

BI-COUNTY SOLID WASTE
MANAGEMENT SYSTEM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bi-County Solid Waste Management System
Clarksville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Bi-County Solid Waste Management System (the System), a component unit of Montgomery County, as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit. The financial statements of the System as of June 30, 2009, were audited by other auditors whose report dated December 7, 2009, expressed an unqualified opinion on those statements.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and each major fund of the System as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 25, 2011, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's financial statements as a whole. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The directory of officials and management has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Stone Rudolph & Henry, PLC

February 25, 2011

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS

| | Governmental Activities | Business-Type Activities | Totals |
|--------------------------------|----------------------------|-----------------------------|----------------------|
| <u>CURRENT ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 3,732,051 | \$ 782,610 | \$ 4,514,661 |
| Certificate of Deposit | - | 5,000,000 | 5,000,000 |
| Accounts Receivable | 251,216 | 651,728 | 902,944 |
| Grants Receivable | - | 88,416 | 88,416 |
| Interfund Receivable | - | 664,605 | 664,605 |
| Inventories | - | 3,497 | 3,497 |
| Total Current Assets | <u>3,983,267</u> | <u>7,190,856</u> | <u>11,174,123</u> |
| <u>CAPITAL ASSETS</u> | | | |
| Land | 48,004 | 660,005 | 708,009 |
| Buildings and Improvements | 280,743 | 2,425,061 | 2,705,804 |
| Property and Equipment | 1,850,464 | 8,045,271 | 9,895,735 |
| Other Fixed Assets | - | 868,938 | 868,938 |
| Construction in Progress | - | 193,979 | 193,979 |
| Total Capital Assets | <u>2,179,211</u> | <u>12,193,254</u> | <u>14,372,465</u> |
| Less: Accumulated Depreciation | <u>1,510,468</u> | <u>5,932,497</u> | <u>7,442,965</u> |
| Net Capital Assets | <u>668,743</u> | <u>6,260,757</u> | <u>6,929,500</u> |
| Total Assets | <u>\$ 4,652,010</u> | <u>\$ 13,451,613</u> | <u>\$ 18,103,623</u> |

LIABILITIES AND NET ASSETS (DEFICIT)

| | | | |
|--|---------------------|----------------------|----------------------|
| <u>CURRENT LIABILITIES</u> | | | |
| Accounts Payable | \$ 63,892 | \$ 354,207 | \$ 418,099 |
| Accrued Payroll | 25,992 | 90,394 | 116,386 |
| Customer Deposits | - | 21,424 | 21,424 |
| Interfund Payable | 664,605 | - | 664,605 |
| Employee Savings | 1,553 | 32,379 | 33,932 |
| Total Current Liabilities | <u>756,042</u> | <u>498,404</u> | <u>1,254,446</u> |
| <u>LONG-TERM LIABILITIES</u> | | | |
| Other Postemployment Benefits | - | 81,426 | 81,426 |
| Accrued Compensated Absences | 27,152 | 171,874 | 199,026 |
| Closure/Postclosure Liability | - | 15,780,674 | 15,780,674 |
| Total Long-Term Liabilities | <u>27,152</u> | <u>16,033,974</u> | <u>16,061,126</u> |
| Total Liabilities | <u>783,194</u> | <u>16,532,378</u> | <u>17,315,572</u> |
| <u>NET ASSETS (DEFICIT)</u> | | | |
| Invested in Capital Assets | 668,743 | 6,260,757 | 6,929,500 |
| Unrestricted | 3,200,073 | (9,341,522) | (6,141,449) |
| Total Net Assets (Deficit) | <u>3,868,816</u> | <u>(3,080,765)</u> | <u>788,051</u> |
| Total Liabilities and Net Assets (Deficit) | <u>\$ 4,652,010</u> | <u>\$ 13,451,613</u> | <u>\$ 18,103,623</u> |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

| | <u>Program Revenue</u> | | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> | | <u>Total</u> |
|---|------------------------|---------------------------------|---|--|-------------------------------------|-------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | |
| Governmental Activities: | | | | | | |
| Solid Waste Collection | \$ 1,780,419 | \$ 1,017,997 | \$ - | \$ (762,422) | \$ - | \$ (762,422) |
| Total Governmental Activities | 1,780,419 | 1,017,997 | - | (762,422) | - | (762,422) |
| Business-Type Activities: | | | | | | |
| Landfill | 7,971,257 | 7,440,366 | 157,729 | - | (373,162) | (373,162) |
| Total Business-Type Activities | 7,971,257 | 7,440,366 | 157,729 | - | (373,162) | (373,162) |
| Total | <u>\$ 9,751,676</u> | <u>\$ 8,458,363</u> | <u>\$ 157,729</u> | (762,422) | (373,162) | (1,135,584) |
| General Revenues (Expenses): | | | | | | |
| Transfers | | | | 855,586 | (865,586) | (10,000) |
| Gain on Disposal of Equipment | | | | - | (22,460) | (22,460) |
| Interest Earned on Deposits | | | | - | 117,465 | 117,465 |
| Total General Revenues (Expenses) and Transfers | | | | 855,586 | (770,581) | 85,005 |
| Changes in Net Assets | | | | 93,164 | (1,143,743) | (1,050,579) |
| Net Assets (Deficit), Beginning - As Restated (Note 11) | | | | 3,775,652 | (1,937,022) | 1,838,630 |
| Net Assets (Deficit), Ending | | | | <u>\$ 3,868,816</u> | <u>\$ (3,080,765)</u> | <u>\$ 788,051</u> |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2010

ASSETS

| | <u>Waste Collection</u> | <u>Total Governmental Fund</u> |
|---------------------------|-----------------------------|--|
| Cash and Cash Equivalents | \$ 3,732,051 | \$ 3,732,051 |
| Accounts Receivable | 251,216 | 251,216 |
| Total Assets | \$ 3,983,267 | \$ 3,983,267 |

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

| | | |
|---------------------------|-----------|-----------|
| Accounts Payable | \$ 63,892 | \$ 63,892 |
| Accrued Payroll | 25,992 | 25,992 |
| Interfund Payable | 664,605 | 664,605 |
| Employee Savings | 1,553 | 1,553 |
| Total Current Liabilities | 756,042 | 756,042 |

FUND BALANCE

| | | |
|------------------------------------|--------------|-----------|
| Unreserved Fund Balance | 3,227,225 | 3,227,225 |
| Total Fund Balance | 3,227,225 | 3,227,225 |
| Total Liabilities and Fund Balance | \$ 3,983,267 | |

Amounts reported for governmental activities in the Statement of Net Assets are different due to:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$1,510,468.

668,743

Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:

Accrued compensated absences

(27,152)

Net Assets of Governmental Activities

\$ 3,868,816

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUND - WASTE COLLECTION
YEAR ENDED JUNE 30, 2010

| | |
|---|----------------------------|
| <u>REVENUES</u> | |
| Recycle Sales | <u>\$ 1,017,997</u> |
| <u>EXPENDITURES</u> | |
| Board/Committee Fees | 1,500 |
| Capital Expenditures | 50,998 |
| Communications | 1,854 |
| Contracted Services | 224,692 |
| Insurance | 125,527 |
| Materials and Supplies | 195,457 |
| Miscellaneous | 2,500 |
| Personnel | 1,100,980 |
| Trustee Commission | 8,727 |
| Utilities | 26,336 |
| Total Expenditures | <u>1,738,571</u> |
| <u>EXCESS OF EXPENDITURES OVER REVENUES</u> | (720,574) |
| <u>OTHER FINANCING SOURCES</u> | |
| Transfers In | <u>855,586</u> |
| <u>NET CHANGE IN FUND BALANCE</u> | <u>135,012</u> |
| <u>FUND BALANCE - BEGINNING, AS PREVIOUSLY REPORTED</u> | 2,976,100 |
| <u>PRIOR PERIOD ADJUSTMENT - SEE NOTE 11</u> | <u>116,113</u> |
| <u>FUND BALANCE - BEGINNING, AS RESTATED</u> | <u>3,092,213</u> |
| <u>FUND BALANCE - ENDING</u> | <u><u>\$ 3,227,225</u></u> |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

| | | |
|---|----|-----------|
| Net Change in Fund Balance - Total Governmental Fund | \$ | 135,012 |
| <p>Amounts reported for governmental activities in the statement of activities are different due to:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p> | | |
| Depreciation | | (109,529) |
| Capital Expenditures | | 50,998 |
| <p>Some expenses do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:</p> | | |
| Current Change in Accrued Compensated Absences | | 16,683 |
| Change in Net Assets of Governmental Activities | \$ | 93,164 |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

ASSETS

CURRENT ASSETS

| | |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 782,610 |
| Certificates of Deposit | 5,000,000 |
| Accounts Receivable | 651,728 |
| Grants Receivable | 88,416 |
| Interfund Receivable | 664,605 |
| Inventories | 3,497 |
| Total Current Assets | 7,190,856 |

CAPITAL ASSETS - At Cost

| | |
|--------------------------------|---------------|
| Land - Held for Expansion | 616,156 |
| Land | 43,849 |
| Buildings and Improvements | 2,425,061 |
| Property and Equipment | 8,045,271 |
| Other Fixed Assets | 868,938 |
| Construction in Progress | 193,979 |
| Total Capital Assets | 12,193,254 |
| Less: Accumulated Depreciation | 5,932,497 |
| Net Capital Assets | 6,260,757 |
| Total Assets | \$ 13,451,613 |

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES

| | |
|---------------------------|------------|
| Accounts Payable | \$ 354,207 |
| Accrued Payroll | 90,394 |
| Customer Deposits | 21,424 |
| Employee Savings | 32,379 |
| Total Current Liabilities | 498,404 |

LONG-TERM LIABILITIES

| | |
|-------------------------------|------------|
| Accrued Compensated Absences | 171,874 |
| Other Postretirement Benefits | 81,426 |
| Closure/Postclosure Liability | 15,780,674 |
| Total Long-Term Liabilities | 16,033,974 |
| Total Liabilities | 16,532,378 |

NET ASSETS (DEFICIT)

| | |
|--|---------------|
| Invested in Capital Assets | 6,260,757 |
| Unrestricted | (9,341,522) |
| Total Net Assets (Deficit) | (3,080,765) |
| Total Liabilities and Net Assets (Deficit) | \$ 13,451,613 |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

OPERATING REVENUES

| | |
|--------------------------|------------------|
| Charges for Services | \$ 4,648,817 |
| User Fees | 2,671,694 |
| Other | 119,855 |
| Total Operating Revenues | <u>7,440,366</u> |

OPERATING EXPENSES

| | |
|--------------------------|------------------|
| Board/Committee Fees | 4,500 |
| Closure/Postclosure Cost | 891,642 |
| Communications | 34,811 |
| Contracted Services | 1,197,030 |
| Depreciation | 612,864 |
| Insurance | 163,248 |
| Materials and Supplies | 1,759,368 |
| Miscellaneous | 72,637 |
| Personnel | 3,003,968 |
| Property and Equipment | 60,634 |
| Trustee Commission | 80,592 |
| Utilities | 89,963 |
| Total Operating Expenses | <u>7,971,257</u> |

OPERATING INCOME (LOSS)

(530,891)

NON-OPERATING REVENUES (EXPENSES)

| | |
|---|----------------|
| Loss on Sale of Equipment | (22,460) |
| Government Grants | 157,729 |
| Interest Income | 117,465 |
| Total Non-Operating Revenues (Expenses) | <u>252,734</u> |

INCOME (LOSS) BEFORE TRANSFERS

(278,157)

TRANSFERS OUT

(865,586)

NET CHANGE IN NET ASSETS

(1,143,743)

NET ASSETS - BEGINNING, AS PREVIOUSLY REPORTED

2,998,168

PRIOR-PERIOD ADJUSTMENT - SEE NOTE 11

(4,935,190)

NET ASSETS (DEFICIT)- BEGINNING, AS RESTATED

(1,937,022)

NET ASSETS (DEFICIT) - ENDING

\$ (3,080,765)

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Cash Received from Customers | \$ 7,205,440 |
| Cash Paid to Suppliers | (3,409,519) |
| Cash Paid to Employees | (2,898,758) |
| Other Cash Receipts (Payments) | (564,237) |
| Net Cash Provided by Operating Activities | <u>332,926</u> |

CASH FLOWS FROM NONCAPITAL FINANCING
ACTIVITIES

| | |
|--|------------------|
| Government Grants | 157,729 |
| Interfund Transfer - Special Revenue | (865,586) |
| Net Cash Used in Noncapital Financing Activities | <u>(707,857)</u> |

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES

| | |
|---|------------------|
| Proceeds from Sale of Equipment | 177,232 |
| Purchase of Capital Assets | (807,424) |
| Net Cash Used in Capital and Related Financing Activities | <u>(630,192)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|--------------------|
| Purchase of Certificate of Deposit | (5,000,000) |
| Interest Received | 117,465 |
| Net Cash Used in Investing Activities | <u>(4,882,535)</u> |

NET DECREASE IN CASH AND CASH EQUIVALENTS (5,887,658)

CASH AND CASH EQUIVALENTS - BEGINNING 6,670,268

CASH AND CASH EQUIVALENTS - ENDING \$ 782,610

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF CASH FLOWS (CONT'D)
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

| | |
|---|-------------------|
| Operating Loss | \$ (530,891) |
| Adjustments to Reconcile Operating Income (Loss) to | |
| Net Cash Provided by Operating Activities: | |
| Depreciation | 612,864 |
| Changes in: | |
| Accounts Receivable | (136,495) |
| Grants Receivable | (88,416) |
| Due from Other Governments | (595,676) |
| Inventories | 11,218 |
| Accounts Payable | 42,046 |
| Accrued Payroll | 35,819 |
| Customer Deposits | 21,424 |
| Employee Savings | 274 |
| Accrued Compensated Absences | 26,649 |
| Closure/Postclosure Liability | 891,642 |
| Other Postemployment Benefits | 42,468 |
| Net Cash Provided by Operating Activities | <u>\$ 332,926</u> |

The accompanying notes are an integral part of the financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity

Bi-County Solid Waste Management System (the System) was established by inter-local agreement on July 22, 1974, by Montgomery County, Stewart County, and the City of Clarksville for the joint and cooperative operation and maintenance of a solid waste collection and disposal system. The System operates a landfill (permit number SNL 63-102-0108 MOD), a transfer station, and numerous convenience centers. The System office is located at the landfill site, which is on Highway 79, east of Oakwood, and approximately ten miles west of Clarksville, Tennessee.

The System, a component unit of Montgomery County, Tennessee, provides landfill and collection services for Montgomery and Stewart Counties. The board members of the System are appointed by the joint participants; however, Montgomery County appoints a voting majority of the board members. The System is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the System. The financial reporting entity of the System only includes the assets and operations of the System and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

The financial statements of the System 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the System. For the most part, the effect of interfund activity has been removed from these statements. However, when applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the Statement of Activities. Governmental Activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund financial statements of the System are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. The System reports funds in two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental category. Separate financial statements are provided for governmental funds and proprietary funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the System considers revenues other than grants to be available if they are collected within 120 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The System considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Proprietary fund 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 the related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

The System reports the following fund categories:

Governmental Fund

Special Revenue Fund – This fund accounts for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Proprietary Fund

Enterprise Fund - This fund accounts for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

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

Budgetary Control

The System, as a component unit of Montgomery County, is required by State statute to adopt an annual budget. Expenditures may not legally exceed appropriations authorized by the System's Board of Directors, and any authorized revisions. Appropriations lapse at the end of each year.

The budgetary level of control is at the major category level. Management may make revisions within major categories except for certain line items such as salaries, but only the governing body may transfer appropriations between major categories.

The System's budgetary basis of accounting is consistent with generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the System to significant concentrations of credit risk consist principally of cash and cash equivalents, certificates of deposit, and accounts receivable. Custodial credit risk for the System's deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As required by state statutes, the System's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral in excess of federal depository insurance. The collateral is required to be held by the System or its agent in the System's name. With respect to accounts receivable, credit

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Concentration of Credit Risk (Cont'd)

risk is dispersed across a large number of customers who are geographically concentrated in the System's service area.

Cash and Cash Equivalents

The System considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts and revenues net of uncollectible accounts.

Inventories

Inventories consist of expendable supplies, primarily fuel held for consumption, and are valued at average cost. The cost is expensed at the time individual items or quantities are used and not at the time purchased.

Capital Assets

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant and equipment, are defined by the System as assets with an initial, individual cost of \$5,000 or more and an estimated useful life exceeding 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 once the asset is placed in service.

Property, plant and equipment are depreciated using the straight-line method with salvage value over the following estimated useful lives:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 15-30 years |
| Equipment and Vehicles | 5-10 years |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Compensated Absences

The System's policy is to permit employees to accumulate a limited amount of earned but unused vacation benefits, as well as unused "comp time", which will be paid to employees upon separation from service. Comp time is to be paid within 45 days of being accrued or it will be forfeited. The granting of sick leave has no guaranteed payment attached, either through official policy or custom, and is therefore not required to be accrued or recorded.

Interfund Transactions

All interfund transactions are accounted for as transfers. Nonrecurring or nonroutine transfers of equity are considered residual equity transfers and all other transfers are treated as operating transfers. Operating transfers were used to account for funding of operating deficiencies.

Date of Management's Review

Subsequent events have been evaluated through February 25, 2011, which is the date the financial statements were available to be issued.

2. Deposits and Investments

The System participates in an internal cash and investment pool through the Office of the Montgomery County Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most County funds. The System's portion of this pool is displayed on the balance sheets or statements of net assets as Cash and Cash Equivalents and Certificate of Deposit.

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. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledge by the State treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public funds covered by the pool are considered to be insured for purposes of credit risk disclosure.

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 average 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 System.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Deposits and Investments (Cont'd)

The System is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the County's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The County may make investments with longer maturities if various restrictions set out in State law are followed. The System is also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the State Comptroller's Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase.

The following is a schedule of the System's certificate of deposit at June 30, 2010:

| | 2010 | |
|------------------------|---------------------|---------------------|
| | Carrying Amount | Market Value |
| Certificate of Deposit | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. State statutes limit the maturities of certain investments as previously disclosed. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. The System has no investment policy that would further limit its investment choices.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Capital Assets

A summary of changes in capital assets follows:

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> |
|---------------------------------|---------------------------------------|-----------------------|-----------------------|--|
| <u>Governmental Activities</u> | | | | |
| Land | \$ 48,004 | \$ - | \$ - | \$ 48,004 |
| Buildings and Improvements | 280,743 | - | - | 280,743 |
| Property and Equipment | <u>1,799,466</u> | <u>50,998</u> | <u>-</u> | <u>1,850,464</u> |
| Total Governmental Assets | <u>2,128,213</u> | <u>50,998</u> | <u>-</u> | <u>2,179,211</u> |
| <u>Business-Type Activities</u> | | | | |
| Land – Held for Expansion | 616,156 | - | - | 616,156 |
| Land | 43,849 | - | - | 43,849 |
| Construction in Progress | - | 193,979 | - | 193,979 |
| Buildings and Improvements | 2,425,061 | - | - | 2,425,061 |
| Property and Equipment | 7,990,347 | 590,371 | 535,447 | 8,045,271 |
| Other Property | <u>845,863</u> | <u>23,075</u> | <u>-</u> | <u>868,938</u> |
| Total Business-Type Assets | <u>11,921,276</u> | <u>807,425</u> | <u>535,447</u> | <u>12,193,254</u> |
| Total Capital Assets | <u>\$ 14,049,489</u> | <u>\$ 858,423</u> | <u>\$ 535,447</u> | <u>\$ 14,372,465</u> |

Land included in the totals above is not depreciated. Construction in progress is not depreciated until placed in service.

A summary of changes in accumulated depreciation follows:

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> |
|---------------------------------------|---------------------------------------|-----------------------|-----------------------|--|
| <u>Governmental Activities</u> | | | | |
| Buildings and Improvements | \$ 191,745 | \$ 7,419 | \$ - | \$ 199,164 |
| Property and Equipment | <u>1,209,194</u> | <u>102,110</u> | <u>-</u> | <u>1,311,304</u> |
| Total Governmental Assets | <u>1,400,939</u> | <u>109,529</u> | <u>-</u> | <u>1,510,468</u> |
| <u>Business-Type Activities</u> | | | | |
| Buildings and Improvements | 684,359 | 57,750 | - | 742,109 |
| Property and Equipment | 4,127,479 | 555,015 | 335,754 | 4,346,740 |
| Other Property | <u>843,549</u> | <u>99</u> | <u>-</u> | <u>843,648</u> |
| Total Business-Type Assets | <u>5,655,387</u> | <u>612,864</u> | <u>335,754</u> | <u>5,932,497</u> |
| Total Accumulated Depreciation | <u>\$ 7,056,326</u> | <u>\$ 722,393</u> | <u>\$ 335,754</u> | <u>\$ 7,442,965</u> |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the System 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 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 System will report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Closure/Postclosure costs are calculated from an engineering evaluation. The \$15,780,674 reported as landfill closure and postclosure care liability at June 30, 2010, represents the cumulative amount reported to date based on the use of 83 percent of the estimated capacity of the currently open sections of the landfill. The landfill will recognize an additional estimated cost of closure and postclosure care of \$3,194,352 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Also, expansion of the landfill property could change these estimates. The System expects to close the landfill in 2107.

Montgomery and Stewart Counties have executed a "Contract in Lieu of Performance Bond" in the amount of \$18,975,026 to provide financial assurance to the State of Tennessee for estimated operation, closure and postclosure costs.

Change in Long-Term Obligation for Closure and Postclosure Cost:

| | |
|---|--------------------------|
| Accrued Liability at July 1, 2009, As Previously Reported | \$ 9,992,800 |
| Prior-Period Adjustment – See Note 11 | <u>4,896,232</u> |
| Accrued Liability at July 1, 2009, As Restated | 14,889,032 |
| Current Year Accrual | <u>891,642</u> |
| Accrued Liability at June 30, 2010 | <u>\$ 15,780,674</u> |

These calculations are based upon a closure/postclosure study conducted in June 2000, but estimated costs have been updated for inflation by the State of Tennessee, Department of Environment and Conservation.

5. Accrued Compensated Absences

Changes in accrued compensated absences for the year ended June 30, 2010 were as follows:

| | <u>Balance</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2010</u> |
|------------------------------|---------------------------------------|------------------|------------------|--|
| Accrued Compensated Absences | \$ <u>189,060</u> | \$ <u>37,118</u> | \$ <u>27,152</u> | \$ <u>199,026</u> |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Other Postemployment Benefits

The System provides support for medical and dental insurance coverage and premiums for qualifying retired employees. Qualifying retired employees must have a minimum of thirty years of creditable service in the Tennessee Consolidated Retirement System (TCRS), with or without military service or accumulated sick leave, at any age, or must have a minimum of twenty years of service with the System, and be at least age 55. Coverage will continue until the retired employee is eligible for Medicare. The retired employee must make premium payments to the Director of Accounts and Budgets at Montgomery County in a timely manner, must be a current participant, and must have participated for at least two years in the group medical insurance program. The employee must be eligible for, and begin receiving retirement benefits from TCRS at the time of retirement from the System and must elect to receive this benefit at the time of retirement. For qualifying retired employees the System pays a portion of the medical insurance premium until the retired employee is eligible for Medicare. The co-payment schedule is as follows:

| <u>Months up to age 65</u> | <u>System</u> | <u>Retiree</u> |
|----------------------------|---------------|----------------|
| 0 to 120 | 85% | 15% |
| 121 to 132 | 80% | 20% |
| 133 to 144 | 75% | 25% |
| 145 to 156 | 70% | 30% |
| 157 to 168 | 65% | 35% |
| 169 to 180 | 60% | 40% |

This plan is a single-employer defined benefit plan. Prior to the year ended June 30, 2010, the plan was funded and expensed on a pay-as-you-go basis. The provisions of Governmental Accounting Standards Board (GASB) Statement 45 were retrospectively implemented in the year ended June 30, 2010, to be effective as of June 30, 2009. For 2010, the plan continued to be funded on a pay-as-you-go basis with expense calculated under the provisions of GASB 45 as described below. The plan does not issue stand-alone financial reports.

In July 2004, the GASB issued GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB No. 45 requires employers that participate in single-employer or agent multiple-employer defined other postemployment benefit (OPEB) plans to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting.

The annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Other Postemployment Benefits (Cont'd)

The following table shows the components of the System's annual medical and dental insurance OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation:

| | <u>Year Ended June 30, 2010</u> |
|--|---|
| Normal Cost | \$ 28,391 |
| 30 year Amortization of Accrued Liability | 13,026 |
| Interest on Net OPEB Obligation | <u>922</u> |
| Annual Required Contribution | 42,339 |
| Interest on Net OPEB Obligation | 1,753 |
| Adjustment on Annual Required Contribution | <u>(1,624)</u> |
| Annual OPEB Expense | 42,468 |
| Contributions Made | <u>-</u> |
| Increase in Net OPEB Obligation | 42,468 |
| Net OPEB Obligation – Beginning, as restated – see Note 11 | <u>38,958</u> |
| Net OPEB Obligation - Ending | <u>\$ 81,426</u> |

The System's annual OPEB expense, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2010 | \$ 42,468 | 0% | \$ 81,426 |

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$319,400 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$319,400. The covered payroll (annual payroll of active employees covered by the plan) was \$2,170,500 and the ratio of the UAAL to the covered payroll was 14.72 percent. The ARC was 1.95% of covered payroll and the funding was determined on a pay-as-you-go basis.

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Other Postemployment Benefits (Cont'd)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumption included an annual healthcare cost trend rate of eight percent initially, reduced by decrements to an ultimate rate of five percent after six years. UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, is twenty-eight years.

Contributions expected to be paid to the health insurance plan in fiscal year 2011 are \$46,587.

The System pays and expenses the costs of the benefits as they are incurred. At June 30, 2010, the System had no eligible retirees receiving benefits and made no related cash payments during the year then ended.

7. Retirement Commitments

- a. Plan Description: Certain employees of the 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 become 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 state 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 the Planning Commission 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 Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

7. Retirement Commitments (Cont'd)

- b. Funding Policy: The System has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. Montgomery County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 14.18% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirements for the System are established and may be amended by the TCRS Board of Trustees.
- c. Annual Pension Cost and Actuarial Information: Pension costs and actuarial information for the System cannot be separately stated from that of Montgomery County. The System is a component unit of Montgomery County, and aggregated pension information is reported for all Montgomery County employees in the June 30, 2010, Montgomery County Comprehensive Annual Financial Report.

8. Concentrations

The System receives a substantial amount of its Charges for Services (tipping fees) from three haulers: Clarksville Disposal, Outlaw Disposal, and Waste Industries. These three haulers comprised 60.35% of tipping fee revenues earned during the year ended June 30, 2010, as well as \$209,585 of accounts receivable balances at June 30, 2010. The System also collects a user fee from each household in Montgomery and Stewart Counties. A major reduction in revenue from any of the above sources may have a significant effect on the future operations of the System.

9. Operating Leases

The System has convenience centers in eighteen locations in Montgomery and Stewart Counties. These convenience centers are located on leased property. The lease payments for this year were \$16,140, and are included in the contracted services category on the statement of revenues, expenditures and changes in fund balance.

Future cash flows from lease contracts are expected to be as follows:

| <u>Year Ending June 30,</u> | <u>Lease Payments</u> |
|-----------------------------|-----------------------|
| 2011 | \$ 25,400 |
| 2012 | 13,950 |
| 2013 | 6,000 |
| 2014 | 3,750 |
| 2015 | 750 |
| Total | <u>\$ 49,850</u> |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System through its primary government, Montgomery County, has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Association Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

The System, along with other Montgomery County component units, has chosen to establish a combined Self-Insurance Fund for risks associated with the employees' health insurance plan, workers compensation claims (including on-job-injury) and unemployment compensation claims.

11. Prior-Period Adjustments

Other postemployment benefits liability and the closure/postclosure liability were adjusted as of June 30, 2009 to correct accounting errors that occurred in previous years. These errors resulted from failure to apply GASB 45 relating to other postemployment benefits, failure to accrue revenues relating to recycle sales, and failure to accurately calculate the closure/postclosure liability as required by GASB 18.

Following is a schedule of adjustments to the June 30, 2009 Statement of Net Assets – Business-Type Activities:

| | |
|---|-----------------------|
| Increase in closure/postclosure liability | \$ (4,896,232) |
| Increase in other postemployment benefits liability | <u>(38,958)</u> |
| Total decrease in net assets | (4,935,190) |
| Net assets, June 30, 2009, as previously reported | <u>2,998,168</u> |
| Net assets (deficit), June 30, 2009, as restated | <u>\$ (1,937,022)</u> |

Following is a schedule of adjustments to the June 30, 2009 Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund:

| | |
|---|---------------------|
| Recycle sales not accrued | <u>\$ 116,113</u> |
| Total increase in fund balance | 116,113 |
| Fund balance, June 30, 2009, as previously reported | <u>2,976,100</u> |
| Fund balance, June 30, 2009, as restated | <u>\$ 3,092,213</u> |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
BUDGETARY COMPARISON SCHEDULE- SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2010

| | Budget Amounts | | Actual Amounts | Variances |
|--|----------------|------------|---------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| <u>RESOURCES (INFLOWS):</u> | | | | |
| Recycle Sales | \$ 500,000 | \$ 500,000 | \$ 1,017,997 | \$ 517,997 |
| Grants, Rebates and Miscellaneous | 15,348 | 15,348 | - | (15,348) |
| Total Charges and Miscellaneous | 515,348 | 515,348 | 1,017,997 | 502,649 |
| Other Financing Sources: | | | | |
| Transfers from Other Funds | 1,520,373 | 1,520,373 | 855,586 | (664,787) |
| Total Revenue | 2,035,721 | 2,035,721 | 1,873,583 | (162,138) |
| <u>EXPENDITURES (OUTFLOWS):</u> | | | | |
| <u>WASTE COLLECTION</u> | | | | |
| Personal Services | 685,899 | 685,899 | 598,051 | 87,848 |
| Board/Committees | 1,500 | 1,500 | 1,500 | - |
| Contracted Services | 6,800 | 6,800 | - | 6,800 |
| Materials and Supplies | 229,752 | 229,752 | 156,755 | 72,997 |
| Insurance | 67,068 | 67,068 | 47,057 | 20,011 |
| Capital Expenditures | 31,200 | 31,200 | - | 31,200 |
| Total Waste Collection | 1,022,219 | 1,022,219 | 803,363 | 218,856 |
| <u>CONVENIENCE CENTERS</u> | | | | |
| Personal Services | 475,632 | 475,632 | 416,996 | 58,636 |
| Contracted Services | 185,250 | 185,250 | 222,946 | (37,696) |
| Materials and Supplies | 75,659 | 75,659 | 29,610 | 46,049 |
| Insurance | 56,910 | 56,910 | 50,627 | 6,283 |
| Trustee Commission | 8,887 | 8,887 | 8,727 | 160 |
| Utilities | 14,488 | 14,488 | 16,452 | (1,964) |
| Capital Expenditures | 130,558 | 130,558 | - | 130,558 |
| Total Convenience Centers | 947,384 | 947,384 | 745,358 | 202,026 |
| <u>TRANSFER STATION</u> | | | | |
| Personal Services | 96,462 | 96,462 | 85,934 | 10,528 |
| Contracted Services | 4,800 | 4,800 | 1,746 | 3,054 |
| Materials and Supplies | 58,447 | 58,447 | 11,592 | 46,855 |
| Insurance | 45,232 | 45,232 | 27,842 | 17,390 |
| Utilities | 15,120 | 15,120 | 11,738 | 3,382 |
| Capital Expenditures | 95,000 | 95,000 | 50,998 | 44,002 |
| Total Transfer Station | 315,061 | 315,061 | 189,850 | 125,211 |
| Total Expenditures and Other Uses | 2,284,664 | 2,284,664 | 1,738,571 | 546,093 |
| Revenues and Other Sources Over (Under) Expenditures and Other Uses | (248,943) | (248,943) | 135,012 | (708,231) |
| <u>FUND BALANCE AT JULY 1, 2009, UNADJUSTED</u> | | | 2,976,100 | |
| <u>PRIOR-PERIOD ADJUSTMENT (NOTE 11)</u> | | | 116,113 | |
| <u>FUND BALANCE AT JULY 1, 2009, RESTATED</u> | | | 3,092,213 | |
| <u>FUND BALANCE AT JUNE 30, 2010</u> | | | <u>\$ 3,227,225</u> | |

See independent auditor's report.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| 1/1/2010 | \$ - | \$ 319,400 | \$ 319,400 | 0.00% | \$ 2,170,500 | 14.72% |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2010

| <u>Federal Grantor/Program Title</u> | <u>Grant Number or Pass Through Grantor's Contract Number</u> | <u>Federal CFDA Number</u> | <u>Accrued Receivable July 1, 2009</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Accrued Receivable June 30, 2010</u> |
|---|---|------------------------------------|--|-------------------|---------------------|---|
| State Agencies: | | | | | | |
| <u>State of TN, Department of Environment and Conservation</u> | | | | | | |
| Waste Tire Options | Z-08-212945-02 | N/A | \$ 68,929 | \$ 129,651 | \$ 114,000 | \$ 53,278 |
| Used Oil | Z-09-217780-00 | N/A | 18,425 | 18,425 | - | - |
| FY 2010 Recycling Rebate | N/A | N/A | - | 8,591 | 8,591 | - |
| Total State Financial Assistance | | | <u>87,354</u> | <u>156,667</u> | <u>122,591</u> | <u>53,278</u> |
| Federal Agencies: | | | | | | |
| <u>Federal Emergency Management Agency:</u> | | | | | | |
| Pass-through programs from: | | | | | | |
| Tennessee Emergency Management Agency Disaster Grant - Public Assistance (Presidential Declaraion FEMA 1909-DR-TN) | 34101-01811 | 97.036 | <u>-</u> | <u>-</u> | <u>35,138</u> | <u>35,138</u> |
| Total Federal Financial Assistance | | | <u>-</u> | <u>-</u> | <u>35,138</u> | <u>35,138</u> |
| Total Financial Assistance | | | <u>\$ 87,354</u> | <u>\$ 156,667</u> | <u>\$ 157,729</u> | <u>\$ 88,416</u> |

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTE TO SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of financial assistance includes the federal grant activity of the System and is presented on the accrual basis of accounting. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation thereof, the basic financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
DIRECTORY OF OFFICIALS AND MANAGEMENT
(UNAUDITED)
JUNE 30, 2010

BOARD MEMBERS

| | <u>Term Expires</u> |
|-------------------------|---------------------|
| Mr. Joe Creek, Chairman | June 30, 2015 |
| Mr. Jay Albertia | June 30, 2014 |
| Mr. Ed Baggett | June 30, 2016 |
| Mayor Carolyn Bowers | Coterminous |
| Ms. Betty Gibbs | June 30, 2012 |
| Mayor Rick Joiner | Coterminous |
| Mr. Robert Lee | June 30, 2013 |

MANAGEMENT

Mr. Pete Reed, Director
Ms. Mary Anderson, Administrative Assistant

INDEPENDENT AUDITOR'S 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 Directors
Bi-County Solid Waste Management System
Clarksville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Bi-County Solid Waste Management System (the System) as of and for the year ended June 30, 2010, which collectively comprise the System's basic financial statements and have issued our report thereon dated February 25, 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 General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described on the following pages, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described on the following pages as findings 2010-1 through 2010-5 to be material weaknesses.

2010-1 Management Oversight of Financial Reporting: Management oversight over financial reporting does not include the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, twelve adjusting entries were required for the financial statements to be presented in conformity with GAAP. Only one of the twelve adjusting entries was calculated by management. Three of these entries were prior-period adjustments which resulted in a net decrease in net assets/fund balances of over \$4.8 million.

Recommendation: We recommend that management implement review procedures to ensure that the general ledger accounts are maintained and the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare financial statements and footnotes in accordance with generally accepted accounting principles prior to the independent audit. Management acknowledges that the adjusting entry to record postclosure care cost had been calculated using an accounting method that did not adhere to GASB 18. Management now knows the correct method for calculating postclosure care costs.

2010-2 Budgeting Process and Controls: The System lacks an effective budgeting process and related monitoring controls. The budget for the year ended June 30, 2010, did not accurately reflect expectations of operating costs and, according to management, has historically been prepared on a “worst case scenario” basis. Several budgeted expense line items exceeded actual costs by amounts ranging from \$500,000 to \$1,000,000. In addition, the Board of Directors does not review monthly financial statements or budget-to-actual results.

Recommendation: We recommend that management implement procedures to ensure that the annual budget accurately reflects anticipated revenues and costs and that related documentation be maintained. We also recommend that the Board of Directors review monthly financial statements and budget-to-actual results.

Management Response: We concur. It has been management’s policy to budget in excess of requirements in preparation for any unanticipated expenses. Preparation for the fiscal year 2012 budget includes budgeting based on anticipated expenses only. If the budget needs to be increased during the 2012 year, it will be brought before the Board of Directors for approval. The Board of Directors will now be provided with a monthly year-to-date budget report in order for them to make informed decisions based on the System’s activity.

2010-3 Tipping Fee Controls: The System lacks controls to ensure that tipping revenue is reasonable and complete. In addition, the employee who is responsible for reviewing changes to contract tipping fees also has system rights that permit her to change tipping fees.

Recommendation: We recommend that management implement procedures such as revenue analytics or reconciliations to ensure that monthly tipping fees are reasonable and complete. We also recommend that the tipping fee input and review functions be segregated.

Management Response: We concur. The System is in the process of reviewing the tipping fee controls in order to strengthen those controls. The review process will include analyzing and implementing the most effective controls to ensure that tipping fee revenues are complete. One control that will be implemented is employees that review contracts will not have system rights to change tipping fees.

2010-4 User Fee Controls: The System lacks controls to ensure that user fee revenue is reasonable and complete. Also, a listing of exempt users is not maintained. User fee reports provided by the local electric utilities which collect the user fees (i.e., CDE and CEMC) indicated that approximately 4,000 utility customers are not assessed a monthly user fee.

Recommendation: We recommend that management implement procedures such as revenue analytics or reconciliations to ensure that monthly user fees are reasonable and complete. In addition, we recommend that management maintain an exemption list and implement procedures to ensure that all utility customers not being charged a monthly user fee are properly exempt.

Management Response: We concur. The System is in the process of reviewing internal controls over user fees in order to determine the best control to ensure that user fee revenue is complete. We will address maintenance of an exempt user list in order to ensure that all utility customers not paying user fees are properly exempt.

2010-5 Expenditures in Excess of Budget: Certain expense line items exceeded the original budgeted amounts and the original budget was not amended to provide approval for those additional expenditures.

Recommendation: We recommend that the budget be amended prior to incurring expenses or making expenditures in excess of the amounts authorized by the budget.

Management Response: We concur. The governmental activities fund had two accounts that were over budget. A contracted service was over budget due to the fluctuating market for recycled sales. The System pays two vendors to bring their recyclables to be processed and the price paid for those were dramatically different at the end of the year as compared to the beginning. Utilities were also over budget due to a sharp increase in the electric bills for the governmental activities fund. We will carefully review accounts to ensure that we have sufficient time to request an amendment from the Board of Directors.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described on the following page as findings 2010-6 and 2010-7.

2010-6 Audit Filing Deadline: The System's annual financial statement audit was not completed by December 31, 2010, as required by the State of Tennessee.

Recommendation: We recommend that the System's year-end closing procedures be reviewed and revised as necessary to ensure a timely start and completion of the annual audit by the required date.

Management Response: We concur. We acknowledge that the filing deadline was missed. However, we contracted with new auditors and the process was delayed. We will work diligently with our auditors to ensure that the audit is completed timely.

2010-7 Expenditures in Excess of Budget: We noted that certain expenditures exceeded the original budgeted amounts and that the original budget was not amended to provide approval for those additional expenditures.

Recommendation: We recommend that the budget be amended prior to incurring expenses or making expenditures in excess of the amounts authorized by the budget.

Management Response: We concur. The governmental activities fund had two accounts that were over budget. A contracted service was over budget due to the fluctuating market for recycled sales. The System pays two vendors to bring their recyclables to be processed and the price paid for those were dramatically different at the end of the year as compared to the beginning. Utilities were also over budget due to a sharp increase in the electric bills for the governmental activities fund. We will carefully review accounts to ensure that we have sufficient time to request an amendment from the Board of Directors.

The System's responses to the findings identified in our audit are described above and on the preceding pages. We did not audit the System's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

Stone Rudolph & Henry, PLC

February 25, 2011