

HAMBLÉN COUNTY-MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

AUDIT REPORT

June 30, 2012 and 2011

Hamblen County-Morristown Solid Waste Disposal System
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June 30, 2012

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INTRODUCTORY SECTION

Board Members:

Stancil Ford, Chairman

Larry Baker, Vice-Chairman

Bill Brittain, Secretary/Treasurer

Arnold Bunch, Member

Rusty Rouse, Member

Doug Deering, Member

Danny Thomas, Member

Bill Blackburn, Member

Keith Jackson, Member

Management's Discussion and Analysis

This section of the Hamblen Co./Morristown Solid Waste Disposal System's (System) annual financial report presents our discussion and analysis of the System's financial performance during the fiscal year ended June 30, 2012. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The Hamblen Co./Morristown Solid Waste Disposal System is a proprietary unit of the City of Morrystown and Hamblen County, Tennessee. The System was authorized by the governing bodies of Hamblen County and the City of Morrystown to operate and maintain a solid waste disposal facility for their citizens. The System provides disposal services to citizens as well as commercial and industrial customers located within Hamblen County. The costs of these services are funded by monthly fees charged to users based on tonnage of material received.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the System's financial statements. The financial report includes three financial statements: Statement of Net assets (Balance Sheet), Statement of Income, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows. The financial statements are prepared on the accrual basis of accounting. The Statement of Net Assets (Balance Sheet) includes all the assets and liabilities of the System as of June 30, 2012. The difference in the assets and liabilities is the net assets or equity of the System. The Statement of Income, Expenses, and Changes in Net Assets report all the revenue and expenses during the year ended June 30, 2012. The Statement of Cash Flows report the cash provided and used by operating activities as well as other cash sources and cash payments such as investment income and capital additions. The System would like to note that while the change in net assets does report a loss, it believes that the System is financially secure. The losses that are reported are results of reporting non-cash expenses that are required. The System believes that a more accurate view of their financial condition can be obtained by reviewing the Statement of Cash Flows.

Financial Highlights

Net Assets

	2012	2011	2010
Current Assets	\$3,609,512	\$3,955,541	\$4,124,406
Capital Assets	2,928,825	3,184,707	3,624,842
Restricted Assets	526,733	615,595	814,628
Total Assets	<u>\$7,065,070</u>	<u>\$7,755,843</u>	<u>\$8,563,876</u>
Current Liabilities	\$114,875	\$579,729	\$598,000
Other Liabilities	4,846,840	4,464,496	4,520,306
Total Liabilities	<u>\$4,961,715</u>	<u>\$5,044,225</u>	<u>\$5,118,306</u>
Net Assets Invested in Capital Assets, Net of Related Debt	\$2,928,825	\$2,689,707	\$2,666,272
Unrestricted Net Assets	(825,470)	21,911	779,298
Net Assets	<u>\$2,103,355</u>	<u>\$2,711,618</u>	<u>\$3,445,570</u>

Changes in Net Assets

	2012	2011	2010
Operating Revenues	\$2,219,492	\$2,320,715	\$2,429,960
Operating Expenses	2,840,076	3,097,786	3,044,891
Net Operating Income (Loss)	(620,584)	(777,071)	(614,931)
Other Income (Expenses) Adjustments	145,955	62,894	160,792
Change in Net Assets	<u>(\$474,629)</u>	<u>(\$714,177)</u>	<u>(\$454,139)</u>

Operating Revenues

Operational revenues for the current fiscal year decreased by 4.5% and 4.4% compared to June 30, 2010 and June 30, 2011, respectfully. As noted in previous reports, revenues have decreased over the years in part due to the loss of tonnage material being diverted from the System, as well as a continued shortfall in the industrial and manufacturing environment. In an effort to increase operational revenues, the System approved a 16 % fee increase effective July 1, 2007. The System will look at a possible fee adjustment effective July 1, 2014. However, due to the competitive market and the increase tax burden that may be placed on citizens, the System has been reluctant to consider additional fee increases.

Operating Expenses

The System has aggressively monitored operating expenses in an effort to operate in a positive balance. Following is an analysis of some accounts that have positive results as substantial effects upon the financial statement.

Wages and Benefits Wages and benefits decreased during the period ending June 30, 2012, due to reduced workforce and the control cost of insurance. The System participates in medical benefits provided by Hamblen County. As part of a measure to control cost, Hamblen County as well as the City of Morristown, started a health clinic. Due to this and some minor changes in insurance coverage, the county was able to hold insurance premiums to a lower rate.

Engineering Service This line item increased due to several projects that the System has undertaken to help maintain the leachate collection system and also work to begin a partial closing of the active landfill site.

Diesel This line item has increased due to the increased price of diesel from local providers as well as additional machine hours during the course of the year.

Lubricants The increase in this account is due to increased price of supplies from local providers.

Water and Sewer The increase in this account is related to the increase in leachate management cost. As water passes through the waste leachate is created and then discharged into the local sewer system. Since leachate production can be influenced by rainfall amounts, the wet weather conditions have resulted in an increased production of leachate being discharged to the sewer system.

Closure/Post Closure Expense The System, working in conjunction with a certified engineer conducted an aerial survey in 2011. This survey was then compared to an earlier survey completed in 2007. Based upon the two surveys, the System is projecting a final fill date of October 2023. Based upon previous models for landfill capacity and projected closure and post-closure cost, the System was required to record a cost of \$444,785 and \$402,724 for the periods ending June 30, 2011 and 2012.

Unrealized Loss on Securities The System has recorded an unrealized loss of \$30,210 for the period ending June 30, 2009. This unrealized loss is due to the devaluation of Citi Group corporate bonds that the system holds in investments accounts. These bonds were purchased November 15, 2006, with a maturity date of November 15, 2011. At the time of purchase the bonds were rated A2 and A by Moody's and Standard & Poor's respectfully. Due to the overall financial conditions in 2008, these bonds, were downgraded to A3 on March 18, 2008, and was downgraded again in 2009. CitiGroup has entered into a structured bankruptcy that has allowed Citi Group to restructure their debt, which has allowed for a marginal increase in bond pricing. As of the period ending June 30, 2011, the System recorded a loss of \$19,775 due to valuation of bonds. Due to a continued decrease in market pricing for Citi Group, the System, has recorded a decrease in fair value of investments or \$133,634 for the year ended June 30, 2012. Again, at the time of purchase these bonds meet the investment guidelines that the System has in place. As of date, all bonds in Citi Group have reached a maturity value and the System is no longer invested in Citi Group.

Contacting the System's Financial Management

The financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. If you have questions about this report or need additional financial information, contact the System's office at P.O. Box 2108, Morristown, Tennessee, 37816.

FINANCIAL SECTION

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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P.O. Box 1779

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MORRISTOWN, TENNESSEE 37816-1779

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hamblen County-Morristown Solid Waste Disposal System
Morristown, Tennessee 37814

We have audited the accompanying financial statements of Hamblen County-Morristown Solid Waste Disposal System as of June 30, 2012 and 2011, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamblen County-Morristown Solid Waste Disposal System as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2013, on our consideration of Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing over internal control and financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 thru 4 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 content. 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.

Claire Thompson & Jones, P.C.
July 8, 2013

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 3,141,397	\$ 3,171,491
Accounts receivable	215,170	342,839
Investment in corporate bonds	252,945	422,943
Bond issuance costs (net of amortization)	-	18,268
	<hr/>	<hr/>
Total current assets	3,609,512	3,955,541
Capital assets (net of accumulated depreciation):		
Land	822,267	813,369
Land improvements	662,656	950,113
Rental property	320,452	235,429
Building and improvements	290,231	320,407
Furniture and fixtures	-	-
Office machines and equipment	414	643
Other machinery and equipment	832,805	864,746
Restricted assets:		
Closure/postclosure investments	<hr/> 526,733	<hr/> 615,595
Total assets	<hr/> \$ 7,065,070 <hr/>	<hr/> \$ 7,755,843 <hr/>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Net Assets
 June 30, 2012 and 2011

<u>Liabilities and Net Assets</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 81,561	\$ 42,488
Payroll deductions payable	(3,410)	1,209
Accrued leave	15,841	20,149
Due to other governments	20,883	20,883
Notes and bonds payable	-	495,000
	<u>114,875</u>	<u>579,729</u>
Total current liabilities		
Long-term liabilities:		
Bonds payable	-	-
Notes payable	-	-
Closure/postclosure cost	4,846,840	4,464,496
	<u>4,846,840</u>	<u>4,464,496</u>
Total long-term liabilities		
Total liabilities	<u>4,961,715</u>	<u>5,044,225</u>
Net assets:		
Invested in capital assets, net of related debt	2,928,825	2,689,707
Unrestricted net assets	<u>(825,470)</u>	<u>21,911</u>
Total net assets	<u>\$ 2,103,355</u>	<u>\$ 2,711,618</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Income, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012 and 2011

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	<u>2012</u>	<u>2011</u>
Operating revenues:		
Refuse disposal charges	\$ 2,206,132	\$ 2,304,729
Sale of materials and supplies	13,360	15,986
	<u>2,219,492</u>	<u>2,320,715</u>
Operating expenses:		
Supervisor/director	81,120	82,448
Laborers	460,916	474,262
Board and committee member fees	15,800	15,600
Social security	41,454	41,068
Retirement	62,434	65,910
Employee insurance	129,035	127,434
Advertising	311	-
Audit services	7,825	7,050
Communications	8,503	8,336
Freight expense	1,360	700
Maintenance and repair service building	1,818	2,792
Maintenance and repair service equipment	88,085	83,274
Maintenance and repair service vehicles	-	175
Engineering services	68,860	42,193
Medical and dental services	-	221
Postal charges	520	788
Printing, stationery, forms	2,463	3,385
Rentals	25,029	11,124
Travel	12,221	6,871
Permits and licenses	18,000	18,000
Other contracted services	154,432	121,878
Crushed stone	88,709	84,553
Custodial supplies	515	697
Diesel fuel	106,179	74,906
Drugs and medical supplies	397	558
Electricity	68,618	68,862
Equipment and machinery parts	21,321	27,126
Fertilizer, lime, chemicals and seed	-	-

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Income, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating expenses (continued):		
Garage supplies	\$ 4,179	\$ 2,512
Gasoline supplies	3,265	2,704
Lubricants	28,047	9,515
Office supplies	1,985	1,830
Small tools	-	299
Wire	34,384	42,779
Tires and tubes	12,955	16,377
Closure/postclosure expense	402,724	444,785
Uniforms	2,691	2,177
Water and sewer	85,667	69,428
Other supplies and materials	2,353	668
Liability insurance	32,498	-
Vehicle and equipment insurance	22,259	23,814
Workmen's compensation insurance	32,441	62,873
Depreciation and amortization	544,638	908,363
Other charges	14,746	14,862
Disposal of C&D material	67,470	37,748
Surcharge	82,848	86,841
	<u>2,840,076</u>	<u>3,097,786</u>
Total operating expenses		
Net operating income (loss)	<u>(620,584)</u>	<u>(777,071)</u>
Other income or (expense):		
Interest earned	171,109	137,518
Equipment casualty loss	-	(44,478)
Interest on notes	-	-
Interest on bonds	<u>(25,154)</u>	<u>(30,146)</u>
Total other income or (expense)	<u>145,955</u>	<u>62,894</u>
Net income (loss)	(474,629)	(714,177)
Net increase (decrease) in the fair value of investments	(133,634)	(19,775)
Net assets, beginning	<u>2,711,618</u>	<u>3,445,570</u>
Net assets, ending	<u>\$ 2,103,355</u>	<u>\$ 2,711,618</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,347,161	\$ 2,247,730
Payments to suppliers	(1,834,963)	(1,604,066)
Payments to employees	(542,036)	(556,710)
Other receipts (payments)	494,051	337,240
	<u>464,213</u>	<u>424,194</u>
Net cash provided by operating activities		
Cash flows from non-capital financing activities:		
Transfers between restricted account and operating account	88,862	199,033
	<u>88,862</u>	<u>199,033</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(270,487)	(589,741)
Principal paid on notes and bonds	(495,000)	(484,446)
Interest paid on notes and bonds	(25,154)	(30,146)
	<u>(790,641)</u>	<u>(1,104,333)</u>
Net cash used for capital and relating financing activities		
Cash flows from investing activities:		
Redemption of bonds	36,363	-
Disposal of equipment	-	124,123
Interest from cash management activities	171,109	137,518
	<u>171,109</u>	<u>137,518</u>
Net cash provided by investing activities	<u>207,472</u>	<u>261,641</u>
Net increase or (decrease) in cash and cash equivalents	(30,094)	(219,465)
Cash and cash equivalents at beginning of year	<u>3,171,491</u>	<u>3,390,956</u>
Cash at end of year	<u>\$ 3,141,397</u>	<u>\$ 3,171,491</u>
Consisting of:		
Cash in bank	<u>\$ 3,141,397</u>	<u>\$ 3,171,491</u>

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
 Increase (Decrease) in Cash and Cash Equivalents
 For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Summary of cash and cash equivalents at end of year:		
Cash - non-interest bearing	\$ -	\$ -
Cash - interest bearing	3,141,397	3,171,491
Total	<u>\$ 3,141,397</u>	<u>\$ 3,171,491</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Net operating loss	\$ (620,584)	\$ (777,071)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	544,638	908,363
Equipment casualty	-	(44,478)
Changes in assets and liabilities:		
Decrease (increase) in receivables	127,669	(72,985)
Increase (decrease) in accounts payable	39,073	(28,647)
Increase (decrease) in due to other governments	-	-
Increase (decrease) in accrued leave	(4,308)	2,350
Increase (decrease) in payroll deductions payable	(4,619)	(2,528)
Increase (decrease) in liability for closure/postclosure	<u>382,344</u>	<u>439,190</u>
Net cash provided by operating activities	<u>\$ 464,213</u>	<u>\$ 424,194</u>

The accompanying notes are an integral part of these statements.

NOTE 1 - GENERAL INFORMATION

The Hamblen County-Morristown Solid Waste Disposal System is a joint venture created by Hamblen County and the City of Morristown to operate a single baling and waste disposal system.

The financial statements of the Hamblen County-Morristown Solid Waste Disposal System are presented in conformity with GASB standards.

Certain amounts in the 2011 financial statements have been reclassified to conform to 2012 presentation.

The system uses an enterprise fund to account for its operations. The intent of the governing body is that the costs of providing service to the public be recovered through fees paid by Hamblen County, the City of Morristown and local industry for the disposal of waste.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The system uses the accrual basis of accounting wherein revenues are recorded in the period the service is provided and expenses are reported in the period incurred.

Deposits and Investments

As of June 30, 2012, the System had investments of \$ 2,131,775 in certificates of deposit, FDIC insured accounts, guaranteed annuities and government securities at Morgan Stanley bearing an approximate rate of 1.7%; \$ 1,017,709 at First Tennessee Bank bearing an approximate rate of 1.0%. The System also had \$ 541,598 postclosure investment in certificates of deposits held by Jefferson Federal Bank earning a rate of .40% and \$ 11,217 at Capital Bank earning a rate of .10%.

Investments for the System are reported at fair value. The System has recorded a realized loss of \$127,884 and an unrealized loss of \$5,750 for the year ended June 30, 2012 an unrealized loss of \$ 19,775 for the year ended June 30, 2011. The loss was due to the devaluation of CitiGroup bonds held by the System that were called during the 2012 fiscal year.

Interest rate risk

The System manages its exposure to declines in fair values by staggering the maturity of its investments and limiting any one investment to no longer than a five year maturity.

Credit risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the System's policy to limit its investments in these types to the top two ratings issued by NRSOs.

Concentration of credit risk

The System maintains a balanced portfolio of certificates of deposit, guaranteed annuities, and investment grade bonds.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As of June 30, 2012, all deposits were collateralized with securities held by the pledging financial institution in the System's name.

Custodial credit risk – investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System feels it has no exposure in this area due to its type of investments.

Cash equivalents – For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2012 and 2011, the System's deposits in financial institutions were entirely insured or collateralized with securities held by the System's agent in the System's name.

Fixed Assets

Depreciation is calculated based on the following estimates:

Equipment contributed by participants	SL	5 yrs.
All other equipment	SL	10 yrs.
Building	SL	31.5 yrs.
Phase II landfill	SL	13 yrs.

Capital asset activity for the year ending June 30, 2012, was as follows:

	FIXED ASSETS			Balance June 30, 2012
	Balance July 1, 2011	Additions	Reductions	
Capital assets, not being depreciated:				
Land	\$ 813,369	\$ 8,898		\$ 822,267
Capital assets being depreciated:				
Land improvements	8,722,500			8,722,500
Rental property	245,109	96,869		341,978
Building and improvements	935,003			935,003
Furniture and fixtures	5,593			5,593
Office machines and equipment	47,095			47,095
Other machinery and equipment	4,064,724	164,720		4,229,444
	<u>14,020,024</u>	<u>261,589</u>	<u>-</u>	<u>14,281,613</u>
Less accumulated depreciation for:				
Land improvements	\$ 7,772,387	\$ 287,457		\$ 8,059,844
Rental property	9,680	11,846		\$ 21,526
Building and improvements	614,596	30,176		\$ 644,772
Furniture and fixtures	5,593	-		\$ 5,593
Office machines and equipment	46,452	231		\$ 46,683
Other machinery and equipment	3,199,978	196,660		3,396,638
Total	<u>11,648,686</u>	<u>526,370</u>	<u>-</u>	<u>12,175,056</u>
Capital assets being depreciated	<u>\$ 2,371,338</u>	<u>\$ (264,781)</u>	<u>\$ -</u>	<u>\$ 2,106,557</u>

Capital asset activity for the year ended June 30, 2011, was as follows:

	FIXED ASSETS			Balance June 30, 2011
	Balance July 1, 2010	Additions	Reductions	
Capital assets, not being depreciated:				
Land	\$ 614,776	\$ 198,593	\$ -	\$ 813,369
Capital assets being depreciated:				
Land improvements	8,722,500	-	-	8,722,500
Rental property	29,109	216,000	-	245,109
Building and improvements	931,849	3,154	-	935,003
Furniture and fixtures	5,593	-	-	5,593
Office machines and equipment	46,394	701	-	47,095
Other machinery and equipment	4,156,600	171,293	263,169	4,064,724
	<u>13,892,045</u>	<u>391,148</u>	<u>263,169</u>	<u>14,020,024</u>
Less accumulated depreciation for:				
Land improvements	\$ 7,131,110	\$ 641,277	\$ -	\$ 7,772,387
Rental property	6,470	3,210	-	\$ 9,680
Building and improvements	584,735	29,861	-	\$ 614,596
Furniture and fixtures	5,593	-	-	\$ 5,593
Office machines and equipment	46,394	58	-	\$ 46,452
Other machinery and equipment	3,107,677	231,347	139,046	3,199,978
Total	<u>10,881,979</u>	<u>905,753</u>	<u>139,046</u>	<u>11,648,686</u>
Capital assets being depreciated	<u>\$ 4,563,350</u>	<u>\$ (514,605)</u>	<u>\$ 124,123</u>	<u>\$ 2,371,338</u>

Equipment donated by Hamblen County and the City of Morristown amounted to \$303,156. Land donated by these entities is valued at \$143,870. The total of these assets, \$447,026, is included in the equity section of the balance sheet as "investments in capital assets, net of related debt" in the total of \$506,960. The remaining amount of \$59,934 represents initial costs paid by the two entities when the Authority was formed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The System has elected not to follow subsequent private-sector guidance.

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. The useful lives of the fixed assets and the life of the landfill are such estimates.

Fiscal Year-End

The System operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Pension Fund Disclosures

Plan Description

Employees of Hamblen County-Morristown Solid Waste Disposal System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in 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 Hamblen County-Morristown Solid Waste Disposal System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

Hamblen County-Morristown Solid Waste Disposal System requires employees to contribute 5.0 percent of earnable compensation.

Hamblen County-Morristown Solid Waste Disposal System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, was 12.72% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamblen County-Morristown Solid Waste Disposal System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, Hamblen County-Morristown Solid Waste Disposal System's annual pension cost of \$62,549 to TCRS was equal to Hamblen County-Morristown Solid Waste Disposal System's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen age actuarial cost method. Significant actuarial assumptions used the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamblen County-Morristown Solid Waste Disposal System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009, was 10 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 62,549	100.00%	\$ -
June 30, 2011	\$ 65,867	100.00%	\$ -
June 30, 2010	\$ 85,415	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 82.74% funded. The actuarial accrued liability for benefits was \$1.82 million, and the actuarial value of assets was \$1.50 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.31 million. The covered payroll (annual payroll of active employees covered by the plan) was \$.49 million, and the ratio of the UAAL to the covered payroll was 63.59%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

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

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as Percentage of Covered Payroll (b-a/c)</u>
July 1, 2011	\$ 1,503	\$ 1,816	\$ 313	82.74%	\$ 493	63.59%
July 1, 2009	\$ 1,251	\$ 1,360	\$ 109	91.99%	\$ 526	20.70%
July 1, 2007	\$ 1,009	\$ 1,132	\$ 123	89.13%	\$ 438	28.08%

Post-Retirement Benefits

In addition to the retirement commitments described above, the System provides postretirement health care benefits, in accordance with contract provisions, to all employees who retire from the System on or after age 55 with at least 10 years of service or 30 years of service until age 65. Currently, 4 retirees meet those eligibility requirements. The Authority pays 80 percent of medical premiums and 100 percent of dental and vision premiums to retirees and their dependents. The average annual medical, dental and vision premiums are \$4,800 for the retiree and \$4,800 for eligible spouses. A current study of postretirement benefits had not yet been completed; however, the number of retirees are still the same, and there was no material change in the premiums. A study will be completed for the 2013 fiscal year.

GASB 45 DISCLOSURE

A. Annual OPEB Cost and net OPEB Obligations	<u>7/1/2010</u> <u>6/30/2011</u>
1. Annual Required Contributions (ARC)	\$ 23,694
2. Interest on net OPEB Obligation	147
3. Adjustment to ARC	(240)
4. Annual OPEB cost (Expense) (1.+2.+3.)	23,601
5. Contribution made (assumed end of year)*	(19,104)
6. Increase in net OPEB Obligation (4.-5.)	4,497
7. Net OPEB Obligation - beginning of year	3,685
8. Net OPEB Obligation - end of year (6.+7.) of year	8,182

*Contribution made as assumed to equal Expected Benefit Payments

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010/2011 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>	<u>Covered Payroll</u>	<u>OPEB Cost % of Pay</u>
6/30/2010	\$ 22,957	60.7%	\$ 3,685	\$ 427,378	5.4%
6/30/2011	\$ 23,601	80.9%	\$ 8,182	\$ 438,062	5.4%

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AA) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll (b-a/c)
July 1, 2007	\$ -	\$ 253,959	\$ 253,959	0.00%	N/A	N/A
July 1, 2009	\$ -	\$ 217,687	\$ 217,687	0.00%	\$ 427,378	50.9%

C. Methods and Assumptions

-Funding interest Rate	4.00%
-2009 Medical Trend Rate	9.00%
-Ultimate Trend Rate	5.00%
-Year ultimate trend rate reached	2013
-Actuarial Cost Method	Entry Age Normal
-The remaining amortization period at 6/30/10	16.79
-Annual Payroll Growth Rate	2.50%

Compensated Absences

The system's compensated absence policy is as follows:

- 1) Sick leave - accumulated at the rate of 1 day per month. The number of days that may be accumulated is unlimited and may be applied toward early retirement. Otherwise, unused leave is lost.
- 2) Annual leave - accumulated as follows:
 - 0- 5 years - 5/6 day per month
 - 5-10 years - 1 day per month
 - 10-15 years - 1 1/4 day per month
 - 15-20 years - 1 3/4 day per month
 - Over 20 years - 1 3/4

A maximum of 42 days may be accumulated. Annual leave is vested after an individual has been employed for one year.

At June 30, 2012 and 2011, the system's liability for accumulated leave was \$15,841, and \$20,149, respectively.

NOTE 4 – CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the System to place a final cover on its Sublett Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as each balance sheet date. The \$ 4,846,840 reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of Phase I of the landfill and on the use of 77% Phase II of the landfill. The System will recognize the remaining estimated cost of closure and postclosure care of \$7,057,098 for Modules A and B Class D liner and \$43,954,618 for Phase II as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1996. Adjusted by inflation of 3.50% per year, the Authority closed Phase I in 1996 and Phase II in the year 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City of Morristown and the County of Hamblen have pledged to operate the System and perform closure of the facility in accordance with all requirements of the permit and any closure/postclosure plan, as such plan and permit may be amended, and pursuant to all applicable laws, statutes, rules and regulations.

NOTE 5 - RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The System is insured through Strate Insurance Group. The System's attorney has advised there was one assessment issued by the Tennessee Department of Environment and Conservation on March 12, 2013, relative to alleged deficiencies regarding operation of the Landfill. That assessment has been appealed and is awaiting a hearing before the Division of Solid Waste Management. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

NOTE 6 – COMMITMENTS

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

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

Board of Commissioners
Hamblen County-Morristown Solid Waste Disposal System
Morristown, Tennessee

We have audited the financial statements of Hamblen County-Morristown Solid Waste Disposal System as of and for the year ended June 30, 2012, and 2011, which collectively comprise the System's basic financial statements and have issued our report thereon dated July 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

Management of Hamblen County-Morristown Solid Waste Disposal system is responsible for maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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.

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

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

Compliance and Other Matters

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

2012-1 Funds Not Being Deposited Within Three Business Days – All funds are being receipted, but they are not being deposited within three business days.

Recommendation: We recommend management implement procedures where funds can be deposited timely.

Management Response: The System has implemented a policy to ensure deposits are made in a timely manner. The System is currently making semi-weekly deposits.

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

This report is intended for the information of the Board of Commissioners, management and the State of Tennessee and awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Claire Thompson & Jones, P.C.

Morristown, Tennessee
July 8, 2013