

HAMBLLEN COUNTY-MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

AUDIT REPORT

June 30, 2008 and 2007

Hamblien County-Morristown Solid Waste Disposal System
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June 30, 2008

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Larry Baker, Vice-Chairman

David Purkey, Secretary/Treasurer

Arnold Bunch, Member

Rusty Rouse, Member

James Crumley, Member

Sami Barile, Member

Bill Blackburn, Member

Keith Jackson, Member

Management's Discussion and Analysis

This section of the Hamblen Co./Morristown Solid Waste Disposal System's (System) annual financial report presents our discussion and analysis of the System's financial performance during the fiscal year ended June 30, 2008. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The Hamblen Co./Morristown Solid Waste Disposal System is a proprietary unit of the City of Morrystown and Hamblen County, Tennessee. The System was authorized by the governing bodies of Hamblen County and the City of Morrystown to operate and maintain a solid waste disposal facility for their citizens. The System provides disposal services to citizens as well as commercial and industrial customers located within Hamblen County. The costs of these services are funded by monthly fees charged to users based on tonnage of material received.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the System's financial statements. The financial report includes three financial statements: Statement of Net assets (Balance Sheet), Statement of Income, Expenses, and Changes in retained Earnings and the Statement of Cash Flows. The financial statements are prepared on the accrual basis of accounting. The Statement of Net Assets (Balance Sheet) includes all the assets and liabilities of the System as of June 30, 2008. The difference in the assets and liabilities is the net assets or equity of the System. The Statement of Income, Expenses, and Changes in Net Assets report all the revenue and expenses during the year ended June 30, 2008. The Statement of Cash Flows report the cash provided and used by operating activities as well as other cash sources and cash payments such as investment income and capital additions.

Financial Highlights

	Net Assets		
	2008	2007	2006
Current Assets	\$4,019,978	\$3,637,963	\$3,463,724
Capital Assets	5,178,127	6,069,679	6,770,288
Restricted Assets	790,421	679,661	944,524
Total Assets	<u>\$9,988,526</u>	<u>\$10,387,303</u>	<u>\$11,178,536</u>
Current Liabilities	689,933	632,573	677,283
Other Liabilities	5,241,854	5,471,630	7,131,165
Total Liabilities	<u>\$5,931,787</u>	<u>\$6,104,203</u>	<u>\$7,808,448</u>
Net Assets Invested in Capital Assets, Net of Related Debt	\$3,032,298	\$3,408,606	\$ 3,591,770
Unrestricted Net Assets	1,024,441	874,494	(221,682)
Net Assets	<u>\$4,056,739</u>	<u>\$4,283,100</u>	<u>\$3,370,088</u>

Changes in Net Assets

	2008	2007	2006
Operating Revenues	\$2,728,268	\$2,537,368	\$2,571,593
Operating Expenses	2,977,501	2,855,923	2,806,275
Net Operating Income (Loss)	(249,233)	(318,555)	(234,682)
Other Income (Expenses) Adjustments	72,043	134,460	6,897
Change in Net Assets	(\$226,361)	\$913,012	(\$166,856)

Operating Revenues

Operational revenues continued to decrease during the current fiscal year. This decrease can be contributed to the loss of tonnage material being diverted from the System, as well as a continued shortfall in the industrial and manufacturing environment. In an effort to increase operational revenues, the System approved a 16 % fee increase effective July 1, 2007.

Operating Expenses

The System has aggressively monitored operating expenses in an effort to operate in a positive balance. Following is an analysis of some accounts that have positive results as substantial effects upon the financial statement.

Wages and Benefits The System offered an early retirement incentive on April 1, 2007. As of June 30, 2007, the System reduced its workforce by 21%. This reduction in work force contributed to a \$264,007 reduction in wages and benefits for the year ending June 30, 2008.

Maintenance and Repair Service Equipment This line item shows a 16% increase from last year amount. While maintenance and repairs remains one of the hardest line items to control, the System has taken an aggressive stance to control repair cost.

Equipment and Machine Parts This line item shows a 16% decrease from last year amount. While equipment and machine parts remain an unpredictable line item, the System has taken additional measures to help control this cost.

Contracted Services This line item shows an 18% decrease over last year. The majority of this line item is related to cost associated with tire recycling. While every effort is being made to control cost, the System is subject to prices that are established by independent contractors.

Depreciation and Amortization Expense This line item remains the largest line item for the System. The largest part of this expense is due to cost associated with the closure of Phase I and the construction cost of Phase II.

Closure/Post Closure Expense The System, working in conjunction with a certified engineer conducted an aerial survey in 2007. This survey was then compared to an early survey completed in 2003. Based upon the two surveys, the System found that a lower fill rate had occurred over the years then what had been projected on the annual life expectancy reports. Also, the final contour elevation of the landfill was increased to correct for an error that was discovered on plans used to establish the base data for the landfill life expectancy. Due to these items the estimated life of the landfill was extended from 2011 to 2017. These changes resulted in the System over reporting closure/post closure cost over the past years which resulted in the prior period adjustment on the June 30, 2007, report. The System performs an annual landfill life expectancy study to predict a landfill closure date. Landfill closure date is adjusted yearly based upon fill rate and volume of landfill used.

Unrealized Loss on Securities The System has recorded an unrealized loss of \$49,171 for the period ending June 30, 2008. This unrealized loss is due to the devaluation of CitiGroup corporate bonds that the system holds in investments accounts. These bonds were purchased November 15, 2006, with a maturity date of November 15, 2011. At the time of purchase the bonds were rated A2 and A by Moody's and Standard & Poors respectfully. Due to the overall financial conditions in 2008, these bonds were downgraded to A3 on March 18, 2008, and at that time the bonds were trading at .30 cents on the dollar. At present in large part to recent governmental actions the bonds are trading at .65 cents on the dollar. While market conditions still remain unpredictable for these bonds, financial advisors are optimistic that at maturity these bonds will reach full par value.

Contacting the System's Financial Management

The financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. If you have questions about this report or need additional financial information, contact the System's office at P.O. Box 2108, Morristown, Tennessee, 37816.

CRAINE, THOMPSON, & JONES, P.C.

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hamblen County-Morristown Solid Waste Disposal System
Morristown, Tennessee 37814

We have audited the accompanying financial statements of Hamblen County-Morristown Solid Waste Disposal System as of June 30, 2008 and 2007, and for the years ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamblen County-Morristown Solid Waste Disposal System as of June 30, 2008 and 2007, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2009, on our consideration of Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing over internal control and 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. This 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 audit.

The management's discussion and analysis on pages 2 thru 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crain, Thompson & Jones, P.C.
January 12, 2009

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Assets
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 3,008,216	\$ 2,574,932
Accounts receivable	264,836	264,325
Investment in corporate bonds	720,829	770,000
Bond issuance costs (net of amortization)	<u>26,097</u>	<u>28,706</u>
Total current assets	4,019,978	3,637,963
Capital assets (net of accumulated depreciation):		
Land	614,776	614,776
Land improvements	2,873,944	3,515,221
Rental property	25,130	26,376
Building and improvements	402,763	433,216
Furniture and fixtures	-	-
Office machines and equipment	4,071	7,911
Other machinery and equipment	1,257,443	1,472,179
Restricted assets:		
Closure/postclosure investments	<u>790,421</u>	<u>679,661</u>
Total assets	<u>\$ 9,988,526</u>	<u>\$ 10,387,303</u>

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Assets
June 30, 2008 and 2007

Current liabilities:		
Accounts payable	\$ 70,223	\$ 39,061
Payroll deductions payable	1,923	1,896
Accrued leave	13,059	12,088
Due to other governments	37,884	37,884
Notes and bonds payable	<u>566,844</u>	<u>541,644</u>
Total current liabilities	<u>689,933</u>	<u>632,573</u>
Long-term liabilities:		
Bonds payable	1,435,000	1,885,000
Notes payable	109,982	234,429
Closure/postclosure cost	<u>3,696,872</u>	<u>3,352,201</u>
Total long-term liabilities	5,241,854	5,471,630
Total liabilities	<u>5,931,787</u>	<u>6,104,203</u>
Net assets:		
Invested in capital assets, net of related debt	3,032,298	3,408,606
Unrestricted net assets	<u>1,024,441</u>	<u>874,494</u>
Total net assets	<u>\$ 4,056,739</u>	<u>\$ 4,283,100</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Income, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Refuse disposal charges	\$ 2,713,406	\$ 2,408,558
Sale of materials and supplies	14,862	18,386
Other charges for services	-	15,446
Tire grant	-	94,978
	<u>2,728,268</u>	<u>2,537,368</u>
Total operating income		
Operating expenses:		
Supervisor/director	76,832	74,455
Laborers	450,762	657,752
Board and committee member fees	15,000	14,200
Social security	43,323	71,387
Retirement	34,943	53,860
Employee insurance	141,556	153,969
Advertising	189	239
Audit services	6,500	6,500
Communications	5,810	6,013
Freight expense	1,607	1,779
Maintenance and repair service building	271	18
Maintenance and repair service equipment	110,485	95,078
Engineering services	39,491	34,430
Postal charges	666	1,390
Printing, stationery, forms	3,707	2,860
Rentals	10,945	16,742
Travel	5,678	5,912
Permits and licenses	12,000	12,699
Other contracted services	114,904	141,685
Crushed stone	36,130	21,455
Custodial supplies	2,340	2,810
Diesel fuel	89,646	80,443
Drugs and medical supplies	408	428
Electricity	50,950	48,941
Equipment and machinery parts	28,992	34,529

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Income, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating expenses (continued):		
Garage supplies	\$ 3,845	\$ 2,903
Gasoline supplies	2,303	2,715
Lubricants	3,777	2,601
Office supplies	1,614	1,415
Small tools	165	206
Wire	34,441	40,893
Tires and tubes	15,555	20,185
Closure/postclosure expense	344,670	-
Uniforms	2,500	3,306
Water and sewer	43,589	42,116
Other supplies and materials	2,137	850
Liability insurance	38,883	18,924
Vehicle and equipment insurance	21,309	39,467
Workmen's compensation insurance	36,111	43,458
Depreciation and amortization	949,529	969,605
Other charges	17,863	11,108
Disposal of C&D material	59,545	49,285
Surcharge	116,530	67,312
	<u>2,977,501</u>	<u>2,855,923</u>
Net operating income (loss)	<u>(249,233)</u>	<u>(318,555)</u>
Other income or (expense):		
Interest earned	166,592	242,679
Other	-	-
Interest on notes	(79,650)	(91,008)
Interest on bonds	(14,899)	(17,211)
	<u>72,043</u>	<u>134,460</u>
Total other income or (expense)	<u>72,043</u>	<u>134,460</u>
Net income (loss)	(177,190)	(184,095)
Net increase (decrease) in the fair value of investments	(49,171)	
Net assets, beginning	4,283,100	3,370,088
Prior period adjustment	-	1,097,107
Net assets, beginning restated	<u>-</u>	<u>4,467,195</u>
Adjustment	<u>-</u>	<u>-</u>
Net assets, ending	<u>\$ 4,056,739</u>	<u>\$ 4,283,100</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,727,757	\$ 2,593,404
Payments to suppliers	(1,124,546)	(1,173,578)
Payments to employees	(527,594)	(732,207)
Other receipts (payments)	999	(9,297)
	<u>1,076,616</u>	<u>678,322</u>
Cash flows from non-capital financing activities:		
Transfers between restricted account and operating account	<u>(110,760)</u>	<u>264,863</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(55,368)	(266,386)
Principal paid on notes and bonds	(549,247)	(578,374)
Interest paid on notes and bonds	(94,549)	(108,219)
Incurrence of debt	-	-
	<u>(699,164)</u>	<u>(952,979)</u>
Net cash used for capital and relating financing activities		
Cash flows from investing activities:		
Interest from cash management activities	<u>166,592</u>	<u>242,679</u>
	<u>166,592</u>	<u>242,679</u>
Net cash provided by investing activities		
Net increase or (decrease) in cash and cash equivalents	433,284	232,885
Cash and cash equivalents at beginning of year	<u>2,574,932</u>	<u>2,342,047</u>
Cash at end of year	<u>\$ 3,008,216</u>	<u>\$ 2,574,932</u>
Consisting of:		
Cash in bank	\$ 3,008,216	\$ 2,574,932

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2008 and 2007

Summary of cash and cash equivalents at end of year:

Cash - non-interest bearing	\$ -	\$ -
Cash - interest bearing	3,729,045	3,344,932
Total	<u>\$ 3,729,045</u>	<u>\$ 3,344,932</u>

Adjustments to reconcile operating income (loss) to net cash provided by operating activities:

Net operating loss	\$ (249,233)	\$ (318,555)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	949,529	969,605
Prior period adjustment for change in accounting estimate	-	1,097,107
Changes in assets and liabilities:		
Decrease (increase) in receivables	(511)	56,036
Increase (decrease) in accounts payable	31,162	(19,467)
Increase (decrease) in due to other governments	-	17,001
Increase (decrease) in accrued leave	971	(15,803)
Increase (decrease) in payroll deductions payable	27	(4,376)
Increase (decrease) in liability for closure/postclosure	344,671	(1,103,226)
Net cash provided by operating activities	<u>\$ 1,076,616</u>	<u>\$ 678,322</u>

NOTE 1 - GENERAL INFORMATION

The Hamblen County-Morristown Solid Waste Disposal System is a joint venture created by Hamblen County and the City of Morristown to operate a single baling and waste disposal system.

The financial statements of the Hamblen County-Morristown Solid Waste Disposal System are presented in conformity with GASB standards.

Certain amounts in the 2008 financial statements have been reclassified to conform to 2009 presentation.

The system uses an enterprise fund to account for its operations. The intent of the governing body is that the costs of providing service to the public be recovered through fees paid by Hamblen County, the City of Morristown and local industry for the disposal of waste.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The system uses the accrual basis of accounting wherein revenues are recorded in the period the service is provided and expenses are reported in the period incurred.

Deposits and Investments

As of June 30, 2008, the System had investments of \$ 1,617,043 in certificates of deposit, FDIC insured accounts, guaranteed annuities and investment grade bonds at Morgan Stanley; \$ 1,005,456 at First Tennessee Bank bearing an approximate rate of 4%; and an annuity at Hilliard Lyons of \$243,450. The System also had \$ 790,421 postclosure investment in certificates of deposits and corporate bonds held by GreenBank earning an average rate of 2.37%.

Investments for the System are reported at fair value. The System has recorded an unrealized loss of \$49,171 for the year ended June 30, 2008. The loss was due to the devaluation of CitiGroup bonds held by the System that mature on November 15, 2011.

Interest rate risk

The System manages its exposure to declines in fair values by staggering the maturity of its investments and limiting any one investment to no longer than a five year maturity.

Credit risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the System's policy to limit its investments in these types to the top two ratings issued by NRSOs.

Concentration of credit risk

The System maintains a balanced portfolio of certificates of deposit, guaranteed annuities, and investment grade bonds.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As of June 30, 2008 all deposits were collateralized with securities held by the pledging financial institution in the System's name.

Custodial credit risk – investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System feels it has no exposure in this area due to its type of investments.

Cash equivalents – For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2008 and 2007, the System's deposits in financial institutions were entirely insured or collateralized with securities held by the System's agent in the System's name.

Fixed Assets

Depreciation is calculated based on the following estimates:

Equipment contributed by participants	SL	5 yrs.
All other equipment	SL	10 yrs.
Building	SL	31.5 yrs.
Phase II landfill	SL	13 yrs.

Capital asset activity for the year ending June 30, 2008, was as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 614,776	\$ -	\$ -	\$ 614,776
Capital assets being depreciated:				
Land improvements	8,722,500	-	-	8,722,500
Rental property	29,109	-	-	29,109
Building and improvements	927,775	-	-	927,775
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	45,371	-	-	45,371
Other machinery and equipment	3,786,967	55,367	-	3,842,334
	<u>13,517,315</u>	<u>55,367</u>	<u>-</u>	<u>13,572,682</u>
Less accumulated depreciation for:				
Land improvements	5,207,280	641,276	-	5,848,556
Rental property	2,733	1,246	-	3,979
Building and improvements	494,561	30,452	-	525,013
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	37,461	3,840	-	41,301
Other machinery and equipment	2,314,788	270,102	-	2,584,890
Total	<u>8,062,416</u>	<u>946,916</u>	<u>-</u>	<u>9,009,332</u>
Capital assets being depreciated	<u>\$ 5,454,899</u>	<u>(891,549)</u>	<u>\$ -</u>	<u>\$ 4,563,350</u>

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 614,776	\$ -	\$ -	\$ 614,776
Capital assets being depreciated:				
Land improvements	8,722,500	-	-	8,722,500
Rental property	26,213	2,896	-	29,109
Building and improvements	927,775	-	-	927,775
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	43,614	1,757	-	45,371
Other machinery and equipment	3,723,536	264,358	(200,927)	3,786,967
	<u>13,449,231</u>	<u>269,011</u>	<u>(200,927)</u>	<u>13,517,315</u>
Less accumulated depreciation for:				
Land improvements	\$ 4,566,003	\$ 641,277	\$ -	\$ 5,207,280
Rental property	1,753	981	-	2,733
Building and improvements	465,107	29,456	-	494,561
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	32,584	4,877	-	37,461
Other machinery and equipment	2,222,680	290,404	198,296	2,314,788
Total	<u>7,293,720</u>	<u>966,995</u>	<u>198,296</u>	<u>8,062,416</u>
Capital assets being depreciated	<u>\$ 6,155,511</u>	<u>\$ (697,984)</u>	<u>\$ (2,631)</u>	<u>\$ 5,454,899</u>

Equipment donated by Hamblen County and the City of Morristown amounted to \$303,156. Land donated by these entities is valued at \$143,870. The total of these assets, \$447,026, is included in the equity section of the balance sheet as "investments in capital assets, net of related debt" in the total of \$506,960. The remaining amount of \$59,934 represents initial costs paid by the two entities when the Authority was formed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The System has elected not to follow subsequent private-sector guidance.

Prior Period Adjustment

Due to a change in the estimated life of the existing landfill based upon an engineering study, a prior period adjustment of \$1,097,107 has been made in 2007 restating beginning net assets in accordance with GASB 20.

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. The useful lives of the fixed assets and the life of the landfill are such estimates.

Fiscal Year-End

The System operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Schedule of Long-Term Liabilities

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Additions	Reductions	Balance 6/30/2008
City of Morristown Series B-2-A	\$ 1,280,000	\$ -	\$ 200,000	\$ 1,080,000	\$ -	\$ 205,000	\$ 875,000
Hamblen County Tennessee Series B-2-A	1,475,000	-	230,000	1,245,000	-	235,000	1,010,000
SunTrust Bank Obligation 67	457,513	-	121,440	336,073	-	109,247	226,826
SunTrust Bank Obligation 42	26,934	-	26,934	-	-	-	-
Total	\$ 3,239,447	\$ -	\$ 578,374	\$ 2,661,073	\$ -	\$ 549,247	\$ 2,111,826
Current portion				\$541,644			\$566,844
Long-term debt				\$2,119,429			\$1,544,982

At June 30, 2008, the Hamblen County-Morristown Solid Waste System Disposal System's debt service requirement was as follows:

Year Ended June 30,	City of Morristown Series B-2-A		Hamblen County Tennessee Series B-2-A		SunTrust Bank Obligation 67		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	210,000	27,700	240,000	32,000	116,844	8,640	566,844	68,340
2010	215,000	20,325	250,000	24,650	109,982	3,430	574,982	48,405
2011	220,000	14,800	255,000	17,075	-	-	475,000	31,875
2012	230,000	5,750	265,000	6,625	-	-	495,000	12,375
	\$ 875,000	\$ 68,575	\$ 1,010,000	\$ 80,350	\$ 226,826	\$ 12,070	\$ 2,111,826	\$ 160,995

At June 30, 2007, the Hamblen County-Morristown Solid Waste System Disposal System's debt service requirement was as follows:

Year Ended June 30,	City of Morristown Series B-2-A		Hamblen County Tennessee Series B-2-A		SunTrust Bank Obligation 67		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	205,000	33,925	235,000	39,125	111,712	13,657	551,712	86,707
2009	210,000	27,700	240,000	32,000	116,844	8,640	566,844	68,340
2010	215,000	20,325	250,000	24,650	107,517	3,430	572,517	48,405
2011	220,000	14,800	255,000	17,075	-	-	475,000	31,875
2012	230,000	5,750	265,000	6,625	-	-	495,000	12,375
	\$ 1,080,000	\$ 102,500	\$ 1,245,000	\$ 119,475	\$ 336,073	\$ 25,727	\$ 2,661,073	\$ 247,702

Pension Fund Disclosures

Plan Description

Employees of Hamblen County-Morristown Solid Waste Disposal System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamblen County-Morristown Solid Waste Disposal System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcs/PS/>.

Funding Policy

Hamblen County-Morristown Solid Waste Disposal System requires employees to contribute 5.0 percent of earnable compensation.

Hamblen County-Morristown Solid Waste Disposal System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008, was 7.95% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamblen County-Morristown Solid Waste Disposal System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2008, Hamblen County-Morristown Solid Waste Disposal System's annual pension cost of \$40,472 to TCRS was equal to Hamblen County-Morristown Solid Waste Disposal System's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Hamblen County-Morristown Solid Waste Disposal System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was 14 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 40,472	100.00%	\$ -
June 30, 2007	\$ 58,143	100.00%	\$ -
June 30, 2006	\$ 48,321	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 65.48% funded. The actuarial accrued liability for benefits was \$1.54 million, and the actuarial value of assets was \$1.01 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.53million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.44 million, and the ratio of the UALL to the covered payroll was 121.43%.

The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Schedule of Funding Progress for Hamblen County-Morristown Solid Waste System, 88441

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AA) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as Percentage of Covered Payroll (b-a/c)</u>
July 1, 2007	\$ 1,009	\$ 1,541	\$ 532	65.48%	\$ 438	121.43%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress Using the Entry Age actuarial cost method was a change made during the year and therefore only the most current year is presented.

Post-Retirement Benefits

In addition to the retirement commitments described above, the System provides postretirement health care benefits, in accordance with contract provisions, to all employees who retire from the System on or after age 55 with at least 10 years of service or 30 years of service until age 65. Currently, 4 retirees meet those eligibility requirements. The Authority pays 85 percent of medical premiums and 100 percent of dental and vision premiums to retirees and their dependents. The average annual medical, dental and vision premiums are \$4,566 for the retiree and \$4,759 for eligible spouses. During the year, expenses totaling \$16,252 were recognized for postretirement benefits.

GASB 45 DISCLOSURE

A. Annual OPED Cost and net OPEB Obligations	<u>7/1/2007</u> <u>6/30/2008</u>	<u>7/1/2008</u> <u>6/30/2008</u>
1. Annual Required Contributions (ARC)	\$ 23,000	\$ 23,459
2. Interest on net OPEB Obligation	-	(22)
3. Adjustment to ARC	-	33
4. Annual OPEB cost (Expense) (1.+2.+3.)	23,000	23,470
5. Contribution made (assumed end of year)*	23,553	28,263
6. Increase in net OPEB Obligation (4.-5.)	(553)	(4,793)
7. Net OPEB Obligation - beginning of year	-	(553)
8. Net OPEB Obligation - end of year (6.+7.) of year	(553)	(5,346)

*Contribution made as assumed to equal Expected Benefit Payments

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2008/2009 are as follows:

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>OPEB</u> <u>Obligation</u>
6/30/2008	\$ 23,000	102.4%	(\$ 553)
6/30/2009	\$ 23,470	120.4%	(\$5,346)

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AA) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll (b-a/c)
11/1/2007	\$ -	\$ 11,350	\$ 11,350	0.00%	N/A	N/A

C. Methods and Assumptions

-Funding interest Rate	4.00%
-2007 Medical Trend Rate	10.00%
-Ultimate Trend Rate	5.00%
-Year ultimate trend rate reached	2012
-Actuarial Cost Method	Entry Age Normal
-Annual Payroll Growth Rate	2.50%
-The remaining amortization period at June 30, 2008	19 years

Compensated Absences

The system's compensated absence policy is as follows:

- 1) Sick leave - accumulated at the rate of 1 day per month. The number of days that may be accumulated is unlimited and may be applied toward early retirement. Otherwise, unused leave is lost.
- 2) Annual leave - accumulated as follows:

0- 5 years	- 5/6 day per month
5-10 years	- 1 day per month
10-15 years	- 1 1/4 day per month
15-20 years	- 1 3/4 day per month
Over 20 years	- 1 3/4

A maximum of 42 days may be accumulated. Annual leave is vested after an individual has been employed for one year.

At June 30, 2008 and 2007, the system's liability for accumulated leave was \$ 13,059 and \$12,088, respectively.

NOTE 4 – CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the System to place a final cover on its Sublett Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as each balance sheet date. The \$ 3,352,201 reported as landfill closure and postclosure care liability at June 30, 2007, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of Phase I of the landfill and on the use of 65% Phase II of the landfill. The System will recognize the remaining estimated cost of closure and postclosure care of \$6,818,452 for Modules A and B Class D liner and \$43,954,618 for Phase II as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1996. Adjusted by inflation of 3.50% per year, the Authority closed Phase I in 1996 and Phase II in the year 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City of Morristown and the County of Hamblen have pledged to operate the System and perform closure of the facility in accordance with all requirements of the permit and any closure/postclosure plan, as such plan and permit may be amended, and pursuant to all applicable laws, statutes, rules and regulations.

NOTE 5 - RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The System is insured through Strate Insurance Group. There were no actual or potential claims against the System according to the County attorney, therefore, no provision has been made. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Hamblen County-Morristown Solid Waste Disposal System
Morristown, Tennessee

We have audited the financial statements of Hamblen County-Morristown Solid Waste Disposal System as of and for the year ended June 30, 2008, and 2007, which collectively comprise the System's basic financial statements and have issued our report thereon dated January 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamblen County-Morristown Solid Waste Disposal System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Commissioners, management and the State of Tennessee and awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cathy Thompson & Jones, P.C.
January 12, 2009