

EMMET COUNTY COUNCIL OF GOVERNMENTS  
ESTHERVILLE, IOWA

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

DECEMBER 31, 2004

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## EMMET COUNTY COUNCIL OF GOVERNMENTS

### Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Don Heerd	Chairperson	Emmet County
Harold Sawyer	Vice-Chairperson	City of Estherville
Steven Woodley	Secretary-Treasurer	City of Estherville
Vaughn Brua	Member	City of Estherville
Gene Haukoos	Member	City of Estherville
Don Mustard, Sr.	Member	City of Gruver
Max Cole	Member	City of Ringsted
Wayne West	Member	Emmet County
Mark Yackle	Member	City of Wallingford

Emmet County Council of Governments

# Johnson & Eckard CPAs, P.C.

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Estherville, Iowa 51334-2325  
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1401 Hill Avenue  
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## INDEPENDENT AUDITORS' REPORT

To the Members of  
Emmet County Council of Governments:

We have audited the accompanying financial statements of the Emmet County Council of Governments as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Emmet County Council of Governments as of and for the year ended December 31, 2004 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

As discussed in note 11, during the year ended December 31, 2004, Emmet County Council of Governments adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2005 on our consideration of the Emmet County Council of Governments' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

*Johnson & Eckard CPAs, P.C.*  
JOHNSON & ECKARD CPAs, P.C.  
June 14, 2005

Emmet County Council of Governments (ECCOG)  
Estherville, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECCOG provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of ECCOG is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with ECCOG's financial statements, which follows:

Because ECCOG is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining ECCOG's financial position and results of operations.

**2004 FINANCIAL HIGHLIGHTS**

- ECCOG's operating receipts increased 15% or approximately \$43,300 from 2003 to 2004.
- ECCOG's operating disbursements decreased approximately \$30,900 or 9% from 2003 to 2004

**USING THIS ANNUAL REPORT**

ECCOG has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and related assets and liabilities. Under ECCOG's cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to ECCOG's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to ECCOG's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of ECCOG's financial activities.
- The Statement of Net Assets - Cash Basis presents information on ECCOG's net assets, including balances restricted for specific purposes and balances unrestricted and available for operating activities.

Emmet County Council of Governments (ECCOG)  
Estherville, Iowa

- The Statement of Cash Receipts, Disbursements and Changes in Net Assets - Cash Basis presents information on ECCOG’s operating receipts and disbursements, non-operating receipts and disbursements and whether ECCOG’s financial position has improved or deteriorated as a result of the year’s activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

**FINANCIAL ANALYSIS OF ECCOG**

**Statement of Net Assets - Cash Basis**

The Statement of Net Assets - Cash Basis presents the assets and net assets of ECCOG at the end of the year. This statement is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of ECCOG to the readers of the financial statements.

Over time, readers of the financial statements are able to determine ECCOG’s financial position by analyzing the increases and decreases in net assets.

Assets and Net Assets

	<u>2004</u>
<u>Assets</u>	
Cash and Cash Equivalents:	
Restricted .....	\$ 3,560
Unrestricted .....	<u>51,275</u>
Total Assets .....	<u>\$54,835</u>
 <u>Net Assets</u>	
Net Assets:	
Restricted .....	\$ 3,560
Unrestricted .....	<u>51,275</u>
Total Net Assets .....	<u>\$54,835</u>

A small portion of ECCOG’s net assets (06%) is restricted for closure care. State and federal laws and regulations require ECCOG to place funds aside to perform closure functions at the transfer station site upon closing. The remaining net assets (94%) are the unrestricted net assets that can be used to meet ECCOG’s obligations as they come due.

Emmet County Council of Governments (ECCOG)  
Estherville, Iowa

**Statement of Cash Receipts, Disbursements and Changes in Net Assets - Cash Basis**

Changes in total net assets as presented on the Statement of Net Assets - Cash Basis are based on the activity presented in the Statement of Cash Receipts, Disbursement and Changes in Net Assets - Cash Basis. The purpose of the statement is to present the receipts received by ECCOG and the disbursements paid by ECCOG, both operating and non-operating.

Operating receipts are received for gate fees from accepting solid waste, recycling revenue, and a financial contribution from Emmet County. Operating disbursements are disbursements paid to operate ECCOG. Non-operating receipts and disbursements are for interest on investments and changes in net assets for the year ended December 31, 2004 are presented below:

	<u>2004</u>
<b>Operating Receipts:</b>	
Solid Waste Income .....	\$299,660
Recycling Income .....	18,774
Emmet County Contribution .....	<u>12,000</u>
<b>Total Operating Receipts.....</b>	<b><u>\$330,434</u></b>
 <b>Operating Disbursements:</b>	
<b>Personnel Services:</b>	
Operations Salaries .....	\$ 52,203
Employee Health Insurance .....	22,701
Extra Help .....	6,627
Administrative Salaries.....	4,722
Social Security .....	4,710
IPERS .....	<u>3,529</u>
<b>Total Personnel Services .....</b>	<b><u>\$94,492</u></b>
 <b>Operations:</b>	
Landfill Fees .....	161,967
Insurance and Bonds .....	9,740
Recycling Supplies.....	8,812
Equipment Maintenance .....	7,035
Diesel Fuel.....	5,341
Electricity.....	2,306
Professional Services .....	2,150
Natural Gas.....	1,823
Gas and Oil.....	1,583
Engineering Services .....	1,079
Building Maintenance.....	537
Telephone.....	472
Water .....	407
Sanitary Sewer.....	362
Miscellaneous .....	359

Emmet County Council of Governments (ECCOG)  
Estherville, Iowa

Operating Disbursements:	<u>2004</u>
Operations (Continued)	
Postage.....	322
Office Supplies.....	221
Road Gravel.....	219
Printing.....	148
Clothing Allowance .....	<u>132</u>
Total Operations.....	<u>\$205,015</u>
Operating Disbursements (Continued):	<u>2004</u>
Capital Improvements:	
Closure/Post-Closure Costs	6,400
New Equipment (Forklift).....	<u>6,000</u>
Total Capital Improvements.....	<u>12,400</u>
Total Operating Disbursements.....	<u>311,907</u>
Excess of Operating Receipts	
Over Operating Disbursements.....	<u>18,527</u>
Non-Operating Receipts:	
Sale of Equipment.....	1,557
Lease Income.....	500
Interest on Investments .....	<u>140</u>
Net Non-Operating Receipts .....	<u>2,197</u>
Change in Cash Basis Net Assets.....	20,724
Net Assets - Cash Basis Beginning of Year .....	<u>34,111</u>
Net Assets - Cash Basis End of Year.....	<u>\$ 54,835</u>

In 2004 total operating receipts were \$330,434, a 15% increase. The increase was primarily a result of gate fees increasing due to an increase in waste received. In 2004, total operating disbursements were \$311,907, a 9% decrease from 2003.

**LONG-TERM DEBT**

At December 31, 2004, ECCOG had no long-term debt.

Emmet County Council of Governments (ECCOG)  
Estherville, Iowa

**ECONOMIC FACTORS**

ECCOG continued to improve its financial position during the current fiscal year. However, the continually changing state regulations continue to be a concern for ECCOG officials. Some of the realities that may potentially become challenges for ECCOG to meet are:

- Equipment and facilities require constant maintenance and repair/replacement.
- State restrictions on items permitted to be taken to the landfill are increasing which also increases ECCOG's cost of "proper disposal."
- Arbitrary and unrealistic state recycling goals will increase the cost for ECCOG customers to comply with these questionable state policies.

Emmet County Council of Governments

## Basic Financial Statements

EMMET COUNTY COUNCIL OF GOVERNMENTS  
STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2004

Exhibit A

**Assets**

Cash and Cash Equivalents:

Restricted	\$ 3,560
Unrestricted	<u>51,275</u>

<b>Total Assets</b>	<b><u>\$ 54,835</u></b>
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**Net Assets**

Restricted for:

Closure	\$ 3,560
Unrestricted	<u>51,275</u>

<b>Total Net Assets</b>	<b><u>\$ 54,835</u></b>
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EMMET COUNTY COUNCIL OF GOVERNMENTS  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN NET ASSETS - CASH BASIS  
YEAR ENDED DECEMBER 31, 2004

Exhibit B

Operating Receipts:	
Solid Waste Income	\$299,660
Recycling Income	18,774
Emmet County Contribution	<u>12,000</u>
Total Operating Receipts	<u>330,434</u>
Operating Disbursements:	
Personnel Services:	
Operations Salaries	52,203
Employee Health Insurance	22,701
Extra Help	6,627
Administrative Salaries	4,722
Social Security	4,710
IPERS	<u>3,529</u>
Total Personnel Services	<u>94,492</u>
Operations:	
Landfill Fees	161,967
Insurance and Bonds	9,740
Recycling Supplies	8,812
Equipment Maintenance	7,035
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Professional Services	2,150
Natural Gas	1,823
Gas and Oil	1,583
Engineering Services	1,079
Building Maintenance	537
Telephone	472
Water	407
Sanitary Sewer	362
Miscellaneous	359
Postage	322
Office Supplies	221
Road Gravel	219
Printing	148
Clothing Allowance	<u>132</u>
Total Operations	<u>205,015</u>

EMMET COUNTY COUNCIL OF GOVERNMENTS  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN NET ASSETS - CASH BASIS  
YEAR ENDED DECEMBER 31, 2004

Exhibit B

Operating Disbursements (Continued):	
Capital Improvements:	
Closure/Post-Closure Costs	6,400
New Equipment	<u>6,000</u>
Total Capital Improvements	<u>12,400</u>
Total Operating Disbursements	<u>311,907</u>
Excess of Operating Receipts Over Operating Disbursements	<u>18,527</u>
Non-Operating Receipts:	
Sale of Equipment	1,557
Lease Income	500
Interest on Investments	<u>140</u>
Net Non-Operating Receipts	<u>2,197</u>
Change in Cash Basis Net Assets	20,724
Net Assets - Cash Basis Beginning of Year	<u>34,111</u>
Net Assets - Cash Basis End of Year	<u>\$ 54,835</u>

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

(1) Summary of Significant Accounting Policies

The Emmet County Council of Governments (ECCOG) was established in 1973 as an intergovernmental cooperative agency under Chapter 28E of the Code of Iowa. The purpose of ECCOG is to provide for the proper disposal of solid waste generated from the member governments within Emmet County.

The government of Emmet County and the cities of Estherville, Gruver, Ringsted and Wallingford are presently members of ECCOG.

A. Reporting Entity

For financial reporting purposes, Emmet County Council of Governments has included all funds, organizations, agencies, boards, commissions and authorities. The Council has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Council to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Council. The Council has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Council are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

C. Basis of Accounting

Emmet County Council of Governments maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Council are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including the estimated payables for closure and postclosure care costs. Accordingly, the financial statements do not present the financial position and results of operations of the Council in accordance with U.S. generally accepted accounting principles.

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets – Cash Basis.

Cash Equivalents – The Council considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for payment of closure costs are classified as restricted.

(2) Cash and Investments

The Council's deposits in banks at December 31, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Council is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Council had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

(3) Pension and Retirement Benefits

The Council contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Council is required to contribute 5.75% of annual covered payroll for the years ended December 31, 2004, 2003, and 2002. Contribution requirements are established by state statute. The Council's contributions to IPERS for the years ended December 31, 2004, 2003 and 2002 were \$3,530, \$3,546 and \$3,473, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Council employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Council until used or paid. The Council's approximate liability to employees for earned vacation leave at December 31, 2004 was \$593. This liability has been computed based on rates of pay in effect at December 31, 2004.

(5) Related Party Transactions

The Council had business transactions totaling \$239,117 between the Council and Council members and officials during the year ended December 31, 2004. The amount due to the Council from the Council members totaled \$18,041 at December 31, 2004.

(6) Risk Management

The Council is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

(6) Risk Management - continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Council's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Council's annual contributions to the Pool for the year ended December 31, 2004 was \$5,359.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Council does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2004, no liability has been recorded in the Council's financial statements. As of December 31, 2004, settled claims have not exceeded the risk pool or reinsurance coverage in any of the past three fiscal years.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

(6) Risk Management – continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal and the member's proportionate share of any capital deficiency.

The Council also carries commercial insurance purchased from other insurers for coverage associated with Worker's Compensation Insurance. The Council assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Major Customer

A material part of the Council's business is dependent upon a customer, the loss of which would have a materially adverse effect on the Council. During the year ended December 31, 2004, the customer accounted for approximately 68% of revenues.

(8) Major Supplier

The Council has one major vendor which supplies the landfill for solid waste disposal.

(9) Commitments

On April 15, 2002, the Council entered into an agreement with the City of Spencer to pay its prorated share of landfill closure and post-closure costs in the amount of \$32,000. The agreement states that the Council shall have no further obligation to pay or contribute to closure or post-closure financial assurance. Payment is to be made in five annual installments without interest as follows: July 1, 2002 - \$6,400; July 1, 2003 - \$6,400; July 1, 2004 - \$6,400; July 1, 2005 - \$6,400; and July 1, 2006 - \$6,400.

(10) Landfill Contract

On January 12, 2002, the Council entered into a contract for sanitary landfill services with the City of Spencer, Iowa (the Operator). Under the contract, the Operator is to maintain and operate the landfill site in substantial compliance with all applicable laws, rules and regulations. The Operator is to furnish all labor, tools and equipment necessary for the operation of the landfill. The Council, as part of the contract, agrees

EMMET COUNTY COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2004

(10) Landfill Contract – continued

to not utilize the services of any other landfill sanitary disposal project during the term of the Agreement. The contract stipulates a charge of \$19.00 per ton for each ton of solid waste the Council delivers to the landfill. The per ton fee has a scheduled increase of 3% per year each January 1<sup>st</sup>. The Agreement commenced January 25, 2002 and continues until December 31, 2006.

(11) Accounting Change

For the year ended December 31, 2004, the Council implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. Implementation of these standards had no effect on the beginning balances of the Council.

(12) Closure Costs

To comply with state regulations, the Council is required to complete a closure plan to provide funding necessary to effect closure of the transfer station. In accordance with IAC 567 Chapter 106.18, the holder of a permit for a transfer station shall submit a closure cost estimate prepared by an Iowa-licensed professional engineer and maintain a closure account as financial assurance. Pursuant to IAC 567 Chapter 106.18(7), initial proof of establishment of accounts with first deposit shall be submitted to the Iowa Department of Natural Resources (IDNR) within 30 days of the close of the permit holder's first fiscal year that begins after July 17, 2002. The Council has submitted a closure cost estimate prepared by a professional engineering firm to the IDNR stating that the transfer station will require an estimate total of \$3,560 for closure costs. The Council has restricted funds totaling \$3,560 as financial assurance for closure care of the transfer station.

Independent Auditors' Report on Compliance and on  
Internal Control over Financial Reporting

Emmet County Council of Governments

# Johnson & Eckard CPAs, P.C.

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Spirit Lake, Iowa 51360-1333  
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FAX (712) 336-2763

## Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Members of  
Emmet County Council of Governments:

We have audited the financial statements of the Emmet County Council of Governments as of and for the year ended December 31, 2004, and have issued our report thereon dated June 14, 2005. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Emmet County Council of Governments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Council's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Council. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Emmet County Council of Governments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

financial reporting that, in our judgment, could adversely affect the Emmet County Council of Governments' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item II-A-04, the reportable condition described above, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the members and constituents of the Emmet County Council of Governments and other parties to whom the Council may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmet County Council of Governments during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
JOHNSON & ECKARD CPAs, P.C.

June 14, 2005

EMMET COUNTY COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Council should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The Council could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part III: Other Findings Related to the Statutory Reporting:

III-A-04 Official Depositories - A resolution naming official depositories has been approved by the Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

III-B-04 Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-04 Travel Expense - No disbursements of Council money for travel expenses of spouses of Council officials or employees were noted.

III-D-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-E-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted.

EMMET COUNTY COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2004

Part III: Findings Related to the Statutory Reporting - continued

III-F-04 Business Transactions - Business transactions between the Council and Council Members are detailed as follows:

<u>Name and Title</u>	<u>Transaction Description</u>	<u>Amount</u>
City of Estherville, Member	Solid Waste disposal and recycling, per contract	\$226,063
City of Ringsted, Member	Solid Waste disposal, per contract	13,054

The transactions with the Members do not appear to represent conflicts of interest since the transactions were entered into through a contract.