STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 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 MANAGEMENT
ALEXANDRIA, MINNESOTA

For the Year Ended December 31, 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

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Introductory Section

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

ORGANIZATION
DECEMBER 31, 2007

		Term Expires
Board of Directors		
Douglas County		
Board Member	Norm Salto	Indefinite
Board Member	Dan Olson	Indefinite
Board Member	David Nelson	Indefinite
Pope County		
Chair	Robert McCrory	Indefinite
Board Member	Dean Paulson	Indefinite
Officers		
Executive Director	Pete Olmscheid	Indefinite
Plant Manager	Darrell Connell	Indefinite
Office Manager	Donna Pederson	Indefinite

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pope/Douglas Solid Waste Management

We have audited the basic financial statements of Pope/Douglas Solid Waste Management (a component unit of Douglas County) as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of Pope/Douglas Solid Waste Management. 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 Pope/Douglas Solid Waste Management at December 31, 2007, 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 November 21, 2008, on our consideration of Pope/Douglas Solid Waste Management'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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 21, 2008

MANAGEMENT’S DISCUSSION AND ANALYSIS

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)

Pope/Douglas Solid Waste Management's (PDSW) Management's Discussion and Analysis (MD&A) provides an overview of PDSW's financial activities for the fiscal year ended December 31, 2007. 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 PDSW's financial statements.

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

Pope/Douglas Solid Waste Management is a component unit of Douglas County because Douglas County is financially accountable for the PDSW. PDSW'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. Pope/Douglas Solid Waste Management'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 Pope/Douglas Solid Waste Management'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 PDSW.

- The statement of revenues, expenses, and changes in net assets provides information on changes in PDSW'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 PDSW.

FINANCIAL ANALYSIS

Net Assets

	2007	2006	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 8,932,350	$ 8,546,486	$ 385,864	4.5
Noncurrent assets	12,680,752	12,431,223	249,529	2.0
Total Assets	$ 21,613,102	$ 20,977,709	$ 635,393	3.0
Liabilities				
Long-term liabilities	$ 1,650,322	$ 594,834	$ 1,055,488	177.4
Other liabilities	271,364	165,506	105,858	63.9
Total Liabilities	$ 1,921,686	$ 760,340	$ 1,161,346	152.7
Net Assets				
Invested in capital assets	$ 12,661,765	$ 12,431,223	$ 230,542	1.9
Restricted	819,127	786,425	32,702	4.2
Unrestricted	6,210,524	6,999,721	(789,197)	(11.3)
Total Net Assets	$ 19,691,416	$ 20,217,369	$ (525,953)	(2.6)

Net assets of PDSW decreased slightly by 2.6 percent. Unrestricted net assets totaling $6,210,524 are available to finance the day-to-day operations of PDSW.

Change in Net Assets

	2007	2006	Increase (Decrease)	Percent Change (%)
Operating Revenues				
Charges for services	$ 2,781,134	$ 2,785,375	$ (4,241)	(0.2)
Miscellaneous	45,749	34,675	11,074	31.9
Nonoperating Revenues				
Special assessments	1,208,656	1,258,432	(49,776)	(4.0)
Intergovernmental	153,895	142,808	11,087	7.8
Interest income	364,318	269,955	94,363	35.0
Total Revenues	$ 4,553,752	$ 4,491,245	$ 62,507	1.4

	2007	2006	Increase (Decrease)	Percent Change (%)
Operating Expenses				
Payroll	$ 1,347,460	1,300,682	$ 46,778	3.6
Employee benefits and payroll taxes	328,337	305,064	23,273	7.6
Professional services	585,357	403,785	181,572	45.0
Supplies	268,202	179,423	88,779	49.5
SCORE	387,571	325,060	62,511	19.2
Travel	15,898	15,351	547	3.6
Telephone	5,457	4,349	1,108	25.5
Utilities	193,206	168,493	24,713	14.7
Advertising	5,381	7,005	(1,624)	(23.2)
Insurance	201,338	182,668	18,670	10.2
Postage	1,230	743	487	65.5
Commodity freight	20,266	17,493	2,773	15.9
Repairs and maintenance	546,988	423,029	123,959	29.3
Miscellaneous	42,751	37,623	5,128	13.6
Depreciation	912,607	875,008	37,599	4.3
Landfill closure and postclosure care costs	30,365	17,457	12,908	73.9
Nonoperating Expenses				
Interest expense	1,211	-	1,211	100.0
Loss on disposal of capital assets	186,080	-	186,080	100.0
Total Expenses	$ 5,079,705	$ 4,263,233	$ 816,472	19.2
Increase (Decrease) in Net Assets	$ (525,953)	$ 228,012	$ (753,965)	(330.7)

Revenues increased 1.4 percent. The increase was due to an increase in interest on investments. Expenses increased in 2007 because of an increase in professional services due to evaluation and permitting of the expansion of the facility. The maintenance and repair increase was due to unexpected refractory repairs. Corrections were also made after a voluntary OSHA inspection.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
(Net of Depreciation)

	2007	2006	Increase (Decrease)	Percent Change (%)
Land	$ 179,288	$ 179,288	$ -	-
Land improvements	2,491,994	2,592,050	(100,056)	(3.9)
Infrastructure	1,162,101	-	1,162,101	100.0
Buildings	3,849,209	4,155,527	(306,318)	(7.4)
Machinery, furniture, and equipment	4,979,173	5,504,358	(525,185)	(9.5)
Totals	$ 12,661,765	$ 12,431,223	$ 230,542	1.9

The existing steam line to the Douglas County Hospital had deteriorated beyond repair and was replaced. The line was also expanded due to the increased usage from the Douglas County Hospital's expansion.

In December 2007, Pope/Douglas Solid Waste Management authorized the sale of $1,035,000 general obligation temporary bonds to fund the engineering and design costs for future expansion of the facility.

CONTACTING PDSW'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Pope/Douglas Solid Waste Management's finances and to show PDSW'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 MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

<u>Assets</u>		
Current assets		
Cash and pooled investments	$	2,079,506
Petty cash and change funds		300
Investments		4,083,464
Special assessments		
Current		64,422
Prior		17,825
Accounts receivable - net		354,604
Accrued interest receivable		29,672
Due from other governments		8,799
Prepaid items		5,552
Total current assets	**$**	**6,644,144**
Restricted assets		
Cash and pooled investments	$	1,038,891
Investments		1,249,079
Accrued interest receivable		236
Total restricted assets	**$**	**2,288,206**
Noncurrent assets		
Deferred charges	$	18,987
Capital assets		
Nondepreciable		179,288
Depreciable - net		12,482,477
Total noncurrent assets	**$**	**12,680,752**
Total Assets	**$**	**21,613,102**

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

POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Liabilities		
Current liabilities		
Accounts payable	$	123,328
Salaries payable		73,769
Compensated absences payable - current		72,611
Due to other governments		445
Accrued interest payable		1,211
Total current liabilities	**$**	**271,364**
Noncurrent liabilities		
Compensated absences payable - long-term	$	181,242
Landfill closure and postclosure care costs		430,189
General obligation bonds payable - long-term		1,038,891
Total noncurrent liabilities	**$**	**1,650,322**
Total Liabilities	**$**	**1,921,686**
Net Assets		
Invested in capital assets	$	12,661,765
Restricted for closure and postclosure care costs		819,127
Unrestricted		6,210,524
Total Net Assets	**$**	**19,691,416**

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

POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Revenues		
Charges for services	$	2,781,134
Miscellaneous		45,749
Total Operating Revenues	**$**	**2,826,883**
Operating Expenses		
Payroll	$	1,347,460
Employee benefits and payroll taxes		328,337
Professional services		585,357
Supplies		268,202
SCORE		387,571
Travel		15,898
Telephone		5,457
Utilities		193,206
Advertising		5,381
Insurance		201,338
Postage		1,230
Commodity freight		20,266
Repairs and maintenance		546,988
Miscellaneous		42,751
Depreciation		912,607
Landfill closure and postclosure care costs		30,365
Total Operating Expenses	**$**	**4,892,414**
Operating Income (Loss)	**$**	**(2,065,531)**
Nonoperating Revenues (Expenses)		
Special assessments	$	1,208,656
Intergovernmental		153,895
Interest income		364,318
Interest expense		(1,211)
Gain (loss) on disposal of capital assets		(186,080)
Total Nonoperating Revenues (Expenses)	**$**	**1,539,578**
Change in net assets	**$**	**(525,953)**
Net Assets - January 1		**20,217,369**
Net Assets - December 31	**$**	**19,691,416**

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

POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	2,874,309
Payments to suppliers		(2,087,919)
Payments to employees		(1,765,885)
Net cash provided by (used in) operating activities	**$**	**(979,495)**
Cash Flows from Noncapital Financing Activities		
Special assessments	$	1,209,796
Intergovernmental		153,895
Net cash provided by (used in) noncapital financing activities	**$**	**1,363,691**
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	$	1,019,904
Purchases of capital assets		(1,329,229)
Net cash provided by (used in) capital and related financing activities	**$**	**(309,325)**
Cash Flows from Investing Activities		
Purchase of investments	$	(707,496)
Proceeds from sale of investments		2,000,225
Investment earnings received		294,883
Net cash provided by (used in) investing activities	**$**	**1,587,612**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	1,662,483
Cash and Cash Equivalents at January 1		1,456,214
Cash and Cash Equivalents at December 31	**$**	**3,118,697**
Cash and Cash Equivalents - Exhibit 1		
Cash and pooled investments	$	2,079,506
Petty cash and change funds		300
Restricted cash and pooled investments		1,038,891
Total Cash and Cash Equivalents	**$**	**3,118,697**

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

POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(2,065,531)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	912,607
(Increase) decrease in accounts receivable		46,236
(Increase) decrease in due from other governments		1,190
(Increase) decrease in prepaid items		4,759
Increase (decrease) in accounts payable		23,762
Increase (decrease) in salaries payable		14,916
Increase (decrease) in compensated absences payable		52,757
Increase (decrease) in due to other governments		(556)
Increase (decrease) in landfill closure costs		30,365
Total adjustments	**$**	**1,086,036**
Net Cash Provided by (Used in) Operating Activities	**$**	**(979,495)**
Noncash Investing, Capital, and Financing Activities		
Change in fair value of long-term investments	**$**	**68,685**

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

Pope/Douglas Solid Waste Management's (PDSW) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2007. 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Board are discussed below.

A. Financial Reporting Entity

Pope/Douglas Solid Waste Management is a joint enterprise operation of Pope and Douglas Counties (the Counties). PDSW 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.

PDSW 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.

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of PDSW are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of PDSW. 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. PDSW'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

PDSW'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 PDSW's policy to use restricted resources first and then unrestricted resources 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. PDSW's cash is pooled and invested with Douglas County and is treated as a cash equivalent because PDSW 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.

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 Pope/Douglas Solid Waste Management upon its direction. Fund investments are reported at their fair value at December 31, 2007, based on market prices. Interest earned on such restricted investments is credited to the Solid Waste 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 PDSW:

(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.

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 1998 through 2007.

      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 PDSW for landfill closure and postclosure financial assurances and unspent capital projects bonding. Below is a summary of the restricted assets at December 31, 2007.

Restricted for closure and postclosure care costs	$ 1,249,079
Restricted for capital projects	1,038,891
Accrued interest on restricted investments	236
Total	$ 2,288,206

      6. Capital Assets

         Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by PDSW 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.

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, PDSW did not have any capitalized interest.

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

Assets	Years
Landfill	Based on capacity
Buildings	20 - 40
Building improvements	20 - 40
Furniture, equipment, and vehicles	5 - 10
Infrastructure	20 - 30

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.

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, 2007, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	$ 82,247	$ -
Accounts	354,604	-
Interest - unrestricted	29,672	-
Due from other governments	8,799	-
Interest - restricted	236	-
Total	$ 475,558	$ -

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2007, 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
Infrastructure	-	1,173,839	-	1,173,839
Buildings	6,140,008	86,432	378,474	5,847,966
Machinery, furniture, and equipment	8,789,477	68,958	20,140	8,838,295
Total capital assets depreciated	$ 18,307,097	$ 1,329,229	$ 398,614	$ 19,237,712
Less: accumulated depreciation for				
Land improvements	$ 785,562	$ 100,056	$ -	$ 885,618
Infrastructure	-	11,738	-	11,738
Buildings	1,984,481	206,670	192,394	1,998,757
Machinery, furniture, and equipment	3,285,119	594,143	20,140	3,859,122
Total accumulated depreciation	$ 6,055,162	$ 912,607	$ 212,534	$ 6,755,235
Total capital assets depreciated, net	$ 12,251,935	$ 416,622	$ 186,080	$ 12,482,477
Capital Assets, Net	$ 12,431,223	$ 416,622	$ 186,080	$ 12,661,765

B. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

Accounts	$ 123,328
Salaries	73,769
Due to other governments	445
Accrued interest payable	1,211
Total Payables	$ 198,753

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Leases

Operating Leases

Pope/Douglas Solid Waste Management 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 PDSW. The lease provides payments based upon the formula provided in the agreement. Lease payments were $174,047 in 2007. The lease, beginning September 21, 2006, is for a two-year period and contains a 90-day cancellation notice by either party.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General Obligation Bonds 2007B G.O. Temporary Bonds	2010	$1,035,000	3.30	$ 1,035,000	$ 1,035,000
Add: Unamortized premium					3,891
Total General Obligation Bonds, net					$ 1,038,891

4. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	G.O. Temporary Bonds Payable Principal	Interest
2008	$ -	$ 21,157
2009	-	34,155
2010	1,035,000	17,078
Total	$ 1,035,000	$ 72,390

2. Detailed Notes on All Funds

B. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care costs	$ 399,824	$ 30,365	$ -	$ 430,189	$ -
Compensated absences	201,096	149,978	97,221	253,853	72,611
General obligation bonds	-	1,035,000	-	1,035,000	-
Add: Unamortized premium	-	3,891	-	3,891	-
Long-Term Liabilities	$ 600,920	$ 1,219,234	$ 97,221	$ 1,722,933	$ 72,611

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Pope/Douglas Solid Waste Management are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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.

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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 defined 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.

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.

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan (Continued)

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. PDSW 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 5.75 percent, respectively, of their annual salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent.

PDSW is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50

PDSW's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund were:

2007	2006	2005
$ 84,453	$ 76,485	$ 65,239

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Plan

Two of the Douglas County Board Members are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by PDSW during the year ended December 31, 2007, were:

	Employee	Employer
Contribution amount	$ 84.50	$ 84.50
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require PDSW 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, PDSW 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 $430,189 landfill closure and postclosure care liability at December 31, 2007, represents the cumulative amount reported to date based on the use of 8.3 percent of the estimated capacity of the landfill. PDSW will recognize the remaining estimated cost of closure and postclosure care of $1,244,522 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007.

4. Landfill Closure and Postclosure Care Costs (Continued)

PDSW expects to close the landfill in 2161. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

PDSW is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. PDSW is in compliance with these requirements and, at December 31, 2007, investments of $1,249,079 are held for these purposes. These are reported as restricted assets on the statement of net assets. PDSW 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

PDSW 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 PDSW carries commercial insurance. To cover these risks, PDSW is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, PDSW 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 $400,000 per claim in 2007 and $410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PDSW in a method and amount to be determined by MCIT.

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

5. Risk Management (Continued)

PDSW 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 PDSW expects such amounts, if any, to be immaterial.

B. Designated Funds

PDSW has set aside funds for construction of a landfill and equipment replacement. Below is a summary of the investments set aside at December 31, 2007.

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	$ 2,231,000	$ 2,826,883	$ 595,883
Operating Expenses	3,287,342	4,892,414	(1,605,072)
Operating Income (Loss)	$ (1,056,342)	$ (2,065,531)	$ (1,009,189)
Nonoperating Revenues (Expenses)	1,189,920	1,539,578	349,658
Net Income (Loss)	$ 133,578	$ (525,953)	$ (659,531)

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 Pope/Douglas Solid Waste Management. 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, 2007
2002 Pope County G.O. Solid Waste Bonds	2011	$90,000 - $115,000	3.3531	$ 1,030,000	$ 440,000
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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Management and Compliance Section

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 Pope/Douglas Solid Waste Management's (PDSW) office, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of PDSW; however, 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 PDSW 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 is 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustment (06-1)

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.

Resolution

No material audit adjustments were necessary for the year ending December 31, 2007.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;

- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and

- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that Pope/Douglas Solid Waste Management will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;

- if OPEB are being provided, Pope/Douglas Solid Waste Management 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 Pope/Douglas Solid Waste Management determines that the establishment of a trust is desirable in order to fund the OPEB, the Pope/Douglas Solid Waste Management will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, Pope/Douglas Solid Waste Management will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, Pope/Douglas Solid Waste Management will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Pope/Douglas Solid Waste Management for the year ended December 31, 2008.

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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 Management

We have audited the financial statements of Pope/Douglas Solid Waste Management (PDSW) as of and for the year ended December 31, 2007, and have issued our report thereon dated November 21, 2008. 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 Management's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PDSW's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PDSW'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 PDSW'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 PDSW's financial statements that is more than inconsequential will not be prevented or detected by PDSW's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 96-1 to be a significant deficiency 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 Pope/Douglas Solid Waste Management'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 deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pope/Douglas Solid Waste Management'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, Pope/Douglas Solid Waste Management 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 Pope/Douglas Solid Waste Management, and it is reported for that purpose.

Pope/Douglas Solid Waste Management's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit PDSW's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within Pope/Douglas Solid Waste Management 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

November 21, 2008