

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

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 - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

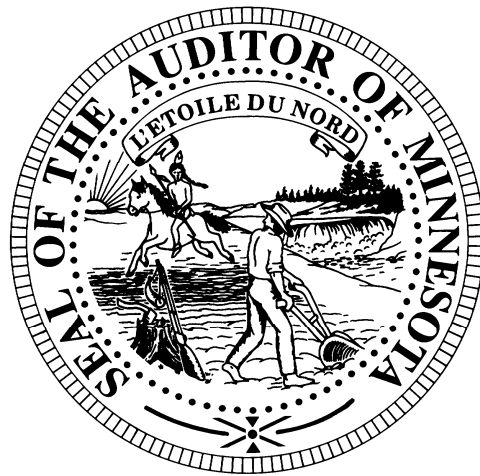
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

For the Year Ended December 31, 2006



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

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

		<u>Term Expires</u>
Board of Directors		
Douglas County		
Board Member	John Mingus	December 2006
Board Member	Dan Olson	December 2006
Board Member	David Nelson	Indefinite
Pope County		
Chair	Robert McCrory	December 2006
Board Member	Keith Naig	December 2006
Officers		
Executive Director	Peter Olmscheid	Indefinite
Environmental Coordinator	Bonita Gilbertson	Indefinite
Plant Manager	Darrell Connell	Indefinite
Office Manager	Donna Pederson	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pope-Douglas Solid Waste Board

We have audited the basic financial statements of the Pope-Douglas Solid Waste Board (a component unit of Douglas County) as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the management of the Pope-Douglas Solid Waste Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Pope-Douglas Solid Waste Board at December 31, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2007, on our consideration of the Pope-Douglas Solid Waste Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 10, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

The Pope-Douglas Solid Waste Board's Management's Discussion and Analysis (MD&A) provides an overview of the Board's financial activities for the fiscal year ended December 31, 2006. 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 Board's financial statements.

The Pope-Douglas Solid Waste Board is a joint enterprise operation of Pope and Douglas Counties to operate and manage an integrated waste management system within Pope and Douglas Counties. The Board operates a waste-to-energy plant, a materials recycling facility, and a landfill.

The Pope-Douglas Solid Waste Board is a component unit of Douglas County because Douglas County is financially accountable for the Board. The Board's financial statements are discretely presented in the Douglas County financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Pope-Douglas Solid Waste Board'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 the Pope-Douglas Solid Waste Board'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 Board.
- The statement of revenues, expenses, and changes in net assets provides information on changes in the Board's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.
- The statement of cash flows reports sources and uses of cash for the Board.

FINANCIAL ANALYSIS

Net Assets

	2006	2005	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 8,546,486	\$ 7,509,452	\$ 1,037,034	13.8
Capital assets	12,431,223	13,155,009	(723,786)	(5.5)
Total Assets	\$ 20,977,709	\$ 20,664,461	\$ 313,248	1.5
Liabilities				
Long-term liabilities	\$ 594,834	\$ 455,714	\$ (139,120)	(30.5)
Other liabilities	165,506	219,390	53,884	24.6
Total Liabilities	\$ 760,340	\$ 675,104	\$ (85,236)	(12.6)
Net Assets				
Invested in capital assets	\$ 12,431,223	\$ 13,155,009	\$ (723,786)	(5.5)
Restricted	786,425	755,000	31,425	4.2
Unrestricted	6,999,721	6,079,348	920,373	15.1
Total Net Assets	\$ 20,217,369	\$ 19,989,357	\$ 228,012	1.1

Net assets of the Board increased slightly by 1.1 percent. Unrestricted net assets totaling \$6,999,721 are available to finance the day-to-day operations of the Board.

Change in Net Assets

	2006	2005	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	\$ 2,785,375	\$ 2,513,770	\$ 271,605	10.8
Miscellaneous	34,675	95	34,580	364.0
Nonoperating revenues				
Special assessments	1,258,432	1,193,450	64,982	5.4
Intergovernmental	142,808	141,840	968	0.7
Interest income	269,955	151,844	118,111	77.8
Total Revenues	\$ 4,491,245	\$ 4,000,999	\$ 490,246	12.3

	2006	2005	Increase (Decrease)	Percent Change (%)
Operating Expenses				
Payroll	\$ 1,300,682	\$ 1,122,223	\$ (178,459)	(15.9)
Employee benefits and payroll taxes	305,064	282,579	(22,485)	(8.0)
Professional services	403,785	378,098	(25,687)	(6.8)
Supplies	179,423	232,251	52,828	22.7
SCORE	325,060	363,582	38,522	10.6
Travel	15,351	19,885	4,534	22.8
Telephone	4,349	3,494	(855)	(24.5)
Utilities	168,493	164,237	(4,256)	(2.6)
Advertising	7,005	7,299	294	4.0
Insurance	182,668	150,486	(32,182)	(21.4)
Postage	743	1,329	586	44.1
Commodity freight	17,493	9,805	(7,688)	(78.4)
Repairs and maintenance	423,029	600,142	177,113	(29.5)
Miscellaneous	37,623	16,810	(20,813)	(123.8)
Depreciation	875,008	942,285	67,277	7.1
Landfill closure and postclosure care costs	17,457	171,751	154,294	89.8
Total Operating Expenses	\$ 4,263,233	\$ 4,466,256	\$ 203,023	4.5
Increase (Decrease) in Net Assets	\$ 228,012	\$ (465,257)	\$ 693,269	149.0

Revenues increased 12.3 percent. The increase in charges for services was due to an increase in tons of waste received. The Board also approved an increase in special assessments in 2006. The increase in interest income is due to increased investments and increased interest rates in 2006. Expenses decreased in 2006 because of a reduction in repairs and a reduction of landfill closure and postclosure costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

	2006	2005	Increase (Decrease)	Percent Change (%)
Land	\$ 179,288	\$ 179,288	\$ -	-
Land improvements	2,592,050	2,668,783	(76,733)	(2.9)
Buildings	4,155,527	4,279,237	(123,710)	(2.9)
Machinery, furniture, and equipment	5,504,358	6,027,701	(523,343)	(8.7)
Totals	\$ 12,431,223	\$ 13,155,009	\$ (723,786)	(5.5)

The materials recycling facility added a fines enclosure in 2006.

During 2006 and 2005, the Pope-Douglas Solid Waste Board did not have any outstanding debt.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Pope-Douglas Solid Waste Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Executive Director, Peter Olmscheid, 2115 South Jefferson, Alexandria, Minnesota 56308.

BASIC FINANCIAL STATEMENTS

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

Assets

Current assets		
Cash and pooled investments	\$	1,455,914
Petty cash and change funds		300
Investments		5,352,878
Special assessments		
Current		67,747
Prior		15,640
Accounts receivable - net		400,840
Accrued interest receivable		46,618
Due from other governments		9,989
Prepaid items		10,311
Restricted assets		
Investments		1,183,554
Accrued interest receivable		2,695
		<hr/>
Total current assets	\$	8,546,486
		<hr/>
Noncurrent assets		
Capital assets		
Nondepreciable	\$	179,288
Depreciable - net		12,251,935
		<hr/>
Total capital assets	\$	12,431,223
		<hr/>
Total Assets	\$	20,977,709

Liabilities

Current liabilities		
Accounts payable	\$	99,566
Salaries payable		58,853
Compensated absences payable - current		6,086
Due to other governments		1,001
		<hr/>
Total current liabilities	\$	165,506
		<hr/>
Noncurrent liabilities		
Compensated absences payable - long-term	\$	195,010
Estimated liability for landfill closure and postclosure care costs		399,824
		<hr/>
Total noncurrent liabilities	\$	594,834
		<hr/>
Total Liabilities	\$	760,340

Net Assets

Invested in capital assets	\$	12,431,223
Restricted for closure and postclosure care costs		786,425
Unrestricted		6,999,721
		<hr/>
Total Net Assets	\$	20,217,369

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Operating Revenues	
Charges for services	\$ 2,785,375
Miscellaneous	34,675
	2,820,050
Total Operating Revenues	\$ 2,820,050
Operating Expenses	
Payroll	\$ 1,300,682
Employee benefits and payroll taxes	305,064
Professional services	403,785
Supplies	179,423
SCORE	325,060
Travel	15,351
Telephone	4,349
Utilities	168,493
Advertising	7,005
Insurance	182,668
Postage	743
Commodity freight	17,493
Repairs and maintenance	423,029
Miscellaneous	37,623
Depreciation	875,008
Landfill closure and postclosure care costs	17,457
	4,263,233
Total Operating Expenses	\$ 4,263,233
Operating Income (Loss)	\$ (1,443,183)
Nonoperating Revenues (Expenses)	
Special assessments	\$ 1,258,432
Intergovernmental	142,808
Interest income	269,955
	1,671,195
Total Nonoperating Revenues (Expenses)	\$ 1,671,195
Change in Net Assets	\$ 228,012
Net Assets - January 1	19,989,357
	20,217,369
Net Assets - December 31	\$ 20,217,369

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,798,018
Payments to suppliers	(1,618,845)
Payments to employees	<u>(1,686,080)</u>
Net cash provided by (used in) operating activities	\$ (506,907)
Cash Flows From Noncapital Financing Activities	
Special assessments	\$ 1,203,069
Intergovernmental	<u>142,808</u>
Net cash provided by (used in) noncapital financing activities	\$ 1,345,877
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	<u>\$ (151,222)</u>
Cash Flows From Investing Activities	
Proceeds from sales of investments	\$ 4,815,738
Purchase of investments	(6,510,003)
Investment earnings received	<u>194,392</u>
Net cash provided by (used in) investing activities	\$ (1,499,873)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (812,125)
Cash and Cash Equivalents at January 1	<u>2,268,339</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,456,214</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (1,443,183)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 875,008
(Increase) decrease in accounts receivable	(21,489)
(Increase) decrease in due from other governments	(1,543)
(Increase) decrease in prepaid items	(936)
Increase (decrease) in accounts payable	(5,659)
Increase (decrease) in salaries payable	4,809
Increase (decrease) in compensated absences payable	68,326
Increase (decrease) in due to other governments	303
Increase (decrease) in landfill closure and postclosure care costs	<u>17,457</u>
Total adjustments	\$ 936,276
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (506,907)</u></u>
Noncash investing, capital, and financing activities	
Change in fair value of long-term investments	<u><u>\$ (20,115)</u></u>

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

The Pope-Douglas Solid Waste Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. 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 Board has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

A. Financial Reporting Entity

The Pope-Douglas Solid Waste Board is a joint enterprise operation of Pope and Douglas Counties (the Counties). The Board was established by a Joint Powers Agreement dated December 7, 1983, amended May 1, 1990, and amended again April 9, 1997, pursuant to Minn. Stat. § 471.59, 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 in its respective county. It is the intention of the Counties to cooperate in a joint venture to operate and manage an integrated waste management system within Douglas and Pope Counties. This purpose, without limitation, shall include the planning, administration, and operation of recycling programs; the ownership and operation of a waste-to-energy facility; and the ownership, operation, and management of any ash and/or by-pass landfill. The facility and administrative office are located in Alexandria, Minnesota.

The Board is governed by a five-member Board of Directors, two members appointed from Pope County and three from Douglas County. Receipts and disbursements are recorded in the Solid Waste Fund by the Douglas County Auditor/Treasurer. Douglas County's ownership is 75 percent, and Pope County's ownership is 25 percent.

The Pope-Douglas Solid Waste Board is a component unit of Douglas County because Douglas County is financially accountable for the Board. The Board's financial statements are discretely presented in the Douglas County financial statements.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of the Board are organized as an enterprise fund. The fund operating revenues, such as charges for services, 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 subsidies and investment earnings, result from nonexchange transactions or incidental activities. The Board's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets.

C. Measurement Focus and Basis of Accounting

The Board'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. Special assessments are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first and then unrestricted as needed.

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 cash and pooled investments and petty cash. The Board's cash is pooled and invested with Douglas County and is treated as a cash equivalent because the Board can deposit or effectively withdraw cash at any time without prior notice or penalty. Interest is credited to the Solid Waste **Special Revenue** Fund. Douglas County obtains collateral to cover the deposits in excess of insurance coverage.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Fund Investments

The Douglas County Auditor/Treasurer purchases investments for the Pope-Douglas Solid Waste Board upon its direction. Fund investments are reported at their fair value at December 31, 2006, based on market prices. Interest earned on such restricted investments is credited to the Solid Waste Special Revenue Fund. Additional disclosures as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on a County-wide basis in the Douglas County Annual Financial Report.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Board:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 2000 through 2006.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

5. Restricted Assets

Restricted assets represent the amounts set aside by the Board for landfill closure and postclosure financial assurances. Below is a summary of the restricted assets at December 31, 2006.

Restricted for closure and postclosure care costs	\$ 1,183,554
Accrued interest on restricted investments	<u>2,695</u>
Total	<u>\$ 1,186,249</u>

6. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the financial statements. Capital assets are defined by the Board as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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 Board did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Landfill	Based on capacity
Buildings	20 - 40
Building improvements	20 - 40
Furniture, equipment, and vehicles	5 - 10

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

8. Deferred Revenue

The financial statements defer revenue for resources that have been received, but not yet earned.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. 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 on All Funds

A. Assets

1. Receivables

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	\$ 83,387	\$ -
Accounts	400,840	-
Interest - unrestricted	46,618	-
Due from other governments	9,989	-
Interest - restricted	2,695	-
Total	\$ 543,529	\$ -

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Capital assets depreciated				
Land improvements	\$ 3,377,612	\$ -	\$ -	\$ 3,377,612
Buildings	6,065,561	74,447	-	6,140,008
Machinery, furniture, and equipment	8,712,702	76,775	-	8,789,477
Total capital assets depreciated	\$ 18,155,875	\$ 151,222	\$ -	\$ 18,307,097
Less: accumulated depreciation for				
Land improvements	\$ 708,829	\$ 76,733	\$ -	\$ 785,562
Buildings	1,786,324	198,157	-	1,984,481
Machinery, furniture, and equipment	2,685,001	600,118	-	3,285,119
Total accumulated depreciation	\$ 5,180,154	\$ 875,008	\$ -	\$ 6,055,162
Total capital assets depreciated, net	\$ 12,975,721	\$ (723,786)	\$ -	\$ 12,251,935
Capital Assets, Net	\$ 13,155,009	\$ (723,786)	\$ -	\$ 12,431,223

B. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

Accounts	\$ 99,566
Salaries	58,853
Due to other governments	1,001
Total Payables	<u>\$ 159,420</u>

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Leases

Operating Leases

The Pope-Douglas Solid Waste Board contracts with Alex Rubbish Services, Inc., to transport ash from the waste-to-energy incinerator, provide services to operate the landfill, and transport any leachate to a facility designated by the Board. The lease provides payments based upon the formula provided in the agreement. Lease payments were \$156,259 in 2006. The lease, beginning September 21, 2006, is for a two-year period and contains a 90-day cancellation notice by either party.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care costs	\$ 382,367	\$ 17,457	\$ -	\$ 399,824	\$ -
Compensated absences	132,770	182,573	114,247	201,096	6,086
Long-Term Liabilities	<u>\$ 515,137</u>	<u>\$ 200,030</u>	<u>\$ 114,247</u>	<u>\$ 600,920</u>	<u>\$ 6,086</u>

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Pope-Douglas Solid Waste Board 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.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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.

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.

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

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 Board 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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75. The Board is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Board's contributions for the years ending December 31, 2006, 2005, and 2004, were \$76,485, \$65,239, and \$60,760, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$399,824 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 7.5 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care of \$1,140,216 as the remaining estimated capacity is filled. These amounts are based

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

4. Landfill Closure and Postclosure Care Costs (Continued)

on what it would cost to perform all closure and postclosure care in 2006. The Board expects to close the landfill in 2161. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The Board is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2006, investments of \$1,183,554 are held for these purposes. These are reported as restricted assets on the statement of net assets. The Board expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Risk Management

The Board 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 Board carries commercial insurance. To cover these risks, the Board is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

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

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

The Board participates in the Douglas County self-insurance program for employee health coverage. The activity is recorded in the Douglas County Self-Insurance Internal Service Fund.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

B. Designated Funds

The Board has set aside funds for construction of a landfill and equipment replacement. Below is a summary of the investments set aside at December 31, 2006.

Designated for landfill construction	\$	1,120,806
Designated for equipment replacement		4,156,022
Total		\$ 5,276,828

C. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 2,090,000	\$ 2,820,050	\$ 730,050
Operating Expenses	3,274,714	4,263,233	(988,519)
Operating Income (Loss)	\$ (1,184,714)	\$ (1,443,183)	\$ (258,469)
Nonoperating Revenues (Expenses)	1,237,000	1,671,195	434,195
Net Income (Loss)	\$ 52,286	\$ 228,012	\$ 175,726

**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

D. Affiliated Debt

In financing the construction of the materials recycling facility, the sponsoring counties sold general obligation bonds; these bonds are the liability of Pope and Douglas Counties and not of the Pope-Douglas Solid Waste Board. Outstanding debt of each county related to the financing is as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Net Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2002 Pope County G.O. Solid Waste Bonds	2011	\$90,000 - \$115,000	3.3531	\$ 1,030,000	\$ 540,000
2002C Douglas County G.O. Solid Waste Disposal Bonds	2021	\$105,000 - \$225,000	4.5377	3,075,000	2,455,000

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**POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within the Pope-Douglas Solid Waste Board's office, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Pope-Douglas Solid Waste Board; however, the Board's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties which should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making deposits with Douglas County; and
- entering data and reviewing the monthly detailed report of receipts and disbursements for accuracy.

We recommend that the Board continue to be aware of the problem and, if possible, develop oversight procedures to ensure adequate controls over cash and other items.

Client's Response:

The Board of Directors are aware of the concerns regarding general internal controls. The Board agrees that additional internal controls are not possible due to the small administrative staff. However, the Board feels that our internal control is complete as the following steps are taken regarding each receipt:

- 1. The money is accepted and receipted at Pope/Douglas Solid Waste by the Office Manager;*
- 2. The money is then deposited by the Office manager with the Douglas County Auditor and Treasurer and a receipt is received;*
- 3. At least twice a month, the Executive Director compares the Pope/Douglas receipts with the County receipts.*

We believe that this is the maximum control effort that is possible given the size of the administrative staff.

ITEM ARISING THIS YEAR

06-1 Audit Adjustment

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified a material adjustment due to an error made in the estimated liability for compensated absences vested or expected to vest. An adjustment was made to reflect additional liabilities for compensated absences in the amount of \$117,816.

Proposed audit adjustments are reviewed and approved by appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend Pope-Douglas Solid Waste establish internal procedures for reviewing lead schedules to ensure amounts are correctly reported in accordance with generally accepted accounting principles (GAAP) in the Pope-Douglas Solid Waste Board's annual financial statements.

Client's Response:

Pope-Douglas Solid Waste Board will make every effort to ensure amounts are correctly reported in accordance with GAAP in the Pope-Douglas Solid Waste Board's annual financial statements.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

If applicable for the Pope-Douglas Solid Waste Board, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.



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

Board of Directors
Pope-Douglas Solid Waste Board

We have audited the financial statements of the Pope-Douglas Solid Waste Board as of and for the year ended December 31, 2006, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pope-Douglas Solid Waste Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 06-1 to be significant deficiencies in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pope-Douglas Solid Waste Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pope-Douglas Solid Waste Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Pope-Douglas Solid Waste Board, and it is reported for that purpose.

The Pope-Douglas Solid Waste Board's written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Pope-Douglas Solid Waste Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 10, 2007