

ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSOE COUNTY LANDFILL



FOR THE YEAR ENDED JUNE 30, 2008



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**ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSOE COUNTY LANDFILL
FOR THE YEAR ENDED JUNE 30, 2008**

***DEPARTMENT OF AUDIT
JUSTIN P. WILSON
Comptroller of the Treasury***

***DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller***

***JAMES R. ARNETTE
Director***

***CARL LOWE, CGFM
Audit Manager***

***STEVE REEDER, CPA, CGFM, CFE
Auditor 4***

***DEVAN FLYNN, CFE
State Auditor***

This financial report is available at www.tn.gov/comptroller

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Audit Highlights

Annual Financial Report
Sequatchie/Bledsoe County Landfill
For the Year Ended June 30, 2008

Scope

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2008.

Results

Our report on Sequatchie/Bledsoe County Landfill's financial statements is unqualified.

Our audit resulted in one finding, which we have reviewed with Sequatchie/Bledsoe County Landfill management. The detail for this finding is included in the Audit Finding section of this report.

Finding

The following is a summary of the audit finding:

- ◆ Duties were not segregated adequately among officials and an employee.

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INTRODUCTORY SECTION

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Sequatchie/Bledsoe County Landfill Officials
June 30, 2008

Board of Directors

Michael Hudson, Sequatchie County Mayor, Chairman

Gregg Ridley, Bledsoe County Mayor, Treasurer

Dan Barker

Ray Hobbs

Greg Johnson, City of Pikeville Mayor

Paul Powell

Roger Simmons

Gordon Smith

George Wagner, City of Dunlap Mayor

Charles Young

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FINANCIAL SECTION

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841**

INDEPENDENT AUDITOR'S REPORT

April 20, 2009

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the accompanying basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the landfill'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 auditing 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 the landfill as of June 30, 2008, and the respective changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

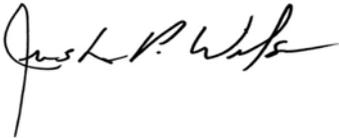
In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2009, on our consideration of the landfill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management of the landfill did not prepare a management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the landfill's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is written in a cursive style with a long, sweeping underline.

Justin P. Wilson
Comptroller of the Treasury

JPW/yu

BASIC FINANCIAL STATEMENTS

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Exhibit A

Sequatchie/Bledsoe County Landfill
Statement of Net Assets
June 30, 2008

ASSETS

Current Assets:		
Cash	\$	83,532
Noncurrent Assets:		
Capital Assets:		
Land		<u>71,550</u>
Total Assets	\$	<u>155,082</u>

LIABILITIES

Noncurrent Liabilities:		
Accrued Liability for Closure/Postclosure Care Costs:		
Due Within One Year	\$	46,150
Due in More Than One Year		<u>1,146,843</u>
Total Liabilities	\$	<u>1,192,993</u>

NET ASSETS

Invested in Capital Assets	\$	71,550
Unrestricted		<u>(1,109,461)</u>
Total Net Assets	\$	<u>(1,037,911)</u>

The notes to the financial statements are an integral part of this statement.

Exhibit B

Sequatchie/Bledsoe County Landfill
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2008

<u>Operating Revenue</u>	
Miscellaneous Refunds	\$ 19
Total Operating Revenue	<u>\$ 19</u>
<u>Operating Expenses</u>	
Accountants/Bookkeepers	\$ 5,000
Social Security Tax	382
Audit Services	2,028
Total Operating Expenses	<u>\$ 7,410</u>
Operating Income (Loss)	<u>\$ (7,391)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Contributions from Government Entities	\$ 112,186
Contributions to Government Entities	(79,201)
Investment Income	616
Total Nonoperating Revenues (Expenses)	<u>\$ 33,601</u>
Change in Net Assets	\$ 26,210
Net Assets, July 1, 2007	<u>(1,064,121)</u>
Net Assets, June 30, 2008	<u><u>\$ (1,037,911)</u></u>

The notes to the financial statements are an integral part of this statement.

Exhibit C

Sequatchie/Bledsoe County Landfill
Statement of Cash Flows
For the Year Ended June 30, 2008

Cash Flows from Operating Activities

Miscellaneous Refunds	\$ 19
Payments to Employees	(5,000)
Payments to Contractors	(21,707)
Other Payments	(4,558)
Net Cash Provided By (Used In) Operating Activities	<u>\$ (31,246)</u>

Cash Flows from Noncapital Financing Activities

Contributions from Government Entities	\$ 112,186
Contributions to Government Entities	(79,201)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>\$ 32,985</u>

Cash Flows from Investing Activities

Investment Income	\$ 616
Net Cash Provided By (Used In) Investing Activities	<u>\$ 616</u>

Net Increase (Decrease) in Cash	\$ 2,355
Cash, July 1, 2007	<u>81,177</u>
Cash, June 30, 2008	<u><u>\$ 83,532</u></u>

Reconciliation of Operating Income to Net Cash

<u>Provided By (Used In) Operating Activities:</u>	
Operating Income (Loss)	\$ (7,391)
Adjustments to Reconcile Net Operating Income to Net Cash Provided By (Used In) Operating Activities:	
Actual Postclosure Care Costs	(21,707)
Change in Assets and Liabilities:	
Increase (Decrease) in Accounts Receivable	<u>(2,148)</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (31,246)</u></u>

The notes to the financial statements are an integral part of this statement.

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**SEQUATCHIE/BLED SOE COUNTY LANDFILL
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sequatchie/Bledsoe County Landfill's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of the landfill:

A. Reporting Entity

The Sequatchie/Bledsoe County Landfill is a joint venture entered into by four governmental entities: Bledsoe and Sequatchie counties and the cities of Dunlap and Pikeville. The landfill was formed in 1973 by agreements entered into with these governments to provide solid waste disposal services to the citizens of Sequatchie and Bledsoe counties. The landfill is administered under the oversight of a Board of Directors that consists of three people from each county and two from each city. The county and city mayors are members of the board, and the remaining members of the board are appointed by these officials subject to the approval of their respective governing bodies. The landfill stopped accepting waste in May 1999, and closure of the landfill site was concluded in November 2003. The landfill board will continue to oversee the necessary postclosure activities at the site until the members dissolve the original agreement. The landfill employs a part-time bookkeeper.

Sequatchie and Bledsoe counties share equally in earnings and/or losses of the landfill. The cities of Dunlap and Pikeville share in any income/loss derived from the operations of the landfill in a ratio equal to the proportion that each city's population bears to the total population of its respective county.

The 1990 federal census was used to determine fund equity. The percentages were not adjusted to reflect the 2000 federal census because the landfill stopped accepting waste in 1999. Fund equity was determined using the following percentages:

Sequatchie County	28.5 %
City of Dunlap	21.5
Bledsoe County	39
City of Pikeville	<u>11</u>
Total	<u><u>100</u> %</u>

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The landfill's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the landfill's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The landfill is maintained as a proprietary (enterprise) fund. Since the landfill no longer accepts waste, the principal operating revenues of the landfill are the contributions from the governments involved and interest earned on the landfill's demand deposit account. Operating expenses for the landfill include administrative expenses, engineering fees, and postclosure care costs.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted revenues first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets

1. Deposits

For purposes of the statement of cash flows, cash includes demand deposits held by the landfill.

2. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. As previously noted, the landfill is closed and the only capital asset reported is land.

3. Long-term Obligations

In proprietary fund financial statements, long-term obligations (postclosure costs) are reported as liabilities in the statement of net assets.

4. Net Assets

In proprietary fund financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets Deficit

The Sequatchie/Bledsoe County Landfill had an unrestricted net assets deficit of \$1,109,461 at June 30, 2008. This unrestricted net assets deficit resulted from the recognition in the financial statements of a liability of \$1,192,993 for postclosure care costs. This liability represents accruals calculated according to estimates of annual postclosure care costs provided by the landfill's engineer. The landfill board plans to fund these costs using the cash balance as of June 30, 2008, and annual funding requirements from the four governments involved in the joint venture.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Cash on the statements of net assets consists entirely of demand deposits maintained by the landfill's treasurer.

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer.

Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

B. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Landfill Postclosure Care Costs</u>
Balance, July 1, 2007	\$ 1,214,700
Deductions	<u>(21,707)</u>
Balance, June 30, 2008	<u>\$ 1,192,993</u>
Balance Due Within One Year	<u>\$ 46,150</u>

The balance at June 30, 2008, represents the full accrual of the estimated postclosure care costs at the landfill site based on the landfill engineer's estimated annual cost.

IV. OTHER INFORMATION

A. Risk Management

Sequatchie and Bledsoe counties provide for general liability, property, and casualty risks of loss at the landfill site through policies carried by the respective counties. Both Sequatchie and Bledsoe counties provide for these risks through participation in public entity risk pools.

B. Contingent Liabilities

The attorney for the landfill advised that there was no threatened or pending litigation involving the landfill or its board at June 30, 2008.

C. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and postclosure care costs generally are paid near or after the date that the landfill stops accepting waste. The Sequatchie/Bledsoe County

Landfill stopped accepting waste in May 1999. In November 2003, the final cover was placed on the landfill. The \$1,192,993 reported as landfill postclosure care liability at June 30, 2008, represents the amount of postclosure expenses estimated by the landfill's engineer based on the use of 100 percent of the estimated capacity of the landfill. Actual costs may fluctuate due to variable factors such as inflation, changes in technology, or changes in regulations.

D. Closure Cost Financing

The closure costs of the landfill were financed through the issuance of separate capital outlay notes by the participating governments in prior years. The notes totaled \$600,000 and were issued by the four governments according to their percentages of fund equity. The proceeds of these notes went to the respective governments, and the total amount was contributed to and held by the landfill for payment on the closure contract.

The repayment of these notes is the responsibility of the individual governments involved; therefore, no long-term liability is reflected in the financial statements of the landfill. The payment of the principal and interest on these notes will be calculated into the annual contribution to the landfill by each government until the notes are retired. During the year, the landfill received \$112,186 in "Contributions from Government Entities" from the governments involved in the joint venture. The landfill made debt payments of \$79,201 on behalf of these governments during the year. These payments have been reflected as "Contributions to Government Entities" in the financial statements of this report.

E. Purchasing Law

The landfill operates under the purchasing law applicable to the Office of the County Mayor of Bledsoe County. Bledsoe County's purchasing procedures are governed by provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provide for all purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

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AUDIT FINDING SECTION

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

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

April 20, 2009

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2008, and have issued our report thereon dated April 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the landfill's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the landfill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the landfill's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting: 08.01.

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 landfill's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

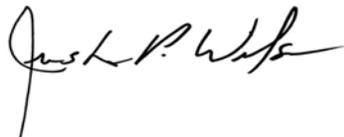
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sequatchie/Bledsoe County Landfill'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.

We also noted certain matters that we reported to management of the landfill in a separate communication.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury

JPW/yu

Sequatchie/Bledsoe County Landfill
Schedule of Audit Finding Not Corrected
June 30, 2008

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below is the finding from the financial report for the Sequatchie/Bledsoe County Landfill for the year ended June 30, 2007, which has not been corrected.

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
07.01	31	Duties were not segregated adequately

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SEQUATCHIE/BLEDSOE COUNTY LANDFILL
SCHEDULE OF AUDIT FINDING AND RECOMMENDATION
For the Year Ended June 30, 2008

FINDING RELATING TO THE FINANCIAL STATEMENTS

The finding and recommendation, as a result of our examination, is presented below. We reviewed this finding and recommendation with management to provide an opportunity for their response. Officials offered oral responses to the finding and recommendation; however, these oral responses have not been included in this report.

FINDING 08.01 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Significant Deficiency Under Government Auditing Standards)

Duties were not segregated adequately among officials and an employee of the Sequatchie/Bledsoe County Landfill. Officials and an employee responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties is the result of management's decisions based on the availability of financial resources and is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

RECOMMENDATION

Officials should segregate duties to the extent possible using available resources.