

HAMBLLEN COUNTY-MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

AUDIT REPORT

June 30, 2010 and 2009

Hamblen County-Morristown Solid Waste Disposal System
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June 30, 2010

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Hamblen County-Morristown Solid Waste Disposal System
Roster of Officials
June 30, 2010

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Board Members:

Stancil Ford, Chairman

Larry Baker, Vice-Chairman

David Purkey, Secretary/Treasurer

Arnold Bunch, Member

Rusty Rouse, Member

Doug Deering, 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, 2010. 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 Morristown and Hamblen County, Tennessee. The System was authorized by the governing bodies of Hamblen County and the City of Morristown 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, 2010. 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, 2010. 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. The System would like to note that while the change in net assets does report a loss, it believes that the System is financially secure. The losses that are reported are results of reporting non-cash expenses that are required. The System believes that a more accurate view of their financial condition can be obtained by reviewing the Statement of Cash Flows.

Financial Highlights

Net Assets

	2010	2009	2008
Current Assets	\$4,124,406	\$4,002,793	\$4,019,978
Capital Assets	3,624,842	4,420,594	5,178,127
Restricted Assets	814,628	811,078	790,421
Total Assets	<u>\$8,563,876</u>	<u>\$9,234,465</u>	<u>\$9,988,526</u>
Current Liabilities	\$598,000	709,683	689,933
Other Liabilities	4,520,306	4,638,611	5,241,854
Total Liabilities	<u>\$5,118,306</u>	<u>\$5,348,294</u>	<u>\$5,931,787</u>
Net Assets Invested in Capital Assets, Net of Related Debt	\$2,666,272	\$2,879,567	\$3,032,298
Unrestricted Net Assets	779,298	1,006,604	1,024,441
Net Assets	<u>\$3,445,570</u>	<u>\$3,886,171</u>	<u>\$4,056,739</u>

Changes in Net Assets

	2010	2009	2008
Operating Revenues	\$2,429,960	\$2,433,108	\$2,728,268
Operating Expenses	3,044,891	2,672,806	2,977,501
Net Operating Income (Loss)	(614,931)	(239,698)	(249,233)
Other Income (Expenses) Adjustments	160,792	99,340	72,043
Change in Net Assets	<u>\$(440,601)</u>	<u>(\$170,568)</u>	<u>(\$226,361)</u>

Operating Revenues

Operational revenues for the current fiscal year remained steady compared to June 30, 2009. However, revenues have decreased over the years in part due 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. The System will look at a possible fee adjustment effective July 1, 2011. However, due to the competitive market and the increase tax burden that may be placed on citizens, the System has been reluctant to consider additional fee increases.

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 Wages and benefits increased during the period ending June 30, 2009, in most part due to a re-evaluation of retirement benefits. The Tennessee Consolidated Retirement System increased the employer share of benefits to 16.37% beginning July 1, 2008. Another valuation was completed for the period ending June 30, 2010. For the period beginning July 1, 2010, the Systems contribution rate will be lowered to 12.72%. The increase in wage and benefits for the period ending June 30, 2010, is reflected in the increase cost for health care coverage. The System will look at increasing the employee's share of these expenses, to help control these cost.

Maintenance and Repair Service Equipment This line item showed a 14% and 5% decrease for the period ending June 30, 2009 and 2010, respectfully. While maintenance and repairs remains one of the hardest line items to control, the System has taken an aggressive stance to control repair cost.

Crushed Stone This line item represents an increase of 57% and 9% for the period ending June 30, 2009 and 2010, respectfully. This increase is due in most part to extremely wet conditions that have led to increased road maintenance.

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 earlier 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. The System did not report closure/post closure expenses due to the reduction in tonnage amounts. Since tonnage has decreased, the fill rate has also decreased which has resulted in an increase in life expectancy. Based upon previous models for landfill capacity and projected closure and post-closure cost, the System was required to record a cost of \$394,351 for the period ending June 30, 2010. The System will be conducting an updated landfill capacity study as well as studying the past decline in the inflation rate to determine if a lower annual projected post-closure care cost can be recorded. These studies will be completed in time to be used in the financial report for the period ending June 30, 2011.

Unrealized Loss on Securities The System has recorded an unrealized loss of \$49,171 for the period ending June 30, 2008, and \$30,210 for the period ending June 30, 2009.

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 & Poor's respectfully. Due to the overall financial conditions in 2008, these bonds, were downgraded to A3 on March 18, 2008, and was downgraded again in 2009. CitiGroup has entered into a structured bankruptcy that has allowed CitiGroup to restructure their debt, which has allowed for a marginal increase in bond pricing. As of the period ending June 30, 2010, the System was able to record a net increase in the fair value of investments.

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.

CERTIFIED PUBLIC ACCOUNTANTS

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MORRISTOWN, TENNESSEE 37816-1779
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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, 2010 and 2009, which collectively comprise the System's basic financial statements 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, 2010 and 2009, 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 February 11, 2011, 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.

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA, CFP, PFS
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA
HIRAM H. JONES, CPA

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.

Craine, Thompson & Jones, P.C.
February 11, 2011

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Assets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash		
Accounts receivable	\$ 3,390,956	\$ 3,163,973
Investment in corporate bonds	269,854	386,153
Bond issuance costs (net of amortization)	442,719	429,180
	<u>20,877</u>	<u>23,487</u>
Total current assets	4,124,406	4,002,793
Capital assets (net of accumulated depreciation):		
Land		
Land improvements	614,776	614,776
Rental property	1,591,390	2,232,667
Building and improvements	22,639	23,885
Furniture and fixtures	347,114	376,975
Office machines and equipment	-	-
Other machinery and equipment	1,048,923	1,170,593
Restricted assets:		
Closure/postclosure investments	<u>814,628</u>	<u>811,078</u>
Total assets	<u>\$ 8,563,876</u>	<u>\$ 9,234,465</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Net Assets
June 30, 2010 and 2009

<u>Liabilities</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable	\$ 71,135	\$ 77,702
Payroll deductions payable	3,737	1,512
Accrued leave	17,799	15,069
Due to other governments	20,883	20,883
Notes and bonds payable	484,446	594,517
	<hr/>	<hr/>
Total current liabilities	598,000	709,683
	<hr/>	<hr/>
Long-term liabilities:		
Bonds payable	495,000	970,000
Notes payable	-	-
Closure/postclosure cost	4,025,306	3,668,611
	<hr/>	<hr/>
Total long-term liabilities	4,520,306	4,638,611
Total liabilities	5,118,306	5,348,294
	<hr/>	<hr/>
Net assets:		
Invested in capital assets, net of related debt	2,666,272	2,879,567
Unrestricted net assets	779,298	1,006,604
	<hr/>	<hr/>
Total net assets	<u>\$ 3,445,570</u>	<u>\$ 3,886,171</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Refuse disposal charges	\$ 2,414,746	\$ 2,416,995
Sale of materials and supplies	15,214	16,113
Other charges for services	-	-
Tire grant	-	-
	<u>2,429,960</u>	<u>2,433,108</u>
Total operating income		
Operating expenses:		
Supervisor/director	80,820	79,329
Laborers	464,662	473,522
Board and committee member fees	17,100	16,600
Social security	42,080	41,758
Retirement	84,153	85,963
Employee insurance	148,305	133,377
Advertising	-	628
Audit services	6,850	6,850
Communications	7,990	8,273
Freight expense	894	1,238
Maintenance and repair service building	106	398
Maintenance and repair service equipment	89,317	94,254
Maintenance and repair service vehicles	400	1,539
Engineering services	45,497	55,866
Medical and dental services	-	672
Postal charges	1,009	1,046
Printing, stationery, forms	4,063	2,467
Rentals	5,339	4,934
Travel	6,320	8,040
Permits and licenses	12,690	12,000
Other contracted services	136,909	112,017
Crushed stone	61,866	56,957
Custodial supplies	604	1,842
Diesel fuel	60,065	61,317
Drugs and medical supplies	357	485
Electricity	63,451	51,298
Equipment and machinery parts	26,440	19,874
Fertilizer, lime, chemicals and seed	-	378

Hamblen County-Morristown Solid Waste System
Statement of Income, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating expenses (continued):		
Garage supplies	\$ 4,596	\$ 4,071
Gasoline supplies	625	2,080
Lubricants	7,278	6,021
Office supplies	1,676	2,050
Small tools	-	179
Wire	34,946	62,724
Tires and tubes	6,799	19,254
Closure/postclosure expense	394,351	-
Uniforms	2,087	1,050
Water and sewer	65,744	55,481
Other supplies and materials	924	2,474
Liability insurance	31,030	28,920
Vehicle and equipment insurance	19,352	37,241
Workmen's compensation insurance	26,488	25,899
Depreciation and amortization	942,125	935,742
Other charges	8,364	19,369
Disposal of C&D material	46,902	53,154
Surcharge	84,335	84,176
	<u>3,044,891</u>	<u>2,672,806</u>
Total operating expenses		
Net operating income (loss)	<u>(614,931)</u>	<u>(239,698)</u>
Other income or (expense):		
Interest earned	217,031	174,924
Other	-	-
Interest on notes	(2,702)	(8,386)
Interest on bonds	(53,537)	(67,198)
	<u>160,792</u>	<u>99,340</u>
Total other income or (expense)		
Net income (loss)	(454,139)	(140,358)
Net increase (decrease) in the fair value of investments	13,538	(30,210)
Net assets, beginning	<u>3,886,171</u>	<u>4,056,739</u>
Net assets, ending	<u>\$ 3,445,570</u>	<u>\$ 3,886,171</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, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,546,259	\$ 2,311,791
Payments to suppliers	(1,550,718)	(1,191,692)
Payments to employees	(545,482)	(552,851)
Other receipts (payments)	348,517	(28,705)
Net cash provided by operating activities	<u>798,576</u>	<u>538,543</u>
Cash flows from non-capital financing activities:		
Transfers between restricted account and operating account	<u>(3,550)</u>	<u>(20,657)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(143,764)	(175,599)
Principal paid on notes and bonds	(585,071)	(547,309)
Interest paid on notes and bonds	(56,239)	(75,584)
Net cash used for capital and relating financing activities	<u>(785,074)</u>	<u>(798,492)</u>
Cash flows from investing activities:		
Sale of corporate bonds	-	261,439
Interest from cash management activities	217,031	174,924
Net cash provided by investing activities	<u>217,031</u>	<u>436,363</u>
Net increase or (decrease) in cash and cash equivalents	226,983	155,757
Cash and cash equivalents at beginning of year	<u>3,163,973</u>	<u>3,008,216</u>
Cash at end of year	<u>\$ 3,390,956</u>	<u>\$ 3,163,973</u>
Consisting of:		
Cash in bank	<u>\$ 3,390,956</u>	<u>\$ 3,163,973</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Summary of cash and cash equivalents at end of year:		
Cash - non-interest bearing	\$ -	\$ -
Cash - interest bearing	3,390,956	3,163,973
Total	<u>\$ 3,390,956</u>	<u>\$ 3,163,973</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Net operating loss	\$ (614,931)	\$ (239,698)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	942,125	935,742
Changes in assets and liabilities:		
Decrease (increase) in receivables	116,299	(121,317)
Increase (decrease) in accounts payable	(6,567)	7,479
Increase (decrease) in due to other governments	-	(17,001)
Increase (decrease) in accrued leave	2,730	2,010
Increase (decrease) in payroll deductions payable	2,225	(411)
Increase (decrease) in liability for closure/postclosure	356,695	(28,261)
Net cash provided by operating activities	<u>798,576</u>	<u>538,543</u>

The accompanying notes are an integral part of these statements.

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 2009 financial statements have been reclassified to conform to 2010 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, 2010, the System had investments of \$ 2,054,447 in certificates of deposit, FDIC insured accounts, guaranteed annuities and government securities at Morgan Stanley bearing an approximate rate of 2%; \$ 1,147,344 at First Tennessee Bank bearing an approximate rate of 1.5%. The System also had \$ 814,628 postclosure investment in certificates of deposits held by GreenBank earning an average rate of .51% and at Jefferson Federal Bank earning a rate of 1.9%.

Investments for the System are reported at fair value. The System has recorded an unrealized gain of \$ 13,538 for the year ended June 30, 2010 and an unrealized loss of \$ 30,210 for the year ended June 30, 2009. 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, 2010 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, 2010 and 2009, 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, 2010, was as follows:

	FIXED ASSETS			
	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
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	931,849	-	-	931,849
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	46,394	-	-	46,394
Other machinery and equipment	4,012,836	143,764	-	4,156,600
	<u>13,748,281</u>	<u>143,764</u>	<u>-</u>	<u>13,892,045</u>
Less accumulated depreciation for:				
Land improvements	\$ 6,489,833	\$ 641,277	\$ -	\$ 7,131,110
Rental property	5,224	1,246	-	\$ 6,470
Building and improvements	554,874	29,861	-	\$ 584,735
Furniture and fixtures	5,593	-	-	\$ 5,593
Office machines and equipment	44,694	1,700	-	\$ 46,394
Other machinery and equipment	2,842,242	265,435	-	3,107,677
Total	<u>9,942,460</u>	<u>939,519</u>	<u>-</u>	<u>10,881,979</u>
Capital assets being depreciated	<u>\$ 4,563,350</u>	<u>\$ (795,755)</u>	<u>\$ -</u>	<u>\$ 3,010,066</u>

Capital asset activity for the year ended June 30, 2009, was as follows:

	FIXED ASSETS			Balance June 30, 2009
	Balance July 1, 2008	Additions	Reductions	
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	4,074	-	931,849
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	45,371	1,023	-	46,394
Other machinery and equipment	3,842,334	170,502	-	4,012,836
	<u>13,572,682</u>	<u>175,599</u>	<u>-</u>	<u>13,748,281</u>
Less accumulated depreciation for:				
Land improvements	\$ 5,848,556	\$ 641,277	\$ -	\$ 6,489,833
Rental property	3,979	1,245	-	\$ 5,224
Building and improvements	525,013	29,861	-	\$ 554,874
Furniture and fixtures	5,593	-	-	\$ 5,593
Office machines and equipment	41,301	3,393	-	\$ 44,694
Other machinery and equipment	2,584,890	257,352	-	2,842,242
Total	<u>9,009,332</u>	<u>933,128</u>	<u>-</u>	<u>9,942,460</u>
Capital assets being depreciated	<u>\$ 4,563,350</u>	<u>\$ (757,529)</u>	<u>\$ -</u>	<u>\$ 3,805,821</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.

Due to a change in the estimated life of the existing landfill based upon an engineering study of the landfill's remaining capacity, there was no closure/postclosure expense for the year ended June 30, 2009. The System has experienced a decrease in customers due to the economy and competition. The postclosure expense for the year ended June 30, 2010 was \$394,351.

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 7/1/2008	Additions	Reductions	Balance 6/30/2009	Additions	Reductions	Balance 6/30/2010
City of Morristown Series B-2-A	\$ 875,000	\$ -	\$ 210,000	\$ 665,000	\$ -	\$ 215,000	\$ 450,000
Hamblen County Tennessee Series B-2-A	1,010,000	-	240,000	770,000	-	250,000	520,000
SunTrust Bank Obligation 67	226,826	-	97,309	129,517	-	120,070	9,447
SunTrust Bank Obligation 42	-	-	-	-	-	-	-
Total	\$ 2,111,826	\$ -	\$ 547,309	\$ 1,564,517	\$ -	\$ 585,070	\$ 979,447
Current portion				\$594,517			\$484,447
Long-term debt				\$970,000			\$495,000

At June 30, 2010, 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
2011	220,000	14,800	285,000	17,075	9,447	285	484,447	32,160
2012	230,000	5,750	265,000	6,625	-	-	495,000	12,375
	\$ 450,000	\$ 20,550	\$ 520,000	\$ 23,700	\$ 9,447	\$ 285	\$ 979,447	\$ 44,535

At June 30, 2009, 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
2010	215,000	20,325	260,000	24,650	129,517	3,430	594,517	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
	\$ 665,000	\$ 40,875	\$ 770,000	\$ 48,350	\$ 129,517	\$ 3,430	\$ 1,564,517	\$ 92,655

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://www.tn.gov/treasury/tcrs/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, 2010, was 16.37% 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, 2010, Hamblen County-Morristown Solid Waste Disposal System's annual pension cost of \$85,415 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, 2007 actuarial valuation using the frozen age actuarial cost method. Significant actuarial assumptions used 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, 2007, was 12 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 85,415	100.00%	\$ -
June 30, 2009	\$ 86,117	100.00%	\$ -
June 30, 2008	\$ 40,472	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 72.65% funded. The actuarial accrued liability for benefits was \$1.72 million, and the actuarial value of assets was \$1.25 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.47 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.53 million, and the ratio of the UAAL to the covered payroll was 89.52%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, 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.

Required Supplementary Information**Schedule of Funding Progress for Hamblen County-Morristown Solid Waste System, 88441**

(Dollar amounts in thousands)

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)
July 1, 2009	\$ 1,251	\$ 1,722	\$ 471	72.65%	\$ 526	89.52%
July 1, 2007	\$ 1,009	\$ 1,540	\$ 531	65.52%	\$ 438	121.23%

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 \$4,800 for the retiree and \$4,800 for eligible spouses. During the year, expenses totaling \$13,926 were recognized for postretirement benefits.

GASB 45 DISCLOSURE

A. Annual OPEB Cost and net OPEB Obligations	<u>7/1/2008</u> <u>6/30/2009</u>	<u>7/1/2009</u> <u>6/30/2010</u>
1. Annual Required Contributions (ARC)	\$ 23,459	\$ 22,832
2. Interest on net OPEB Obligation	(22)	(214)
3. Adjustment to ARC	33	339
4. Annual OPEB cost (Expense) (1.+2.+3.)	23,470	22,957
5. Contribution made (assumed end of year)*	28,263	(13,926)
6. Increase in net OPEB Obligation (4.-5.)	(4,793)	9,031
7. Net OPEB Obligation - beginning of year	(553)	(5,346)
8. Net OPEB Obligation - end of year (6.+7.) of year	(5,346)	3,685

*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 2009/2010 are as follows:

<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>	<u>Covered</u> <u>Payroll</u>	<u>OPEB Cost</u> <u>% of Pay</u>
6/30/2009	\$ 23,470	120.4%	\$ (5,346)	\$ 530,000	4.4%
6/30/2010	\$ 22,957	60.7%	\$ 3,685	\$ 427,378	5.4%

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)
July 1, 2007	\$ -	\$ 253,959	\$ 253,959	0.00%	N/A	N/A
July 1, 2009	\$ -	\$ 217,687	\$ 217,687	0.00%	\$ 427,378	50.9%

C. Methods and Assumptions

-Funding interest Rate	4.00%
-2009 Medical Trend Rate	9.00%
-Ultimate Trend Rate	5.00%
-Year ultimate trend rate reached	2013
-Actuarial Cost Method	Entry Age Normal
-Annual Payroll Growth Rate	2.50%

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, 2010 and 2009, the system's liability for accumulated leave was \$ 17,799 and \$15,069, 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 \$ 4,025,306 reported as landfill closure and postclosure care liability at June 30, 2010, 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 64% 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 2019. 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.

NOTE 6 – COMMITMENTS

On April 22, 2010, the System entered into a contract with Montauk Energy Capital, LLC for the purpose of the landfill gas-to-energy project at the Landfill. Landfill gas will be collected and converted to energy. The System will receive monthly royalty payments as set out in the contract once the collection system and flare transfer are complete. The project is expected to be completed before the end of 2011.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010, and 2009, which collectively comprise the System's basic financial statements and have issued our report thereon dated February 11, 2011. 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.

Claire, Thompson & Jones, P.C.

February 11, 2011