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, 2011

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, 2011

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, 2011

		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	Randy Shaw	Indefinite
Officers		
Executive Director	Peter Olmscheid	Indefinite
Plant Manager	Darrell Connell	Indefinite
Office Manager	Donna Pederson	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pope/Douglas Solid Waste Management

We have audited the accompanying financial statements of Pope/Douglas Solid Waste Management, a component unit of Douglas County, as of and for the year ended December 31, 2011, 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; 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 as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, 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, 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 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

September 27, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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.

PDSW 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, a household hazardous waste facility, and a recycling drop center.

PDSW 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. PDSW'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 PDSW'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

	2011	2010	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 8,020,191	$ 12,769,949	$ (4,749,758)	(37.2)
Noncurrent assets	29,238,607	27,334,350	1,904,257	7.0
Total Assets	$ 37,258,798	$ 40,104,299	$ (2,845,501)	(7.1)
Liabilities				
Long-term liabilities	$ 18,832,571	$ 19,900,623	$ (1,068,052)	(5.4)
Other liabilities	1,766,040	2,622,904	(856,864)	(32.7)
Total Liabilities	$ 20,598,611	$ 22,523,527	$ (1,924,916)	(8.6)
Net Assets				
Invested in capital assets, net of related debt	$ 10,440,071	$ 12,166,250	$ (1,726,179)	(14.2)
Restricted	918,564	914,609	3,955	0.4
Unrestricted	5,301,552	4,499,913	801,639	17.8
Total Net Assets	$ 16,660,187	$ 17,580,772	$ (920,585)	(5.2)

Net assets of PDSW decreased slightly by 5.2 percent. Unrestricted net assets totaling $5,301,552 are available to finance the day-to-day operations of PDSW.

Change in Net Assets

	2011	2010	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	$ 5,056,367	$ 3,295,235	$ 1,761,132	53.4
Miscellaneous	122,487	57,272	65,215	113.9
Nonoperating revenues				
Special assessments	1,309,806	1,296,040	13,766	1.1
Intergovernmental	162,881	163,413	(532)	(0.3)
Interest income	8,946	85,342	(76,396)	(89.5)
Amortization of premiums	42,462	-	42,462	100.0
Total Revenues	$ 6,702,949	$ 4,897,302	$ 1,805,647	36.8

	2011	2010	Increase (Decrease)	Percent Change (%)
Operating expenses				
Payroll	$ 1,757,063	$ 1,593,159	$ 163,904	10.3
Employee benefits and payroll taxes	481,163	420,176	60,987	14.5
Professional services	613,806	608,205	5,601	0.9
Supplies	572,877	313,313	259,564	82.8
SCORE	398,586	435,803	(37,217)	(8.5)
Travel	12,900	15,062	(2,162)	(14.4)
Telephone	5,001	4,635	366	7.9
Utilities	438,606	303,055	135,551	44.7
Advertising	10,723	5,794	4,929	85.1
Insurance	190,262	176,358	13,904	7.9
Postage	1,385	1,099	286	26.0
Commodity freight	12,109	15,215	(3,106)	(20.4)
Repairs and maintenance	763,288	755,008	8,280	1.1
Miscellaneous	49,221	23,493	25,728	109.5
Depreciation	1,683,575	1,034,640	648,935	62.7
Landfill closure and postclosure care costs	6,072	21,721	(15,649)	72.1
Nonoperating expenses				
Amortization of deferred charges	24,234	202	24,032	119.0
Gains (loss) on disposal of capital assets	69,168	-	69,168	100.0
Interest expense	600,638	425,683	174,955	41.1
Total Expenses	$ 7,690,677	$ 6,152,621	$ 1,538,056	25.0
Income (Loss) Before Contributions	$ (987,728)	$ (1,255,319)	$ 267,591	21.3
Capital contributions	67,143	927,514	(860,371)	(92.7)
Increase (Decrease) in Net Assets	$ (920,585)	$ (327,805)	$ (592,780)	(180.1)

Revenues increased 36.8 percent. The increase was mainly due to an increase in charges for services due to the third unit at the incinerator being put into service in July 2011. Capital contributions decreased 92.7 percent mainly due to an energy efficiency grant from the U.S. Department of Energy in the amount of $927,514 that was received in 2010 but not in 2011. Expenses increased 25.0 percent mainly due to higher expenses to cover operating costs of the third unit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
(Net of Depreciation)

	2011	2010	Increase (Decrease)	Percent Change (%)
Land	$ 179,288	$ 179,288	$ -	-
Construction in progress	-	15,055,330	(15,055,330)	(100.0)
Land improvements	1,941,327	2,083,950	(142,623)	(6.8)
Infrastructure	2,699,188	2,806,214	(107,026)	(3.8)
Buildings	4,508,473	3,246,371	1,262,102	38.8
Machinery, furniture, and equipment	19,821,795	3,850,427	15,971,368	414.8
Totals	$ 29,150,071	$ 27,221,580	$ 1,928,491	7.1

Machinery, furniture, and equipment has a 414.8 percent increase due to construction of the third unit at the incinerator being completed and put into service in July 2011.

CONTACTING PDSW'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of PDSW'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, 2011

Assets		
Current assets		
Cash and pooled investments	$	5,273,926
Petty cash and change funds		300
Special assessments		
Current		61,180
Prior		22,760
Accounts receivable - net		887,218
Accrued interest receivable		10
Due from other governments		62,607
Prepaid items		225
Total current assets	**$**	**6,308,226**
Restricted assets		
Cash and pooled investments	$	299,190
Investments		1,404,742
Accrued interest receivable		8,033
Total restricted assets	**$**	**1,711,965**
Noncurrent assets		
Deferred charges	$	88,536
Capital assets		
Nondepreciable		179,288
Depreciable - net		28,970,783
Total noncurrent assets	**$**	**29,238,607**
Total Assets	**$**	**37,258,798**

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, 2011

Liabilities		
Current liabilities		
Accounts payable	$	193,887
Salaries payable		126,339
Compensated absences payable - current		82,769
Contracts payable		81,895
Due to other governments		3,692
Accrued interest payable		242,458
General obligation bonds payable - current		1,035,000
Total current liabilities	**$**	**1,766,040**
Noncurrent liabilities		
Compensated absences payable - long-term	$	217,696
Landfill closure and postclosure care costs		494,211
General obligation bonds payable - long-term		18,036,320
OPEB liability		84,344
Total noncurrent liabilities	**$**	**18,832,571**
Total Liabilities	**$**	**20,598,611**
Net Assets		
Invested in capital assets - net of related debt	$	10,440,071
Restricted for closure and postclosure care costs		918,564
Unrestricted		5,301,552
Total Net Assets	**$**	**16,660,187**

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 NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues		
Charges for services	$	5,056,367
Miscellaneous		122,487
Total Operating Revenues	**$**	**5,178,854**
Operating Expenses		
Payroll	$	1,757,063
Employee benefits and payroll taxes		481,163
Professional services		613,806
Supplies		572,877
SCORE		398,586
Travel		12,900
Telephone		5,001
Utilities		438,606
Advertising		10,723
Insurance		190,262
Postage		1,385
Commodity freight		12,109
Repairs and maintenance		763,288
Miscellaneous		49,221
Depreciation		1,683,575
Landfill closure and postclosure care costs		6,072
Total Operating Expenses	**$**	**6,996,637**
Operating Income (Loss)	**$**	**(1,817,783)**
Nonoperating Revenues (Expenses)		
Special assessments	$	1,309,806
Intergovernmental		
Operating grants		
State		
SCORE		145,092
Household hazardous waste		13,918
PERA rate increase aid		3,871
Interest income		8,946
Amortization (discount) of premiums on bonds		42,462
Interest expense		(600,638)
Amortization of deferred charges		(24,234)
Gain (loss) on disposal of capital assets		(69,168)
Total Nonoperating Revenues (Expenses)	**$**	**830,055**
Income (Loss) Before Contributions	**$**	**(987,728)**
Capital contributions		67,143
Change in net assets	**$**	**(920,585)**
Net Assets - January 1		**17,580,772**
Net Assets - December 31	**$**	**16,660,187**

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, 2011
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	4,629,127
Payments to suppliers		(4,938,256)
Payments to employees		(2,407,279)
Net cash provided by (used in) operating activities	**$**	**(2,716,408)**
Cash Flows from Noncapital Financing Activities		
Special assessments	$	1,308,029
Intergovernmental		162,881
Net cash provided by (used in) noncapital financing activities	**$**	**1,470,910**
Cash Flows from Capital and Related Financing Activities		
Capital contributions	$	67,143
Interest paid on long-term debt		(450,564)
Purchases of capital assets		(3,681,234)
Net cash provided by (used in) capital and related financing activities	**$**	**(4,064,655)**
Cash Flows from Investing Activities		
Purchase of investments	$	(4,568,718)
Proceeds from sale of investments		9,802,109
Investment earnings received		(498)
Net cash provided by (used in) investing activities	**$**	**5,232,893**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(77,260)**
Cash and Cash Equivalents at January 1		**5,650,676**
Cash and Cash Equivalents at December 31	**$**	**5,573,416**
Cash and Cash Equivalents - Exhibit 1		
Cash and pooled investments	$	5,273,926
Petty cash and change funds		300
Restricted cash and pooled investments		299,190
Total Cash and Cash Equivalents	**$**	**5,573,416**

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, 2011
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(1,817,783)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	1,683,575
(Increase) decrease in accounts receivable		(496,804)
(Increase) decrease in due from other governments		(52,923)
(Increase) decrease in prepaid items		55
Increase (decrease) in accounts payable		91,982
Increase (decrease) in salaries payable		21,427
Increase (decrease) in compensated absences payable		(7,445)
Increase (decrease) in contracts payable		(2,163,894)
Increase (decrease) in due to other governments		1,119
Increase (decrease) in OPEB liability		18,211
Increase (decrease) in landfill closure and postclosure care costs		6,072
Total adjustments	**$**	**(898,625)**
Net Cash Provided by (Used in) Operating Activities	**$**	**(2,716,408)**
Noncash Investing, Capital, and Financing Activities		
Change in fair value of long-term investments	**$**	**(14,488)**

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

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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, 2011. 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 PDSW has the option to apply FASB pronouncements issued after that date, PDSW has chosen not to do so. The more significant accounting policies established in GAAP and used by the PDSW are discussed below.

A. Financial Reporting Entity

PDSW 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.

PDSW 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, net of related debt; (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 PDSW upon its direction. Fund investments are reported at their fair value at December 31, 2011, 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.

PDSW may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(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 2000 through 2011.

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, 2011.

Restricted for capital projects	$	299,190
Restricted for closure and postclosure care costs		1,404,742
Accrued interest on restricted investments		8,033
Total	$	1,711,965

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. <u>Summary of Significant Accounting Policies</u>

   D. <u>Assets, Liabilities, and Net Assets or Equity</u> (Continued)

      9. <u>Use of Estimates</u>

         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. <u>Detailed Notes on All Funds</u>

   A. <u>Assets</u>

      1. <u>Receivables</u>

         Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	$ 83,940	$ -
Accounts	887,218	-
Due from other governments	62,607	-
Interest - unrestricted	10	-
Interest - restricted	8,033	-
Total	$ 1,041,808	$ -

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 179,288	$ -	$ -	$ 179,288
Construction in progress	15,055,330	-	15,055,330	-
Total capital assets not depreciated	$ 15,234,618	$ -	$ 15,055,330	$ 179,288
Capital assets depreciated				
Land improvements	$ 3,377,612	$ -	$ -	$ 3,377,612
Infrastructure	2,974,796	-	-	2,974,796
Buildings	5,847,966	1,481,567	-	7,329,533
Machinery, furniture, and equipment	9,428,816	17,254,997	332,465	26,351,348
Total capital assets depreciated	$ 21,629,190	$ 18,736,564	$ 332,465	$ 40,033,289
Less: accumulated depreciation for				
Land improvements	$ 1,293,662	$ 142,623	$ -	$ 1,436,285
Infrastructure	168,582	107,026	-	275,608
Buildings	2,601,595	219,465	-	2,821,060
Machinery, furniture, and equipment	5,578,389	1,214,461	263,297	6,529,553
Total accumulated depreciation	$ 9,642,228	$ 1,683,575	$ 263,297	$ 11,062,506
Total capital assets depreciated, net	$ 11,986,962	$ 17,052,989	$ 69,168	$ 28,970,783
Capital Assets, Net	$ 27,221,580	$ 17,052,989	$ 15,124,498	$ 29,150,071

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

Accounts	$ 193,887
Salaries	126,339
Contracts payable	81,895
Due to other governments	3,692
Accrued interest payable	242,458
Total Payables	$ 648,271

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Leases

Operating Leases

PDSW 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 $327,604 in 2011. The lease, beginning October 1, 2010, is for a three-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, 2011
General obligation bonds					
2009B G.O. Temporary Bonds	2012	$ 1,035,000	2.00	$ 18,000,000	$ 1,035,000
2010A G.O. Revenue Bonds	2031	17,675,000	3.00 - 4.00	17,675,000	17,675,000
Add: Unamortized premium					361,320
Total General Obligation Bonds, Net					$ 19,071,320

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	G.O. Temporary Bonds Payable Principal	G.O. Temporary Bonds Payable Interest
2012	$ 1,035,000	$ 599,719
2013	700,000	579,019
2014	720,000	558,019
2015	745,000	536,419
2016	765,000	514,068
2017 - 2021	4,180,000	2,211,994
2022 - 2026	4,855,000	1,544,744
2027 - 2031	5,710,000	683,943
Total	$ 18,710,000	$ 7,227,925

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, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care costs	$ 488,139	$ 6,072	$ -	$ 494,211	$ -
Compensated absences	307,910	137,786	145,231	300,465	82,769
OPEB liability	66,133	26,338	8,127	84,344	-
General obligation bonds	18,710,000	-	-	18,710,000	1,035,000
Add: Unamortized premium	403,782	-	42,462	361,320	-
Long-Term Liabilities	$ 19,975,964	$ 170,196	$ 195,820	$ 19,950,340	$ 1,117,769

C. Liabilities

Construction Commitments

The government has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-Date	Remaining Commitment
Buildings		
Baler replacement	$ -	$ 196,601
Large door installation	-	21,380
Total Construction Commitments	$ -	$ 217,981

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of PSDW are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General 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.

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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 General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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 General 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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. PDSW makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

PDSW is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

PDSW's contributions for the years ending December 31, 2011, 2010, and 2009, for the Public Employees Retirement Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 126,238	$ 112,118	$ 102,583

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

3. Employee Retirement Systems and Pension Plans (Continued)

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. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 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, 2011, were:

	Employee	Employer
Contribution amount	$ 104	$ 104
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 $494,211 landfill closure

4. Landfill Closure and Postclosure Care Costs (Continued)

and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 13.0 percent of the estimated capacity of the landfill. PDSW will recognize the remaining estimated cost of closure and postclosure care of $1,046,991 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011.

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, 2011, investments of $1,404,742 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 Intergovernmental 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 $450,000 per claim in 2011 and $460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PDSW in a method and amount to be determined by MCIT.

5. Risk Management (Continued)

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.

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, 2011.

Designated for landfill construction	$	1,220,806
Designated for equipment replacement		3,056,022
Total	$	4,276,828

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

C. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 5,200,000	$ 5,178,854	$ (21,146)
Operating Expenses	5,644,659	6,996,637	(1,351,978)
Operating Income (Loss)	$ (444,659)	$ (1,817,783)	$ (1,373,124)
Nonoperating Revenues (Expenses) and Contributions	448,224	897,198	448,974
Change in Net Assets	$ 3,565	$ (920,585)	$ (924,150)

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 PDSW. 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, 2011
2002C Douglas County G.O. Solid Waste Bonds	2012	$1,945,000	4.5377	$ 3,075,000	$ 1,945,000
2010 Douglas County G.O. Refunding Bonds	2022	$170,000 - $210,000	2.1499	1,865,000	1,865,000

E. Other Postemployment Benefits (OPEB)

Plan Description

PDSW provides OPEB that provide basic medical and hospitalization plan coverage to eligible retirees. PDSW's policy allows employees retiring under PERA to continue their coverage under the PDSW's group health insurance program for life. At retirement, employees of PDSW receiving a retirement or disability benefit or eligible to receive a benefit from a Minnesota public pension plan may continue to participate

6. Summary of Significant Contingencies and Other Items

E. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

in the PDSW-sponsored group health insurance plan that the employee was a participant of immediately prior to retirement. Employees may obtain dependent coverage at retirement only if the employee was receiving dependent coverage immediately prior to retirement.

Retirees, spouses, and dependents are eligible to remain in the PDSW-sponsored group health insurance plan provided the applicable premiums are paid. Retirees that elect not to continue health coverage at any time (postemployment) are not eligible to re-enroll in the PDSW-sponsored group health insurance plan. Retirees who initially obtained spouse and/or dependent coverage may drop spouse and/or dependent coverage and maintain coverage for themselves; retirees may not drop coverage for themselves and maintain spouse and/or dependent coverage. Covered spouses and/or dependents may continue coverage after the retiree's death provided the applicable premiums are paid.

Funding Policy

PDSW has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation

PDSW's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period of

6. Summary of Significant Contingencies and Other Items

E. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

30 years. The following table shows the components of PDSW's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in PDSW's net OPEB obligation for 2011:

ARC	$	25,594
Interest on net OPEB obligation		3,307
Adjustment to ARC		(2,563)
Annual OPEB cost	$	26,338
Contributions during the year		(8,127)
Increase in net OPEB obligation	$	18,211
Net OPEB, Beginning of Year		66,133
Net OPEB, End of Year	$	84,344

GASB Statement 45 was adopted effective January 1, 2008. Therefore, disclosure of annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal years ending December 31, 2007, and earlier are not applicable. PDSW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending 2011 and the preceding two years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	$ 26,158	$ 606	2.3%	$ 46,287
December 31, 2010	25,088	5,242	20.9	66,133
December 31, 2011	26,338	8,127	30.9	84,344

6. Summary of Significant Contingencies and Other Items

E. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The estimated actuarial accrued liability for benefits at December 31, 2010, was $207,346, and the actuarial value of plan assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $207,346. The 2010 covered payroll (annual payroll of active employees covered by the plan) was $1,639,042, and the ratio of the UAAL to the covered payroll was 13.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the entry age normal percent of pay actuarial cost method was used. Each year, the UAAL includes the remaining balance of the initial January 1, 2008, UAAL and subsequent changes in UAAL related to plan gains and losses. The initial UAAL and changes in UAAL are each amortized as a level 4.5 percent of payroll over 30-year closed periods. As of December 31, 2010, the

6. Summary of Significant Contingencies and Other Items

   E. Other Postemployment Benefits (OPEB)

      Actuarial Methods and Assumptions (Continued)

      remaining amortization period for the initial UAAL and 2011 gain/loss is 27 and 30 years, respectively. The actuarial assumptions include a 5.0 percent discount rate based on pay-as-you-go funding and health care cost trend rates of 9.5 percent in 2010, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2017 and later.

      The January 1, 2010, actuarial valuation assumed health care cost trend rates of 9.5 percent in 2010, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2019 and later.

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REQUIRED SUPPLEMENTARY INFORMATION

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	$ -	$ 206,401	$ 206,401	0.0%	$ 1,500,920	13.8%
January 1, 2010	-	186,218	186,218	0.0	1,568,461	11.9
January 1, 2011	-	207,346	207,346	0.0	1,639,042	12.7

See Note 6.E., Other Postemployment Benefits, for more information.

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Management and Compliance Section

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POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect Pope/Douglas Solid Waste Management's (PDSW) assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel performing the business functions of PDSW, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. There is inadequate segregation of duties regarding 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.

Context: This is not unusual in operations the size of PDSW; however, the PDSW'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 internal control point of view.

Effect: Inadequate segregation of duties could adversely affect PDSW's ability to detect misstatements in a timely period by contracted employees in the normal course of performing their assigned functions.

Cause: The size of PDSW and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend that PDSW officials and management be mindful that limited staffing increases the risks in safeguarding PDSW's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed.

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.

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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, 2011, and have issued our report thereon dated September 27, 2012. 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

Management of PDSW is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PDSW's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of PDSW's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Recommendations as item 96-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether PDSW'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*.

<u>Minnesota Legal Compliance</u>

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 Political Subdivisions,* 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 Political Subdivisions* 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, PDSW complied with the material terms and conditions of applicable legal provisions.

PDSW's written response to the internal control finding 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

September 27, 2012