

ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSOE COUNTY LANDFILL



FOR THE YEAR ENDED JUNE 30, 2010



ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSOE COUNTY LANDFILL
FOR THE YEAR ENDED JUNE 30, 2010

DEPARTMENT OF AUDIT
JUSTIN P. WILSON
Comptroller of the Treasury

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

JAMES R. ARNETTE
Director

CARL LOWE, CGFM
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

MELODIE HODGES, CFE
State Auditor

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

SEQUATCHIE/BLEDSOE COUNTY LANDFILL TABLE OF CONTENTS

	Exhibit	Page(s)
Audit Highlights		4
<u>INTRODUCTORY SECTION</u>		5
Sequatchie/Bledsoe County Landfill Officials		6
<u>FINANCIAL SECTION</u>		7
Independent Auditor's Report		8-9
BASIC FINANCIAL STATEMENTS:		10
Proprietary Fund:		
Statement of Net Assets	A	11
Statement of Revenues, Expenses, and Changes in Net Assets	B	12
Statement of Cash Flows	C	13
Notes to the Financial Statements		14-20
<u>AUDIT FINDING SECTION</u>		21
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 <u>Government Auditing Standards</u>		22-23
Schedule of Audit Findings Not Corrected		24
Schedule of Audit Findings and Recommendations		25

Audit Highlights

Annual Financial Report
Sequatchie/Bledsoe County Landfill
For the Year Ended June 30, 2010

Scope

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2010.

Results

Our report on Sequatchie/Bledsoe County Landfill's financial statements is unqualified. Our audit resulted in no findings.

INTRODUCTORY SECTION

Sequatchie/Bledsoe County Landfill Officials
June 30, 2010

Board of Directors

Michael Hudson, Sequatchie County Executive, Chairman

Gregg Ridley, Bledsoe County Mayor, Treasurer

Dan Barker

Ray Hobbs

Greg Johnson, City of Pikeville Mayor

George Dwain Land, City of Dunlap Mayor

Paul Powell

Roger Simmons

Gordon Smith

Charles Young

FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

October 12, 2010

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the accompanying basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the landfill's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the landfill 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 October 12, 2010, on our consideration of the landfill'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

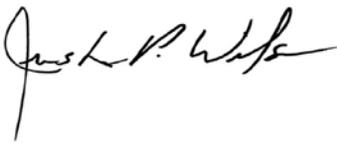
describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government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

As described in Note V.B., the Sequatchie/Bledsoe County Landfill has adopted the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions; Statement No. 51, Accounting and Financial Reporting for Intangible Assets; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which became effective for the year ended June 30, 2010.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the landfill's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury

JPW/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

Sequatchie/Bledsoe County Landfill
Statement of Net Assets
June 30, 2010

ASSETS

Current Assets:	
Cash	\$ 70,993
Noncurrent Assets:	
Capital Assets:	
Land	71,550
Total Assets	<u>\$ 142,543</u>

LIABILITIES

Noncurrent Liabilities:	
Accrued Liability for Postclosure Care Costs:	
Due Within One Year	\$ 16,132
Due in More Than One Year	425,844
Total Liabilities	<u>\$ 441,976</u>

NET ASSETS

Invested in Capital Assets	\$ 71,550
Unrestricted	<u>(370,983)</u>
Total Net Assets (Deficit)	<u>\$ (299,433)</u>

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

Exhibit B

Sequatchie/Bledsoe County Landfill
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2010

<u>Operating Revenue</u>	
Operating Revenue	\$ 0
Total Operating Revenue	<u>\$ 0</u>
<u>Operating Expenses</u>	
Accountants/Bookkeepers	\$ 5,000
Social Security Tax	382
Audit Services	2,230
Other Contracted Services	5,241
Other Supplies and Materials	2,449
Total Operating Expenses	<u>\$ 15,302</u>
Operating Income (Loss)	<u>\$ (15,302)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Contributions from Government Entities	\$ 112,186
Contributions to Government Entities	(79,154)
Investment Income	308
Total Nonoperating Revenues (Expenses)	<u>\$ 33,340</u>
Change in Net Assets	\$ 18,038
Net Assets (Deficit), July 1, 2009	<u>(317,471)</u>
Net Assets (Deficit), June 30, 2010	<u><u>\$ (299,433)</u></u>

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

Exhibit C

Sequatchie/Bledsoe County Landfill
Statement of Cash Flows
For the Year Ended June 30, 2010

<u>Cash Flows from Operating Activities</u>	
Payments to Employees	\$ (5,000)
Payments to Contractors	(16,132)
Other Payments	<u>(5,061)</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ (26,193)</u>
 <u>Cash Flows from Noncapital Financing Activities</u>	
Contributions from Government Entities	\$ 112,186
Contributions to Government Entities	<u>(79,154)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>\$ 33,032</u>
 <u>Cash Flows from Investing Activities</u>	
Investment Income	\$ 308
Net Cash Provided By (Used In) Investing Activities	<u>\$ 308</u>
 Net Increase (Decrease) in Cash	 \$ 7,147
Cash, July 1, 2009	<u>63,846</u>
 Cash, June 30, 2010	 <u><u>\$ 70,993</u></u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash</u> <u>Provided By (Used In) Operating Activities:</u>	
Operating Income (Loss)	\$ (15,302)
Adjustments to Reconcile Net Operating Income to	
Changes in Assets and Liabilities:	
Increase (Decrease) in Postclosure Care Costs	<u>(10,891)</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (26,193)</u></u>

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

**SEQUATCHIE/BLEDSON COUNTY LANDFILL
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2010**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

The Sequatchie/Bledsoe County Landfill is a joint venture entered into by four governmental entities: Bledsoe and Sequatchie counties and the cities of Dunlap and Pikeville. The landfill was formed in 1973 by agreements entered into with these governments to provide solid waste disposal services to the citizens of Sequatchie and Bledsoe counties. The landfill is administered under the oversight of a board of directors that consists of three people from each county and two from each city. The county mayor/executive and city mayors are members of the board, and the remaining members of the board are appointed by these officials subject to the approval of their respective governing bodies. The Sequatchie/Bledsoe County Landfill was closed in 2006. The landfill board will continue to oversee the necessary postclosure activities at the site until the members dissolve the original agreement. The landfill employs a part-time bookkeeper.

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

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

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

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

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

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

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

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

C. Assets, Liabilities, and Net Assets

1. Deposits

For purposes of the Statement of Cash Flows, cash includes demand deposits held by the landfill.

2. Capital Assets

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

3. Long-term Obligations

In proprietary fund financial statements, long-term obligations (postclosure costs) are reported as liabilities in the Statement of Net Assets.

4. Net Assets

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

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets Deficit

The Sequatchie/Bledsoe County Landfill had an unrestricted net assets deficit of \$370,983 at June 30, 2010. This unrestricted net assets deficit resulted from the recognition in the financial statements of a liability of \$441,976 for postclosure care costs. This liability represents accruals calculated according to estimates of annual postclosure care costs provided by the landfill's engineer. The landfill board plans to fund these costs using the cash balance as of June 30, 2010, and annual funding requirements from the four governments involved in the joint venture.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Cash on the Statement of Net Assets consists entirely of demand deposits maintained by the landfill's treasurer.

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

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

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

B. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	<u>Landfill Postclosure Care Costs</u>
Balance, July 1, 2009	\$ 452,867
Additions	5,241
Deductions	<u>(16,132)</u>
Balance, June 30, 2010	<u>\$ 441,976</u>
Balance Due Within One Year	<u>\$ 16,132</u>

The balance at June 30, 2010, represents the full accrual of the estimated postclosure care costs at the landfill site based on the estimated annual cost.

IV. OTHER INFORMATION

A. Risk Management

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

B. Accounting Changes

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions; Statement No. 51, Accounting and Financial Reporting for Intangible Assets; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments became effective for the year ended June 30, 2010.

GASB Statement No. 45 establishes reporting requirements for Other Postemployment Benefits (OPEB). OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the county's financial statements. GASB Statement No. 45 had no effect on the financial statements of the landfill for the year ended June 30, 2010, since the landfill does not currently provide any postemployment benefits to its employees. However, it is reasonably expected that the landfill may provide OPEB benefits in subsequent years.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. Intangible assets have three characteristics: lack of physical substance; nonfinancial in nature; and a useful life that extends beyond a single reporting period. Assets that have these characteristics and are identifiable to the government should be recorded as capital assets and amortized over their useful lives. Easements, water rights, patents, and computer software are examples of intangible assets that should be recognized under GASB Statement No. 51. The landfill had no assets that met the definition of intangible assets at June 30, 2010. However, it is reasonably expected that the landfill may acquire intangible assets in subsequent years.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by county governments. Derivative instruments are financial arrangements used by governments as investments; hedges against identified financial risks; or to lower the costs of borrowings. Interest rate swaps and locks, options, swaptions, forward contracts, and futures contracts are among the commonly used types of derivatives mentioned in GASB Statement No. 53. Derivative instruments associated with fluctuating financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. For the same reasons, derivative instruments can expose governments to significant risks and liabilities. The requirements of GASB Statement No. 53 are intended to help users of financial information evaluate the effectiveness and associated risks involved with the landfill's derivative transactions. GASB Statement No. 53 requires most derivatives to be reported at fair value in the Statement of Net Assets. Changes in fair value for derivative instruments that are intended for investment purposes or that are reported like investment derivative instruments because of ineffectiveness are reported as investment revenues in the Statement of Activities. Alternatively, the changes in fair value of derivative instruments that are classified as hedging (i.e. effective) derivative instruments are reported in the Statement of Net Assets as deferrals. The landfill had not participated in derivative transactions as June 30, 2010. However, it is reasonably expected that the landfill may enter into derivative transactions in subsequent years.

C. Subsequent Events

On August 31, 2010, Gregg Ridley, left the Office of Bledsoe County Mayor and was succeeded by Robert Collier.

D. Contingent Liabilities

Management is unaware of any pending litigation or other contingent liability that would affect the financial statements of the Sequatchie/Bledsoe County Landfill.

E. Landfill Closure/Postclosure Care Costs

The Sequatchie-Bledsoe County Landfill has an active permit on file with the state Department of Environment and Conservation for a sanitary landfill. The entity has provided financial assurances for estimated postclosure liabilities as required by the State of Tennessee. These financial assurances are on file with the Department of Environment and Conservation.

State and federal laws and regulations require the Sequatchie-Bledsoe County Landfill to place a final cover on its sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 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 county reports 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. The Sequatchie/Bledsoe County Landfill was closed in 2006. The \$441,976 reported as postclosure care liability at June 30, 2010, represents amounts based on what it would cost to perform all postclosure care in 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

F. Closure Costs Financing

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

The repayment of these notes is the responsibility of the individual governments involved; therefore, no long-term liability is reflected in the financial statements of the landfill. The payment of the principal and interest on these notes will be calculated into the annual contribution to the landfill by each government until the notes are retired. During the year, the landfill received \$112,186 in "Contributions from Government Entities" from the governments involved in the joint venture. The landfill made debt payments of \$79,154 on behalf of these governments during the year. These payments

have been reflected as “Contributions to Government Entities” in the financial statements of this report.

G. Purchasing Law

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

AUDIT FINDING SECTION



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

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

October 12, 2010

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2010, and have issued our report thereon dated October 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

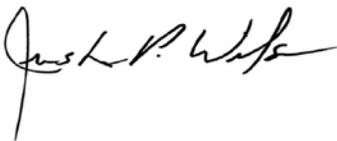
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the landfill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the landfill in separate communications.

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

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury

JPW/yu

Sequatchie/Bledsoe County Landfill
Schedule of Audit Findings Not Corrected
June 30, 2010

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. There were no findings from the financial report for the Sequatchie/Bledsoe County Landfill for the year ended June 30, 2009, which have not been corrected.

SEQUATCHIE/BLEDSOE COUNTY LANDFILL
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS

For the Year Ended June 30, 2010

FINDINGS RELATING TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements of Sequatchie/Bledsoe County Landfill as a result of our examination for the year ended June 30, 2010.