

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

POPE-DOUGLAS SOLID WASTE BOARD
ALEXANDRIA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's 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, 2004



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

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

TABLE OF CONTENTS

| | <u>Reference</u> | <u>Page</u> |
|---|------------------|-------------|
| Introductory Section | | |
| Organization | | 1 |
| Financial Section | | |
| Independent Auditor's Report | | 2 |
| Management's Discussion and Analysis | | 4 |
| Basic Financial Statements | | |
| Statement of Net Assets | Exhibit 1 | 8 |
| Statement of Revenues, Expenses, and Changes in Net Assets | Exhibit 2 | 9 |
| Statement of Cash Flows | Exhibit 3 | 10 |
| Notes to the Financial Statements | | 11 |
| Management and Compliance Section | | |
| Schedule of Findings and Recommendations | | 24 |
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 25 |

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

ORGANIZATION
DECEMBER 31, 2004

| | | <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 | Dennis Nagle | Indefinite |
| Environmental Coordinator | Bonita Gilbertson | Indefinite |
| Plant Manager | Pete Olmscheid | Indefinite |
| Office Manager | Donna Pederson | Indefinite |

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, 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, 2004, 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 July 12, 2005, 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 on 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(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, 2004. Since this information is designated 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 discussion and analysis 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 Management's Discussion and Analysis (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

| | 2004 | Reclassified 2003 | Increase (Decrease) | % Change |
|----------------------------|----------------------|----------------------|------------------------|----------|
| Assets | | | | |
| Current and other assets | \$ 6,911,550 | \$ 6,940,313 | \$ (28,763) | (.4%) |
| Capital assets | <u>12,539,255</u> | <u>12,727,399</u> | <u>(188,144)</u> | (1.5%) |
| Total Assets | <u>\$ 19,450,805</u> | <u>\$ 19,667,712</u> | <u>\$ (216,907)</u> | (1.1%) |
| Liabilities | | | | |
| Long-term liabilities | \$ 273,103 | \$ 256,987 | \$ (16,116) | (6.3%) |
| Other liabilities | <u>232,009</u> | <u>158,935</u> | <u>(73,074)</u> | (46.0%) |
| Total Liabilities | <u>\$ 505,112</u> | <u>\$ 415,922</u> | <u>\$ (89,190)</u> | (21.4%) |
| Net Assets | | | | |
| Invested in capital assets | \$ 12,539,255 | \$ 12,727,399 | \$ (188,144) | (1.5%) |
| Restricted | 895,722 | 871,062 | 24,660 | 2.8% |
| Unrestricted | <u>5,510,716</u> | <u>5,653,329</u> | <u>(142,613)</u> | (2.5%) |
| Total Net Assets | <u>\$ 18,945,693</u> | <u>\$ 19,251,790</u> | <u>\$ (306,097)</u> | (1.6%) |

In 2003, the Board completed construction of a Materials Recycling Facility (MRF). During 2004, the Board started two major projects. The first was a project to construct an additional landfill cell. The other project was to replace the grates in the Waste to Energy Plant. Net assets of the Board decreased slightly by 1.6 percent.

Change in Net Assets

| | 2004 | Reclassified 2003 | Increase (Decrease) | % Change |
|------------------------------|---------------------|----------------------|------------------------|----------|
| Operating Revenues | | | | |
| Charges for services | \$ 2,251,621 | \$ 2,115,098 | \$ 136,523 | 6.5% |
| Miscellaneous | 27,824 | 26,654 | 1,170 | 4.4% |
| Nonoperating Revenues | | | | |
| Special assessments | 966,103 | 933,829 | 32,274 | 3.5% |
| Intergovernmental | 259,546 | 254,865 | 4,681 | 1.8% |
| Interest income | <u>87,355</u> | <u>149,130</u> | <u>(61,775)</u> | (41.4%) |
| Total Revenues | <u>\$ 3,592,449</u> | <u>\$ 3,479,576</u> | <u>\$ 112,873</u> | 3.2% |

| | 2004 | Reclassified 2003 | Increase (Decrease) | % Change |
|---|---------------------|----------------------|------------------------|------------|
| Operating Expenses | | | | |
| Payroll | \$ 1,093,867 | \$ 932,913 | \$ (160,954) | (17.3%) |
| Employee benefits and payroll taxes | 264,161 | 225,094 | (39,067) | (17.4%) |
| Professional services | 286,009 | 359,459 | 73,450 | 20.4% |
| Supplies | 187,399 | 149,924 | (37,475) | (25.0%) |
| SCORE | 393,371 | 383,596 | (9,775) | (2.5%) |
| Travel | 10,400 | 12,124 | 1,724 | 14.2% |
| Telephone | 3,328 | 4,229 | 901 | 21.3% |
| Utilities | 163,499 | 195,765 | 32,266 | 16.5% |
| Advertising | 5,583 | 94 | (5,489) | (5,839.4%) |
| Insurance | 136,552 | 116,508 | (20,044) | (17.2%) |
| Postage | 942 | 946 | 4 | .4% |
| Commodity freight | 5,627 | 3,500 | (2,127) | (60.8%) |
| Repairs and maintenance | 514,866 | 584,594 | 69,728 | 11.9% |
| Miscellaneous | 7,822 | 14,101 | 6,279 | 44.5% |
| Depreciation | 817,094 | 906,752 | 89,658 | 9.9% |
| Landfill closure and postclosure care costs | 8,026 | 90,297 | 82,271 | 91.1% |
| Total Operating Expenses | <u>\$ 3,898,546</u> | <u>\$ 3,979,896</u> | <u>\$ 81,350</u> | 2.0% |
| Increase (Decrease) in Net Assets | <u>\$ (306,097)</u> | <u>\$ (500,320)</u> | <u>\$ 194,223</u> | 38.8% |

Revenues increased 3.2 percent with charges for services increasing 6.5 percent. The increase in charges for services was a combination of an increase in tons of waste received and an increase in steam sales. Also, it was the first full year of commodity sales from the Materials Recycling Facility that went into operation in March 2003, which also increased operating expenses.

Capital Asset And Debt Administration

Capital Assets (Net of Depreciation)

| | 2004 | Reclassified 2003 | Increase (Decrease) | % Change |
|-------------------------------------|----------------------|----------------------|------------------------|----------|
| Land | \$ 179,288 | \$ 179,288 | \$ - | 0.0% |
| Land improvements | 1,303,182 | 697,766 | 605,416 | 86.8% |
| Buildings | 4,476,039 | 4,672,841 | (196,802) | (4.2%) |
| Machinery, furniture, and equipment | 6,580,746 | 7,177,504 | (596,758) | (8.3%) |
| Totals | <u>\$ 12,539,255</u> | <u>\$ 12,727,399</u> | <u>\$ (188,144)</u> | (1.5%) |

This year's major additions as discussed above were the construction of a landfill cell.

During 2004 and 2003, the Pope-Douglas Solid Waste Board did not have any outstanding debt.

Contacting The Board's Financial Management

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the 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, Dennis Nagle, 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, 2004**

Assets

| | |
|-----------------------------|----------------------|
| Current assets | |
| Cash and pooled investments | \$ 410,067 |
| Petty cash and change funds | 300 |
| Investments | 5,071,734 |
| Special assessments | |
| Current | 4,679 |
| Accounts receivable - net | 252,076 |
| Accrued interest receivable | 19,027 |
| Due from other governments | 37,954 |
| Prepaid items | 9,375 |
| Restricted assets | |
| Investments | 1,103,312 |
| Accrued interest receivable | 3,026 |
| | \$ 6,911,550 |
| | |
| Noncurrent assets | |
| Capital assets | |
| Nondepreciable | \$ 179,288 |
| Depreciable - net | 12,359,967 |
| | \$ 12,539,255 |
| | |
| Total Assets | |
| | \$ 19,450,805 |

Liabilities

| | |
|---|-------------------|
| Current liabilities | |
| Accounts payable | \$ 125,285 |
| Salaries payable | 46,985 |
| Compensated absences payable - current | 59,739 |
| | \$ 232,009 |
| | |
| Noncurrent liabilities | |
| Compensated absences payable - long-term | \$ 62,487 |
| Estimated liability for landfill closure and postclosure care costs | 210,616 |
| | \$ 273,103 |
| | |
| Total Liabilities | |
| | \$ 505,112 |

Net Assets

| | |
|---|----------------------|
| Invested in capital assets | \$ 12,539,255 |
| Restricted for closure and postclosure care costs | 895,722 |
| Unrestricted | 5,510,716 |
| | \$ 18,945,693 |

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | |
|--|-----------------------|
| Operating Revenues | |
| Charges for services | \$ 2,251,621 |
| Miscellaneous | 27,824 |
| | 2,279,445 |
| Total Operating Revenues | \$ 2,279,445 |
| Operating Expenses | |
| Payroll | \$ 1,093,867 |
| Employee benefits and payroll taxes | 264,161 |
| Professional services | 286,009 |
| Supplies | 187,399 |
| SCORE | 393,371 |
| Travel | 10,400 |
| Telephone | 3,328 |
| Utilities | 163,499 |
| Advertising | 5,583 |
| Insurance | 136,552 |
| Postage | 942 |
| Commodity freight | 5,627 |
| Repairs and maintenance | 514,866 |
| Miscellaneous | 7,822 |
| Depreciation | 817,094 |
| Landfill closure and postclosure care costs | 8,026 |
| | 3,898,546 |
| Total Operating Expenses | \$ 3,898,546 |
| Operating Income (Loss) | \$ (1,619,101) |
| Nonoperating Revenues (Expenses) | |
| Special assessments | \$ 966,103 |
| Intergovernmental | 259,546 |
| Interest income | 87,355 |
| | 1,313,004 |
| Total Nonoperating Revenues (Expenses) | \$ 1,313,004 |
| Change in Net Assets | \$ (306,097) |
| Net Assets - January 1, as restated (Note 1.F.) | 19,251,790 |
| Net Assets - December 31 | \$ 18,945,693 |

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

| | |
|--|---------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers and users | \$ 2,339,714 |
| Payments to suppliers | (1,384,817) |
| Payments to employees | (1,475,718) |
| | \$ (520,821) |
| Cash Flows From Noncapital Financing Activities | |
| Special assessments | \$ 960,649 |
| Intergovernmental | 258,891 |
| | \$ 1,219,540 |
| Cash Flows From Capital and Related Financing Activities | |
| Purchases of capital assets | \$ (628,950) |
| | \$ (628,950) |
| Cash Flows From Investing Activities | |
| Proceeds from sales of investments | \$ 6,250,445 |
| Purchase of investments | (6,317,204) |
| Investment earnings received | 126,590 |
| | \$ 59,831 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 129,600 |
| Cash and Cash Equivalents at January 1 | 280,767 |
| Cash and Cash Equivalents at December 31 | \$ 410,367 |
| Reconciliation of operating income to net cash provided by (used in) operating activities | |
| Operating income | \$ (1,619,101) |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | |
| Depreciation expense | \$ 817,094 |
| (Increase) decrease in accounts receivable | 60,269 |
| (Increase) decrease in prepaid items | 131,727 |
| Increase (decrease) in accounts payable | 46,755 |
| Increase (decrease) in salaries payable | 10,663 |
| Increase (decrease) in compensated absences payable | 24,508 |
| Increase (decrease) in due to other governments | (762) |
| Increase (decrease) in landfill closure and postclosure care costs | 8,026 |
| | \$ 1,098,280 |
| Net Cash Provided by Operating Activities | \$ (520,821) |
| Noncash investing, capital, and financing activities | |
| Change in fair value of long-term investments | \$ (38,969) |

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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, 2004

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) for the year ended December 31, 2004. 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 is located in Alexandria, Minnesota.

The Board is governed by a five-member Board of Directors, two-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 are available for use, it is the Board's policy to use restricted resources first, then unrestricted as they are 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 Fund. Douglas County obtains collateral to cover the deposits in excess of insurance coverage.

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, 2004, based on market prices. Interest earned on such restricted investments is credited to the Solid Waste Fund.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Fund Investments (Continued)

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.

3. Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 1999 through 2004 and are offset by an estimated uncollectible amount.

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

1. Summary of Significant Accounting Policies

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

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, 2004.

| | |
|---|---------------------|
| Restricted for closure and postclosure cost | \$ 1,103,312 |
| Accrued interest on restricted investments | <u>3,026</u> |
| Total | <u>\$ 1,106,338</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.

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

**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)

| <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.

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.

E. Reclassifications

Some account balances presented in the notes were reclassified as of and for the year ended December 31, 2003, as previously reported. Those reclassifications, which did not require a restatement of the net assets, were required for comparability to the

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

1. Summary of Significant Accounting Policies

E. Reclassifications (Continued)

financial statements as of and for the year ended December 31, 2004, and must be considered when comparing the financial statements of this report with those of prior reports.

F. Prior Period Adjustment--Correction on Error

In the 2003 financial statements, the Board overstated net assets in the amount of \$385,426 by capitalizing maintenance costs that should have been expensed. The net asset account has been restated to show this correction.

| | | |
|-------------------------------------|----|------------|
| Net Assets - January 1 | \$ | 19,637,216 |
| Prior period adjustment | | (385,426) |
| | | - |
| Net Assets - January 1, as restated | \$ | 19,251,790 |

2. Detailed Notes on All Funds

A. Assets

1. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|----------------------------|----------------------|--|
| Special assessments | \$ 4,679 | \$ - |
| Due from other governments | 37,954 | - |
| Accounts | 252,076 | - |
| Interest – unrestricted | 19,027 | - |
| Interest – restricted | 3,026 | - |
| Total | \$ 316,762 | \$ - |

**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, 2004, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 179,288 | \$ - | \$ - | \$ 179,288 |
| Construction in progress | - | 623,838 | 623,838 | - |
| Total capital assets not depreciated | <u>\$ 179,288</u> | <u>\$ 623,838</u> | <u>\$ 623,838</u> | <u>\$ 179,288</u> |
| Capital assets depreciated | | | | |
| Land improvements | \$ 2,753,774 | \$ 623,838 | \$ - | \$ 3,377,612 |
| Buildings | 6,065,561 | - | - | 6,065,561 |
| Machinery, furniture, and equipment | 8,658,797 | 5,112 | - | 8,663,909 |
| Total capital assets depreciated | <u>\$ 17,478,132</u> | <u>\$ 628,950</u> | <u>\$ -</u> | <u>\$ 18,107,082</u> |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 2,056,008 | \$ 18,422 | \$ - | \$ 2,074,430 |
| Buildings | 1,392,720 | 196,802 | - | 1,589,522 |
| Machinery, furniture, and equipment | 1,481,293 | 601,870 | - | 2,083,163 |
| Total accumulated depreciation | <u>\$ 4,930,021</u> | <u>\$ 817,094</u> | <u>\$ -</u> | <u>\$ 5,747,115</u> |
| Total capital assets depreciated, net | <u>\$ 12,548,111</u> | <u>\$ (188,144)</u> | <u>\$ -</u> | <u>\$ 12,359,967</u> |
| Capital Assets, Net | <u><u>\$ 12,727,399</u></u> | <u><u>\$ 435,694</u></u> | <u><u>\$ 623,838</u></u> | <u><u>\$ 12,539,255</u></u> |

B. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

| | Total Payables |
|----------------|--------------------------|
| Accounts | \$ 125,285 |
| Salaries | 46,985 |
| Total Payables | <u><u>\$ 172,270</u></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 \$139,399 in 2004. The lease is renewable for a one-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, 2004, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|------------------|-------------------|---------------------------|
| Estimated liability for Landfill closure and postclosure costs | \$ 202,590 | \$ 8,026 | \$ - | \$ 210,616 | \$ - |
| Compensated absences | 97,718 | 111,486 | 86,978 | 122,226 | 59,739 |
| Long-Term Liabilities | <u>\$ 300,308</u> | <u>\$ 119,512</u> | <u>\$ 86,978</u> | <u>\$ 332,842</u> | <u>\$ 59,739</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 web at 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Board is required to contribute the following percentages of annual covered payroll:

| | |
|----------------------------------|--------|
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 5.53 |

The Board's contributions for the years ending December 31, 2004, 2003, and 2002, were \$60,760, \$54,317, and \$48,432, 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 \$210,616 landfill closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of 4.6 percent of the estimated capacity of the landfill. The Board will recognize the remaining estimated cost of closure and postclosure care of \$901,977 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The Board expects to close the landfill in 2133. 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, 2004, investments of \$1,103,312 are held for

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

4. Landfill Closure and Postclosure Care Costs (Continued)

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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the Board in a method and amount to be determined by the MCIT.

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

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.

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

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, 2004.

| | |
|--------------------------------------|--------------|
| Designated for landfill construction | \$ 3,463,934 |
| Designated for equipment replacement | 1,117,396 |
| Total | \$ 4,581,330 |

C. Operating Budgets

| | Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------------|----------------|----------------|--|
| Operating Revenues | \$ 1,869,985 | \$ 2,279,445 | \$ 409,460 |
| Operating Expenses | 2,990,985 | 3,898,546 | (907,561) |
| Operating Income (Loss) | \$ (1,121,000) | \$ (1,619,101) | \$ (498,101) |
| Nonoperating Revenues (Expenses) | 1,121,000 | 1,313,004 | 192,004 |
| Net Income (Loss) | \$ - | \$ (306,097) | \$ (306,097) |

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:

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

6. Summary of Significant Contingencies and Other Items

D. Affiliated Debt (Continued)

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Net Interest Rates (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2004</u> |
|--|---------------------------|--------------------------------|---------------------------------------|--------------------------------------|--|
| 2002 Pope County G.O. Solid Waste Bonds | 2011 | \$90,000 - \$115,000 | 3.3531 | \$ 1,030,000 | \$ 735,000 |
| 2002C Douglas County G.O. Solid Waste Disposal Bonds | 2021 | \$105,000 - \$225,000 | 4.5377 | \$ 3,075,000 | \$ 2,680,000 |

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

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

**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
- data entry 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.

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 Pope-Douglas Solid Waste Board as of and for the year ended December 31, 2004, and have issued our report thereon dated July 12, 2005. 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 Pope-Douglas Solid Waste Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 12, 2005