



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE February 2, 2004

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Auditor of State David A. Vaudt today released an audit report on the Shelby County Area Solid Waste Agency for the years ended June 30, 2003 and 2002.

The Agency's receipts totaled \$601,102 and \$613,825 for the years ended June 30, 2003 and 2002, respectively. For the year ended June 30, 2003, receipts included county and city contributions of \$142,706 and tonnage fees and gate charges of \$430,260. For the year ended June 30, 2002, receipts included county and city contributions of \$161,306 and tonnage fees and gate charges of \$417,229.

Disbursements totaled \$569,064 and \$577,550 for the years ended June 30, 2003 and 2002, respectively. For the year ended June 30, 2003, disbursements included \$344,482 for solid waste disposal fees and \$137,734 for salaries and benefits. For the year ended June 30, 2002, disbursements included \$331,470 for solid waste disposal fees and \$142,693 for salaries and benefits.

A copy of the audit report is available for review in the Office of Auditor of State and the Shelby County Area Solid Waste Agency.

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**SHELBY COUNTY AREA SOLID
WASTE AGENCY**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SCHEDULE OF FINDINGS**

JUNE 30, 2003 AND 2002

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5
Financial Statement:	<u>Exhibit</u>
Statement of Cash Transactions	A 8
Notes to Financial Statement	9-12
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	15-16
Schedule of Findings	17
Staff	18

Shelby County Area Solid Waste Agency

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Terry Cox	Chairman	City of Harlan
Lloyd Robinson	Member	City of Irwin
Marvin Kenkel	Member	Shelby County Planning Commission
Barry Deuel	Member	Rural Shelby County
Gayle Petersen	Member	Board of Supervisors
Daniel Ahart	Manager	
Charles Trailer	Assistant Manager	

Shelby County Area Solid Waste Agency



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Independent Auditor's Report

To the Members of the Shelby County
Area Solid Waste Agency:

We have audited the accompanying statement of cash transactions of the Shelby County Area Solid Waste Agency for the years ended June 30, 2003 and June 30, 2002. This financial statement is the responsibility of the Agency's management. Our responsibility is to express an opinion on this financial statement based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 aforementioned statement of cash transactions presents fairly, in all material respects, the results of the cash transactions of the Shelby County Area Solid Waste Agency for the years ended June 30, 2003 and June 30, 2002 on the basis of accounting described in note 1.

As discussed in note 9, Shelby County Area Solid Waste Agency intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the Agency's financial statement and related notes in the year of implementation. The revised requirements include the use of an analytical overview of the Agency's financial activities in the Management's Discussion and Analysis introduction to the financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2003 on our consideration of Shelby County Area Solid Waste Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2003

Shelby County Area Solid Waste Agency

Financial Statement

Exhibit A

Shelby County Area Solid Waste Agency

Sanitary Disposal Fund

Statement of Cash Transactions

Years ended June 30, 2003 and June 30, 2002

	<u>2003</u>	<u>2002</u>
Receipts:		
County contributions	\$ 61,725	61,725
City contributions	80,981	99,581
Tonnage fees and gate charges	430,260	417,229
Interest	10,012	16,947
Rent	14,363	14,363
Miscellaneous	3,761	3,980
Total receipts	<u>601,102</u>	<u>613,825</u>
Disbursements:		
Salaries and benefits	137,734	142,693
Insurance	11,480	6,348
Utilities	3,353	3,485
Office supplies	5,060	1,127
Recycling	46,856	58,265
Engineering and testing	8,200	8,200
Equipment	3,315	8,245
Solid waste disposal fees	344,482	331,470
Building and grounds	4,428	13,589
Miscellaneous	4,156	4,128
Total disbursements	<u>569,064</u>	<u>577,550</u>
Excess of receipts over disbursements	32,038	36,275
Balance beginning of year	<u>536,875</u>	<u>500,600</u>
Balance end of year	<u>\$ 568,913</u>	<u>536,875</u>

See notes to financial statement.

Shelby County Area Solid Waste Agency

Notes to Financial Statement

June 30, 2003

(1) Summary of Significant Accounting Policies

The Shelby County Area Solid Waste Agency was formed in 1972 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to develop, operate and maintain solid waste and recycling facilities for the political subdivisions of Shelby County.

The governing body of the Agency is composed of five members. Each member of the Agency has one vote and is appointed by the Shelby County Board of Supervisors as follows: one member shall be a resident of the City of Harlan; one member shall be a resident of Shelby County, but not a resident of any city; one member shall be from the Shelby County Board of Supervisors; one member shall be from the Shelby County Planning Commission; and one member shall be from a city other than the City of Harlan. The member cities are: Harlan, Earling, Elk Horn, Defiance, Portsmouth, Kirkman, Irwin, Panama, Westphalia, Shelby and Tennant.

A. Reporting Entity

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

B. Fund Accounting

The accounts of the Agency are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The Agency utilizes a Sanitary Disposal Fund, which is the general operating fund of the Agency.

C. Basis of Accounting

The Shelby County Area Solid Waste Agency maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Agency is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including the estimated payables for closure and post-closure care costs. Accordingly, the financial statement does not present the financial position and results of operations of the Agency in accordance with U.S. generally accepted accounting principles.

(2) Deposits

The Agency's deposits in banks or deposits in banks controlled by the Shelby County Treasurer at June 30, 2003 and June 30, 2002 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 depositories to insure there will be no loss of public funds.

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

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

(3) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001 were \$6,018, \$5,990, and \$5,567, respectively, equal to the required each year.

(4) Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Agency until used or paid. The Agency's approximate liability for earned vacation payments payable to employees at June 30, 2003 was \$3,300. This liability has been computed based on rates of pay in effect at June 30, 2003.

(5) Landfill Closure

The landfill closed June 30, 1994, and started to operate as a transfer station on July 1, 1994. Closure costs were incurred by the Shelby County Area Solid Waste Agency in prior years for a final cover. Because the landfill closed before the effective date of state and federal rules and regulations, the Agency is not required to meet certain post-closure requirements nor demonstrate financial assurance for post-closure care; however, state law requires the Agency to conduct ground water monitoring at the landfill for 30 years.

(6) Solid Waste Disposal Agreement

The Agency entered into a solid waste disposal agreement with the Carroll County Solid Waste Management Commission. The Commission has reserved capacity at the Carroll County landfill for the disposal of waste generated within Shelby County. The Agency will pay \$30 per ton for the solid waste delivered from the Shelby County transfer station. The agreement extends through June 30, 2005.

(7) Recyclable Materials Processing Agreement

The Agency entered into a recycling agreement with the Carroll County Solid Waste Management Commission. The Agency has built a Recyclable Material transfer station capable of receiving commingled recyclable materials from private haulers and transferring those materials to an off-site processing facility in Carroll County. The Agency pays the Commission for marketing the processed recyclable materials and for educating the public on recycling issues. The Agency paid a flat rate of \$89.50 per ton during fiscal year 2003 for the recyclable materials. The agreement commenced on July 1, 1995 and is renewable on an annual basis.

(8) Risk Management

Shelby County Area Solid Waste Agency is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 400 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

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

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

The Agency's property and casualty contributions to the risk pool are recorded as a disbursement from its operating fund at the time of payment to the risk pool. The Agency's annual contribution to the Pool for the year ended June 30, 2003 was \$6,864.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Agency does not report a liability for losses in excess of

reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2003, no liability has been recorded in the Agency's financial statement. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance coverage in any of the past three fiscal years.

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

The Agency also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee dishonesty in the amounts of \$1,000,000 and \$10,000, respectively. The Agency 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.

(9) Prospective Accounting Change

The Governmental Accounting Standards Board issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised minimum reporting requirements include Management's Discussion and Analysis to introduce the financial statement and to provide an analytical overview of the Shelby County Area Solid Waste Agency's financial activities.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

Shelby County Area Solid Waste Agency



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Members of the Shelby County
Area Solid Waste Agency:

We have audited the financial statement of the Shelby County Area Solid Waste Agency as of and for the year ended June 30, 2003, and have issued our report thereon dated December 4, 2003. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Shelby County Area Solid Waste Agency's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Shelby County Area Solid Waste Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County Area Solid Waste Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Shelby County Area Solid Waste Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described as item (A) in the accompanying Schedule of Findings.

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

This report, a public record by law, is intended for the information and use of the members and customers of the Shelby County Area Solid Waste Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2003

Shelby County Area Solid Waste Agency

Schedule of Findings

Year ended June 30, 2003

Findings related to the Financial Statement:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

- (A) Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Agency's financial statements. One individual has custody of receipts and performs all record-keeping pertaining to receipts for the office, including maintaining the account receivable records.

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

Response – Due to the limited number of staff available to perform these duties, options available are limited. However, we will continue to look at different procedures to correct this.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been adopted by the Agency. The maximum deposit amounts stated were not exceeded during the year ended June 30, 2003.
- (2) Questionable Expenditures – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- (4) Agency Minutes – No transactions were found that we believe should have been approved in the Agency minutes but were not.
- (5) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.

Shelby County Area Solid Waste Agency

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager
Sarah D. McFadden, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State