

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN
& LINCOLN COUNTIES**

Financial Statements and Supplemental Information

June 30, 2012

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Table of Contents

Page Number

Financial Section:	
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2 - 3
Basic Financial Statements:	
Statement of Net Assets	4
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7 - 9
Supplemental Information:	
Schedule of Board Members and Compensation (Unaudited).....	10
Schedule of Insurance in Force (Unaudited).....	11
Other Reports Section:	
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	12

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Independent Auditor's Report

Board of Directors
Interlocal Solid Waste Authority
of Giles, Franklin & Lincoln Counties, Tennessee

We have audited the accompanying basic financial statements of the Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties, Tennessee as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties' 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 the Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties, Tennessee as of June 30, 2012, and the results of its operations and its cash flows 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 November 9, 2012 on our consideration of the Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties' internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That 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 – 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 managements responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did 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.

The accompanying supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



November 9, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD & A) of the Interlocal Solid Waste Authority activities and financial performance provides the reader with an introduction and overview to the financial statements of the Authority for the year ended June 30, 2012. This information should be considered within the context of the Accompanying financial statements and note disclosures.

FINANCIAL OPERATIONS HIGHLIGHTS

Net assets increased \$6,987 in 2012 as compared to \$25,761 in 2011. The Authority's revenues decreased from \$1,699,517 in 2011 to \$1,663,702 in 2012. The Authority has twelve (12) entities that are billed for disposal costs and fees on a monthly basis. All of the Authority's revenue comes from the administrative costs billed to these entities.

Operating expenses also decreased from \$1,682,149 in 2011 to \$1,662,872 in 2012, a 1% decrease. The decrease is due primarily to a decrease in cost of disposal fees of approximately \$38,000 or 24%.

OVERVIEW OF FINANCIAL STATEMENTS

MD & A introduces the Authority's basic financial statements. The basic financial statements include the balance sheet, statement of revenues, expenses and changes in net assets, the statement of cash flows and the notes to the financial statements.

The balance sheet reports all the Authority's assets and liabilities, with the difference being reported as net assets. Over time increases or decreases typically give some indication of whether the financial position of the Authority is improving or deteriorating. However, overall evaluation of the financial health of the Authority should include non-financial factors such as the physical condition of capital assets. The majority of the Authority's net assets are invested in capital assets (equipment). These assets are used to provide services to the entities, which are members of the Authority.

The statement of revenues, expenses, and changes in net assets reports all revenues and expenses for the year, regardless of whether cash has been received or paid. An important purpose of the statement is to show whether the Authority's revenues and operations are sufficient to support continued operations. The Authority showed positive earnings from the operations before depreciation and positive cash flow for each year.

The statement of cash flows converts the operations of the Authority to a cash basis and shows how those cash flows were spent during the year, for example, purchases of fixed assets.

CONDENSED FINANCIAL INFORMATION

A condensed summary of the Authority's financial position follows:

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 784,076	733,714
Capital Assets, net of accumulated depreciation	2,424	3,235
Other Assets	<u>33,284</u>	<u>40,203</u>
Total Assets	<u>\$ 819,784</u>	<u>777,152</u>
Current Liabilities	<u>173,285</u>	<u>137,639</u>
Net Assets:		
Invested in capital assets	2,424	3,235
Unrestricted	<u>644,075</u>	<u>636,278</u>
Total Net Assets	<u>646,499</u>	<u>639,513</u>
Total Liabilities and Net Assets	<u>\$ 819,784</u>	<u>777,152</u>

A summary of the Authority's operations follows:

	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 1,696,556	1,699,517
Operating Expenses	<u>(1,695,726)</u>	<u>(1,682,149)</u>
Operating Income	830	17,368
Other Revenue	<u>6,156</u>	<u>8,393</u>
Change in Net Assets	<u>\$ 6,986</u>	<u>25,761</u>

CURRENT INTERLOCAL SOLIDWASTE ACTIVITIES

The Authority is under a ten year contract, commencing April 1, 2005, with Allied Waste for disposal of solid waste. The contract specifies a disposal price of \$29.74 per ton, plus \$.95 per ton administrative fee. Financial operations remained generally unchanged and are expected to continue as such in the year 2013.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Net Assets

June 30, 2012

<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 612,951
Accounts receivable	138,271
Due from others	<u>32,854</u>
Total current assets	784,076
Capital Assets:	
Equipment, net of accumulated depreciation of \$26,669	2,424
Other Assets:	
Unamortized contract negotiation costs, net of amortization of \$55,349	<u>33,284</u>
Total assets	\$ <u>819,784</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable	\$ <u>173,285</u>
Total current liabilities	<u>173,285</u>
Net Assets:	
Invested in capital assets	2,424
Unrestricted	<u>644,075</u>
Total net assets	\$ <u>646,499</u>

See Accompanying Notes to Financial Statements.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012

Operating revenue:	
Charges for services	\$ 1,663,702
Other revenue – Bedford and Moore Counties	<u>32,854</u>
Total operating revenue	<u>1,696,556</u>
Operating expenses:	
Disposal services	1,530,536
Coordinator salary	38,228
Payroll taxes	3,494
Directors fees	9,600
Insurance	4,055
Professional services	57,787
Depreciation and amortization	8,436
Advertising	6,651
Membership dues	947
Billing services	4,800
Travel and training	8,560
Telephone	2,376
Library information	7,198
Recycling bins	7,541
Other operating costs	<u>5,517</u>
Total operating expenses	<u>1,695,726</u>
Operating income	<u>830</u>
Other revenue:	
Interest income	4,456
Other income	<u>1,700</u>
Total other income	<u>6,156</u>
Change in net assets	6,986
Net assets, beginning of year	<u>639,513</u>
Net assets, end of year	\$ <u>646,499</u>

See Accompanying Notes to Financial Statements.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Cash Flows

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Cash received from customers	\$ 1,688,055
Cash paid to suppliers and vendors	(1,580,562)
Cash paid to employees	(38,228)
Other	<u>1,700</u>
Net cash provided by operating activities	<u>70,965</u>
Cash flows from capital and financing activities:	
Purchase of capital assets	<u>(707)</u>
Cash Flows from non-capital and financing activities:	
Due from other counties	<u>(32,854)</u>
Cash flows from investing activities:	
Interest received	<u>4,457</u>
Net increase in cash	41,861
Cash, beginning of year	<u>571,090</u>
Cash, end of year	\$ <u><u>612,951</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 830
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	8,436
Other	1,700
Change in assets (increase) decrease:	
Accounts receivable	24,353
Change in liabilities increase (decrease):	
Accounts payable and accrued expenses	<u>35,646</u>
Net cash provided (used) by operating activities	\$ <u><u>70,965</u></u>

See Accompanying Notes to Financial Statements.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Organization and Operation

The Authority was originally formed by joint resolution of the counties of Giles, Franklin and Lincoln and the municipalities of Tullahoma and Fayetteville for the purpose of developing a solid waste regional plan, as required by TCA 68-211-801, titled "Solid Waste Management Act of 1991". The Authority's board was appointed by each participating County Executive or Mayor for varying terms of office. The Authority commenced operations in March of 1993 and has since inception, relied upon contractual agreements with third parties for landfill and solid waste disposal services. Also, since inception the municipalities of Shelbyville, Ardmore, Elkton, Petersburg, Pulaski and Minor Hill have been admitted as "participants".

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Authority is accounted for as a "proprietary fund". Proprietary funds are accounted for on a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Authority is subject to accounting directives issued by the Governmental Accounting Standards Board (GASB) and therefore has adopted the provisions of GASB pronouncements and all Financial Accounting Standards Board pronouncements issued through November 30, 1989 which do not conflict with GASB pronouncements. The Authority has chosen the option of not following Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

The accrual basis of accounting is utilized by the Authority. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Accounts Receivable

Accounts receivable represent unpaid fees charged to user organizations for waste disposal services. An allowance for doubtful accounts receivable at June 30, 2012 was not deemed necessary by management due to the current status of all accounts.

Cash

Cash includes amounts in demand accounts. Cash in excess of current requirements is held in interest-bearing money-market demand accounts.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Capital Assets

Expenditures for machinery and equipment and other intangible assets expected to provide economic benefits to the Authority are capitalized and depreciated over their useful lives, ranging from 5-10 years, using the straight-line method.

Contract Negotiation Costs

Significant legal fees were incurred in negotiating the current contract to provide transportation and disposal services for the Authority's solid waste. Such costs are presented as other assets and amortized over the 10 year term of the contract using the straight - line method.

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.

(2) CASH DEPOSITS

During 2012, the Authority invested in interest bearing checking accounts, and certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority's policy requires that deposits be either (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institution, less the amount protected by federal depository insurance or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Institutions participating in the collateral pool determine the aggregate balance of their public deposits must be at least 105% of the average daily balance of public deposits held. Investments with the Tennessee Local Government Investment Pool are not categorized as to custodial credit risk. Cash was fully collateralized at June, 30, 2012

(3) UTILITY PLANT AND EQUIPMENT

A summary of changes in Utility Plant in Service is as follows:

	Balance <u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>Ending</u>
Office equipment	\$ 28,386	<u>707</u>	<u>-</u>	29,093
Less accumulated depreciation	<u>(25,151)</u>			<u>(26,669)</u>
	\$ <u>3,235</u>			<u>2,424</u>

Depreciation expense was \$1,518 for the year ended June 30, 2012.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2012

(4) CONTRACT NEGOTIATION COSTS

The Authority incurred legal costs relative to contract negotiations for its waste disposal services. The related costs were capitalized and are being amortized over the term of the related contract. Amortization expense amounted to \$6,918 for 2012.

(5) WASTE DISPOSAL CONTRACT

The Authority contracted with Browning Farris Industries (BFI) for waste disposal services in the three county area of Giles, Franklin and Lincoln Counties. The contract has a term of ten years commencing April 1, 2005. The contract specifies, among other things, that rates will be adjusted annually by the percentage increase of the Gross National Product Fixed Weight Price Index and that such rates may be increased by certain additional taxes and regulatory changes as set forth in the contract. Contractor will charge the sum of \$25 per ton, as adjusted in accordance with applicable sections of the contract.

(6) RISK MANAGEMENT

The Authority is exposed to various risks for general liability and property and casualty losses. The Authority feels that it is more economically feasible to join a public entity risk pool established by the Tennessee Municipal League, an association of member governments. The Authority pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of \$130,000 for each insured event. Settled claims for losses have not exceeded coverage in any of the past three years.

(7) OPERATING LEASE

The Authority had entered into an agreement with the State of Tennessee for the use of land for a transfer site. The lease requires annual rental payments of \$1,700 through March 2015.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Schedule of Board Members and Compensation (Unaudited)

June 30, 2012

<u>Board Members</u>	<u>Compensation</u>
A.J. Williams	*
Barbara Finney	*
Robert Taylor	*
Danny Watson	*
Tommy Campbell	*
Doug Cunningham	*
Mark Clanton	*
John deMoll	*
Wayne Limbaugh	*

* Compensation for each Board Member is \$100 per month, if meetings are attended.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Schedule of Insurance in Force (Unaudited)

June 30, 2012

TML Risk Management Pool:

General Liability

\$ 300,000	Per Person
\$ 700,000	Per Occurrence for Bodily Injury
\$ 100,000	Per Occurrence for Property Damage

Errors or Omissions

\$ 700,000	Each Occurrence
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Auto Liability

\$ 700,000	Per Occurrence
\$ 300,000	Per Person-Bodily Injury
\$ 100,000	Per Occurrence-Property Damage

Workers Compensation

Statutory Limit

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

Board of Directors
Interlocal Solid Waste Authority
of Giles, Franklin & Lincoln Counties, Tennessee

We have audited the accompanying financial statements of the Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued a report thereon dated November 9, 2012. 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 Interlocal Solid Waste Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Interlocal Solid Waste Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interlocal Solid Waste Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Interlocal Solid Waste Authority'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 misstatements on a timely basis. *A material weakness* is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors and, State Comptroller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 9, 2012

