# ADAIR COUNTY SANITARY LANDFILL AND RECYCLING CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENT AND
OTHER INFORMATION

YEAR ENDED JUNE 30, 2013

Adair County Sanitary Landfill and Recycling Center

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Adair County Sanitary Landfill and Recycling Center

Officials

| Name | Title | Representing |
|---|---|---|
| John Twombly | Chair | Adair County |
| Larry Vandewater | Vice-Chair | Adair County |
| Terry Nelson | 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

### Report on the Financial Statements

We have audited the accompanying financial statement of Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2013, and the related Notes to Financial Statement.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

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

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

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

**Opinion**

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, 2013 and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

**Basis of Accounting**

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

**Other Information**

The other information, Management's Discussion and Analysis on pages 4 through 4c, has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2014 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, 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.

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

Atlantic, Iowa
January 10, 2014

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, 2013. We encourage readers to consider this information in conjunction with the financial statement, which follows.

## 2013 FINANCIAL HIGHLIGHTS

Operating receipts decreased 19%, or approximately $123,320, from fiscal year 2012 to fiscal year 2013.

Operating disbursements decreased 32%, or approximately $203,512 from fiscal year 2012 to fiscal year 2013.

The cash balance increased 4%, or approximately $27,807, from June 30, 2012 to June 30, 2013.

The Center paid down $85,813 on the notes they owe, which amounted to a decrease of 9% of their total debt outstanding.

## 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 Balance 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 Balance*

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 the cash balance.

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 balance for the years ended June 30, 2013 and June 30, 2012 is presented below:

| | Year ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| Operating receipts: | | |
| Gate and recycling fees | $ 413,821 | $ 518,507 |
| County contributions | 42,672 | 42,672 |
| City contributions | 79,393 | 79,394 |
| Grant receipts | -- | 20,000 |
| Miscellaneous | 2,064 | 697 |
| Total operating receipts | 537,950 | 661,270 |
| Operating disbursements: | | |
| Salaries and benefits | 126,169 | 120,240 |
| Closure of cell | 46,388 | 227,571 |
| Other | 259,420 | 287,678 |
| Total operating disbursements | 431,977 | 635,489 |
| Excess of operating receipts over operating disbursements | 105,973 | 25,781 |
| Non-operating receipts (disbursements): | | |
| Interest on investments | 6,959 | 4,835 |
| Land rent | 34,061 | 45,975 |
| Proceeds from sale of equipment | 325 | 215,933 |
| Loan proceeds | -- | 492,000 |
| Equipment purchased | ( 7,194) | ( 160,642) |
| Principal on installment purchase agreements | -- | ( 23,254) |
| Interest on installment purchase agreements | -- | ( 11,986) |
| Principal on notes payable | ( 85,813) | ( 340,256) |
| Interest on notes payable | ( 26,504) | ( 18,293) |
| Net non-operating receipts (disbursements) | ( 78,166) | 204,312 |
| Change in cash balance | 27,807 | 230,093 |
| Cash balance beginning of year | 729,945 | 499,852 |
| Cash balance end of year | $ 757,752 | $ 729,945 |

| | Year ended June 30, 2013 | 2012 |
|---|---|---|
| **Cash Basis Fund Balance** | | |
| Restricted for: | | |
| Closure | $ 20,845 | $ 25,452 |
| Postclosure care | 619,857 | 459,489 |
| Transfer station closure | 25,000 | 25,000 |
| Tonnage fees retained | 3,750 | 2,064 |
| Total restricted cash basis fund balance | 669,452 | 512,005 |
| Assigned | 52,719 | 2,588 |
| Unassigned | 35,581 | 215,352 |
| Total cash basis fund balance | $ 757,752 | $ 729,945 |

In fiscal 2013, operating receipts decreased $123,320, or 19%, from fiscal 2012. The decrease was primarily from a decrease in gate receipts. Operating disbursements decreased $203,512, or 32%, from fiscal year 2012. The decrease was primarily due to less closure costs incurred.

The largest portion of the ACSL&RC's cash balance, 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 balance is unrestricted and can be used to meet the ACSL&RC's obligations as they come due. Restricted cash balance increased $157,447 or 31%, during the year. This money will be used to close the cell, and for engineering fees after the cell is closed. The increase was due to additional funds being set aside for closure and postclosure care. Unrestricted cash balance decreased by $129,640 or 59% for the year.

## LONG-TERM DEBT

At June 30, 2013, the ACSL&RC paid down $50,413 on the farm mortgage to First National Bank. The loan was obtained in previous years to finance the costs of closing the cells.

An additional $12,400 was paid down on the swap grant loan that was obtained to purchase recycling equipment.

And finally $23,000 was paid down on the Iowa Finance Authority Bond. There were no additional loan agreements signed in fiscal year 2013.

## 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.

Exhibit A

Adair County Sanitary Landfill and Recycling Center

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

Year ended June 30, 2013

| | | |
|---|---|---|
| Operating receipts: | | |
| Gate and recycling fees | $ | 413,821 |
| County contributions | | 42,672 |
| City contributions | | 79,393 |
| Miscellaneous | | 2,064 |
| Total operating receipts | | 537,950 |
| Operating disbursements: | | |
| Salaries and benefits | | 126,169 |
| Training and travel | | 1,877 |
| Insurance | | 12,701 |
| Maintenance and repair | | 34,875 |
| Utilities | | 10,862 |
| Rock | | 142 |
| Household hazard facility contract | | 2,047 |
| Fuel | | 33,783 |
| Advertising and supplies | | 9,831 |
| Professional services | | 53,870 |
| Closure of cell | | 46,388 |
| Tonnage fees | | 10,211 |
| Disposal costs | | 82,594 |
| Miscellaneous | | 6,627 |
| Total operating disbursements | | 431,977 |
| Excess of operating receipts over operating disbursements | | 105,973 |
| Non-operating receipts (disbursements): | | |
| Interest on investments | | 6,959 |
| Land rent | | 34,061 |
| Proceeds from sale of equipment | | 325 |
| Equipment purchased | ( | 7,194) |
| Principal on notes payable | ( | 85,813) |
| Interest on notes payable | ( | 26,504) |
| Net non-operating receipts (disbursements) | ( | 78,166) |
| Change in cash balance | | 27,807 |
| Cash balance beginning of year | | 729,945 |
| Cash balance end of year | $ | 757,752 |

(continued next page)

Adair County Sanitary Landfill and Recycling Center

Statement of Cash Receipts, Disbursements and
Changes in Cash Balance - Continued

Year ended June 30, 2013

**Cash Basis Fund Balance**

| | | |
|---|---|---|
| Restricted for: | | |
| Closure | $ | 20,845 |
| Postclosure care | | 619,857 |
| Transfer station closure | | 25,000 |
| Tonnage fees retained | | 3,750 |
| Total restricted cash basis fund balance | | 669,452 |
| Assigned for recycling | | 87 |
| Assigned for equipment | | 52,632 |
| Unassigned | | 35,581 |
| Total cash basis fund balance | $ | 757,752 |

See notes to financial statement.

Adair County Sanitary Landfill and Recycling Center

Notes to Financial Statement

June 30, 2013

## 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.

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. Fund Balance

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, 2013 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.

## 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 5.78% (5.95% effective July 1, 2013) of their annual salary and the Center is required to contribute 8.67% (8.93% effective July 1, 2013) of annual covered salary. Contribution requirements are established by state statute. The Center's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately $7,500, $6,800, and $6,000, 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.

NOTE 4 - CLOSURE AND POSTCLOSURE CARE COSTS - Continued

These costs for the Adair County Sanitary Landfill and Recycling Center have been estimated to be $30,292 for closure and $675,348 for postclosure, for a total of $705,640 as of June 30, 2013. 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, 2013, assets of $640,702 are restricted for these purposes, of which $20,845 is for closure and $619,857 is for postclosure care. They are reported as restricted cash basis fund balance on the Statement of Cash Receipts, Disbursements and Changes in Cash Balance.

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.

## 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, 2013 have been estimated at approximately $25,000. The balance has been restricted and is fully funded at June 30, 2013.

## 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, 2013, the unspent tonnage fees retained by the Center and restricted for the required purposes totaled $3,750.

## 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 679 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.

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, 2013 was $12,241.

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, 2013, 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.

## NOTE 8 - LONG-TERM DEBT

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, 2013, the balance of the bond was $481,000.

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, 2013, the balance of the agreement was $339,587.

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, 2013, the balance of the agreement was $49,600.

A summary of changes in long-term debt liabilities for the year ended June 30, 2013 is as follows. See Note 10 for description of compensated absences liability.

| | Notes Payable | Compensated Absences | Total |
|---|---|---|---|
| Balance beginning of year | $ 956,000 | $ 5,100 | $ 961,100 |
| Increases | -- | 1,900 | 1,900 |
| Decreases | 85,813 | -- | 85,813 |
| Balance end of year | $ 870,187 | $ 7,000 | $ 877,187 |
| Due within one year | $ 76,625 | $ 7,000 | $ 83,625 |

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 Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 76,625 | $ 24,618 | $ 101,243 |
| 2015 | 78,832 | 22,691 | 101,523 |
| 2016 | 80,075 | 20,698 | 100,773 |
| 2017 | 82,355 | 18,668 | 101,023 |
| 2018 | 72,274 | 16,569 | 88,843 |
| 2019-2023 | 273,026 | 51,594 | 324,620 |
| 2024-2028 | 170,000 | 21,150 | 191,150 |
| 2029 | 37,000 | 1,110 | 38,110 |
| | $ 870,187 | $ 177,098 | $1,047,285 |

NOTE 9 - DESIGNATED FUNDS

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

| Purpose | Amount |
|---|---|
| Recycling | $ 87 |
| Equipment | 52,632 |
| Total | $ 52,719 |

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, 2013 was $4,900 and $2,100, respectively. This liability has been computed based on rates of pay in effect at June 30, 2013.

## NOTE 11 - CONTINGENCIES

Plan Description: The Center operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and 0 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Center. The Center currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2013, the Center contributed $16,065 and plan members eligible for benefits contributed $7,412 to the plan.

Potential for Liability: Management of the County of Adair had an actuarial valuation performed dated October 15, 2013. The actuarial report noted the unfunded actuarial accrued liability to be $73,315 for the County with a liability of $4,512 for the Center. Management of the Center considers this OPEB obligation to be immaterial.

Subsequent Event

The Center has evaluated all subsequent events through January 10, 2014, the date the financial statement was available to be issued.

Closure Funding

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, 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, the financial statement of the Adair County Sanitary Landfill and Recycling Center as of and for the year ended June 30, 2013, and the related notes to financial statement, and have issued our report thereon dated January 10, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered Adair County Sanitary Landfill and Recycling Center's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Sanitary Landfill and Recycling Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Adair County Sanitary Landfill and Recycling Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 13-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, 2013 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.

**Responses to Findings**

Adair County Sanitary Landfill and Recycling Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

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

Atlantic, Iowa
January 10, 2014

Adair County Sanitary Landfill and Recycling Center

Schedule of Findings

Year ended June 30, 2013

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENT

INTERNAL CONTROL DEFICIENCIES

13-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.

13-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, 2013

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

13-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.

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

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

13-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.

13-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, 2013

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

13-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 | $ 30,292 | $ 675,348 |
| Less: Balance of funds held in the local dedicated fund at June 30, 2012 | 76,680 | 399,662 |
| | ( 46,388) | 275,686 |
| Divided by the number of years remaining in the pay-in period at beginning of year* | ÷ 1 | ÷ 4 |
| Required payment into (withdrawal from) the local dedicated fund for the year ended June 30, 2013 | ( 46,388) | 68,922 |
| Balance of funds held in the local dedicated fund at June 30, 2012 | 76,680 | 399,662 |
| Required balance to be held in the local dedicated fund at June 30, 2013 | $ 30,292 | $ 468,584 |
| Amount Center has restricted for closure and postclosure care at June 30, 2013 | $ 20,845 | $ 619,857 |

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 $9,447. The postclosure account has a surplus of $151,273.

* During the fiscal year 2012 the Center received a five year variance from the normal funding requirements for the postclosure costs.

* * *