

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
(A DISCRETE COMPONENT UNIT OF DOUGLAS COUNTY)
ALEXANDRIA, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
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DECEMBER 31, 2017**

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INTRODUCTORY SECTION

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
ORGANIZATION
DECEMBER 31, 2017**

Board of Directors		Term Expires
Douglas County		
Board Member	Charlie Meyer	Indefinite
Board Member - Vice Chair	Jim Stratton	Indefinite
Board Member	Jerry Wright	Indefinite
Pope County		
Board Member - Chair	Paul Gerde	Indefinite
Board Member	Larry Lindor	Indefinite
Officers		
Executive Director	Steve Vrchota	Indefinite
Plant Manager	Darrell Connell	Indefinite
Office Manager	Brooke Hellerman	Indefinite

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pope/Douglas Solid Waste Management
Alexandria, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Pope/Douglas Solid Waste Management (PDSW), a component unit of Douglas County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise PDSW's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PDSW's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PDSW's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pope/Douglas Solid Waste Management as of December 31, 2017, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the PDSW's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pope/Douglas Solid Waste Management's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Alexandria, Minnesota
July 9, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017. 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 position compares the assets, deferred outflows of resources, liabilities, and deferred inflows of resources to give an overall view of the financial health of PDSW.
- The statement of revenues, expenses, and change in net position 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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA**

FINANCIAL ANALYSIS

Net Position

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 8,394,740	\$ 8,659,660	\$ (264,920)	(3.1)
Noncurrent assets	<u>20,413,274</u>	<u>21,324,234</u>	<u>(910,960)</u>	(4.3)
Total Assets	<u>28,808,014</u>	<u>29,983,894</u>	<u>(1,175,880)</u>	(3.9)
Deferred outflows of resources	<u>522,525</u>	<u>1,153,706</u>	<u>(631,181)</u>	(54.7)
Liabilities				
Long-term liabilities	16,795,017	18,218,249	(1,423,232)	(7.8)
Other liabilities	<u>1,827,229</u>	<u>1,466,712</u>	<u>360,517</u>	24.6
Total Liabilities	<u>18,622,246</u>	<u>19,684,961</u>	<u>(1,062,715)</u>	(5.4)
Deferred inflows of resources	<u>488,777</u>	<u>328,816</u>	<u>159,961</u>	48.6
Net Position				
Net investment in capital assets	5,809,699	6,327,504	(517,805)	(8.2)
Restricted	913,378	882,268	31,110	3.5
Unrestricted	<u>3,496,439</u>	<u>3,914,051</u>	<u>(417,612)</u>	(10.7)
Total Net Position	<u>\$ 10,219,516</u>	<u>\$ 11,123,823</u>	<u>\$ (904,307)</u>	(8.1)

The net position of PDSW decreased by 8.1% due primarily to additional repairs and maintenance expenses in 2017. Unrestricted net position totaling \$3,496,439 is available to finance the day-to-day operations of PDSW.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA**

Change in Net Position

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Operating Revenues				
Charges for services	\$ 7,960,496	\$ 7,528,728	\$ 431,768	5.7
Miscellaneous	39,413	61,811	(22,398)	(36.2)
Nonoperating Revenues				
Special assessments	1,370,704	1,353,165	17,539	1.3
Intergovernmental	309,114	303,701	5,413	1.8
Interest income	93,293	68,376	24,917	36.4
Increase (decrease) in fair value of investments	13,544	(7,982)	21,526	269.7
Gain on disposal of capital assets	7,000	-	7,000	-
Amortization of premiums on bonds	(44,467)	16,782	(61,249)	(365.0)
Total Revenues	<u>\$ 9,749,097</u>	<u>\$ 9,324,581</u>	<u>\$ 424,516</u>	<u>4.6</u>
Operating Expenses				
Payroll	\$ 2,263,319	\$ 2,147,780	\$ 115,539	5.4
Employee benefits and payroll taxes	653,362	717,024	(63,662)	(8.9)
Professional services	894,673	908,530	(13,857)	(1.5)
Supplies	805,161	698,506	106,655	15.3
Organics recycling	90,934	30,910	60,024	194.2
SCORE	497,862	435,696	62,166	14.3
Travel	22,439	17,268	5,171	29.9
Telephone	7,320	4,832	2,488	51.5
Utilities	406,737	424,645	(17,908)	(4.2)
Advertising	8,213	13,942	(5,729)	(41.1)
Insurance	242,418	240,073	2,345	1.0
Postage	1,343	1,338	5	0.4
Commodity freight	17,343	13,451	3,892	28.9
Repairs and maintenance	1,966,072	1,214,355	751,717	61.9
Miscellaneous	43,631	120,576	(76,945)	(63.8)
Depreciation	2,203,554	2,186,807	16,747	0.8
Landfill closure and postclosure care costs	47,308	116,582	(69,274)	(59.4)
Nonoperating Expenses				
Loss on disposal of capital assets	-	5,068	(5,068)	(100.0)
Interest expense	481,715	508,977	(27,262)	(5.4)
Total Expenses	<u>10,653,404</u>	<u>9,806,360</u>	<u>847,044</u>	<u>8.6</u>
Increase (Decrease) in Net Position	<u>\$ (904,307)</u>	<u>\$ (481,779)</u>	<u>\$ (422,528)</u>	<u>(87.7)</u>

Revenues increased 4.6% with haulers tipping fees increasing by \$133,658 as a result of increased fees, steam sales increasing by \$97,381, and commodity sales increasing by \$176,561. Total expenses reflect an increase of 8.6% with repairs and maintenance having the largest increase of \$751,717 due to more repairs than in the prior year.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA**

CAPITAL ASSETS

	Capital Assets (Net of Depreciation)			Percent Change (%)
	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	
Land	\$ 179,288	\$ 179,288	\$ -	-
Construction in progress	554,971	-	554,971	100.0
Land Improvement	1,776,817	1,960,780	(183,963)	(9.4)
Infrastructure	1,981,792	2,101,358	(119,566)	(5.7)
Buildings	3,315,783	3,488,392	(172,609)	(4.9)
Machinery, furniture, and Equipment	<u>12,604,623</u>	<u>13,594,416</u>	<u>(989,793)</u>	(7.3)
Totals	<u>\$ 20,413,274</u>	<u>\$ 21,324,234</u>	<u>\$ (910,960)</u>	(4.3)

DEBT ADMINISTRATION

As of December 31, 2017, Pope/Douglas Solid Waste Management had \$13,955,000 of General Obligation Bonds outstanding compared to \$14,745,000 outstanding as of December 31, 2016, a decrease of \$790,000 due to debt maturities. Other obligations include compensated absences, a liability for other postemployment benefits, net pension liability and a liability for landfill closure and post closure costs. Pope/Douglas Solid Waste Management's notes to the financial statements provide detailed information about their long-term liabilities.

ECONOMIC FACTORS

The general market indicators for the financial success of Pope/Douglas Solid Waste Management are tipping fee pricing, commodities pricing and steam value. In 2017 tipping fees increased from \$76 to \$77 per ton and will remain at that rate for 2018. It is predicted that tipping fees will increase by 4% in 2019. Commodity pricing for recovered recycled materials increased through the first quarter of 2017 but dropped to average pricing for the remainder of the year. Steam prices, which are based on natural gas pricing, remain low and are anticipated to be low for the next several years based on natural gas futures. Local labor markets are very competitive and labor costs are expected to increase above 3% annually in order to retain a quality work force.

Pope/Douglas Solid Waste Management is engaged in some significant maintenance and capital expenditures to modernize control systems and keep the plant operating at expected levels.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA**

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, Steve Vrchota, 2115 South Jefferson, Alexandria, Minnesota 56308.

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BASIC FINANCIAL STATEMENTS

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Assets and Deferred Outflows of Resources

Current Assets	
Cash and pooled investments	\$ 1,803,165
Petty cash and change funds	300
Investments	3,971,160
Special assessments	
Current	42,701
Prior	24,168
Accounts receivable - net	724,866
Accrued interest receivable	14,455
Due from other governments	124,927
Prepaid items	27,741
	<hr/>
Total Current Assets	6,733,483
Restricted Assets	
Investments	1,646,097
Accrued interest receivable	15,160
	<hr/>
Total Restricted Assets	1,661,257
Noncurrent Assets	
Capital assets	
Nondepreciable	734,259
Depreciable - net	19,679,015
	<hr/>
Total Noncurrent Assets	20,413,274
	<hr/>
Total Assets	28,808,014
Deferred Outflows of Resources	
Pension related deferred outflows	522,525
	<hr/>
Total Assets and Deferred Outflows of Resources	29,330,539

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017**

Liabilities and Deferred Inflows of Resources

Current Liabilities	
Accounts payable	\$ 232,564
Salaries payable	113,166
Compensated absences payable - current	96,521
Contracts payable	352,378
Due to other governments	27,731
Accrued interest payable	194,869
General obligation bonds payable - current	810,000
	<hr/>
Total Current Liabilities	1,827,229
Noncurrent Liabilities	
Compensated absences payable - long-term	145,365
Landfill closure and postclosure care costs	826,036
General obligation bonds payable - long-term	13,441,197
OPEB liability	243,801
Net pension liability	2,138,618
	<hr/>
Total Noncurrent Liabilities	16,795,017
	<hr/>
Total Liabilities	18,622,246
Deferred Inflows of Resources	
Special assessments collected for subsequent period	51,694
Pension related deferred inflows	437,083
	<hr/>
Total Deferred Inflows of Resources	488,777
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Total Liabilities and Deferred Inflows of Resources	19,111,023
<u>Net Position</u>	
Net investment in capital assets	5,809,699
Restricted for	
Landfill closure and postclosure care costs	835,222
Organics recycling	78,156
Unrestricted	3,496,439
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Total Net Position	\$ 10,219,516
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**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Operating Revenues	
Charges for services	\$ 7,960,496
Miscellaneous	39,413
	<hr/>
Total Operating Revenues	7,999,909
	<hr/>
Operating Expenses	
Payroll	2,263,319
Employee benefits and payroll taxes	653,362
Professional services	894,673
Supplies	805,161
Organics recycling	90,934
SCORE	497,862
Travel	22,439
Telephone	7,320
Utilities	406,737
Advertising	8,213
Insurance	242,418
Postage	1,343
Commodity freight	17,343
Repairs and maintenance	1,966,072
Miscellaneous	43,631
Depreciation	2,203,554
Landfill closure and postclosure care costs	47,308
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Total Operating Expenses	10,171,689
	<hr/>
Operating Income (Loss)	(2,171,780)
	<hr/>
Nonoperating Revenues (Expenses)	
Special assessments	1,370,704
Intergovernmental	
Operating Grants	
SCORE	176,791
Ag plastic and boat wrap	5,631
Organics Recycling	100,000
Household Hazardous Waste	26,692
Interest income	93,293
Increase (decrease) in fair value of investments	13,544
Amortization of premiums on bonds	(44,467)
Interest expense	(481,715)
Gain (loss) on disposal of capital assets	7,000
	<hr/>
Total Nonoperating Revenues (Expenses)	1,267,473
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Change in Net Position	(904,307)
	<hr/>
Net Position - January 1	11,123,823
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Net Position - December 31	\$ 10,219,516
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**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 8,186,567
Payments to suppliers	(5,038,967)
Payments to employees	<u>(2,874,566)</u>
Net Cash Provided by (Used in) Operating Activities	<u>273,034</u>
Cash Flows from Noncapital Financing Activities	
Special assessments	1,425,762
Intergovernmental	<u>309,114</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,734,876</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	(790,000)
Interest paid on long-term debt	(491,034)
Purchases of capital assets	<u>(933,216)</u>
Net Cash Provided by (Used in) Capital and Related Financing activities	<u>(2,214,250)</u>
Cash Flows from Investing Activities	
Purchase of investments	(2,531,956)
Proceeds from sale of investments	493,153
Investment earnings received	<u>87,694</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,951,109)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,157,449)</u>
Cash and Cash Equivalents at January 1	<u>3,960,914</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,803,465</u></u>
Cash and Cash Equivalents - Statement of Net Position	
Cash and pooled investments	\$ 1,803,165
Petty cash and change funds	<u>300</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,803,465</u></u>

See accompanying Notes to the Financial Statements. [12]

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Income (Loss)	<u>\$ (2,171,780)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Depreciation expense	2,203,554
(Increase) decrease in accounts receivable	285,773
(Increase) decrease in due from other governments	(99,115)
(Increase) decrease in prepaid items	(24,605)
(Increase) decrease in deferred outflows of resources	631,181
Increase (decrease) in accounts payable	(22,116)
Increase (decrease) in salaries payable	15,606
Increase (decrease) in compensated absences payable	(90,943)
Increase (decrease) in due to other governments	11,900
Increase (decrease) in OPEB liability	12,846
Increase (decrease) in net pension liability	(634,842)
Increase (decrease) in landfill closure costs	47,308
Increase (decrease) in deferred inflows of resources	<u>108,267</u>
Total Adjustments	<u>2,444,814</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 273,034</u>
Noncash Investing, Capital, and Financing Activities	
Change in fair value of long-term investments	\$ 13,544
Amortization of bond premium	<u>44,467</u>
Total Noncash Investing, Capital, and Financing Activities	<u>58,011</u>

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**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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, April 9, 1997, and amended again August 22, 2003, pursuant to *Minnesota Statutes* § 471.59, Joint Powers Act. Transactions between the related organizations are described in Note 7.

Each of the Counties is authorized and obligated pursuant to *Minnesota Statutes* 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%, and Pope County's ownership is 25%.

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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

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, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources

1. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash, petty cash, and investments with original maturities of 90 days or less. Douglas County is the fiscal agent for PDSW. PDSW's cash is treated as a cash equivalent because PDSW can deposit or withdraw cash at any time without prior notice or penalty. Interest is credited to the PDSW's General Fund. Douglas County, acting as fiscal agent, obtains collateral to cover the PDSW deposits in excess of insurance coverage.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (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, 2017, based on market prices. Interest earned on such restricted investments is credited to the PDSW's General Fund.

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

- (a) 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 *Minnesota Statutes* §§ 118A.04, subd. 6;
- (b) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) bankers' acceptances of United States banks;
- (e) 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
- (f) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (Continued)

3. Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consists of delinquent special assessments due in the years 2000 through 2017.

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 required by the Minnesota Pollution Control Agency and Minnesota Statute to be set aside for landfill closure and post closure financial assurances. Below is a summary of the restricted assets at December 31, 2017

Restricted for Closure and Postclosure Care Costs	\$	1,646,097
Accrued Interest on Restricted Investments		15,160
Total	\$	1,661,257

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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources

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 capitalized \$676 of 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 vacation 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. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (Continued)

9. Deferred Outflows of Resources

PDSW's statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. PDSW has pension related deferred outflows that qualify for reporting in this category. These outflows arise only under an accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, the difference between projected and actual investment earnings, changes in proportion and contributions paid to PERA subsequent to the measurement date.

10. Deferred Inflows of Resources

PDSW's statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. PDSW has unavailable special assessments and pension related deferred inflows that qualify for reporting in this category. These inflows arise only under an accrual basis of accounting and consist of special assessments for 2018 that Douglas and Pope Counties collected in 2017, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, the difference between projected and actual investment earnings, and changes in proportions.

11. 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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minnesota Statutes § 118A.02 and 118A.04 authorize the Pope/Douglas Solid Waste Management to deposit its cash and to invest in certificates of deposit in financial institutions designated by Douglas County Board of Commissioners and the Pope/Douglas Solid Waste Management. *Minnesota Statutes* require that all deposits be covered by insurance, surety bond, or collateral. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letters of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* requires securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institutions not owned or controlled by the depository. Pope/Douglas Solid Waste Management is required to follow *Minnesota Statutes* § 118A.03, which requires them to have their deposits fully insured and/or collateralized. As of December 31, 2017, the carrying value of the deposits was \$1,803,165. This balance was covered by collateral or insurance.

PDSW invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to *Minnesota Statutes* § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool. More information including the most recent financial statement is available on their website www.magicfund.org.

Custodial Credit Risk

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, PDSW’s deposits may not be returned to it. PDSW, under the directive of the County, will minimize deposit custodial credit risk by obtaining collateral or bonds for all uninsured amounts on deposits, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2017, PDSW’s deposits were not exposed to custodial credit risk.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. PDSW minimizes its exposure to interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. PDSW follows the County's policy to invest only in securities that meet the ratings requirements set by state statute.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by PDSW's investment if a single issuer. It is PDSW's policy to minimize that risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The following table presents PDSW's investment balances at December 31, 2017, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration of Credit Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal National Mortgage Association	Aa+	Moody's	7.0%	10/28/2022	\$ 394,568
Federal Home Loan Mortgage Corporation	Aaa	Moody's	7.0%	6/30/2021	394,364
UBS Select	Aaa	Moody's	<5%	N/A	28,834
UBS Cash	N/R	N/A	<5%	N/A	6,163
Taxable Airport Improvement Bonds	Aa2	Moody's	10.7%	02/01/2027	599,015
Taxable Transit Bonds	Aa1	Moody's	6.4%	02/01/2022	358,992
JP Morgan Chase Bank Delaware	N/R	N/A	<5%	01/20/2022	235,090
Barclays Bank Delaware	N/R	N/A	<5%	07/12/2022	99,146
First Merchants Bank Indiana	N/R	N/A	<5%	07/31/2020	242,023
GE Capital Bank Utah	N/R	N/A	<5%	01/17/2020	240,998
Discover Bank Delaware	N/R	N/A	<5%	02/11/2022	199,612
Capital One Bank NA	N/R	N/A	<5%	07/22/2020	96,214
Capital One Bank Virginia	N/R	N/A	<5%	06/10/2020	239,198
Synchrony Bank Utah	N/R	N/A	<5%	01/13/2022	239,722
Capital One Bank NA	N/R	N/A	<5%	07/22/2020	28,062
External investment pool MAGIC	N/R	N/A	39.4%	N/A	2,215,256
Total Investments					\$ 5,617,257

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Value Measurements

PDSW uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures.

PDSW follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, PDSW has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

Level I - Financial assets are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level II - Financial assets are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level III - Financial assets are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds

A. Assets (Continued)

1. Deposits and Investments (Continued)

Fair Value Measurements (Continued)

Investments are measured as follows:

	12/31/2017	Fair Value Measurement Using		
		Level I	Level II	Level III
Investments by Fair Value Level				
Federal National Mortgage Association	\$ 394,568	\$ -	\$ 394,568	\$ -
Federal Home Loan Mortgage Corporation	394,364	-	394,364	-
Municipal Bonds	958,007	-	958,007	-
Brokered Certificates of Deposit	1,620,065	-	1,620,065	-
Total investments by fair value level	\$ 3,367,004	\$ -	\$ 3,367,004	\$ -
Investments measured at amortized cost				
MAGIC portfolio external investment pool	1,115,256			
Money Market Funds	28,834			
Total investments measured at amortized cost	1,144,090			
Investments measured at net asset value (NAV)				
MAGIC term investment external investment pool	1,100,000			
Total Investments	5,611,094			
Cash and Cash equivalents	6,163			
Total Cash and Investments	\$ 5,617,257			

The MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as PDSW has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its new asset value not reasonably practical. The MAGIC term investment pool is valued at net asset value (NAV) as it does not meet the liquidity criteria to be valued at amortized cost. PDSW would face penalties if early redemptions were made from the term investment pool. There are no unfunded commitments relating to this investment. The County reports its investment in the term investment pool at the NAV per share, the fair value established by the pool.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, including the applicable allowances for uncollectible accounts, are listed below. PDSW expects these receivables to be collected within one year.

	Total Receivables
Special Assessments	\$ 66,869
Accounts	724,866
Due from Other Governments	124,927
Interest - Unrestricted	14,455
Interest - Restricted	15,160
	<u>946,277</u>
Total	<u>\$ 946,277</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets not Depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Construction in progress	-	554,971	-	554,971
	<u>179,288</u>	<u>554,971</u>	<u>-</u>	<u>734,259</u>
Total Capital Assets not Depreciated	<u>\$ 179,288</u>	<u>\$ 554,971</u>	<u>\$ -</u>	<u>\$ 734,259</u>
Capital Assets Depreciated				
Land improvements	\$ 4,627,288	\$ 14,580	\$ -	\$ 4,641,868
Infrastructure	2,974,796	-	-	2,974,796
Buildings	7,462,224	50,981	-	7,513,205
Machinery, furniture, and equipment	28,496,202	672,562	73,857	29,094,907
	<u>43,560,510</u>	<u>738,123</u>	<u>73,857</u>	<u>44,224,776</u>
Total Capital Assets Depreciated	<u>\$ 43,560,510</u>	<u>\$ 738,123</u>	<u>\$ 73,857</u>	<u>\$ 44,224,776</u>
Less: Accumulated Depreciation for				
Land improvements	\$ 2,666,508	\$ 198,543	\$ -	\$ 2,865,051
Infrastructure	873,438	119,566	-	993,004
Buildings	3,973,832	223,590	-	4,197,422
Machinery, furniture, and equipment	14,901,786	1,661,855	73,357	16,490,284
	<u>22,415,564</u>	<u>2,203,554</u>	<u>73,357</u>	<u>24,545,761</u>
Total Accumulated Depreciation	<u>\$ 22,415,564</u>	<u>\$ 2,203,554</u>	<u>\$ 73,357</u>	<u>\$ 24,545,761</u>
Total Capital Assets Depreciated, Net	<u>\$ 21,144,946</u>	<u>\$ (1,465,431)</u>	<u>\$ 500</u>	<u>\$ 19,679,015</u>
Capital Assets, Net	<u>\$ 21,324,234</u>	<u>\$ (910,460)</u>	<u>\$ 500</u>	<u>\$ 20,413,274</u>

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2017, were as follows:

Accounts	\$ 232,564
Salaries	113,166
Contracts Payable	352,378
Due to Other Governments	27,731
Accrued Interest Payable	194,869
	<hr/>
Total Payables	<u>\$ 920,708</u>

2. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2017</u>
General Obligation Bonds		\$720,000 -	3.00 - 4.00	\$ 17,675,000	\$ 13,955,000
2010A G.O. Bonds	2031	\$1,230,000			
Add: Unamortized premium					296,197
					<hr/>
Total General Obligation Bonds, Net					<u>\$ 14,251,197</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 810,000	\$ 467,419
2019	835,000	443,119
2020	860,000	418,069
2021	885,000	392,268
2022	915,000	365,719
2023 - 2027	5,005,000	1,395,269
2028 - 2031	4,645,000	467,700
	<hr/>	<hr/>
Total	<u>\$ 13,955,000</u>	<u>\$ 3,949,563</u>

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated Liability for Landfill Closure and Postclosure Care					
Costs	\$ 778,728	\$ 47,308	\$ -	\$ 826,036	\$ -
Compensated Absences	332,829	130,136	221,079	241,886	96,521
OPEB Liability	230,955	12,846	-	243,801	-
General Obligation Bonds	14,745,000	-	790,000	13,955,000	810,000
Add: Unamortized Premium	251,730	44,467	-	296,197	-
Long-Term Liabilities	\$ 16,339,242	\$ 234,757	\$ 1,011,079	\$ 15,562,920	\$ 906,521

5. Construction Commitments

PDSW has active construction and capital improvement projects as of December 31, 2017. The projects include the following:

	Spent-to-Date	Remaining Commitment
Unit #2 and balance of plant programmable logic controller upgrade	\$ 473,433	\$ 78,804
Festoon system	-	62,745
Rockwell software plant historian	-	43,418
Household hazardous waste air conditioner install	24,549	1,705
Ash landfill video system	6,990	51,208
Engineering services master site planning	1,293	38,507
Materials recycling sort room heating upgrade	48,706	39,533
Materials recycling break room and shower room HVAC	-	67,952
Total Commitments	\$ 554,971	\$ 383,872

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. Detailed Notes on All Funds (Continued)

B. Liabilities (Continued)

6. Operating Leases

PDSW has a lease agreement in place as of December 31, 2017 with Xerox Corporation for a photo copier. The total payments made in 2017 were \$2,926. Minimum future lease payments are as follow:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 2,926
2019	2,926
2020	<u>1,707</u>
Total	<u>\$ 7,559</u>

3. Pension Plans

A. Defined Benefit Pension Plan

Plan Description

PDSW participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the PDSW are covered by the General Employees Plan. General Employees Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

A. Defined Benefit Pension Plan (Continued)

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provision are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

A. Defined Benefit Pension Plan (Continued)

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in calendar year 2017. PDSW was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. PDSW's contributions to the General Employees Fund for the year ended December 31, 2017, were \$160,740. PDSW's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2017, PDSW reported a liability of \$2,138,618 for its proportionate share of the General Employees Fund's net pension liability. PDSW's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with PDSW totaled \$26,883. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PDSW's proportion of the net pension liability was based on the PDSW's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the PDSW's proportion was .0335% which was a decrease of .0007% from its proportion measured as of June 30, 2016.

There were no provision changes during the measurement period.

For the year ended December 31, 2017, PDSW recognized pension expense of \$265,636 for its proportionate share of the General Employees Plan's pension expense.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

A. Defined Benefit Pension Plan (Continued)

Pension Costs (Continued)

In addition, PDSW recognized as additional \$776 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, PDSW reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Economic Experience	\$ 70,483	\$ 137,582
Changes in Actuarial Assumptions	355,057	214,397
Difference Between Projected and Actual Investment Earnings	13,812	-
Changes in Proportion	-	85,104
Contributions Paid to PERA Subsequent to the Measurement Date	83,173	-
Total	<u>\$ 522,525</u>	<u>\$ 437,083</u>

\$83,173 reported as deferred outflows of resources related to pensions resulting from PDSW contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	<u>Pension Expense Amount</u>
2018	\$ 39,161
2019	103,678
2020	(49,789)
2021	(90,781)

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

A. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0 % for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

A. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents PDSW's proportionate share of the net pension liability for the plan it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what PDSW's proportionate share of the net pension liability would be, if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
PDSW's Proportionate Share of the General Employees Fund's Net Pension Liability	\$3,317,155	\$2,138,618	\$1,173,771

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. Pension Plans (Continued)

B. Defined Contribution Plan

Two of the Douglas County Board members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution 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. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by PDSW during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$120	\$120	5%	5%	5%

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

4. Landfill Closure and Post Closure 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 post closure 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 post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The landfill closure and post closure care liability at December 31, 2017 is \$826,036. Of this liability, \$406,419 represents the cumulative amount reported to date based on the use of 30.2% of the estimated remaining capacity of the landfill post closure care liability. PDSW will recognize the remaining estimated cost of closure and post closure care of \$939,172 as the remaining estimated capacity is filled. The remaining portion of the liability of \$419,617 is based on the capacity on the closed cells. These amounts are based on what it would cost to perform all closure and post closure care in 2017.

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 post closure care. PDSW is in compliance with these requirements and, at December 31, 2017, investments of \$1,646,097 are held for these purposes. These are reported as restricted assets on the statement of net position. PDSW expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional post closure 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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. Risk Management (Continued)

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 \$500,000 per claim in 2017. 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.

PDSW is part of the Lakes Country Service Co-op for employee health coverage. Lakes Country Service Co-op is a self-funded pool made up of public employers.

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 equipment replacement and landfill construction. Below is a summary of the investments set aside at December 31, 2017.

Designated for Equipment Replacement	\$ 1,856,022
Designated for Landfill Construction	<u>265,000</u>
 Total	 <u><u>\$ 2,121,022</u></u>

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

C. Operating Budgets

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues	\$ 7,580,000	\$ 7,999,909	\$ 419,909
Operating Expenses	<u>7,615,316</u>	<u>10,171,689</u>	<u>(2,556,373)</u>
Operating Income (Loss)	\$ (35,316)	\$ (2,171,780)	\$ (2,136,464)
Nonoperating Revenues (Expenses)	<u>\$ 165,769</u>	<u>\$ 1,267,473</u>	<u>1,101,704</u>
Change in Net Position	<u>\$ 130,453</u>	<u>\$ (904,307)</u>	<u>\$ (1,034,760)</u>

D. 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 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. PDSW did not have any individuals under this coverage in 2017.

Funding Policy

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

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

D. Other Postemployment Benefits (OPEB) (Continued)

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 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 2017:

ARC	\$	19,213
Interest on Net OPEB Obligation		8,083
Adjustment to ARC		<u>(14,450)</u>
Annual OPEB Cost	\$	12,846
Contributions During the Year		<u>-</u>
Increase in Net OPEB Obligation	\$	12,846
Net OPEB, Beginning of Year		<u>230,955</u>
Net OPEB, End of Year	\$	<u><u>243,801</u></u>

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 2017 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, 2015	\$ 36,893	\$ -	\$ -	\$ 199,943
December 31, 2016	31,012	-	-	230,955
December 31, 2017	12,846	-	-	243,801

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

D. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was unfunded. The estimated actuarial accrued liability for benefits at January 1, 2017, was \$130,356 and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$130,356. The 2017 covered payroll (annual payroll of active employees covered by the plan) was \$1,791,082, and the ratio of the UAAL to the covered payroll was 7.3%.

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.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

D. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2017, 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% of payroll over 30-year closed periods. As of December 31, 2017, the remaining amortization period for the initial UAAL and 2017 gain/loss is 21 and 30 years, respectively. The actuarial assumptions include a 3.5% discount rate based on pay-as-you-go funding.

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

The January 1, 2012, actuarial valuation assumed a 4.0% discount rate based on pay-as-you-go funding and health care cost trend rates of 8.0% in 2012, decreasing 0.5% annually to an ultimate rate of 5.0% in 2018 and later.

The January 1, 2014, actuarial valuation assumed a 4.0% discount rate based on pay-as-you-go funding and health care cost trend rates of 7.5% in 2014, decreasing .25% annually to an ultimate rate of 5.0% in 2024 and later.

The January 1, 2017, actuarial valuation assumed a 3.5% discount rate based on pay-as-you-go funding and health care cost trend rates of 6.5% in 2017, decreasing .25% annually to an ultimate rate of 5.0% in 2024 and later.

7. Related Organizations

As stated in Note 1.A., PDSW was formed through a Joint Powers agreement with Douglas and Pope Counties. These Counties help fund PDSW's operations through special assessments with 76% of the total special assessment revenue coming from Douglas County of \$1,044,075 and 24% from Pope County of \$326,629.

PDSW paid Douglas County \$22,235 for fiscal host fees in 2017.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017**

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, 2012	\$ -	\$122,273	\$122,273	-%	\$1,841,730	6.6%
January 1, 2014	-	183,898	183,898	-	1,831,237	10.0
January 1, 2017	-	130,356	130,356	-	1,791,082	7.3

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

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST TEN FISCAL YEARS**

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with PDSW	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	0.0350%	\$1,816,058	\$ -	\$2,102,644	86.37%	78.2%
June 30, 2016	0.0342%	\$2,773,460	\$10,801	\$2,143,158	129.41%	68.9%
June 30, 2017	0.0335%	\$2,138,618	\$26,883	\$2,157,495	99.13%	75.9%

This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015. GASB Statement 68 requires ten years of information be presented in this table. Additional years will be included as they become available.

**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

<u>Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Contributions in Relation to the Statutorily Required Contributions (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Payroll (d)</u>	<u>Contributions as a Percentage of Covered Payroll (b/d)</u>
December 31, 2014	\$148,703	(\$148,703)	\$ -	\$2,051,077	7.25%
December 31, 2015	\$167,522	(\$167,522)	\$ -	\$2,233,634	7.50%
December 31, 2016	\$156,672	(\$156,672)	\$ -	\$2,088,969	7.50%
December 31, 2017	\$160,740	(\$160,740)	\$ -	\$2,143,196	7.50%

This schedule is provided prospectively beginning with the fiscal year ended December 31, 2014. GASB Statement 68 requires ten years of information be presented in this table. Additional years will be included as they become available.

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OTHER REQUIRED REPORTS



INDEPENDENT AUDITORS' 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
Alexandria, Minnesota

We have audited, in accordance with the 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, the accompanying financial statements of Pope/Douglas Solid Waste Management (PDSW), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Pope/Douglas Solid Waste Management's basic financial statements, and have issued our report thereon dated July 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pope/Douglas Solid Waste Management's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pope/Douglas Solid Waste Management's internal control. Accordingly, we do not express an opinion on the effectiveness of Pope/Douglas Solid Waste Management's internal control.

A *deficiency in internal control* 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 a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations as item 2017-001 that we consider to be 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 from 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*.

Pope/Douglas Solid Waste Management's Response to the Finding

Pope/Douglas Solid Waste Management's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. Pope/Douglas Solid Waste Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of PDSW's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PDSW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Alexandria, Minnesota
July 9, 2018

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Pope/Douglas Solid Waste Management
Alexandria, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Pope/Douglas Solid Waste Management (PDSW), as of December 31, 2017 and the related notes to the financial statements, which collectively comprise PDSW's basic financial statements as listed in the table of contents and have issued our report thereon dated July 9, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65 contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the PDSW administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Pope/Douglas Solid Waste Management failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Pope/Douglas Solid Waste Management's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
July 9, 2018

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**POPE/DOUGLAS SOLID WASTE MANAGEMENT
ALEXANDRIA, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2017**

FINDING: 2017-001 LIMITED SEGREGATION OF DUTIES

Condition: Pope/Douglas Solid Waste Management does not have adequate segregation of accounting duties.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Effect: The lack of adequate segregation of accounting duties could adversely affect PDSW's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Cause: There is a limited number of staff in the business office.

Recommendation: We recommend that PDSW continue to segregate duties as best it can within the limits of what PDSW considers to be cost beneficial.

Views of Responsible Officials:

Management reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available. However, PDSW does not consider it cost beneficial at this time to increase staff in order to further segregate accounting functions.

