

ADAIR COUNTY SANITARY LANDFILL AND RECYCLING CENTER

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENT AND
OTHER INFORMATION**

YEAR ENDED JUNE 30, 2012

Adair County Sanitary Landfill and Recycling Center

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Adair County Sanitary Landfill and Recycling Center

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
John Twombly	Chair	Adair County
Larry Vandewater	Vice-Chair	Adair County
Tom Billheimer	Member	City of Casey
Joan Wallace	Member	City of Menlo
Linda Shaffer	Member	City of Fontanelle
James O'Keeffe (Resigned October, 2012)	Member	City of Stuart
Ray Leto	Member	City of Greenfield
Gary Parman	Member	City of Orient
Steve Frese	Member	City of Bridgewater
Delmar Frisbie	Director	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Adair County
Sanitary Landfill and Recycling Center

We have audited the accompanying financial statement of Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2012. This financial statement is the responsibility of the Center's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 that 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 Adair County Sanitary Landfill and Recycling Center as of June 30, 2012 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 January 28, 2013 on our consideration of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

To the Members of the Adair County
Sanitary Landfill and Recycling Center

Our audit was conducted for the purpose of forming an opinion on the Adair County Sanitary Landfill and Recycling Center's basic financial statement. Management's Discussion and Analysis on pages 4 through 4c is presented for purposes of additional analysis and is not a required part of the financial statement. The information has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

GMEWDA, Ben, Kuhn & Co. P. C.

Atlantic, Iowa
January 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Adair County Sanitary Landfill and Recycling Center (ACSL&RC) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the ACSL&RC is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the financial statement, which follows.

2012 FINANCIAL HIGHLIGHTS

Operating receipts increased 13%, or approximately \$77,553, from fiscal year 2011 to fiscal year 2012. This is due largely to an increase in gate receipts from several buildings in the county being torn down and more C&D being taken in at the gate.

Operating disbursements increased 57%, or approximately \$229,912 from fiscal year 2011 to fiscal year 2012. This increase is due to the closure costs incurred during fiscal year 2012.

Cash basis net assets increased 46%, or approximately \$230,093, from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The ACSL&RC 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 this 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 is 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 ACSL&RC's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information of ACSL&RC's operating receipts and disbursements, non-operating receipts and disbursements and whether the ACSL&RC's cash basis 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 CENTER

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 ACSL&RC and the disbursements paid by the ACSL&RC, both operating and non-operating. The statement also presents a fiscal snapshot of the ACSL&RC's cash balance at year end. Over time, readers of the financial statement are able to determine the ACSL&RC'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 ACSL&RC. Operating disbursements are disbursements paid to operate the landfill. Non-operating receipts and disbursements are for interest on investments, land rent, equipment purchases, construction costs, loan proceeds and principal and interest payments on loans and installment purchase agreements. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and June 30, 2011 is presented below:

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Operating receipts:		
Gate and recycling fees	\$ 518,507	\$ 465,446
County contributions	42,672	40,836
City contributions	79,394	71,472
Grant receipts	20,000	--
Miscellaneous	697	5,963
Total operating receipts	<u>661,270</u>	<u>583,717</u>
Operating disbursements:		
Salaries and benefits	120,240	119,354
Closure of cell	227,571	--
Other	287,678	286,223
Total operating disbursements	<u>635,489</u>	<u>405,577</u>
Excess of operating receipts over operating disbursements	<u>25,781</u>	<u>178,140</u>
Non-operating receipts (disbursements):		
Interest on investments	4,835	5,559
Land rent	45,975	23,828
Proceeds from sale of equipment	215,933	2,000
Loan proceeds	492,000	--
Equipment purchased	(160,642)	(3,118)
Principal on installment purchase agreements	(23,254)	(39,523)
Interest on installment purchase agreements	(11,986)	(103)
Principal on notes payable	(340,256)	(64,858)
Interest on notes payable	(18,293)	(34,365)
Net non-operating receipts (disbursements)	<u>204,312</u>	<u>(110,580)</u>
Net change in cash basis net assets	230,093	67,560
Cash basis net assets beginning of year	<u>499,852</u>	<u>432,292</u>
Cash basis net assets end of year	<u>\$ 729,945</u>	<u>\$ 499,852</u>

	Year ended June 30.	
	2012	2011
Cash Basis Net Assets		
Restricted for:		
Closure	\$ 25,452	\$ 110,878
Postclosure care	484,489	364,982
Tonnage fees retained	<u>2,064</u>	<u>101</u>
Total restricted net assets	512,005	475,961
Unrestricted	<u>217,940</u>	<u>23,891</u>
Total cash basis net assets	<u>\$ 729,945</u>	<u>\$ 499,852</u>

In fiscal 2012, operating receipts increased \$77,553, or 13%, from fiscal 2011. The increase was primarily from an increase in gate receipts. Operating disbursements increased \$229,912, or 57%, from fiscal year 2011. The increase was primarily due to closure costs incurred.

The largest portion of the ACSL&RC's cash basis net assets, is restricted for closure and postclosure care. State and federal laws and regulations require the ACSL&RC 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. The remaining cash basis net assets, are unrestricted cash basis net assets that can be used to meet the ACSL&RC's obligations as they come due. Restricted cash basis net assets increased \$36,044 or 8%, during the year. This money will be used to close the cell, and for engineering fees after the cell is closed. Unrestricted cash basis net assets increased by \$194,049 or 812% for the year. This was largely due to selling of equipment.

LONG-TERM DEBT

During the year ended June 30, 2012, the ACSL&RC refinanced all the debt to a lower rate by acquiring a loan on the farmland through a local bank. At June 30, 2012, the total outstanding balance of that loan was \$390,000. The center also was awarded a SWAP grant that consisted of a \$20,000 forgivable loan and a \$62,000, zero interest loan. This plus the 3% Iowa Finance Authority Bond, lowers the interest rates on all the debt the landfill has and will help it in the future.

ECONOMIC FACTORS

ACSL&RC's cash basis financial position increased during the current fiscal year. The current condition of the economy in the state continues to be a concern for ACSL&RC officials. Some of the realities that may potentially become challenges for the ACSL&RC to meet are:

- Facilities require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an on-going challenge to maintain up-to-date technology at a reasonable cost.
- Annual deposits required to be made to closure and postclosure care accounts are based on constantly changing cost estimates.
- Fuel prices continue to impact the expenses for the Center's recycling routes.
- Declining interest rates affect interest revenue.

- Due to the economy, the market for recyclables declined causing the Center to lose a significant amount of money handling recyclables.
- In August, 2009, the Center started transferring its waste to the Metro Park West facility. And in fiscal year 2012, the cell was officially closed, and now the Center hauls everything to Metro Waste Authority.
- A variance with the DNR has been granted to give the landfill an additional 5 years to complete the financial assurance requirements for post closure.

Since all the cells are closed and the landfill is operating solely as a transfer station, no large expenditures for closure costs are expected in the future. The ACSL&RC anticipates that in the current fiscal year they will be able to set aside more dollars to work toward becoming fully funded for their financial assurance.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the ACSL&RC's finances and to show the ACSL&RC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact ACSL&RC at 1645 State Highway #25, Menlo, IA 50164, by calling 641-743-8343 or at aclr@wildblue.net on the internet.

Adair County Sanitary Landfill and Recycling Center

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

Year ended June 30, 2012

Operating receipts:	
Gate and recycling fees	\$ 518,507
County contributions	42,672
City contributions	79,394
Grant receipts	20,000
Miscellaneous	697
Total operating receipts	<u>661,270</u>
Operating disbursements:	
Salaries and benefits	120,240
Training and travel	3,093
Insurance	16,162
Maintenance and repair	41,392
Utilities	13,456
Rock	143
Household hazard facility contract	3,218
Fuel	52,832
Advertising and supplies	6,246
Professional services	59,090
Closure of cell	227,571
Tonnage fees	12,673
Disposal costs	72,996
Miscellaneous	6,377
Total operating disbursements	<u>635,489</u>
Excess of operating receipts over operating disbursements	<u>25,781</u>
Non-operating receipts (disbursements):	
Interest on investments	4,835
Land rent	45,975
Proceeds from sale of equipment	215,933
Loan proceeds	492,000
Equipment purchased	(160,642)
Principal on installment purchase agreements	(23,254)
Interest on installment purchase agreements	(11,986)
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Net non-operating receipts (disbursements)	<u>204,312</u>
Net change in cash basis net assets	230,093
Cash basis net assets beginning of year	<u>499,852</u>
Cash basis net assets end of year	<u>\$ 729,945</u>

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Adair County Sanitary Landfill and Recycling Center

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

Year ended June 30, 2012

Cash Basis Net Assets

Restricted for:

Closure	\$ 25,452
Postclosure care	484,489
Tonnage fees retained	<u>2,064</u>
Total restricted net assets	512,005
Unrestricted	<u>217,940</u>
Total cash basis net assets	<u><u>\$ 729,945</u></u>

See notes to financial statement.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Adair County Sanitary Landfill and Recycling Center was formed in 1973 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to develop, operate and maintain solid waste and recycling facilities in Adair County on behalf of the units of government which are members of the Center.

The governing body of the Center is composed of one representative from each of the seven member cities and two representatives from Adair County. The member cities are: Orient, Stuart, Bridgewater, Casey, Fontanelle, Greenfield and Menlo. The commissioners are appointed by the participating governmental subdivisions and each has one vote for each one hundred population, except for Adair County whose votes are to be shared by two members.

A. Reporting Entity

For financial reporting purposes, the Adair County Sanitary Landfill and Recycling Center has included all funds, organizations, agencies, boards, commissions and authorities. The Center 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 Center are such that exclusion would cause the Center'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 Center 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 Center. The Center has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Center 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.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Accounting

The Adair County Sanitary Landfill and Recycling Center maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Center 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 Center in accordance with U.S. generally accepted accounting principles.

D. Net Assets

Funds set aside for payment of closure and postclosure care and tonnage fees are classified as restricted.

NOTE 2 - CASH AND INVESTMENTS

The Center's deposits in banks at June 30, 2012 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 Center 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 Center; 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 Center had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement 40.

Interest rate risk. The Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Center.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 3 - PENSION AND RETIREMENT BENEFITS

The Center 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 5.38% (5.78% effective July 1, 2012) of their annual salary and the Center is required to contribute 8.07% (8.67% effective July 1, 2012) of annual covered salary. Contribution requirements are established by state statute. The Center's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$6,800, \$6,000, and \$6,700, respectively, equal to the required contributions for each year.

NOTE 4 - CLOSURE AND POSTCLOSURE CARE COSTS

To comply with federal and state regulations, the Center is required to complete a monitoring system plan and a closure/postclosure plan and 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 which 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 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 year. 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.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 4 - CLOSURE AND POSTCLOSURE CARE COSTS - Continued

These costs for the Adair County Sanitary Landfill and Recycling Center have been estimated to be \$76,680 for closure and \$675,348 for postclosure, for a total of \$752,028 as of June 30, 2012. The Center opened up a new cell during fiscal year 2008 and was accepting only construction and demolition waste through April 1, 2012. The Center became a transfer station for all other waste in August, 2009. Effective April 1, 2012, the Center became a transfer station for all waste.

Chapter 455B.306(9)(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 Adair County Sanitary Landfill and Recycling Center has begun to accumulate resources to fund these costs and, at June 30, 2012, assets of \$509,941 are restricted for these purposes, of which \$25,452 is for closure and \$484,489 is for postclosure care. They are reported as restricted cash basis net assets on the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Also, pursuant to Chapter 567-113.14 of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Center is required to demonstrate financial assurance for the unfunded costs. The Center has adopted the dedicated fund financial assurance mechanism. Under this mechanism, the Center 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 of years remaining in the pay-in period

Chapter 567-113.14(8) 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 Center is not required to establish closure and postclosure accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 5 - TRANSFER STATION CLOSURE CARE

To comply with state regulations, the Center is required to complete a closure plan detailing how the transfer station will comply with proper disposal of all solid waste and litter at the site, cleaning the transfer station building, including the rinsing of all surfaces which have come in contact with solid waste or washwater, cleaning of all solid waste transport vehicles which will remain on site, including the rinsing of all surfaces which have come in contact with solid waste and the removal and proper management of all washwater in the washwater management system.

To comply with state regulations, the Center is required to maintain a closure account as financial assurance for the closure care costs. The effect of the state requirement is to commit landfill owners to perform certain closing functions as a condition for the right to operate the transfer station.

The total transfer station closure care costs for the Center as of June 30, 2012 have been estimated at approximately \$25,000. The balance has been restricted and is fully funded at June 30, 2012.

NOTE 6 - SOLID WASTE TONNAGE FEES RETAINED

The Center has established an account for restricting and using solid waste tonnage fees retained by the Center in accordance with Chapter 455B.310 of the Code of Iowa. At June 30, 2012, the unspent tonnage fees retained by the Center and restricted for the required purposes totaled \$2,064.

NOTE 7 - RISK MANAGEMENT

The Center is a member of 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 663 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.

Each members' 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 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 7 - RISK MANAGEMENT - Continued

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 Center'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 Center's contribution to the Pool for the year ended June 30, 2012 was \$16,280.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by Travelers Insurance Company.

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 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, 2012, 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 casualty 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 casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Center also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond in the amount of \$250,000. The Center 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.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 8 - LONG-TERM DEBT

During the year ended June 30, 2009, the Center entered into an agreement with Caterpillar Financial to purchase a wheel loader costing \$93,016. The agreement requires thirty-six monthly installments of \$2,584 beginning June 18, 2009. The agreement was a 0% interest note. The installment contract was paid off during the year ended June 30, 2012.

During the year ended June 30, 2010, the Center entered into an agreement with Iowa Finance Authority to build a leachate holding area to improve water quality, costing \$551,613. The dirt that was removed was used to close a landfill cell. The agreement requires annual principal payments ranging from \$21,000 to \$37,000 and semi-annual interest payments of 3% beginning September 23, 2009 and matures June 1, 2029. At June 30, 2012, the balance of the bond was \$504,000.

During the year ended June 30, 2010, the Center entered into an agreement with Community First National Bank to refinance two of their lease agreements and to purchase equipment. The agreement required quarterly installments of \$15,391 beginning February 26, 2010. The installment payments included interest at 4.89% per annum. The note payable was refinanced during the year ended June 30, 2012.

During the year ended June 30, 2012, the Center entered into an agreement with First National Bank to refinance one of their note agreements and to close a landfill cell. The agreement requires annual installments of \$50,413 beginning April 4, 2013 and matures April 4, 2022. The installment payments include interest at 3.00%. At June 30, 2012, the balance of the agreement was \$390,000.

During the year ended June 30, 2012, the Center entered into an agreement with the Iowa Department of Natural Resources to purchase equipment to facilitate the recycling of asphalt shingles. The agreement requires quarterly installments of \$3,100 beginning October 15, 2012. The agreement is a 0% interest note and matures July 15, 2017. At June 30, 2012, the balance of the agreement was \$62,000.

A summary of changes in long-term debt liabilities for the year ended June 30, 2012 is as follows:

	Installment Purchase Agreements	Notes Payable	Compensated Absences	Total
Balance beginning of year	\$ 23,254	\$ 804,256	\$ 4,870	\$ 832,380
Increases	--	492,000	230	492,230
Decreases	<u>23,254</u>	<u>340,256</u>	<u>--</u>	<u>363,510</u>
Balance end of year	<u>\$ --</u>	<u>\$ 956,000</u>	<u>\$ 5,100</u>	<u>\$ 961,100</u>
Due within one year	<u>\$ --</u>	<u>\$ 70,860</u>	<u>\$ 5,100</u>	<u>\$ 75,960</u>

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 8 - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year ending June 30,	Long-Term Debt		Total
	Principal	Interest	
2013	\$ 70,860	\$ 26,973	\$ 97,833
2014	76,270	24,973	101,243
2015	78,466	23,057	101,523
2016	79,698	21,075	100,773
2017	81,967	19,056	101,023
2018-2022	330,739	64,116	394,855
2023-2027	165,000	26,100	191,100
2028-2029	73,000	3,300	76,300
	<u>\$ 956,000</u>	<u>\$ 208,650</u>	<u>\$1,164,650</u>

NOTE 9 - DESIGNATED FUNDS

The Center maintains designated funds in separate savings accounts which are identified for specific purposes, as follows:

Purpose	Amount
Recycling	\$ 88
Equipment	2,500
Total	<u>\$ 2,588</u>

NOTE 10 - COMPENSATED ABSENCES

Center employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Accumulated sick leave is paid at 30%, not to exceed 90 days, upon retirement. These accumulations are not recognized as disbursements by the Center until used or paid. The Center's approximate liability for accumulated sick leave and earned vacation at June 30, 2012 was \$4,600 and \$500, respectively. This liability has been computed based on rates of pay in effect at June 30, 2012.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2012

NOTE 11 - CONTINGENCIES

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Center offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Center employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are 4 active employees and no retirees currently covered by the plan.

Potential for Liability: The Center currently finances a retiree benefit plan on a pay-as-you-go basis. A review of the Center's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

Subsequent Event

The Center has evaluated all subsequent events through January 28, 2013, the date the financial statement was available to be issued.

The Center was notified they were to stop accepting waste, close all open cells, and have only a transfer station by April 1, 2012. This was expected to be an undue hardship to close the cell and fund the closure/postclosure cost. The Center applied for and received a variance to Iowa Administrative Code 567 Chapter 113.14(8)"h" and 113.14(b)"i"(3), which allows the Center additional time to fully fund the local government dedicated fund for postclosure costs. With the variance that has been granted, the Center will be able to use existing postclosure funds to pay for the closure of the landfill, and has until June 30, 2016 to build its postclosure funds to the required level.

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of a Financial Statement Performed in Accordance with
Government Auditing Standards

To the Members of the Adair County
Sanitary Landfill and Recycling Center

We have audited the accompanying financial statement of Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2012, and have issued our report thereon dated January 28, 2013. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Adair County Sanitary Landfill and Recycling Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Center's financial statement will not be prevented or detected and corrected on a timely basis.

To the Members of the Adair County
Sanitary Landfill and Recycling Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County Sanitary Landfill and Recycling Center'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.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Center. 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.

Adair County Sanitary Landfill and Recycling Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Center's responses, we did not audit Adair County Sanitary Landfill and Recycling Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Adair County Sanitary Landfill and Recycling Center and other parties to whom the Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Granlund, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
January 28, 2013

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2012

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENT

INTERNAL CONTROL DEFICIENCIES

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for many of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center. This is a common deficiency among small Organizations.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

12-I-B Financial Reporting: Loan principal and interest payments for the Center's commercial real estate, loans, and installment purchase agreements were not properly reflected on the Center's general ledger on the cash basis of accounting. The payments were recorded in liability accounts so the activity was not reflected as receipts or disbursements.

Recommendation: Since the Center reports on the cash basis of accounting, all receipts and disbursements should be appropriately recorded on the Center's general ledger.

Response: In the future we will use cash basis of accounting at year end instead of accrual.

Conclusion: Response accepted.

* * *

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2012

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENT - Continued

INSTANCES OF NON-COMPLIANCE

No matters were reported.

* * *

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

12-II-A 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.

12-II-B Travel Expense: No disbursements of Center money for travel expenses of spouses of Center officials or employees were noted.

12-II-C Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-D Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Center's investment policy were noted.

12-II-E Solid Waste Fees Retained: No instances of non-compliance with the solid waste fees used or retained in accordance with provisions of Chapter 455B.310 of the Code of Iowa were noted.

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2012

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

12-II-F Financial Assurance: The Center has elected to demonstrate financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567-113.14(6) of the Iowa Administrative Code. The calculation is made as follows:

	Closure Total	Postclosure
Total estimated costs for closure and postclosure care	\$ 76,680	\$ 675,348
Less: Balance of funds held in the local dedicated fund at June 30, 2011	161,957 (85,277)	330,740 344,608
Divided by the number of years remaining in the pay-in period at beginning of year*	÷ 1	÷ 5
Required payment into (withdrawal from) the local dedicated fund for the year ended June 30, 2012	(85,277)	68,922
Balance of funds held in the local dedicated fund at June 30, 2011	161,957	330,740
Required balance to be held in the local dedicated fund at June 30, 2012	\$ 76,680	\$ 399,662
Amount Center has restricted for closure and postclosure care at June 30, 2012	\$ 25,452	\$ 484,489

Iowa Department of Natural Resources rules and regulations require deposits into the closure and postclosure care 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 for the postclosure fund.

The total of the Center's restricted funds did exceed the required balance in total. The closure account is deficient by \$51,228. The postclosure account has a surplus of \$84,827.

* During the fiscal year the Center received a five year variance from the normal funding requirements for the postclosure costs.

* * *