**OFFICE OF AUDITOR OF STATE**

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE March 16, 2017

Auditor of State Mary Mosiman today released an audit report on the Prairie Solid Waste Agency.

The Agency had total receipts of $1,499,235 for the year ended June 30, 2016, a 6.8% increase over the prior year. The receipts included landfill gate receipts of $1,364,861 and member assessments of $68,584. The significant increase in receipts is primarily due to an increase in tonnage collected over the prior year.

Disbursements for the year ended June 30, 2016 totaled $1,402,754, a 6.1% decrease from the prior year, and included $587,375 for transportation and operating fees, $309,895 for solid waste disposal fees and $114,994 for debt service payments. The decrease in disbursements is primarily due to decreased transportation and operating fees as a result of the decrease in fuel prices over the prior year as well as a reduction in recycling costs due to the closing of the recycling center.

A copy of the audit report is available for review at the Prairie Solid Waste Agency, in the Office of Auditor of State and on the Auditor of State's web site at https://auditor.iowa.gov/reports/1614-2347-B00F.

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**PRAIRIE SOLID WASTE AGENCY**

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

**JUNE 30, 2016**

1614-2347-B00F

Table of Contents

**Prairie Solid Waste Agency**

**Officials**

| Name | Title | Representing |
|---|---|---|
| Curt Angell | Chairperson | City of Cromwell |
| Dennis Brown | Vice-Chairperson | Union County |
| Steve Wintermute | Board Member | City of Creston |
| Jeff Burger | Board Member | City of Afton |
| Denny Wimmer | Board Member | City of Arispe |
| Jennifer Mitchelle | Board Member | City of Thayer |
| Terry Gilbert | Board Member | City of Shannon City |
| Vacant | Board Member | City of Lorimor |
| Vacant | Board Member | City of Macksburg |
| Amy Schultes | Manager | |

**Prairie Solid Waste Agency**

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## Independent Auditor's Report

To the Members of the Prairie Solid Waste Agency:

### Report on the Financial Statement

We have audited the accompanying financial statement of the Prairie Solid Waste Agency as of and for the year ended June 30, 2016, and the related Notes to Financial Statement.

### Management's Responsibility for the Financial Statement

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 statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is 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 Agency'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 Agency'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.

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 the Prairie Solid Waste Agency as of June 30, 2016, 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 discussed in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Other Information*

The other information, Management's Discussion and Analysis, the Schedule of the Agency's Proportionate Share of the Net Pension Liability and the Schedule of Agency Contributions on pages 7 through 9 and 23 through 26, 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2017 on our consideration of Prairie Solid Waste Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Prairie Solid Waste Agency's internal control over financial reporting and compliance.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

March 8, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Solid Waste Agency provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Prairie Solid Waste Agency (Agency) is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Agency's financial statement, which follow.

**2016 FINANCIAL HIGHLIGHTS**

- Operating receipts increased 3.5%, or approximately $49,000, from fiscal 2015 to fiscal 2016.

- Operating disbursements decreased 6.8%, or approximately $94,000, from fiscal 2015 to fiscal 2016.

- The Agency's cash balance increased 9.1%, or approximately $96,000, from June 30, 2015 to June 30, 2016.

**USING THIS ANNUAL REPORT**

The Agency has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

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

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Agency's financial activities.

- The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Agency's operating receipts and disbursements, non-operating receipts and disbursements and whether the Agency's cash basis financial position has improved or deteriorated as a result of the year's activities.

- Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

- Other information further explains and supports the Agency's proportionate share of the net pension liability and related contributions.

**FINANCIAL ANALYSIS OF THE AGENCY**

*Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

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

Operating receipts are received for gate fees from accepting solid waste and assessments from the members of the Agency. Operating disbursements are disbursements paid to operate the landfill, recycling center and transfer station. Non-operating receipts and disbursements are for interest on investments, equipment purchases or sales, and debt service payments. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2016 and June 30, 2015 is as follows:

Changes in Cash Balance

| | Year ended June 30, 2016 | 2015 |
|---|---|---|
| Operating receipts: | | |
| Solid waste fees | $ 1,364,861 | 1,276,630 |
| Member assessments | 68,584 | 73,400 |
| Recycling sales | 1,592 | 41,923 |
| Miscellaneous | 13,510 | 7,892 |
| Total operating receipts | 1,448,547 | 1,399,845 |
| Operating disbursements: | | |
| Salaries and benefits | 90,305 | 144,973 |
| Solid waste fees | 309,895 | 302,235 |
| Transportation and operating fees | 587,375 | 636,061 |
| Department of Natural Resources tonnage fee | 69,082 | 68,106 |
| Regulatory assistance and engineering | 35,934 | 47,298 |
| Recycling | 14,541 | 64,756 |
| Equipment maintenance | 23,572 | 31,063 |
| Ground water monitoring and inspecting | 72,184 | 18,876 |
| Road gravel | 817 | 886 |
| Legal, accounting and auditing | 11,565 | 17,980 |
| Office equipment and supplies | 11,673 | 2,962 |
| Utilities | 11,891 | 10,702 |
| Postclosure care | 10,703 | - |
| Insurance | 13,909 | 19,396 |
| Land rent | 4,900 | 4,900 |
| Miscellaneous | 19,414 | 11,565 |
| Total operating disbursements | 1,287,760 | 1,381,759 |
| Excess of operating receipts over operating disbursements | 160,787 | 18,086 |
| Non-operating receipts (disbursements): | | |
| Interest on investments | 4,688 | 4,562 |
| Sale of capital assets | 46,000 | - |
| Debt service payments | (114,994) | (112,559) |
| Net non-operating receipts (disbursements) | (64,306) | (107,997) |
| Change in cash balance | 96,481 | (89,911) |
| Cash balance beginning of year | 1,059,311 | 1,149,222 |
| Cash balance end of year | $ 1,155,792 | 1,059,311 |
| **Cash Basis Fund Balance:** | | |
| Restricted for: | | |
| Postclosure care | $ 775,394 | 772,378 |
| Debt service | 102,281 | 93,909 |
| Transfer station closure | 23,143 | 23,143 |
| Total restricted cash basis fund balance | 900,818 | 889,430 |
| Unrestricted | 254,974 | 169,881 |
| Total cash basis fund balance | $ 1,155,792 | 1,059,311 |

In fiscal year 2016, operating receipts increased $48,702 or 3.5%, over fiscal year 2015. The increase was primarily the result of solid waste fees increasing $88,231 due to an increase of the tipping fees and recycling sales decreasing $40,331 due to discontinuing recycling services. In fiscal year 2016, operating disbursements decreased $93,999, or 6.8%, over fiscal year 2015. The decrease in disbursements was primarily the result of salaries and benefits decreasing $54,668 and recycling cost decreasing $50,215 both due to discontinuing recycling services, transportation and operating fees decreasing $48,686 as a result of lower fuel cost, and ground water monitoring and inspecting increasing $53,308 due to the change of location of disposal of leachate water.

A portion of the Agency's cash balance, $900,818 (77.9%), is restricted for landfill postclosure care, debt service and transfer station closure. State and federal laws and regulations require the Agency to place a final cover on the landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. The remaining cash balance, $254,974 (22.1%), is unrestricted and can be used to meet the Agency's obligations as they come due. The restricted cash balance increased $11,388, or 1.3%, during the year. The increase was due to additional funds set aside for landfill postclosure care and debt service. The unrestricted cash balance increased $85,093, or 50.1%, during the year due to receipts generated from operating activities exceeding the debt service payments.

**LONG-TERM DEBT**

On July 24, 2007, Union County issued $1,500,000 of general obligation solid waste disposal notes and loaned the proceeds to the Agency. The Agency used the loan proceeds for the purpose of constructing improvements to the solid waste disposal facilities. The Agency entered into a written loan agreement with the County to reimburse the County for $1,500,000 plus interest. At June 30, 2016, the outstanding principal balance was $970,000.

Additional information about the Agency's long-term debt is presented in Note 12 to the financial statements.

**ECONOMIC FACTORS**

The financial position of the Agency did not improve in the current fiscal year. The current condition of the economy in the state continues to be a concern for Agency officials. Some realities which may potentially become challenges for the Agency to meet are:

- Facilities and equipment require constant maintenance and upkeep.
- Annual deposits required to be made to the landfill postclosure care and transfer station closure accounts are based on consistently changing cost estimates.

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

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Prairie Solid Waste Agency, PO Box 227, Creston, Iowa 50801.

**Prairie Solid Waste Agency**

Prairie Solid Waste Agency

Statement of Cash Receipts, Disbursements and Changes in Cash Balance

As of and for the year ended June 30, 2016

| | |
|---|---|
| Operating receipts: | |
| Solid waste fees | $ 1,364,861 |
| Member assessments | 68,584 |
| Recycling sales | 1,592 |
| Miscellaneous | 13,510 |
| Total operating receipts | 1,448,547 |
| Operating disbursements: | |
| Salaries and benefits | 90,305 |
| Solid waste fees | 309,895 |
| Transportation and operating fees | 587,375 |
| Department of Natural Resources tonnage fee | 69,082 |
| Regulatory assistance and engineering | 35,934 |
| Recycling | 14,541 |
| Equipment maintenance | 23,572 |
| Ground water monitoring and inspecting | 72,184 |
| Road gravel | 817 |
| Legal, accounting and auditing | 11,565 |
| Office equipment and supplies | 11,673 |
| Utilities | 11,891 |
| Postclosure care | 10,703 |
| Insurance | 13,909 |
| Land rent | 4,900 |
| Miscellaneous | 19,414 |
| Total operating disbursements | 1,287,760 |
| Excess of operating receipts over operating disbursements | 160,787 |
| Non-operating receipts (disbursements): | |
| Interest on investments | 4,688 |
| Sale of capital assets | 46,000 |
| Debt service payments | (114,994) |
| Net non-operating receipts (disbursements) | (64,306) |
| Change in cash balance | 96,481 |
| Cash balance beginning of year | 1,059,311 |
| Cash balance end of year | $ 1,155,792 |
| **Cash Basis Fund Balance** | |
| Restricted for: | |
| Postclosure care | $ 775,394 |
| Debt service | 102,281 |
| Transfer station closure | 23,143 |
| Total restricted cash basis fund balance | 900,818 |
| Unrestricted | 254,974 |
| Total cash basis fund balance | $ 1,155,792 |

See notes to financial statement.

## (1) Summary of Significant Accounting Policies

The Prairie Solid Waste Agency, formerly the Union County Solid Waste Management Commission, was formed in 1973 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to develop, operate and maintain solid waste facilities in Union County on behalf of the units of government which are members of the Agency.

The governing body of the Agency is composed of one representative from each member. The members of the Agency include Union County and the cities of Afton, Arispe, Creston, Cromwell, Lorimor, Macksburg, Shannon City and Thayer. Each member of the Agency has one vote, except for Union County and the City of Creston, which each have six votes. Currently, the Agency contracts for landfill operations.

The landfill operated by the Agency closed July 2, 2008. The Agency operates a transfer station to facilitate the collection and transfer of waste to the Metro Waste Authority for disposal.

### A. Reporting Entity

For financial reporting purposes, the Prairie 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 statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

### B. Basis of Presentation

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

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C Basis of Accounting

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

D. Cash Basis Fund Balance

Funds set aside for payment of closure, postclosure care, and debt service are classified as restricted.

**(2) Cash and Investments**

The Agency's deposits in banks at June 30, 2016 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 ensure 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 Standard Board Statement No. 72.

**(3) Pension Plan**

Plan Description – IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Agency contributed 8.93% for a total rate of 14.88%.

The Agency's contributions to IPERS for the year ended June 30, 2016 were $5,867.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the Agency had a liability of $83,331 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Agency's proportion was 0.0017%, which was an increase of 0.0001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Agency's pension expense, deferred outflows of resources and deferred inflows of resources totaled $7,028, $16,021 and $19,403, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as follows:

| | |
|---|---|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 2 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | 1 | (0.71) |
| Total | 100% | |

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Agency's proportionate share of the net pension liability | $ 145,898 | 83,331 | 30,520 |

IPERS Fiduciary Net Position – Detailed information about IPERS fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

## (4) Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation 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 at June 30, 2016 was $5,600. This liability has been computed based on rates of pay in effect at June 30, 2016.

## (5) Closure and Postclosure Care

To comply with federal and state regulations, the Agency is required to complete a monitoring system plan and a closure/postclosure care plan to provide funding necessary to effect closure and postclosure care, 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 that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that 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.

The costs for the Agency as of June 30, 2016 have been estimated at $769,454 for postclosure care.

Chapter 455B.306(9)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain a separate postclosure care account to accumulate resources for the payment of postclosure care costs. The Agency has accumulated resources to fund these costs and, at June 30, 2016, assets of $775,394 are restricted for postclosure care. These amounts are reported as restricted cash balance in the Statement of Cash Receipts, Disbursements and Changes in Cash Balance. At June 30, 2016, the Agency has demonstrated financial assurance for postclosure care by depositing sufficient amounts in the dedicated fund.

## (6) Transfer Station Closure Care

To comply with state regulations, the Agency 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 that have come in contact with solid waste or washwater, cleaning of all solid waste transport vehicles that will remain on site, including the rinsing of all surfaces that 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 regulation, the Agency 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 in the current period.

The total closure care costs for the Agency as of June 30, 2016 have been estimated to be $23,143. The Agency has accumulated resources to fund these costs and, at June 30, 2016, assets of $23,143 are restricted for closure care. These amounts are reported as restricted cash balance in the Statement of Cash Receipts, Disbursements and Changes in Cash Balance.

## (7) Solid Waste Tonnage Fees Retained

The Agency has established an account for restricting and using solid waste tonnage fees retained by the Agency in accordance with Chapter 455B.310 of the Code of Iowa. At June 30, 2016, the Agency had no unspent tonnage fees.

## (8) Risk Management

The Agency 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 746 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 member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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 Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Agency's contributions to the Pool for the year ended June 30, 2016 were $11,698.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Agency's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to $250,000 each occurrence, each location. Property risks exceeding $250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Agency's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Agency's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Agency also carries commercial insurance purchased from other insurers for coverage associated with Workers Compensation in the amount of $1,000,000. 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) Contracts

Solid Waste Disposal Agreement

The Agency entered into an agreement with Metro Waste Authority for the acceptance of solid waste form the Agency for $16.76 per ton. The agreement is in effect from October 1, 2007 to September 30, 2016. During the year ended June 30, 2016, the Agency paid $309,895 under the agreement.

Transportation and Operations Agreement

On November 1, 2014, the Agency entered into an agreement with HJC, LLC for the operation of the transfer station and the transportation of solid waste to Metro Waste Authority. The agreement for the operations is in effect from November 1, 2014 through April 30, 2016 and was extended to December 31, 2018. The contractor is paid $5,000 per month for the service. The agreement for the transportation of the solid waste is for $25 per ton plus adjustments for changes in fuel prices and is in effect from November 1, 2014 through December 31, 2018. During the year ended June 30, 2016, the Agency paid the contractor $587,375 under the contract.

## (10) Major Customer

A material part of the Agency's business is dependent upon one customer, the loss of which could have a material adverse effect on the Agency's revenues. During the year ended June 30, 2016, this customer accounted for approximately 42% of the solid waste fees.

## (11) Lease Agreement

The Agency has entered into a lease agreement with Union County to lease its landfill and transfer station site for $4,900 per year. The lease is self-renewing for twelve month periods unless written notice is given by either party 180 days prior to the termination date.

## (12) Loan Payable

During the year ended June 30, 2008, Union County issued $1,500,000 of general obligation solid waste disposal notes. The proceeds were loaned to the Agency. The Agency has agreed to pay the County the principal and interest on the general obligation solid waste disposal notes as they come due.

During the year ended June 30, 2016, the Agency paid the County for the $70,000 of principal and the $44,394 of interest due on the general obligation solid waste disposal notes during the year.

Annual debt service requirements to maturity for the notes are as follows:

| Year ending June 30, | Interest Rates | | Principal | Interest | Total |
|---|---|---|---|---|---|
| 2017 | 4.150% | $ | 70,000 | 41,489 | 111,489 |
| 2018 | 4.150 | | 75,000 | 38,584 | 113,584 |
| 2019 | 4.150 | | 75,000 | 35,471 | 110,471 |
| 2020 | 4.200 | | 80,000 | 32,321 | 112,321 |
| 2021 | 4.200 | | 85,000 | 28,961 | 113,961 |
| 2022-2026 | 4.300 - 4.375 | | 475,000 | 88,181 | 563,181 |
| 2027 | 4.375 | | 110,000 | 4,813 | 114,813 |
| Total | | $ | 970,000 | 269,820 | 1,239,820 |

## (13) Capital Lease

On September 4, 2013, the Agency entered into a lease-purchase agreement to purchase a John Deere 320D Skid Steer with attachments. The agreement has an effective interest rate of 4.30% and requires annual payments of $8,503, including interest, with a final payment due on September 6, 2017. During the year ended June 30, 2016, the Agency paid $8,503 on the agreement, including principal of $7,721 and interest of $782. The balance on the agreement at June 30, 2016 was $16,471.

The following is a schedule of the future minimum lease payments and the present value of the net minimum lease payments under the agreement in effect at June 30, 2016:

| Year ending June 30, | | Amount |
|---|---|---|
| 2017 | $ | 8,503 |
| 2018 | | 8,503 |
| Total minimum lease payments | | 17,006 |
| Less amount representing interest | | (535) |
| Present value of net minimum lease payments | $ | 16,471 |

## (14) New Accounting Pronouncement

The Agency adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

**Other Information**

**Prairie Solid Waste Agency**

Prairie Solid Waste Agency

Schedule of the Agency's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

| | | 2016 | 2015 |
|---|---|---|---|
| Agency's proportion of the net pension liability | | 0.0017% | 0.0016% |
| Agency's proportionate share of the net pension liability | $ | 83,331 | 66,539 |
| Agency's covered-employee payroll | $ | 115,554 | 109,787 |
| Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 72.11% | 60.61% |
| IPERS' net position as a percentage of the total pension liability | | 85.19% | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Prairie Solid Waste Agency

Schedule of Agency Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Other Information

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Statutorily required contribution | $ 5,867 | 10,319 | 9,804 | 5,093 |
| Contributions in relation to the statutorily required contribution | (5,867) | (10,319) | (9,804) | (5,093) |
| Contribution deficiency (excess) | $ - | - | - | - |
| Agency's covered-employee payroll | $ 65,700 | 115,554 | 109,787 | 58,743 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.93% | 8.67% |

See accompanying independent auditor's report.

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| 4,804 | 4,165 | 3,720 | 4,034 | 4,397 | 2,167 |
| (4,804) | (4,165) | (3,720) | (4,034) | (4,397) | (2,167) |
| - | - | - | - | - | - |
| 59,529 | 59,928 | 55,940 | 63,528 | 72,678 | 37,687 |
| 8.07% | 6.95% | 6.65% | 6.35% | 6.05% | 5.75% |

*Changes of benefit terms*:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

*Changes of assumptions*:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**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 <u>Government Auditing Standards</u>**

**Prairie Solid Waste Agency**

**OFFICE OF AUDITOR OF STATE**

STATE OF IOWA

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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 Prairie Solid Waste Agency:

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 Prairie Solid Waste Agency as of and for the year ended June 30, 2016, and the related Notes to Financial Statement, and have issued our report thereon dated March 8, 2017. 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 the Prairie Solid Waste Agency'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 Prairie Solid Waste Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Prairie Solid Waste Agency'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. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness and a significant deficiency.

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 Prairie Solid Waste Agency's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as Item (A) to be a material weakness.

A significant deficiency is a deficiency, or a 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 the accompanying Schedule of Findings as Item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Prairie Solid Waste Agency's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which 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, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Prairie Solid Waste Agency's Responses to the Findings

The Prairie Solid Waste Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Prairie Solid Waste Agency'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 results of that testing and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie 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.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

March 8, 2017

**Findings Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Agency's financial statements.

Condition – Generally, one individual in the Agency has primary control over charge accounts, including billing, mail receiving, deposit preparation, posting transactions to accounting records and reconciling payments to receivable records.

Cause – The Agency has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Agency's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Agency should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including board members, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The Agency will segregate duties to the best possible way with the limited number of employees.

Conclusion – Response accepted.

(B) Record Retention

Criteria – A record retention policy should be in place to ensure records are retained for at least as long as they are needed to meet operational and legal requirements.

Condition – The Agency has not adopted a formal record retention policy.

Cause – The Agency has been unaware of the need for a formal record retention policy.

Effect – Lack of a formal record retention policy could result in important records not being retained which could impact the Agency's ability to meet operational and legal requirements.

Recommendation – The Agency should develop a formal record retention policy to ensure records are retained at least as long as they are needed to meet operational and legal requirements.

Response – The Agency will prepare a formal record retention policy to make sure all documents are properly maintained.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

(1) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

(2) Travel Expense – No disbursements of Agency money for travel expenses of spouses of Agency officials or employees were noted.

(3) Agency Minutes – No transactions were found that we believe should have been approved in the Agency minutes but were not.

(4) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.

(5) Solid Waste Fees Retainage – No instances of non-compliance with the solid waste fees used or retained in accordance with the provisions of Chapter 455B.310 of the Code of Iowa were noted.

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

| | | Transfer Station Closure | Postclosure Care |
|---|---|---|---|
| Total estimated costs for closure and postclosure care | | $ 23,143 | 769,454 |
| Less: Balance of funds held in the local dedicated fund at June 30, 2015 | | (23,143) | (772,378) |
| | | - | (2,924) |
| Divided by the number of years remaining in the pay-in-period | ÷ | 1 | 1 |
| Required payment into the local dedicated fund for the year ended June 30, 2016 | | - | (2,924) |
| Balance of funds held in the local dedicated fund at June 30, 2015 | | 23,143 | 772,378 |
| Balance of funds required to be held in the local dedicated fund at June 30, 2016 | | $ 23,143 | 769,454 |
| Amount the Agency has restricted and reserved for closure and postclosure care at June 30, 2016 | | $ 23,143 | 775,394 |

The Agency has demonstrated financial assurance for closure and postclosure care by depositing sufficient amounts in the dedicated fund.

Prairie Solid Waste Agency

Staff

This audit was performed by:

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Colton L. Barton, Assistant Auditor

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