BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM

AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION

JUNE 30, 2011 AND 2010

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STONE, RUDOLPH & HENRY, PLC

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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 Bi-County Solid Waste Management System (the System), component unit of Montgomery County, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of Montgomery County, Tennessee, as of June 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2011, and the changes in its financial position and cash flows 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 December 19, 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.

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Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of American 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 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 an opinion on the 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 accompanying 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

December 19, 2011

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 7,452,341
Accounts Receivable	1,369,473
Grants Receivable	63,115
Inventories	15,857
Total Current Assets	8,900,786
CAPITAL ASSETS	
Land	1,078,863
Buildings and Improvements	2,650,784
Property and Equipment	11,032,756
Other Fixed Assets	868,938
Construction in Progress	1,090,887
Total Capital Assets	16,722,228
Less: Accumulated Depreciation	7,858,573
Net Capital Assets	8,863,655
Total Assets	$ 17,764,441

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	$ 309,970
Accrued Payroll	124,935
Customer Deposits	33,630
Employee Savings	37,923
Total Current Liabilities	506,458
LONG-TERM LIABILITIES	
Other Postemployment Benefits	128,013
Accrued Compensated Absences	210,301
Closure/Postclosure Liability	16,307,461
Total Long-Term Liabilities	16,645,775
Total Liabilities	17,152,233
NET ASSETS	
Invested in Capital Assets	8,863,655
Unrestricted	(8,251,447)
Total Net Assets	612,208
Total Liabilities and Net Assets	$ 17,764,441

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Charges for Services	$ 5,383,292
Recycle Sales	1,320,877
User Fees	2,797,856
Other	157,749
Total Operating Revenues	9,659,774
OPERATING EXPENSES	
Bad Debt	21,197
Board/Committee Fees	5,400
Closure/Postclosure Cost	535,287
Communications	36,822
Contracted Services	1,532,846
Depreciation	780,517
Insurance	133,755
Materials and Supplies	2,247,590
Miscellaneous	194,786
Personnel	4,495,844
Property and Equipment	42,949
Trustee Commission	93,239
Utilities	143,427
Total Operating Expenses	10,263,659
OPERATING LOSS	(603,885)
NON-OPERATING REVENUES (EXPENSES)	
Loss on Sale of Equipment	(16,377)
Government Grants	123,909
Interest Income	45,327
Total Non-Operating Revenues (Expenses)	152,859
NET CHANGE IN NET ASSETS	(451,026)
NET DEFICIT - BEGINNING, AS PREVIOUSLY REPORTED	(3,080,765)
PRIOR-PERIOD ADJUSTMENT - SEE NOTE 11	275,183
RECLASSIFICATION OF SPECIAL REVENUE FUND - SEE NOTE 11	3,868,816
NET ASSETS - BEGINNING, AS RESTATED	1,063,234
NET ASSETS - ENDING	$ 612,208

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 9,284,784
Cash Paid to Suppliers	(4,581,001)
Cash Paid to Employees	(4,425,442)
Other Cash Receipts	177,068
Net Cash Provided by Operating Activities	455,409
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Government Grants	123,909
Net Cash Provided by Noncapital Financing Activities	123,909
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	19,270
Purchase of Capital Assets	(2,706,235)
Net Cash Used in Capital and Related Financing Activities	(2,686,965)
CASH FLOWS FROM INVESTING ACTIVITIES	
Maturity of Certificate of Deposit	5,000,000
Interest Received	45,327
Net Cash Provided by Investing Activities	5,045,327
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,937,680
CASH AND CASH EQUIVALENTS - BEGINNING	4,514,661
CASH AND CASH EQUIVALENTS - ENDING	$ 7,452,341

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENT OF CASH FLOWS (CONT'D)
YEAR ENDED JUNE 30, 2011

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	$ (603,885)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	780,517
Changes in:	
Accounts Receivable	(229,447)
Grants Receivable	25,301
Due from Other Governments	648,540
Inventories	(12,360)
Accounts Payable	(98,047)
Accrued Payroll	8,549
Customer Deposits	12,206
Interfund Payable	(664,605)
Employee Savings	3,991
Accrued Compensated Absences	11,275
Closure/Postclosure Liability	526,787
Other Postemployment Benefits	46,587
Net Cash Provided by Operating Activities	$ 455,409

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 an 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.

Basis of Accounting

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and measurable, and expenses are recognized when the liability is incurred. Operating revenue is revenue that is generated from the primary operations of the System. All other revenue is reported as non-operating revenue. Operating expenses are those expenses that are essential to the primary operations of the System. All other expenses are reported as non-operating expenses.

The System follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The System has not elected to follow FASB pronouncements issued after November 30, 1989.

GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes in the following three net asset groups:

Invested in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The System had no debt as of June 30, 2011. Invested in capital assets at June 30, 2011 has been calculated as follows:

Capital assets	$ 16,722,228
Accumulated depreciation	(7,858,573)
	$ 8,863,655

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

Basis of Accounting (Cont'd)

Restricted: Net assets for which use is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time. The System had no restricted net assets as of June 30, 2011.

Unrestricted: Net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets." Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The System had a deficit of unrestricted net assets of $8,251,447 as of June 30, 2011.

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 in the near term and those variations can have a material effect on these financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject the System to significant concentrations of credit risk consist principally of cash and cash equivalents 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 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.

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

Capital Assets
Capital assets, which include property, plant and equipment, are defined by the System as assets with an initial, individual cost of $10,000 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

Compensated Absences
The System's policy is to permit employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from service. The System also provides for time worked in excess of a 40-hour work week known as "comp time". Comp time is to be paid within 12 months 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.

Restricted Net Assets
When an expense is incurred for which both restricted and unrestricted resources are available, the System first applies restricted resources to these expenses.

Date of Management's Review
Subsequent events have been evaluated through December 19, 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 statement of net assets as cash and cash equivalents. The System paid the county trustee office $93,239 during the year ended June 30, 2011 for these services.

2. Deposits and Investments (Cont'd)

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 with market value 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.

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.

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.

3. Capital Assets

A summary of changes in capital assets follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Land – Held for Expansion	$ 616,156	$ -	$ -	$ 616,156
Land	91,853	370,854	-	462,707
Construction in Progress	193,979	896,908	-	1,090,887
Buildings and Improvements	2,705,804	-	55,020	2,650,784
Property and Equipment	9,895,735	1,438,473	301,452	11,032,756
Other Property	868,938	-	-	868,938
Total Capital Assets	$ 14,372,465	$ 2,706,235	$ 356,472	$ 16,722,228

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:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Buildings and Improvements	$ 905,194	$ 73,819	$ 49,517	$ 929,496
Property and Equipment	5,650,040	704,523	271,308	6,083,255
Other Property	843,647	2,175	-	845,822
Total Accumulated Depreciation	$ 7,398,881	$ 780,517	$ 320,825	$ 7,858,573

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 $16,307,461 reported as landfill closure and postclosure care liability at June 30, 2011, represents the cumulative amount reported to date based on the use of 85 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 $2,857,314 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. 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.

4. Landfill Closure and Postclosure Care Cost (Cont'd)

Montgomery and Stewart Counties have executed a "Contract in Lieu of Performance Bond" in the amount of $19,164,775 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, 2010	$ 15,780,674
Current Year Accrual	535,287
Current Year Closure Costs	(8,500)
Accrued Liability at June 30, 2011	$ 16,307,461

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, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Accrued Compensated Absences	$ 199,026	$ 128,647	$ 117,372	$ 210,301

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 for 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:

6. Other Postemployment Benefits (Cont'd)

Months up to age 65	System	Retiree
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 retroactively implemented in the year ended June 30, 2010, to be effective as of June 30, 2009. For 2010 and forward, 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.

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:

	Year Ended June 30, 2011
Normal Cost	$ 30,662
30 year Amortization of Accrued Liability	14,648
Interest on Net OPEB Obligation	1,008
Annual Required Contribution	46,318
Interest on Net OPEB Obligation	3,664
Adjustment on Annual Required Contribution	(3,395)
Annual OPEB Expense	46,587
Contributions Made	-
Increase in Net OPEB Obligation	46,587
Net OPEB Obligation – Beginning	81,426
Net OPEB Obligation – Ending	$ 128,013

6. Other Postemployment Benefits (Cont'd)

The System's annual OPEB expense, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 46,587	0%	$ 128,013

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $359,100 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $359,100. 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 16.55 percent. The ARC was 2.13% 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.

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 to be 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, 2011, is twenty-seven years.

The System pays and expenses the costs of the benefits as they are incurred. At June 30, 2011, 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 System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

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, 2011 was 14.63% of annual covered payroll. The contribution requirement of plan members is set by state statue. 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, 2011, 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 66.05% of tipping fee revenues earned during the year ended June 30, 2011, as well as $373,316 (27.26%) of accounts receivable balances at June 30, 2011. 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 the year ended June 30, 2011were $13,777, and are included in the contracted services category on the statement of revenues, expenses and changes in net assets.

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

Year Ending June 30,	Lease Payments
2012	$ 16,350
2013	8,400
2014	6,150
2015	3,150
2016	2,400
Total	$ 36,450

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-the-job-injury) and unemployment compensation claims.

11. Commitments and Contingencies

In the normal course of conducting its business, the System may be involved in legal proceedings. Due to the nature and scope of the System's business which brings it into regular contact with the general public, a variety of businesses, and multiple governmental entities which regulate and examine its operations, the System is inherently subject to the hazards of potential litigation, claims and assessments. Additionally, routine examination performed by the System's federal and state oversight agencies could result in findings and violations which have an adverse effect on the System. Currently, management is not aware of any such conditions which would have a material adverse effect on the System.

12. Prior-Period Adjustments

Accounts receivable and accumulated depreciation were adjusted as of June 30, 2010 to correct accounting errors that occurred in previous years. These errors resulted from failure to properly accrue revenues related to user fees and failure to depreciate assets using proper salvage values and estimated useful lives.

Following is a schedule of adjustments to the June 30, 2010 Statement of Net Assets:

Increase in accounts receivable	$ 231,100
Decrease in accumulated depreciation	44,083
Total increase in net assets	275,183
Net assets (deficit), June 30, 2010, as previously reported	(3,080,765)
Net assets (deficit), June 30, 2010, as restated	$ (2,805,582)

Historically, the System accounted for two funds, the landfill, accounted for as a proprietary fund, and the recycle fund, accounted for as a special revenue fund. Per state statute TCA 68-211-874, the recycle fund may be presented as either a special revenue fund or a proprietary fund. Management has concluded that the recycle fund should be presented as a proprietary fund. Accordingly, beginning net assets of the proprietary fund was adjusted to include the net assets of the recycle fund as of June 30, 2010.

Following is a schedule of reclassifications to the June 30, 2010 Statement of Net Assets:

Net assets, June 30, 2010, as restated before reclassification	$ (2,805,582)
Reclassification of recycle fund net assets	3,868,816
Net assets, June 30, 2010, as restated after reclassification	$ 1,063,234

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2011

Fiscal Year Ended	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)
6/30/2011	$ -	$ 359,100	$ 359,100	0.00%	$ 2,170,500	16.54%
6/30/2010	$ -	$ 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, 2011

Federal Grantor/Program Title	Grant Number or Pass Through Grantor's Contract Number	Federal CFDA Number	Accrued Receivable July 1, 2010	Receipts	Expenditures	Accrued Receivable June 30, 2011
State Agencies:						
State of Tennessee, Department of Environment and Conservation						
Waste Tire Options	Z-08-212945-02	N/A	$ 53,278	$ 97,095	$ 99,026	$ 55,209
FY 2011 Recycling Rebate	N/A	N/A	-	10,083	10,083	-
State of Tennessee, Department of Transportation						
Statewide Roadside Litter Pickup and Education	4011-53411	N/A	-	14,800	14,800	-
Total State Financial Assistance			53,278	121,978	123,909	55,209
Federal Agencies:						
Federal Emergency Management Agency:						
Pass-through programs from:						
Tennessee Emergency Management Agency Disaster Grant - Public Assistance (Presidential Declaration FEMA 1909-DR-TN)	34101-01811	97.036	31,624	23,718	-	7,906
Total Federal Financial Assistance			31,624	23,718	-	7,906
Total Financial Assistance			$ 84,902	$ 145,696	$ 123,909	$ 63,115

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, 2011

BOARD MEMBERS

	Term Expires
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, Assistant Director for Administration and Education

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RUDOLPH
& HENRY, PLC

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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 Bi-County Solid Waste Management System (the System) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 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

Management of the System is responsible for establishing and maintaining effective 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.

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 2011-1 through 2011-3 to be material weaknesses.

The System did not resolve prior-year findings 2010-1 or 2010-2. The findings recurred in the current year and are reported as findings 2011-1 and 2011-2, respectively. The System resolved prior-year findings number 2010-3 and 2010-4 by performing the specific tasks outlined in our report dated February 25, 2011. Prior-year finding number 2010-5 did not recur due to the change in fund reporting of the recycle activities.

2011-1 (Recurring Finding) 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, eleven adjusting entries were required for the financial statements to be presented in conformity with GAAP. Only one of the eleven adjusting entries was calculated by management.

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 prior to the independent audit to prepare financial statements and footnotes in accordance with generally accepted accounting principles. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification journal entries.

2011-2 (Recurring Finding) Budgeting Process and Controls: The System lacks an effective budgeting process and related monitoring controls. The budget for the year ended June 30, 2011, 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 $100,000 to $700,000. 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. We acknowledge that this is a recurring finding from the fiscal year 2010 audit. In previous years it has been management's policy to budget in excess of requirements in preparation for any unanticipated expenses. Due to the late completion of the fiscal year 2010 audit, we were unable to make the necessary adjustments to our budgeting process for fiscal year 2011. However, the fiscal year 2012 budget has been based on anticipated expenses only. If the budget needs to be increased, the amendment to the budget is now brought before the board of directors to be voted on. As of June 30, 2011, the board of directors is provided a year-to-date budget report, a verbal budget analysis, and question and answer session during every board meeting. As of July 2011, we have also hired a financial analyst who is responsible for monitoring the budget and other related transactions.

2011-3 Control Operating Effectiveness Deficiencies: We noted operating effectiveness deficiencies in the following controls:

1) The review of approximately 70 timesheets was not documented.
2) The approval of a tipping fee rate change was not documented.

Recommendation: We recommend management implement procedures to ensure the reviews of the above items are properly documented.

Management Response: We concur. Timesheets will be reviewed and have the necessary signatures before submission to the payroll department. Tipping fee rate change approvals are currently documented by e-mail from the Director to the Assistant Director. We plan to further improve this process by documenting all rate change approvals with the use of a form signed by the Director and filed with the Financial Analyst.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The System resolved prior-year finding 2010-6 related to compliance by performing the specific tasks outlined in our report dated February 25, 2011. Prior-year finding number 2010-7 related to compliance did not recur due to the change in fund reporting of the recycle activities.

The System's responses to the findings identified in our audit are described above and on the preceding page. 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

December 19, 2011