

NORTH CENTRAL IA REGIONAL SOLID WASTE AGENCY

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2006

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North Central IA Regional Solid Waste Agency

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Will Patterson	Chairperson	City of Fort Dodge
Phil Condon	Vice Chairperson	Webster County
Dan Payne	Executive Committee	City of Fort Dodge
Carl Halverson	Executive Committee	City of Eagle Grove
Mark Groat	Executive Committee	City of Otho
Lori Bennett	Executive Committee	City of Humboldt
Arlene Tille	Executive Committee	City of Rutland
Joe Gray	Executive Committee	City of Manson
Curt Olson	Executive Committee	City of Fort Dodge
Troy Hassebrook	Executive Committee	City of Blairsburg
Greg Wright	Executive Committee	City of Randall
Meryl Loseke	Board Member	City of Badger
Jim McCabe	Board Member	City of Barnum
Henry Froisland	Board Member	City of Clare
Kenneth Pedersen	Board Member	City of Gowrie
Mark Savonell	Board Member	City of Harcourt
Howard Ball	Board Member	City of Moorland
Lois Vanhorn	Board Member	City of Vincent
Martin Brown	Board Member	City of Bradgate
David Lee	Board Member	City of Dakota City
Harlan Hanson	Board Member	Humboldt County
Jeff Crutcher	Board Member	City of Hardy
Marie Wilson	Board Member	City of Livermore
Richard Kinsith	Board Member	City of Ottosen
John Hendricks	Board Member	City of Pioneer
Steve Erwin	Board Member	City of Renwick
Joann Hendricks	Board Member	City of Rockwell City
E. C. Nerem	Board Member	City of Thor
Scott Burnett	Board Member	City of Duncombe
Dennis Lippolt	Board Member	City of Hardy
Joe Gray	Board Member	City of Pomeroy
Dale Graham	Board Member	City of Ellsworth
Mickey Walker	Board Member	City of Jewell
Lendall Mechaelsen	Board Member	City of Kamrar
Kempton Young	Board Member	City of Stanhope
Michael Nepreny	Board Member	City of Stratford
Eugene Gray	Board Member	City of Webster City
Lori Wille	Board Member	City of Williams
Wesley Sweedler	Board Member	City of Webster City
Gary Schmidt	Director	
Deb Watson	Assistant Director	

North Central IA Regional Solid Waste Agency

Independent Auditor's Report

To the Members of the North Central IA Regional Solid Waste Agency:

We have audited the accompanying financial statement of the North Central IA Regional Solid Waste Agency as of and for the year ended June 30, 2006. This financial statement is the responsibility of the Agency's management. Our responsibility is to express an opinion on the financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, this financial statement is 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 statement referred to above presents fairly, in all material respects, the cash basis financial position of the North Central IA Regional Solid Waste Agency as of June 30, 2006, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 on our consideration of the North Central IA Regional 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 7 through 9 is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

T. P. Anderson & Company, P.C.

October 4, 2006

North Central IA Regional Solid Waste Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- ◆ Operating receipts decreased 4%, or approximately \$66,000, from fiscal 2005 to fiscal 2006.
- ◆ Operating disbursements increased 83%, or approximately \$1,112,000, from fiscal 2005 to fiscal 2006.
- ◆ Cash basis net assets decreased 22%, or approximately \$862,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The Agency has elected to present its financial statement on the 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 the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statement. The annual report consists of the financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Agency's financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Agency's operating receipts and disbursements, non-operating receipts and disbursements and whether the Agency's financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

FINANCIAL ANALYSIS OF THE AGENCY

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

The purpose of the statement is to present the receipts received by the Agency and the disbursements paid by the Agency, both operating and non-operating. The statement also presents a fiscal snapshot of the cash balance at year end. Over time, readers of the financial statement are able to determine the Agency's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts are received for gate fees from accepting solid waste and assessments from the members of the Agency. Operating disbursements are disbursements paid to operate the landfill. Non-operating receipts and disbursements are for interest on investments, equipment purchases and capital projects. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2006 and June 30, 2005 are presented below:

Changes in Cash Basis Net Assets		
	Year Ended June 30,	
	2006	2005
Operating receipts:		
Solid waste fees	1,206,175	1,206,291
Member assessments	76,019	179,188
Recycling grants	165,498	114,693
Miscellaneous	5,740	19,728
Total operating receipts	<u>1,453,432</u>	<u>1,519,900</u>
Operating disbursements:		
Salaries and wages	674,575	573,315
Equipment	989,392	26,500
Other	782,695	734,857
Total operating disbursements	<u>2,446,662</u>	<u>1,334,72</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(993,230)</u>	185,228
Non-operating receipts (disbursements):		
Interest on investments	111,253	66,474
Sale of assets	137,260	-
Buy-in payments	98,784	-
Leachate collection system construction	(108,854)	(37,559)
Building and grounds	(107,456)	(452,296)
Net non-operating receipts (disbursements)	<u>130,987</u>	<u>(423,381)</u>
Net change in cash basis net assets	(862,243)	(238,153)
Cash basis net assets beginning of year	<u>3,832,593</u>	<u>4,070,746</u>
Cash basis net assets end of year	<u>2,970,350</u>	<u>3,832,593</u>
Cash Basis Net Assets		
Restricted for:		
Closure	137,350	104,037
Post Closure	1,094,636	868,471
DNR – Recycle projects and landfill planning	200,903	156,991
Total restricted net assets	<u>1,432,889</u>	<u>1,129,499</u>
Unrestricted	<u>1,537,461</u>	<u>2,703,094</u>
Total cash basis net assets	<u>2,970,350</u>	<u>3,832,593</u>

In fiscal 2006, operating receipts decreased by \$66,468, or 4%, under fiscal 2005. The decrease was primarily a result of a \$103,168 decrease in member assessments and an increase of \$50,805 in recycling sales. In fiscal 2006, operating disbursements increased by \$1,111,990, or 83%, from fiscal 2005. The increase in disbursements was primarily due to equipment additions.

A portion of the Agency's net assets, \$1,231,986 (41%), is restricted for closure and postclosure care. State and federal laws and regulations require the Agency to place a final cover on the landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. \$200,903 (7%) of the Agency's net assets is restricted for special recycling projects and landfill planning. The remaining net assets, \$1,537,461 (52%), are unrestricted net assets that can be used to meet the Agency's obligations as they come due. Restricted net assets increased \$303,390, or 27%, during the year. The increase was due to additional funds set aside for closure and postclosure care. Unrestricted net assets decreased \$1,165,633, or 43%, during the year due to equipment additions during this time.

LONG-TERM DEBT

At June 30, 2006, the Agency had no long term debt outstanding.

ECONOMIC FACTORS

The cash basis financial position of the Agency did not improve in the current fiscal year as construction projects decreased cash basis net assets. The current condition of the economy in the state continues to be a concern for Agency officials. Some of the realities that may potentially become challenges for the Agency to meet are:

- ◆ Facilities require constant maintenance and upkeep.
- ◆ The 2007 deadline for all of Iowa's landfills to become Subtitle D compliant, which means the Agency will need to close the present landfill cell and build a new compliant cell or send solid waste elsewhere.
- ◆ Annual deposits required to be made to closure and postclosure accounts are based on constantly changing cost estimates and the number of tons of solid waste received at the facility.

The Agency anticipates the current fiscal year will be one of transition as it makes important decisions regarding the future of solid waste in this planning area.

CONTACTING THE AGENCY'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 its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Central IA Regional Solid Waste Agency, 2150 South 2150 South 22nd St., Fort Dodge, IA 50501.

North Central IA Regional Solid Waste Agency

Financial Statement

Exhibit A

North Central IA Regional Solid Waste Agency

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

Year ended June 30, 2006

Operating receipts:	
Solid waste fees	1,206,175
Member assessments	76,109
Recycling sales	165,498
Miscellaneous	5,740
Total operating receipts	<u>1,453,432</u>
Operating disbursements:	
Salaries and benefits	674,575
Equipment replacement	989,392
Iowa Department of Natural Resources tonnage fee	202,383
Equipment rental	28,750
Fuel	150,684
Monitoring and inspection	49,265
Equipment maintenance	111,299
Building maintenance	31,638
Supplies	39,750
Legal and professional fees	8,636
Office expense and postage	15,469
Utilities	42,546
Advertising	14,140
Road Maintenance	33,784
Insurance	51,885
Miscellaneous	2,466
Total operating disbursements	<u>2,446,662</u>
Deficiency of operating receipts under operating disbursements	<u>(993,230)</u>
Non-operating receipts (disbursements)	
Interest on investments	111,253
Sale of assets	137,260
Buy-in payments	98,784
Leachate collection system construction	(108,854)
Building and grounds	(107,456)
Net non-operating receipts (disbursements)	<u>130,987</u>
Net change in cash basis net assets	(862,243)
Cash basis net assets, beginning of year	<u>3,832,593</u>
Cash basis net assets, end of year	<u>2,970,350</u>

See notes to financial statement.

North Central IA Regional Solid Waste Agency
Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets

Year ended June 30, 2006

Cash Basis Net Assets	
Restricted for:	
Closure	137,350
Postclosure care	1,094,636
DNR – Recycle projects and landfill planning	<u>200,903</u>
Total restricted net assets	1,432,889
Unrestricted	<u>1,537,461</u>
Total cash basis net assets	<u>2,970,350</u>

See notes to financial statement.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

(1) Summary of Significant Accounting Policies

The North Central IA Regional Solid Waste Agency was formed in 1993 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to develop, operate and maintain solid waste facilities in Webster County on behalf of the units of government which are members of the Agency.

The governing body of the Agency is composed of one representative from each member. The members of the Agency include Webster, Hamilton, and Humboldt Counties and the cities of Badger, Barnum, Bradgate, Callendar, Clare, Dakota City, Dayton, Duncombe, Eagle Grove, Fort Dodge, Gilmore City, Gowrie, Harcourt, Hardy, Humboldt, Knierim, Lehigh, Livermore, Manson, Moorland, Otho, Ottosen, Pioneer, Pomeroy, Renwick, Rockwell City, Rutland, Thor, Vincent, Blairsburg, Ellsworth, Jewell, Kamrar, Randall, Stanhope, Stratford, Webster City, and Williams.

A. Reporting Entity

For financial reporting purposes, the North Central IA Regional Solid Waste Agency has included all funds, organizations, agencies, boards, agencies 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 statement 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. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Agency are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

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.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

C. Basis of Accounting

The North Central IA Regional Solid Waste Agency maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Agency is 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. Accordingly, the financial statement does not present the financial position and results of operations of the Agency in accordance with U. S. generally accepted accounting principles.

D. Net Assets

Funds set aside for payment of closure, postclosure care, special recycling projects, and landfill planning are classified as restricted.

(2) Cash and Investments

The Agency's deposits in banks at June 30, 2006 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 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 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 Agency had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at an amortized cost of \$2,017,808 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in IPAIT represents 68% of the Agency's cash basis net assets.

Credit risk. The investment in Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk. The Agency places no limit on the amount that may be invested in any one issuer.

(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.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

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. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$27,536, \$24,607 and \$24,606, respectively, equal to the required contributions for each year.

(4) Closure and Postclosure Care

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 Agency (EPA) requirements have established closure and thirty-year 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 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 due to the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the Agency have been estimated to be \$349,807 for closure and \$2,217,120 for postclosure, for a total of \$2,566,927 as of June 30, 2006. The estimated remaining life of the landfill is 30 years.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure accounts to accumulate resources for the payment of closure and postclosure care costs. The Agency has begun to accumulate resources to fund these costs and, at June 30 2006, assets of \$1,231,986 are restricted for these purposes, of which \$137,350 is for closure and \$1,094,636 is for postclosure care. They are reported as restricted cash basis net assets on the Statement of Receipts, Disbursements and Changes in Cash Basis Net Assets.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

Also, pursuant to Chapter 567-111.3(3) of the 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 the dedicated fund financial assurance mechanism. Under this mechanism, the Agency must certify the following to the Iowa Department of Natural Resources:

- The fund is dedicated by local government statute as a reserve fund.
- Payments into the fund are made annually over a pay-in period of ten years or the permitted life of the landfill, whichever is shorter.
- Annual deposits to the fund are determined by the following formula:

$$NP = \frac{CE - CB}{Y}$$

NP = next payment

CE = total required financial assurance

CB = current balance of the fund

Y = number years remaining in the pay-in period

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 Agency is not required to establish closure and postclosure accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

(5) 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. At June 30, 2006, the unspent amounts retained by the Agency and restricted for the required purposes are as follows:

Special account – DNR – Landfill planning	\$ 163,358
Special account – DNR - Recycling	<u>37,545</u>
	<u><u>200,903</u></u>

(6) Risk Management

The Agency is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include 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.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

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 Agency'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 Agency's annual contributions to the Pool for the year ended June 30, 2006 were \$33,860.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage 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. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

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.

North Central IA Regional Solid Waste Agency

Notes to Financial Statement

June 30, 2006

(8) Compensated Absences

Agency 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 Agency until used or paid. The Agency's approximate liability for earned vacation payments at June 30, 2006 was \$51,620. This liability has been computed based on rates of pay in effect at June 30, 2006.

**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***

North Central IA Regional Solid Waste Agency

*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 the North Central IA Regional Solid Waste Agency:

We have audited the accompanying financial statement of the North Central IA Regional Solid Waste Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. 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 the North Central IA Regional 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 statement and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 North Central IA Regional Solid Waste Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying Schedule of Findings.

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 statement 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 the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Central IA Regional Solid Waste Agency's financial statement is 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 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

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 statement 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 not 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 the North Central IA Regional 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 the North Central IA Regional 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.

T.P. Anderson & Company, P.C.

October 4, 2006

Findings Related to the Financial Statement:

REPORTABLE CONDITION:

- (A) 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. One person has primary control over substantially all of the accounting duties.

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

Response – We believe that we are close to achieving the maximum degree of separation of duties possible with the limited number of office staff. We will review our current procedures and consider new procedures to obtain the maximum segregation of duties possible.

Conclusion – Response accepted.

- (B) Credit Cards –The Agency has credit/shopping cards available for use by certain employees while on Agency business. The Agency has not adopted a formal policy to regulate the use of these cards.

Recommendation – The Agency should adopt a formal written policy regulating the use of Agency credit/shopping cards. The policy should address at a minimum who controls the cards, who is authorized to use the cards and for what purposes, as well as types of supporting documentation required to substantiate the charges.

Response –We presently have unwritten guidelines. We will review our procedures related to the use of credit/shopping cards and establish a formal written policy.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (2) Travel Expense – No disbursements of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- (3) Agency Minutes – No transactions were found that we believe that should have been approved in the Agency minutes but were not.

We noted on two occasions the executive committee went into closed session without using an affirmative roll call vote. The specific code section of the Iowa Code authorizing a closed session in these two incidents was not included in the minutes.

We also noted that the June 2006, July 2006, and August 2006 regular meetings of the executive committee were cancelled.

Recommendation –Chapter 21.5 of the Code of Iowa states, “A governmental body may hold a closed session on only by affirmative public vote of either two-thirds of the members of the body or all of the members present at the meeting.” Chapter 21.5 of the Code of Iowa goes on to list eleven specific purposes for which a closed session is appropriate. One or more of these purposes must be specifically identified prior to entering a closed session.

The Agency’s by-laws state that no more than two consecutive regular meetings of the executive committee may be cancelled.

Response –When entering a closed session in the future, we will follow the guidelines as set forth in the Code of Iowa. We will also review our by-laws as they relate to the regular meetings of the executive committee and adhere to them.

Conclusion – Response accepted.

- (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 Commissions written investment policy.
- (5) Solid Waste Fees Retainage – During the year ended June 30, 2006, the Agency used or retained the solid waste fees in accordance with Chapter 455B.310(2) of the Code of Iowa.
- (6) Financial Assurance – The Agency has elected to demonstrate financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567–111.6(9) of the Iowa Administrative Code (IAC). The calculation is made as follows:

	Closure	Postclosure
Total estimated costs for closure and postclosure care	\$ 349,807	2,217,120
Less: Balance of funds held in the local dedicated fund at June 30, 2005	<u>104,000</u>	<u>868,471</u>
	245,770	1,348,649
Divided by the number of years remaining in the pay-in-period	<u>÷ 7</u>	<u>÷ 7</u>
Required payment into the local dedicated fund for the year ended June 30, 2006	35,110	192,664
Balance of funds held in the local dedicated fund at June 30, 2005	<u>104,000</u>	<u>868,471</u>
Balance of funds required to be held in the local dedicated fund at June 30, 2006	<u>\$ 139,147</u>	<u>1,061,351</u>
Amount Agency has restricted and reserved for closure and postclosure care at June 30, 2006	<u>\$ 137,350</u>	<u>1,094,636</u>

Iowa Department of Natural Resources rules and regulations require deposits into the closure and postclosure accounts be made at least yearly, and the deposits shall be

made within 30 days of the close of each fiscal year. The required deposit was made June 30, 2006.

Recommendation – The Agency should demonstrate financial assurance by designating amounts sufficient to comply with the Iowa Administrative Code requirements. In addition, the Agency should ensure deposits are made within 30 days of the fiscal year end to comply with Iowa Department of Natural Resources rules and regulations.

Response – The North Central IA Regional Solid Waste Agency has our engineering consultants do the estimates for financial assurance. We will continue to deposit the required amounts to the closure and post-closure accounts in accordance with our engineer’s recommendation.

Conclusion – Response accepted.

- (7) Cancelled Checks –We noted the Agency receives only images of the front of the cancelled checks back from the bank

Recommendation –Chapter 554D.114 of the Code of Iowa states “if a law requires retention of a check, that check requirement is satisfied by retention of an electronic record of the information of the front and back of the check”. You should have your attorney review your current procedures to determine what if any steps should be taken to address this issue.

Response –We will contact our attorney with regard to this issue and the appropriate measures will be taken to comply with Iowa Code.

Conclusion – Response accepted.