in the two counties, what the system to be implemented will be, evaluated benefits and costs of designation, and evaluated alternatives.

The MPCA has pledged to enforce Minn. Stat. Section 473.848 which directs that a person may not dispose of unprocessed mixed municipal solid waste generated in the metropolitan area at a waste disposal facility unless the waste disposal facility meets the standards in Minn. Stat. Section 473.849 and:

(1) the waste has been certified as unprocessible by the R&E Board; or

(2)(i) the waste has been transferred to the disposal facility from a resource recovery facility;

(ii) no other resource recovery facility serving the metropolitan area is capable of processing the waste; and

(iii) the waste has been certified as unprocessible by the operator of the resource recovery facility.

In July, the R&E Board recommended that the two County Boards approve the Master Plan Amendments. This was followed by action by the two County Boards in August and submittal of the Master Plan Amendments to the MPCA for approval.

The Designation Plan was approved by the R&E Board in July, and by the two County Boards in August, and was submitted for review by the MPCA.

Both Counties' Master Plan Amendments and the Designation Plan were approved by the MPCA in November. Approved plans are posted on the R&E Board's website.

During 2016, the R&E Board continued a joint County effort to build on its previous work on non-residential and organic waste management. Since 2003, the R&E Board has retained a consultant, EcoConsilium, Inc. (formally JL Taitt and Associates), to provide outreach and technical assistance to non-residential generators of organic waste, specifically institutional generators. The R&E Board first retained Minnesota Waste Wise Foundation in 2013, to provide outreach and technical assistance to businesses on recycling and organic waste management. For seven years, the R&E Board has contracted with Second Harvest Heartland for food rescue services, recovering edible food waste primarily from grocery stores and supplying it to recipient agencies such as food shelves and homeless shelters. In 2016, the R&E Board continued a starter grant program that uses financial grants aimed at commercial businesses to increase recycling and organics management. In 2016, 160 grantees received over $965,000 in grant funds.

The R&E Board provides outreach and promotion to both Counties on general solid waste issues. Working jointly provides efficiency in design and delivery of messages, as well as consistency in the east-metro area. Each County has its own efforts to reach various residential and nonresidential audiences; the R&E Board's efforts are designed to complement the work of each County.

Activities in 2016 included publications (a comprehensive "Green Guide") mailed directly to households in both counties, online advertising, lending Trash Trunks for group educational activities, and tours of the R&E Center. An important component of the future of waste processing is to provide information and outreach to stakeholders. A public relations firm was retained to cultivate participation by stakeholders like waste haulers, energy providers, business associations, and homeowners.

Financial Management

The R&E Board uses the Ramsey County accounting system, as provided by the Joint Powers Agreement.

Internal Controls:

Management of the R&E Board is responsible for establishing and maintaining internal controls designed to ensure that the assets of the R&E Board are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

We believe that the R&E Board's internal accounting controls adequately safeguard assets and provide reasonable assurance and proper recording of financial transactions.

Budgetary Control:

Budgetary control is maintained at a departmental level by encumbrance of estimated purchase and contract amounts prior to the release of purchase orders and contract payments to vendors. Purchase orders or contracts, which result in an overrun of line item balances, are not released until additional appropriations are made available.

Notes to the Financial Statements:

The Notes to the Financial Statements, presented with the financial statements, are an integral part of this annual financial report and should be read for a fuller understanding of the statements and information presented within.

Independent Audit

Minnesota State Law requires an audit of the books of account, financial records and transactions by the Office of the State Auditor. This requirement has been complied with and the independent auditor's report has been included in this report. The Office of the State Auditor will issue a management and compliance letter covering the review made as part of the R&E Board's system of internal control and compliance with applicable legal provisions. The management and compliance letter will not modify or affect, in any way, this report on the financial statements.

Acknowledgements

We thank the Ramsey/Washington Recycling and Energy Board members for their interest and support in planning and conducting financial activities in a responsible manner.

Sincerely,

Kris Wehlage, Accounting Manager
Ramsey/Washington Recycling and Energy Board

Zack Hansen, Recycling & Energy Board Joint Leadership Team
Ramsey County

Judy Hunter, Recycling & Energy Board Joint Leadership Team
Washington County

Sean Pfeiffer, Recycling & Energy Board Joint Leadership Team
Ramsey County Finance Department

RAMSEY/WASHINGTON
RECYCLING AND ENERGY BOARD

ORGANIZATION
December 31, 2016

Board

Fran Miron	Chair	Commissioner-Washington County
Victoria Reinhardt	Vice-Chair	Commissioner-Ramsey County
Lisa Weik	Member	Commissioner-Washington County
Karla Bigham	Member	Commissioner-Washington County
Toni Carter	Member	Commissioner-Ramsey County
Blake Huffman	Member	Commissioner-Ramsey County
Gary Kriesel	Member	Commissioner-Washington County
Rafael Ortega	Member	Commissioner-Ramsey County
MaryJo McGuire	Member	Commissioner-Ramsey County
Dave Benke	Ex-Officio	Minnesota Pollution Control Agency
Tom Ingemann	Ex-Officio	Newport City Council

County Attorneys

George Kuprian	Washington County
John Ristad	Ramsey County

Joint Leadership Team

Zack Hansen	Ramsey County	Environmental Health (Lead Staff)
Judy Hunter	Washington County	Public Health and Environment
Sean Pfeiffer	Ramsey County	Finance

Support & Advisory Staff

Gail Blackstone	Ramsey County	Human Resources Director
Lee Mehrkens	Ramsey County	Finance Director
Jim Hall	Ramsey County	Chief Information Officer
Tabatha Hansen	Washington County	Financial Services Director

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Ramsey/Washington Recycling and Energy Board
Maplewood, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Ramsey/Washington Recycling and Energy Board as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Ramsey/Washington Recycling and Energy Board'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 opinions 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 Ramsey/Washington Recycling and Energy Board'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 Ramsey/Washington Recycling and Energy Board'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Ramsey/Washington Recycling and Energy Board as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 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 Governmental Accounting Standards Board, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ramsey/Washington Recycling and Energy Board's basic financial statements. The introductory section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The management of the Ramsey/Washington Recycling and Energy Board (R&E Board), formerly known as the Ramsey/Washington County Resource Recovery Project, offers readers of its financial statements, this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2016. Readers are encouraged to consider this information in conjunction with additional information that has been furnished in the letter of transmittal and notes to the financial statements which can be found on pages 1 and 23 respectively, of this report.

The funds and entities related to the R&E Board included in the Annual Financial Report are considered to be under the responsibility of the R&E Board. Ramsey and Washington Counties are each responsible for reporting their share of the financial information from this joint venture.

Financial Highlights

- The assets of the R&E Board exceeded its liabilities at the close of the most recent fiscal year by $6,086,019 (net position). Of this amount, $6,028,907 (unrestricted net position) may be used to meet ongoing obligations to creditors.
- The total net position increased by $2,840,476. This compares with 2015 when the net position decreased $1,485,237.
- R&E Board received $4,100,000 in 2016 for an operating reserve from Ramsey County ($2,993,000) and Washington County ($1,107,000).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the R&E Board's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the R&E Board's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the R&E Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the R&E Board is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The R&E Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of the R&E Board is classified as a governmental fund and the Enterprise Fund is classified as a proprietary fund.

1) Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

   Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities.

2) Proprietary funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing services be financed or recovered primarily through user charges. The R&E Board maintains one proprietary fund. The proprietary fund statements provide separate information for the Enterprise Fund.

Financial Analysis of the Ramsey/Washington Recycling and Energy Board

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the R&E Board, assets exceeded liabilities by $6,086,019 at the close of the most recent fiscal year and by $3,245,543 at the close of 2015.

Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	$ 3,999,231	$ 5,404,461	$ 14,209,020	$ 1,265,287	$ 18,208,251	$ 6,669,748
Capital Assets	-	-	23,279,825	23,173,024	23,279,825	23,173,024
Total Assets	3,999,231	5,404,461	37,488,845	24,438,311	41,488,076	29,842,772
Other Liabilities	1,903,956	2,158,918	5,641,096	-	7,545,052	2,158,918
Long Term Liabilities	-	-	27,857,005	24,438,311	27,857,005	24,438,311
Total Liabilities	1,903,956	2,158,918	33,498,101	24,438,311	35,402,057	26,597,229
Net Position:						
Net Investment in Capital Assets	-	-	57,112	-	57,112	-
Unrestricted	2,095,275	3,245,543	3,933,632	-	6,028,907	3,245,543
Total Net Position	$ 2,095,275	$ 3,245,543	$ 3,990,744	$ -	$ 6,086,019	$ 3,245,543

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services and Other	$ 6,177,182	$ 9,812,670	$ 32,639,509	$ -	$ 38,816,691	$ 9,812,670
General Revenues:						
Investment Earnings	5,845	1,162	17,146	-	22,991	1,162
Miscellaneous	6,602	4,484	63,091	-	69,693	4,484
Capital Contributions	-	-	5,710,000	-	5,710,000	-
Total Revenues	6,189,629	9,818,316	38,429,746	-	44,619,375	9,818,316
Expenses:						
Sanitation	7,339,897	11,303,553	34,439,002	-	41,778,899	11,303,553
Increase/(Decrease) in Net Position	(1,150,268)	(1,485,237)	3,990,744	-	2,840,476	(1,485,237)
Net Position – Beginning	3,245,543	4,730,780	-	-	3,245,543	4,730,780
Net Position – Ending	$ 2,095,275	$ 3,245,543	$ 3,990,744	$ -	$ 6,086,019	$ 3,245,543

Governmental Fund. At the end of 2016, the General Fund's fund balance was $1,629,235. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to expenditures. The fund balance represents 22% of total expenditures.

The General Fund's expenditures decreased by $3,966,224 from 2015. The primary reason in change in expenditures is related to the hauler rebates. The hauler rebate went from $28 per ton in 2015 to $12 per ton in 2016.

Proprietary Fund. 2016 was the first year of operations of the Recycling and Energy Center.

General Fund Budgetary Highlights

The 2016 budget was developed having hired four staff on January 1, 2016. Two staff were hired at the end of October and one staff mid-December. The final budget was adjusted to reflect actual hire dates.

Actual revenues were under final budget due to the fact that the Counties reimburse the R&E Board based on actual expenditures, not expenditures on the non-GAAP budgetary basis.

The R&E Board's Capital Assets
(Net of Accumulated Depreciation)

	Business-Type Activities	
	2016	2015
Land	$ 877,858	$ 877,858
Buildings	7,909,321	8,182,057
Machinery and Equipment	14,492,646	14,113,109
Total Capital Assets	$ 23,279,825	$ 23,173,024

The R&E Board's Long-Term Debt

	Business-Type Activities	
	2016	2015
Advance From Other Governments	$ 28,588,000	$ 24,438,311

Economic Factors and Next Year's Budget and Rates

The R&E Board approved the 2017 General Fund budget for $8,419,346, which represents a 1% decrease from 2016.

Request for Information

This financial report is designed to give a general overview of the R&E Board's finances. Requests for additional information or questions concerning any information provided in this report should be addressed to Ramsey/Washington Recycling and Energy Board, 2785 White Bear Avenue, Suite 350, Maplewood MN 55109.

EXHIBIT A

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets			
Cash and Investments	$ 1,867,225	$ 8,697,261	$ 10,564,486
Accounts Receivable	-	4,056,001	4,056,001
Due From Other Governments	2,132,006	268,229	2,400,235
Inventories	-	1,187,529	1,187,529
Total Current Assets	3,999,231	14,209,020	18,208,251
Noncurrent Assets			
Capital Assets:			
Nondepreciable			
Land	-	877,858	877,858
Depreciable			
Building	-	8,182,057	8,182,057
Machinery and Equipment	-	16,928,736	16,928,736
Less: Accumulated Depreciation	-	(2,708,826)	(2,708,826)
Total Noncurrent Assets	-	23,279,825	23,279,825
Total Assets	3,999,231	37,488,845	41,488,076
LIABILITIES			
Current Liability			
Salaries Payable	11,393	-	11,393
Contracted Services Payable	-	874,773	874,773
Accounts Payable	1,524,766	3,488,624	5,013,390
Interest Payable	-	290,937	290,937
Due to Other Governments	365,230	255,767	620,997
Compensated Absences:			
Due Within One Year	2,567	-	2,567
Advance From Other Government - Current	-	730,995	730,995
Total Current Liabilities	1,903,956	5,641,096	7,545,052
Non Current Liabilities			
Advance From Other Governments	-	27,857,005	27,857,005
Total Liabilities	1,903,956	33,498,101	35,402,057
NET POSITION			
Net Investment in Capital Assets	-	57,112	57,112
Unrestricted	2,095,275	3,933,632	6,028,907
TOTAL NET POSITION	$ 2,095,275	$ 3,990,744	$ 6,086,019

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

EXHIBIT B

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Expenses:			
Sanitation:			
Materials and Services	$ 7,339,897	34,439,002	$ 41,778,899
Total Program Expenses	7,339,897	34,439,002	41,778,899
Program Revenues:			
Charges for Services and Other	6,177,182	32,639,509	38,816,691
Net Program Expense	(1,162,715)	(1,799,493)	(2,962,208)
General Revenues:			
Investment Earnings	5,845	17,146	22,991
Miscellaneous	6,602	63,091	69,693
Capital Contribution	-	5,710,000	5,710,000
Total General Revenues	12,447	5,790,237	5,802,684
Increase (Decrease) in Net Position	(1,150,268)	3,990,744	2,840,476
Net Position - Beginning	3,245,543	-	3,245,543
Net Position - Ending	$ 2,095,275	$ 3,990,744	$ 6,086,019

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

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2016

ASSETS		
Cash and Investments	$	1,867,225
Due From Other Governments		2,132,006
TOTAL ASSETS		3,999,231
LIABILITIES AND FUND BALANCE		
Liabilities:		
Salaries Payable		11,393
Accounts Payable		1,524,766
Due to Other Governments		365,230
Total Liabilities		1,901,389
Deferred Inflows of Resources		
Unavailable Revenue		468,607
Fund Balance:		
Unassigned		1,629,235
Total Fund Balance		1,629,235
Reconciliation to Statement of Net Position (Exhibit A)		
Amounts reported for governmental activities in the statement of net position are different because:		
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the fund financial statements.		468,607
Long -term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements.		(2,567)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	2,095,275

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

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2016

Revenues:	
Charges for Services and Other	$ 6,752,963
Investment Earnings	5,845
Miscellaneous	6,602
Total Revenues	6,765,410
Expenditures:	
Sanitation	
Personal Services	40,031
Other Services and Charges	7,297,299
Total Expenditures	7,337,330
Excess (Deficiency) of Revenues Over Expenditures	(571,920)
Fund Balance at Beginning of Year	2,201,155
Fund Balance at End of Year	1,629,235
Reconciliation to Statement of Activities (Exhibit B):	
Net Change in Fund Balance - General Fund	(571,920)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the General Fund.	(575,781)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund.	(2,567)
Change in Net Position - Governmental Activities	$ (1,150,268)

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

EXHIBIT E

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF NET POSITION
ENTERPRISE FUND
DECEMBER 31, 2016

ASSETS		
Current Assets		
Cash and Investments	$	8,697,261
Accounts Receivable		4,056,001
Due From Other Governments		268,229
Inventories		1,187,529
Total Current Assets		14,209,020
Noncurrent Assets		
Capital Assets:		
Nondepreciable		
Land		877,858
Depreciable		
Buildings		8,182,057
Machinery and Equipment		16,928,736
Less: Accumulated Depreciation		(2,708,826)
Total Noncurrent Assets		23,279,825
Total Assets		37,488,845
LIABILITIES		
Current Liabilities:		
Contracted Services Payable		874,773
Accounts Payable		3,488,624
Interest Payable		290,937
Due to other Governments		255,767
Advance From Oher Governments - Current		730,995
Total Current Liabilities		5,641,096
Noncurrent Liability:		
Advance From Other Governments		27,857,005
Total Non Current Liability		27,857,005
Total Liabilities		33,498,101
NET POSITION		
Net Investment In Capital Assets		57,112
Unrestricted		3,933,632
TOTAL NET POSITION	$	3,990,744

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

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Sales	32,639,509
Miscellaneous	63,091
Total Operating Revenues	32,702,600
OPERATING EXPENSES	
Contracted Services	6,220,665
Fuel Supply	6,428,148
Landfill	3,054,737
Transportation	7,799,839
Facility Operations	6,573,603
Supplies	1,047,865
Depreciation	2,708,826
Total Operating Expenses	33,833,683
OPERATING INCOME (LOSS)	(1,131,083)
NONOPERATING REVENUES (EXPENSE)	
Interest Expense	(605,319)
Investment Earnings	17,146
Total Non-Operating Revenues (Expenses)	(588,173)
Income Before Contributions and Transfers	(1,719,256)
Capital Contributions	5,710,000
Change in Net Position	3,990,744
Total Net Position - Beginning	-
Total Net Position - Ending	3,990,744

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

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	28,378,370
Payments to Suppliers	(21,082,043)
Payments to Employees (Contracted)	(5,345,892)
Net Cash Provided (Used) for Operating Activities	1,950,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating Subsidies and Transfers from Other Funds	5,710,000
Advanced From Other Governments	4,149,689
Net Cash Provided(Used) for Noncapital Financing Activities	9,859,689
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(2,815,627)
Interest Paid on Advance From Other Governments	(314,382)
Net Cash Provided (Used) for Capital and Related Financing Activities	(3,130,009)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	17,146
Net Increase (Decrease) in Cash and Cash Equivalents	8,697,261
Cash and Cash Equivalents, January 1	-
Cash and Cash Equivalents, December 31	8,697,261

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

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
DECEMBER 31, 2016

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	(1,131,083)
Depreciation Expense	2,708,826
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(4,056,001)
(Increase) Decrease in Due From Other Governments	(268,229)
(Increase) Decrease in Inventories	77,758
Increase (Decrease) in Salaries Payable	874,773
Increase (Decrease) in Accounts Payable	3,488,624
Increase (Decrease) in Due to Other Governments	255,767
Net Cash Provided (Used) by Operating Activities	1,950,435

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ramsey and Washington Counties of Minnesota jointly entered into a construction agreement and a service agreement with Northern States Power Company (NSP) to build and operate a resource recovery facility which produces refuse derived fuel to be burned at NSP's electric plants. The counties administered the service agreement through a joint powers board called the Ramsey/Washington County Resource Recovery Project Board. In 1993, the service agreement with NSP was amended to transfer ownership of the Newport Facility (Facility) from NSP to NRG Energy, Inc. In 2000, Northern States Power Company merged with New Century Energies to form Xcel Energy (Xcel). In June 2006, the service agreement was amended to transfer the ownership of the Facility from NRG to Resource Recovery Technologies (RRT). The service agreement remained in effect until December 31, 2006. The service agreement obligated the Counties to deliver a minimum of 280,800 tons of solid waste per year to the Resource Recovery Project (Project) and pay a service fee based upon each ton of solid waste handled by the Facility, subject to a minimum fee based on 280,800 tons per year minimum and certain other adjustments. Owners of the Facility were obligated to accept, process, transport, and dispose of most of the County waste delivered to the Facility for twenty years. The service agreement terminated December 31, 2006, and the Counties entered into a six-year Solid Waste Processing Agreement with RRT that included payments to the owner for each ton of waste and rebates to qualified haulers for each ton of waste delivered to the Facility. That agreement expired December 31, 2012.

A new three-year agreement became effective January 1, 2013, and eliminated the payment of a service fee to the owner of the Facility. When the Processing Agreement with RRT was executed, RRT stated that it intended to evolve the Facility to where it could operate as a merchant facility, eventually competing with landfills or alternative options without the Counties' subsidies. Unlike NSP and NRG, RRT contracted directly with private haulers for waste delivery. Over the six-year term of the Processing Agreement, the Counties paid RRT a processing payment, and also paid hauler rebates that incentivized the haulers to deliver waste to the Facility. The payment for processing began at $40 per ton in 2007, and declined each year to $10 per ton in 2012. Hauler rebates began at $12 per ton, and increased to $14 per ton by 2012. Total annual cost to the Counties during that period ranged from $16.8 million (2007) to $8.4 million (2012).

In 2007, not long after the Processing Agreement was executed, the U.S. Supreme Court issued a decision on waste designation, or flow control, that determined that a government using its regulatory powers to direct waste to a publicly owned and operated Facility was not in conflict with the dormant Commerce Clause. This development created an opportunity for the Counties to reevaluate the public role in the waste management system. When the Counties' Processing Agreement with RRT ended in 2013, the Counties and RRT entered into a short-term renewal agreement (the "2013-2015 Processing Agreement") and began an extensive evaluation of whether the Counties should purchase the Facility.

The issue of the failure of the market to support a merchant approach was heavily documented during negotiations for an extension of the 2013-2015 Processing Agreement with RRT during 2012. As a result, policy direction was taken based on the determination that the market had failed, and a merchant approach was determined to not be possible. It is based on this policy direction that the 2013-2015 Processing Agreement included a provision for the Counties' option to purchase, and the Counties embarked on an evaluation of the future of processing during the term of the 2013-2015 Processing Agreement. Throughout the discussion of the 2013-2015 Processing Agreement with the Board, it was clear that the 2013-2015 Processing Agreement was assuring that processing would continue while the future of processing was determined, leading to a decision point in 2015.

The 2013-2015 Processing Agreement included no direct payment for processing, but the Counties agreed to pay a hauler rebate of $28 per ton up to an aggregate amount of $8.4 million per year (corresponding to 300,000 tons per year ("TPY") guaranteed to be accepted by RRT under the Processing Agreement). Rebate amounts paid to haulers over the $8.4 million cap were reimbursed to the Counties by RRT at the end of each year.

During the time in which RRT owned and operated the Facility, the Counties were able to assist RRT in obtaining an average of approximately 322,000 tons of waste each year, ranging from a low of 304,000 tons (2008) to a high of 346,000 tons (2015). However, during that same period, an average of 111,000 TPY of waste generated in the Counties was landfilled in Minnesota, Iowa, and Wisconsin, ranging from 77,000 tons (2013) to 167,000 tons (2007). In order to secure sufficient waste to operate, RRT worked to replace those missing tons by accepting waste generated outside the Counties. To incentivize haulers to deliver out-of-county waste to the Facility, RRT charged a tipping fee below the tipping fee of $86.22 per ton for waste generated in the Counties. As a result, RRT determined that hauler rebates for Ramsey/Washington waste, likely in increasing amounts, would be necessary for the foreseeable future. This is the situation that caused the Counties to determine that a merchant approach for operating the Facility was not feasible.

Prompted by the ability to exercise an option to purchase the Facility, the joint powers board conducted a policy evaluation on the future of waste processing in the East Metro area during 2013 and 2014. As with most issues related to solid waste, the analysis began with the Counties' respective Solid Waste Management Master Plans ("Master Plans"). Those Master Plans established current County policies related to waste management, and governed the evaluation process.

The Board decided to proceed with Facility acquisition in May 2015, with follow-up action by the two County Boards in June 2015. That triggered a number of actions, including:

- Negotiation of an Asset Purchase Agreement;
- Due diligence to resolve material issues and liabilities;
- Development of a financing structure for the purchase;
- Development of a transition plan for operations and development of an interim operations agreement.

The joint powers agreement between the Counties was amended in September 2015, and the Board was renamed the Ramsey/Washington Recycling and Energy Board (R&E Board).

On December 31, 2015 at 11:59 p.m., the R&E Board acquired the Facility and took over its operations. Indicative of its longer term plans to use the Facility as a hub for ever more ambitious waste management initiatives, the R&E Board renamed the Facility the Recycling and Energy Center, or the R&E Center. The R&E Board is in the process of evaluating the R&E Center's functions and operations as well as implementing needed capital improvements aimed at improving safety and efficiency. The R&E Board will continue delivering the refuse derived fuel (RDF) processed at the R&E Center to Xcel Energy's RDF combustion units in Red Wing and Mankato. The R&E Board envisions the possible addition of Mixed Waste Processing ("MWP") at the R&E Center in the next few years, along with potential diversion of organics separated at the R&E Center to anaerobic digestion, as well as a shift from using all the RDF at Xcel's combustion units to gasification of some or all of the RDF into biofuels and chemicals.

The Ramsey/Washington Recycling and Energy Board financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local government through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Ramsey/Washington Recycling and Energy Board are discussed below.

A. FINANCIAL REPORTING ENTITY

The Ramsey/Washington Recycling and Energy Board was established by a joint powers agreement dated September 22, 2015, pursuant to Minn. Stat Section 471.59. The R&E Board consists of five Ramsey County Commissioners and four Washington County Commissioners. The Commissioners are appointed by the respective County Boards with the Chair of the R&E Board rotating between the Commissioners from each County on a biennial basis. The powers of the R&E Board were expanded, most notably allowing it to own and operate the R&E Center in Newport. The purpose of the joint powers agreement is to create a structure for the joint ownership and operation of the R&E Center, and to define the responsibilities of the R&E Board.

The R&E Board has the authority to:

- Acquire, own, improve, hold and lease real and personal property;
- Manage and oversee the operation, maintenance and improvement of the R&E Center;
- Enter into contracts;
- Hire employees;
- Incur and discharge debt, including issuing bonds;
- Approve a Facility budget, including fees and charges each year; and
- Recommend a Joint Activities Budget for approval by the two County Boards.

The joint powers agreement establishes the apportionment between the two Counties of the joint activities costs and for other financial matters, such as funding an operating reserve fund and capital improvement fund, at 73 percent Ramsey County and 27 percent Washington County for the term of the agreement.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the R&E Board. The R&E Board's net position is reported in two parts: net investment in capital assets and unrestricted net position. The R&E Board first utilizes restricted resources to finance qualifying activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are charges for services provided by a given function. Revenues not classified as program revenues are presented as general revenues. Separate financial statements are provided for the governmental fund and proprietary fund.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide and proprietary fund 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.

The Enterprise Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operations of the Enterprise Fund is the charges to customers (tipping fees) for accepting waste at the Facility. Operating expenses for the Enterprise Fund include the cost related to operating and maintaining the Facility, transporting derived fuel, processing any remaining waste, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions to the Enterprise Fund consist of cash amounts contributed to the R&E Board by Ramsey County and Washington County in proportion to their respective obligations, 73% from Ramsey County and 27% from Washington County.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. Miscellaneous revenue is considered to be measurable and available only when cash is received by the government.

The R&E Board reports the General Fund as a major governmental fund. It accounts for all financial resources of the R&E Board except for those related to the operation of the Facility. The R&E Board also reports an Enterprise Fund as a major fund, which accounts for the operation and maintenance of the Facility.

D. BUDGET AND BUDGETARY ACCOUNTING

The R&E Board adopts a budget for the General Fund on the modified accrual basis of accounting. The Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit D) is prepared on a GAAP basis. Results of operations included in the Statement of Revenues, Expenditures, and Changes in Fund Balance-Budgetary Comparisons (Schedule 1), are presented on a Non-GAAP budgetary basis. The primary difference between the two bases of accounting is that the "actual" column in Schedule 1 does not include expenditures from prior years' reserve for encumbrances.

Encumbrances
Encumbrance accounting, under which purchase orders, contracts, capital reserves, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

E. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY ACCOUNTS

1) Assets:

Deposits and Investments:
The R&E Board invests funds in Ramsey County's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The R&E Board invests in this pool for the purpose of joint investment with the County in order to enhance investment earnings. There are no redemption limitations.

Minnesota statutes require that all R&E Board's deposits be covered by insurance, surety bond, or collateral. The types of securities available to the Ramsey County are authorized by Minn. Stat. Sections 118A.04 and 118A.05.

Earnings from these investments are allocated monthly to the R&E Board's General Fund based on average daily balances during the month.

Cash and cash equivalents are identified only for the purpose of the cash flow reporting by the proprietary fund. The R&E Board has defined cash and cash equivalents as the funds invested in Ramsey County's investment pool.

Accounts Receivable:
Accounts receivable at December 31, 2016, totaling $4,056,001, is for tipping fees due from haulers and citizens at the R&E Center. No allowance for uncollectible receivables have been provided because such amounts are not expected to be material.

Due From Other Governments:
Of the amounts due from other governments at December 31, 2016, $2,132,006 is due from Ramsey and Washington Counties.

Inventories:
Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

Capital Assets:
Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), and are reported in the business-type activities column in the government-wide financial statements as well as in the proprietary fund. Capital

assets are defined by the R&E Board as assets with an initial, individual cost of more than $5,000 (amended in 2017 to $15,000) for machinery and equipment to more than $100,000 for buildings, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-50
Building Improvements	5-20
Infrastructure	20-75
Machinery and Equipment	2-20
Computer Software	5-10

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

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not Being Depreciated:				
Land	$ 877,858	$ -	$ -	$ 877,858
Total Capital Assets, not Being Depreciated	877,858	-	-	877,858
Capital Assets, Being Depreciated:				
Buildings	8,182,057	-	-	8,182,057
Machinery and Equipment	14,113,109	2,815,627	-	16,928,736
Total Capital Assets Being Depreciated	22,295,166	2,815,627	-	25,110,793
Less Accumulated Depreciation for:				
Buildings	-	(272,736)	-	(272,736)
Machinery and Equipment	-	(2,436,090)	-	(2,436,090)
Total Accumulated Depreciation	-	(2,708,826)	-	(2,708,826)
Total Capital Assets Being Depreciated, Net	22,295,166	106,801	-	22,401,967
Business-Type Activities Capital Assets, Net	$ 23,173,024	$ 106,801	$ -	$ 23,279,825

2) Liabilities:

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Compensated Absences

It is the R&E Board's policy to permit employees to accumulate earned but unused paid time off benefits. All paid time off benefits that are vested as severance pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured: for example, as a result of employee resignations and retirements. The entire balance of the liability will be considered current until the balances are large enough to segregate a long term portion. Then the current portion of the liability will be calculated based on a five-year average of historical usage.

Advance From Other Governments

The R&E Board received financing to purchase the R&E Center from Ramsey and Washington Counties of $24,488,000. This amount will be paid back in semi-annual installments over 25 years.

The annual requirements to amortize long-term advance from other governments outstanding as of December 31, 2016, carrying interest rates of 0.55% to 3.25% are:

Business-Type Activities		
Years Ending December 31	Principal	Interest
2017	$ 730,995	$ 684,690
2018	718,637	662,808
2019	735,133	645,749
2020	752,005	627,904
2021	769,175	609,327
2022-2026	4,150,141	2,737,871
2027-2031	4,751,944	2,127,096
2032-2036	5,496,603	1,371,257
2037-2041	6,383,367	464,506
Total	$ 24,488,000	$ 9,931,208

In addition, the Counties advanced the R&E Board $4,100,000 for an operating reserve.

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
Governmental Activities					
Compensated absences	$ -	$ 3,519	$ 952	$ 2,567	$ 2,567
Business-Type Activities					
Advance From Other Governments	24,438,311	4,149,689	-	28,588,000	730,995
Total Long-Term Liabilities	$ 24,438,311	$ 4,153,208	$ 952	$ 28,590,567	$ 733,562

3) Deferred Inflows of Resources

In addition to liabilities, the General Fund Balance Sheet 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The R&E Board has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the General Fund Balance Sheet. The General Fund reports unavailable revenue from accounts receivable and due from other governments. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

4) Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

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

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

5) Fund Balance:

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the R&E Board is "bound to honor constraints on the specific purposes for which amounts in the fund can be spent" in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Minimum Fund Balance Policy

It is the policy of the R&E Board to maintain a minimum of two months of the subsequent year's expenditures for cash flow purposes. The R&E Board authorized the Joint Leadership Team to direct the R&E Board's fiscal agent to transfer amounts between the Enterprise Fund and the General Fund, to alleviate short-term cash shortages within one of the funds, and to be accounted for as advances to and from other funds and to be liquidated within three months.

Fund Balance Components

The components for reporting the R&E Board's fund balance are nonspendable, restricted, committed, assigned, and unassigned. Nonspendable fund balance includes those amounts that are not in spendable form, or are legally or contractually required to be maintained intact. Restrictions on fund balance are for a specific purpose, either externally imposed or imposed by law. Fund balance amounts that are committed need to be authorized prior to year-end and require a resolution by the R&E Board to establish or modify the commitment. The R&E Board is the highest level of decision making. Fund balance amounts that are assigned represent management intent for specific purposes. Assignments are subject to change and can be set by a lower level of authority designated by the R&E Board. The unassigned fund balance represents the residual net resources.

The R&E Board considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The R&E Board does not have a formal policy for its use of unrestricted fund balance amounts; therefore, it considers committed amounts to be used first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

6) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the 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 such estimates.

2. PENSION PLANS

Pension costs for the two Counties' employees assigned to work on R&E Board remain employees of their respective organizations and thus the pension costs are budgeted in the Saint Paul-Ramsey County Public Health and Washington County Department of Public Health and Environment budgets. The Counties charge the R&E Board the portion of pension plan cost related to the staff time working to the R&E Board, which reimburses those costs out of County Project Management Services.

A. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Ramsey/Washington Recycling and Energy Board 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.

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.

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.

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 Employee 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.

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. 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.

In 2016, the R&E Board was required to contribute 7.50 percent of annual covered salary.

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

The R&E Board's contribution for the General Employees Retirement Plan for the year ended December 31, 2016, were $1,711. The contributions are equal to the contractually required contributions as set by state statute.

3. RISK MANAGEMENT

The R&E Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters.

The R&E Board carries commercial insurance. The R&E Board has not reduced insurance coverage in the past year and has not had settlements in excess of insurance coverage.

Prior to October, employees of the R&E Board were employees of the Saint Paul - Ramsey County Department of Public Health, a department of Ramsey County, and were covered for Workers' Compensation claims by Ramsey County.

4. FINANCIAL CONDITION

The 2016 budget assumed 385,000 tons of waste deliveries at the Facility. Each County is responsible for financing its share of the budgeted $4,020,000 in hauler rebates. The rebates are $12 per ton of Ramsey/Washington County waste they deliver to the facility, following application for a rebate and verification by the R&E Board.

In 2016, the total for hauler rebates was $4,020,000 calculated as follows:

	Share	Amount
Ramsey County	73%	$ 2,934,600
Washington County	27%	1,085,400
Total		$ 4,020,000

RAMSEY / WASHINGTON RECYCLING AND ENERGY BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGETARY COMPARISONS (NON-GAAP BUDGETARY BASIS)
YEAR ENDED DECEMBER 31, 2016

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL ON A BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET OVER (UNDER)
Revenues:				
Charges for Services	$ 8,508,111	$ 8,508,111	$ 6,752,963	$ (1,755,148)
Investment Earnings	-	-	5,845	5,845
Miscellaneous	-	-	6,602	6,602
Total Revenues	8,508,111	8,508,111	6,765,410	(1,742,701)
Expenditures:				
Personal Services	456,111	40,031	40,031	-
Other Services and Charges	8,052,000	7,998,850	7,998,850	-
Total Expenditures	8,508,111	8,038,881	8,038,881	-
Excess (Deficiency) of Revenues Over Expenditures	-	469,230	(1,273,471)	(1,742,701)
Adjustment (Note 1D)	701,551	701,551	701,551	-
Fund Balance at Beginning of Year	2,201,155	2,201,155	2,201,155	-
Fund Balance at End of Year	$ 2,902,706	$ 3,371,936	$ 1,629,235	$ (1,742,701)

See accompanying notes to the required supplementary information.

Budgetary Information

The annual budget for the General Fund that was approved by the Recycling and Energy Board (R&E Board).

The Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund is prepared on a GAAP basis. Results of operations included in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund - Budgetary Comparisons are presented on a Non-GAAP budgetary basis. The primary difference between the two bases of accounting is that the "actual on a budgetary basis" column includes encumbrances and does not include expenditures from prior year budget reserves.

Adjustments necessary to convert actual expenditures reported on the budgetary basis in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund – Budgetary Comparisons to the GAAP basis as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund are:

	General
Actual Expenditures - Budgetary Basis	$ 8,038,881
Encumbrances	(1,310,448)
Increase:	
Expenditures in 2016 from December 31, 2015	608,897
Expenditures - GAAP Basis	$ 7,337,330
Encumbrances	$ (1,310,448)
Expenditures in 2016 from December 31, 2015 Reserves for Encumbrances	608,897
Adjustment to Reconcile Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund - Budgetary Comparisions to Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	$ (701,551)

Based on a process established by the R&E Board, the Joint Leadership Team (JLT) performs analysis, evaluations, and prepares an original draft budget for the review of the Budget Committee. The Budget Committee submits their budget and financial recommendations to the R&E Board every two years. Any supplemental budget revisions, if any, follow the same process as the original budget. The R&E Board's budget requirements are submitted to both Ramsey County and Washington County for funding once the budget is approved.

The appropriated budget is prepared by fund. Budgets may be amended during the year with the approval of the R&E Board. The JLT is authorized to transfer budgeted amounts between funds or appropriate certain revenues received in excess of the original budget estimate. Transfers of appropriations between funds and other transfers of appropriations require JLT approval. When the R&E Board approves, the JLT directs the R&E Board's fiscal agent (Ramsey County Finance Department) to make the budget changes. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations, which are not expended, or encumbered, lapse at year end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, capital reserves, and other commitments for the expenditure of monies) outstanding at year end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.