

South Central Iowa Solid Waste Agency

**Independent Auditor's Reports
Basic Financial Statements and
Required Supplementary Information
Schedule of Findings**

June 30, 2006

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South Central Iowa Solid Waste Agency

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Roger Schletzbaum	Chairperson	Marion County
Mike Beary	Vice-Chairperson	Monroe County
Tom Law	Member	Poweshiek County
Larry Davis	Member	Lucas County
Sara Bixby	Director	
Leslie Sedlock	Office Manager	

Independent Auditor's Report

To the Members of
South Central Iowa Solid Waste Agency:

We have audited the accompanying financial statements of South Central Iowa Solid Waste Agency as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Agency'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Iowa Solid Waste Agency at June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2006 on our consideration of South Central Iowa Solid Waste Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 7 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 on it.

ROLAND & DIELEMAN

October 25, 2006

Certified Public Accountants

Management's Discussion and Analysis

South Central Iowa Solid Waste Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Agency's operating revenues increased 6% , or \$147,182, from fiscal 2005 to fiscal 2006.
- The Agency's operating expenses were 22%, or \$408,361, more in fiscal 2006 than in fiscal 2005.
- The Agency's net assets increased 9%, or \$398,803, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The South Central Iowa Solid Waste Agency is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to South Central Iowa Solid Waste Agency'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 the Agency's financial activities.

The Statement of Net Assets presents information on the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Agency's operating revenues and expenses, non-operating revenues and expenses and whether the Agency's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Agency's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Agency financed its activities and how it met its cash requirements.

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 THE ASSOCIATION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's net assets for fiscal 2006 totaled approximately \$4,809,000. This compares to approximately \$4,410,000 for fiscal 2005. A summary of the Agency's net assets is presented below.

	Net Assets	
	June 30,	
	2006	2005
Current assets	\$ 2,533,269	2,027,235
Restricted investments	1,661,286	1,471,241
Capital assets at cost, less accumulated depreciation	2,246,381	2,475,286
Co-op stock	254	253
Total assets	<u>6,441,190</u>	<u>5,974,015</u>
Current liabilities	135,707	112,599
Noncurrent liabilities	<u>1,496,800</u>	<u>1,451,536</u>
Total liabilities	<u>1,632,507</u>	<u>1,564,135</u>
Net assets:		
Invested in capital assets, net of related debt	2,214,381	2,407,286
Restricted	1,661,286	1,471,240
Unrestricted	<u>933,016</u>	<u>531,354</u>
Total net assets	<u>\$ 4,808,683</u>	<u>4,409,880</u>

Thirty-five percent of the Agency's net assets are restricted for closure and postclosure care. State and federal laws and regulations require the Agency to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. The Agency is also required to maintain restricted funds for costs associated with the transfer station. The amount invested in capital assets (46%, e.g., land, buildings, and equipment), less the related debt portion of net asset are resources allocated to capital assets. The remaining net assets (19%) are the unrestricted net assets that can be used to meet the Agency's obligations as they come due.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for gate fees from accepting solid waste. Operating expenses are expenses paid to operate the landfill and transfer station. Non-operating revenues and expenses are for interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2006 is presented below:

Changes in Net Assets		
	Year ended June 30,	
	2006	2005
Operating revenue:		
Gate fees	\$ 2,569,900	2,435,063
Other operating revenues	<u>36,332</u>	<u>23,987</u>
Total operating revenues	<u>2,606,232</u>	<u>2,459,050</u>
Operating expenses:		
Salaries	535,113	529,713
Employee benefits	132,705	132,077
Machinery maintenance, labor and parts	59,122	53,883
Oil and gas	129,411	88,950
Long range planning and engineering	54,057	51,849
Site maintenance	30,279	17,178
Site utilities	25,422	21,920
Office expenses	36,914	32,999
Training and travel	23,774	28,127
Legal and accounting	8,255	10,481
Insurance	53,099	52,793
Closure and postclosure care costs	118,032	(203,655)
Iowa Department of Natural Resources tonnage fees	162,745	172,064
Depreciation	301,497	304,328
Disposal Fees	546,401	517,224
Miscellaneous	<u>24,951</u>	<u>23,485</u>
Total operating expenses	<u>2,241,777</u>	<u>1,833,416</u>
Operating income	<u>364,455</u>	<u>625,634</u>
Non-operating revenues (expenses):		
Interest income	121,923	93,456
Sale of equipment	25,450	0
Decrease in value of investments	(113,025)	<u>0</u>
Net non-operating revenue	<u>34,348</u>	<u>93,456</u>
Increase in net assets	398,803	719,090
Net assets beginning of year	<u>4,409,880</u>	<u>3,690,790</u>
Net assets end of year	<u>\$ 4,808,683</u>	<u>4,409,880</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

Comparison of Current Year to Previous Year Based on Assets, Liabilities, Revenues, and Expenses

On June 30, 2006, the Closure/Post Closure Fund had a balance of \$1,661,286. This fund is required by state law and is intended to provide cash in hand to pay for final closure of the landfill and transfer station as well as ongoing monitoring and care for at least 30 years thereafter. The annual payment to the fund, as well as the total amount to be accumulated over the life of the landfill, are calculated by a formula written into state rules. The Closure/Post Closure Fund is also called the Financial Assurance Fund as it is intended to provide assurance that money is available at any time the landfill may be required to close. The Agency's ability to withdraw money from this fund is under DNR oversight.

In each year the Agency operates a landfill and transfer station, its liabilities increase as a result of the ongoing disposal and extended closure and post closure obligations. These liabilities are intended to be offset by the deposit of money and growing balance of the Closure/Post Closure Fund.

On June 30, 2006, the Agency's General Obligation (Capital Reserve) Fund had a balance of \$1,290,577. This fund was established by the Agency to provide money for equipment purchases, cell construction, and other major capital expenditures. The Agency's equipment replacement schedule is clearly identified, though it can vary to reflect actual equipment performance and usage. More work is needed to identify future cell construction schedules and costs.

The Agency has an outstanding debt to the Department of Natural Resources to repay a Solid Waste Alternatives Program loan. Payments of \$16,000 per year will continue through FYE 2008.

The Agency did not incur any other long-term liabilities in FYE 2006.

FYE 2006 Landfill revenues and expenditures were reported by staff to the Agency Board on a monthly cash basis. The monthly reports show FYE 2006 Landfill revenues of \$1,908,287 compared to FYE 2005 revenues of \$1,945,571. The Landfill tipping fee of \$28 per ton was the same in both years.

FYE 2006 Landfill expenses were \$1,163,341, excluding deposits made to the reserve funds. This compared to FYE 2005 expenses of \$1,436,513.

FYE 2006 Transfer Station income reported to the Board was \$759,143 based on a tipping fee of \$50 per ton. Expenditures in the same year were \$710,689, again excluding payments to reserve funds. FYE 2005 Transfer Station income and expenses were \$662,707 and \$633,449, respectively.

Significant Variations in Financial Results and Budgetary Information

Landfill and Poweshiek Transfer Station revenues reached 110% and 106% of budget, respectively, in FYE 2006 as deliveries of almost all waste types exceeded expectations. Interest

income on the Agency's reserve funds also exceeded budget, due primarily to the managed investment services provided by Wells Fargo.

Facts, Decisions, an Conditions Affecting Future Financial Positions and Operations

Cell closure

In FYE 2005, the state Department of Natural Resources and federal Environmental Protection Agency finalized a decision requiring all Iowa landfills to stop filling in areas with substandard liners by October 1, 2007. The Agency's cells A1 And A2 do not meet federal liner standards and must therefore be closed by this deadline.

Although the Agency has used most of the available capacity in these cells and will easily comply with the closure deadline, future designs for the Landfill had included typing those cells to other lined cells in order to optimize long-term disposal capacity. The regulatory decision will require the Agency to develop new approaches to Landfill cell development in FYE 2006 and FYE 2007. This redesign corresponds with development of the Agency's next sanitary disposal project (landfill) permit application to DNR. As a result, engineering costs for the permit application will be significantly higher than in previous years.

Rathbun Area Solid Waste Management Commission (RASWMC)

In fall 2004, the Agency and RASWMC began discussing the potential for the Appanoose County Landfill to close and the waste to be transferred to the Agency Landfill beginning in the late summer or early fall of 2007. That discussion continued through FYE 2005 and resulted in the two entities signing a disposal agreement in November 2005. Beginning in early FYE 2008, RASWMC is expected to begin sending about 13,000 tons of waste per year to the Agency Landfill via a RASWMC-owned transfer station in Appanoose County. Because the Agency can handle the additional waste stream with its current equipment and staff, revenues are expected to increase much more than expenses as a result of the disposal agreement.

CONTACTING THE ASSOCIATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact South Central Iowa Solid Waste Agency, 1736 Hwy T17, Tracy, Iowa, 50256.

South Central Iowa Solid Waste Agency
Statement of Net Assets
June 30, 2006

Exhibit A

Assets

Current assets:

Cash	\$ 366,374
Investments	1,908,422
Receivables:	
Accounts	217,836
Prepaid insurance	<u>40,637</u>
Total current assets	<u>2,533,269</u>

Noncurrent assets:

Restricted investments	1,661,286
Capital assets (net of accumulated depreciation)	2,246,381
Co-op stock	<u>254</u>
Total noncurrent assets	<u>3,907,921</u>

Total assets

6,441,190

Liabilities

Current liabilities:

Accrued expenses	\$ 38,845
Salaries and benefits payable	80,862
Current portion of note payable	<u>16,000</u>
Total current liabilities	<u>135,707</u>

Noncurrent liabilities:

Note payable	16,000
Landfill closure and postclosure care costs	<u>1,480,800</u>
Total noncurrent liabilities	<u>1,496,800</u>

Total liabilities

1,632,507

Net assets

Invested in capital assets, net of related debt	2,214,381
Restricted for:	
Closure and postclosure care	1,661,286
Unrestricted	<u>933,016</u>

Total net assets

\$ 4,808,683

See notes to financial statements.

South Central Iowa Solid Waste Agency
Statement of Revenues, Expenses and
Changes in Net Assets
Year ended June 30, 2006

Exhibit B

Operating revenues:	
Gate fees	\$ 2,569,900
Other operating revenues	<u>36,332</u>
Total operating revenues	<u>2,606,232</u>
Operating expenses:	
Salaries	535,113
Employee benefits	132,705
Machinery maintenance, labor and parts	59,122
Oil and gas	129,411
Long range planning and engineering	54,057
Site maintenance	30,279
Site utilities	25,422
Office expenses	36,914
Training and travel	23,774
Legal and accounting	8,255
Insurance	53,099
Closure and postclosure care costs	118,032
Iowa Department of Natural Resources tonnage fees	162,745
Depreciation	301,497
Disposal fees	546,401
Miscellaneous	<u>24,951</u>
Total operating expenses	<u>2,241,777</u>
Operating income	<u>364,455</u>
Non-operating revenues (expenses):	
Interest income	121,923
Gain on sale of equipment	25,450
Loss on investments	<u>(113,025)</u>
Net non-operating revenues	<u>34,348</u>
Change in net assets	398,803
Net assets beginning of year	<u>4,409,880</u>
Net assets end of year	<u>\$ 4,808,683</u>

See notes to financial statements.

South Central Iowa Solid Waste Agency
Statement of Cash Flows
Year ended June 30, 2006

Exhibit C

Cash flows from operating activities:	
Cash received from gate fees	\$ 2,546,953
Cash received from other operating receipts	36,332
Cash paid to suppliers for goods and services	(1,332,988)
Cash paid to employees for services	(506,384)
Net cash provided by operating activities	<u>743,913</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(73,442)
Sale of capital assets	<u>26,300</u>
Net cash used by capital and related financing activities	<u>(47,142)</u>
Cash flows from investing activities:	
(Decrease) in debt	(36,000)
Purchase of investments	(1,225,839)
Interest received	<u>121,923</u>
Net cash used by investing activities	<u>(1,139,916)</u>
Net (Decrease) in cash and cash equivalents	(443,145)
Cash and cash equivalents beginning of year	<u>809,519</u>
Cash and cash equivalents end of year	\$ <u><u>366,374</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>364,455</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	301,497
Closure and postclosure costs	81,264
Changes in assets and liabilities:	
(Increase) in accounts receivable	(22,947)
(Increase) in prepaid insurance	(3,464)
(Decrease) in accrued expenses	(5,621)
Increase in salary and benefits payable	<u>28,729</u>
Total adjustments	<u>379,458</u>
Net cash provided by operating activities	\$ <u><u>743,913</u></u>

See notes to financial statements.

South Central Iowa Solid Waste Agency
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

South Central Iowa Solid Waste Agency was formed in 1994 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to operate the sanitary landfill in Marion County for use by all residents of Marion, Poweshiek, Lucas, and Monroe counties.

The Agency is composed of one representative from each of the four member counties.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South Central Iowa Solid Waste Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency 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 Agency are such that exclusion would cause the Agency'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 Agency 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 Agency. South Central Iowa Solid Waste Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of South Central Iowa Solid Waste Agency are organized as an Enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) 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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Agency 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, they have a maturity date no longer than three months. The agency had \$355,013 in an overnight repurchase agreement as of June 30, 2006.

Restricted Investments - Funds set aside for payment of closure and postclosure care costs are classified as restricted.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Buildings and improvements	\$ 25,000
Equipment and vehicles	5,000

Capital assets of the Agency are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	20-40
Equipment and vehicles	5-10

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets during the year ended June 30, 2006.

Compensated absences - Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Agency's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2006.

(2) Cash and Investments

The Agency's deposits in banks at June 30, 2006 were not 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 Agency 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 Agency; prime eligible bankers acceptances; certain high rates 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 Agency's investments and cash are categorized to give an indication of the level of risk assumed by the Agency at year end. The three categories of risk are described below.

- Category 1 Investments that are insured, registered or held by the entity or by its agent in the Agency's name.
- Category 2 Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Agency's name.
- Category 3 Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the Agency's name.

The Agency's investments and cash equivalents at June 30, 2006 are as follows:

	June 30, 2006		
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Risk Category</u>
Wells Fargo Cash Investment M.M.	\$ 481,131	\$ 481,131	1
Wells Fargo Tax Free Mutual Fund	10,431	10,431	2
Wells Fargo Bank Iowa Repurchase Agreements	355,013	355,013	3
Wells Fargo Gov't Obligation	3,141,159	3,141,159	2

(3) Pension and Retirement Benefits

The Agency 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 which are 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 Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$28,291, \$27,717 and \$21,731, respectively, equal to the required contributions for each year.

(4) Capital Assets

A summary of capital assets at June 30, 2006 is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land and improvements	\$ <u>196,727</u>	_____	_____	<u>196,727</u>
Capital assets being depreciated:				
Buildings		710,440		710,440
Equipment and vehicles	<u>2,800,439</u>	<u>73,442</u>	<u>46,000</u>	<u>2,827,881</u>
Total capital assets being depreciated	<u>3,510,879</u>	<u>73,442</u>	<u>46,000</u>	<u>3,538,321</u>
Less accumulated depreciation for:				
Buildings		111,638	26,951	138,589
Equipment and vehicles	<u>1,120,682</u>	<u>274,546</u>	<u>45,150</u>	<u>1,350,078</u>
Total accumulated depreciation	<u>1,232,320</u>	<u>301,497</u>	<u>45,150</u>	<u>1,488,667</u>
Total capital assets being depreciated, net	<u>2,278,559</u>	<u>(228,055)</u>	<u>850</u>	<u>2,049,654</u>
Total capital assets, net	\$ <u><u>2,475,286</u></u>	<u><u>(228,055)</u></u>	<u><u>850</u></u>	<u><u>2,246,381</u></u>

(5) Closure and Postclosure Care Costs

To comply with Federal and State regulations, the Agency is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary

to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Landfill (EPA) requirements have established closure and thirty-year postclosure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs would consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the South Central Iowa Solid Waste Agency have been estimated at \$1,175,822 for closure and \$1,169,896 for postclosure, for a total of \$2,345,718 as of June 30, 2006, and the portion of the liability that has been recognized is \$1,480,800. These amounts are based on what it would cost to perform all closure and postclosure care during the year ended June 30, 2006. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The estimated remaining life of the landfill operating cells is 7 years and the capacity used at June 30, 2006 is 83 percent.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Agency has begun accumulating resources to fund these costs and, at June 30, 2006, assets of \$1,661,286 are restricted for these purposes. They are reported as restricted investments and restricted net assets on the Statement of Net Assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Agency is required to demonstrate financial assurance for the unfunded costs. The Agency has adopted a combination of dedicated funds and the financial test.

Financial Assurance - The Agency has demonstrated financial assurance for closure and postclosure care costs as provided in Chapter 567-111 of the Iowa Administrative Code.

Total estimated costs for closure and postclosure care \$ 2,345,718

Financial assurance instruments

SCISWA Financial Test	\$ 1,057,391
Local Dedicated Fund	\$ <u>1,661,286</u>
	\$ <u><u>2,718,677</u></u>
Amount agency has restricted and reserved for closure and post closure care at June 30, 2006	\$ <u>1,661,286</u>

Chapter 567-111.8(7) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the landfill is not required to establish closure and postclosure care accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

(6) Solid Waste Tonnage Fees Retained

The Agency has established an account for restricting and using solid waste tonnage fees retained by the Agency in accordance with Chapter 455B.310 of the Code of Iowa.

(7) Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Agency assumes liability for any deductibles and claims in excess of coverage limitations.

(8) Long-Term Debt

The Agency has a note with the Iowa Department of Natural Resources for \$32,000. The repayment schedule is for \$16,000 per year at 0% interest.

The repayment schedule is as follows:

June 30, 2007	16,000
June 30, 2008	16,000

(9) Subsequent Events

A new trash loader was paid for in July 2006. The price to the Agency was \$291,803 after trade-in.

Independent Auditor's 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

To the Members of South Central Iowa
Solid Waste Agency:

We have audited the accompanying financial statements of South Central Iowa Solid Waste Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Central Iowa Solid Waste Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 South Central Iowa Solid Waste Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Iowa Solid Waste Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements 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 or other matters required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for

the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. 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 no intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the members and customers of South Central Iowa Solid Waste Agency and other parties to whom the Agency 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 South Central Iowa Solid Waste Agency 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.

ROLAND & DIELEMAN

Certified Public Accountants

October 25, 2006

South Central Iowa Solid Waste Agency
Schedule of Findings
Year ended June 30, 2006

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

None

South Central Iowa Solid Waste Agency
 Schedule of Findings
 Year ended June 30, 2006

Findings Related to Required Statutory Reporting:

- I-06-1 Questionable Expenses - No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- I-06-2 Travel Expense - No expenditures of money for travel expenses of spouses of Agency officials or employees were noted.
- I-06-3 Board Minutes - No transactions were found that we believe should have been approved in the Agency minutes but were not.
- I-06-4 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 and the Agency's investment policy were noted.
- I-06-5 Solid Waste Fees Retainage - During the year ended June 30, 2006, the Agency used or retained solid waste fees in accordance with Chapter 455B.310 of the Code of Iowa.
- I-06-6 Financial Assurance - The Agency has demonstrated financial assurance for closure and postclosure care costs by establishing a local government dedicated fund as provided in Chapter 111.6(9) of the Iowa Administrative Code. The calculation is made as follows:

	Closure and Postclosure
Total estimated costs for closure and postclosure care	\$ 2,345,718
Less: Balance of funds held in the local dedicated fund at June 30, 2005	<u>1,471,240</u>
	874,478
Divided by the number of years remaining in the pay-in period	÷ <u>6</u>
Required payment into the local dedicated fund for the year ended June 30, 2006	145,746
Balance of funds held in the local dedicated fund at June 30, 2005	<u>1,471,240</u>
Required balance of funds to be held in the local dedicated fund at June 30, 2006	<u><u>1,616,986</u></u>
Amount Agency has restricted for closure and postclosure care at June 30, 2006	<u><u>1,661,286</u></u>

South Central Iowa Solid Waste Agency

Staff

This audit was performed by:

Roger Roland, CPA
Royal Roland, CPA
Edwin Dieleman, CPA