

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2012 and 2011

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

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Independent Auditor's Report

Board of Directors of the
Resource Authority in Sumner County
Gallatin, Tennessee

We have audited the accompanying basic financial statements of The Resource Authority in Sumner County, Tennessee as of June 30, 2012 and 2011, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of The Resource Authority in Sumner County, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Resource Authority in Sumner County, Tennessee as of June 30, 2012 and 2011 and the changes in financial position and its 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 our report dated August 1, 2012 on our consideration of The Resource Authority's internal control over financial reporting, and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pages ii through ix be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The financial information listed in the Financial Schedules section of the Table of Contents on pages 11-13 is presented for purposes of additional analysis and is not a required part of the financial statements of The Resource Authority in Sumner County, Tennessee. Such 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, taken as a whole.



August 1, 2012

Management's Discussion and Analysis

Our discussion and analysis of the Resource Authority's financial performance provide an overview of the Authority's financial activities for the fiscal year ended June 30, 2012.

HIGHLIGHTS

Financial highlights

- 1 The Resource Authority's net assets increased to \$1,608,805 which is an increase of \$39,601 or 2.5%, as a result of this year's operations.
- 2 Revenues increased to \$4,163,637, or 10% in 2012 while expenses increased to \$4,193,072 or 4.2%.
- 3 The Resource Authority's net cash from operating activities increased by \$31,585 to \$74,143, an increase of nearly 75% from last year.

Resource Authority highlights

- 1 The Resource Authority had tipping fees of \$3,981,576 or 96% of total revenues for 2012.
- 2 The recycling plant is still being used to accommodate a transfer station operation.
- 3 Contracted recycling activities are still ongoing along with the continued operation of a recycling drop-off center at the transfer station site.

USING THIS ANNUAL REPORT

This annual report consists of three parts; Management's Discussion and Analysis, Financial Statements, and Supplemental Schedules. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required financial statements

The Financial Statements of the Resource Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE RESOURCE AUTHORITY AS A WHOLE

One of the most important questions asked about the Resource Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed environmental regulations as well as the significant change in operation as a result of the plant operations ceasing and transfer station operations beginning.

The Authority's total net assets increased by \$39,601 last year. Our analysis below focuses on the Authority's net assets (Table 1) and changes in net assets (Table 2) during the year. For comparability purposes, reclassifications have been made to the June 30, 2011 information to conform with June 30, 2012 presentation.

Table 1

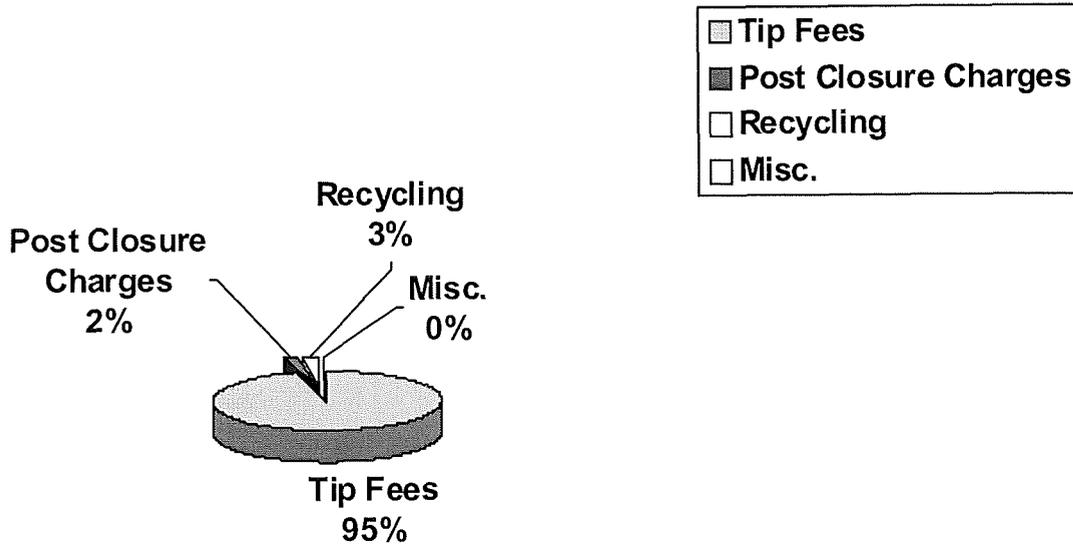
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital Assets	2,388,029	2,491,473	2,439,365
Current and other Assets	1,073,859	956,889	901,373
Total Assets	3,461,888	3,448,362	3,340,738
Long-term debt outstanding	1,432,663	1,448,140	1,341,472
Other liabilities	420,420	391,018	276,968
Total liabilities	1,853,083	1,879,158	1,618,440
Net assets:			
Investment in Capital	2,194,229	2,335,294	2,439,365
Unrestricted (Deficit)	(585,424)	(766,090)	(717,067)
	1,608,805	1,569,204	1,722,298

Changes in the Authority's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

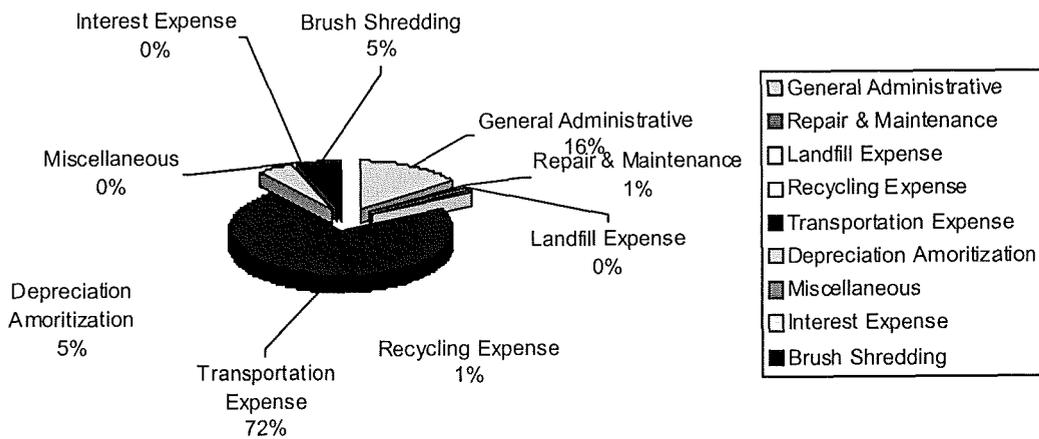
Table 2

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net operating revenues	4,163,637	3,783,739	3,347,571
Interest Income	1,561	1,584	1,047
Operating Subsidies & Other Income	73,000	74,105	72,994
Total Revenue	4,238,198	3,859,428	3,421,612
Operating Expenses	4,193,072	4,024,114	3,236,594
Interest Expenses	(5,525)	2,838	0
Other Expenses	0	0	0
Total Expenses	4,187,547	4,026,952	3,236,594
Excess of Revenues over Expenses	39,601	(167,524)	187,518
Special Item - asset impairment	0	14,430	105,669
Discontinued Operations	0	0	0
Capital Grants	0	0	0
Change in Net Assets	39,601	(153,094)	293,187
Net Assets at Beginning of Year	1,569,204	1,722,298	1,429,111
Net Assets at End of Year	1,608,805	1,569,204	1,722,298

2012 Revenues by Source



2012 Expenses by Source



Total operating revenues reflect a 9% increase in 2012 compared to 2011 due to higher volumes of waste, an increase in tipping fees and recycling revenues in 2012. There were no landfill revenues for 2012 due to the closure of the C/D Landfill. Recycling revenues were higher by \$11,300 due to higher volumes and price increases for materials sold.

THE RESOURCE AUTHORITY'S FUNDS

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measure of financial activity focuses on net income statement similar to the private sector.

The Resource Authority in Sumner County, Tennessee is a public and governmental body acting as an instrumentality and agency of Sumner County and the Cities of Gallatin and Hendersonville, organized in 1979 under Chapter No. 157 of the Tennessee Private Acts of 1979, as amended.

The Authority operated a solid waste disposal and resource recovery facility, located in Gallatin, Sumner County, Tennessee, which incinerated and disposed of solid waste primarily from the County and the Cities, produced steam for distribution to industrial customers and generated electricity for internal plant consumption. Effective May 5, 2005 the Resource Authority in Sumner County ceased operation of this facility due to a decision not to retrofit the plant to meet compliance with new USEPA air emissions guidelines. This resulted in the discontinuance of steam production and sales. The waste that was disposed of in this facility is now handled through a transfer station onsite and transported to an out of county landfill through contract. The Authority also operated a construction / demolition debris landfill for part of fiscal year 2006. This facility was shut down in January 2006 and final closure commenced during fiscal year 2007. Final closure was completed during fiscal year 2008. The Authority began operations of a recycling facility during fiscal year 1992, which ran until the beginning of fiscal year 2006 at which time those operations ceased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the Resource Authority had \$2,388,029 of capital assets net of accumulated depreciation invested in a broad range of capital assets, including its recycling plant and landfills, as well as other mobile and transportation equipment. This amount represents a net decrease (including additions and deductions) of \$103,444 from last year. These changes are presented in detail Note B to the financial statements. The most significant element of the change relates to the depreciation and amortization of \$225,930 and equipment purchases building/construction at \$122,486.

The following table summarizes the Resource Authority's capital assets, net of accumulated depreciation, for the Years ended June 30, 2012 and 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3

	<u>06/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>
Land	307,491	307,491	307,491
Disposal plant	320,436	320,436	320,436
Landfill construction	0	0	0
Equipment	924,400	870,988	687,211
Recycling plant	4,809,545	4,799,931	4,724,738
	6,361,872	6,298,846	6,039,876
Less accumulated depreciation	3,973,843	3,807,373	3,600,511
Net property, plant & equipment	2,388,029	2,491,473	2,439,365
Net landfill costs	0	0	0

The Resource Authority's 2013 capital budget currently has plans for the construction of a new C/D waste bunker and repair/replacement of the 50 ft. weigh scale.

Debt

At year-end, the Resource Authority had no bonds and notes outstanding.

The Resource Authority's revenue bond rating is AAA from Moody's and AAA from Standard & Poors rating services. These ratings are the highest possible ratings. Other obligations include accrued closure and post closure landfill costs of \$1,338,166, which is explained in Note D to the financial statement and capital lease obligations of \$193,800 which is explained in Note C to the financial statements. More detailed information about the Resource Authority's long-term debt is presented in Note C to the financial statements.

ECONOMIC FACTORS AND PROJECTIONS

The Resource Authority's projected revenues for 2013 are \$4,135,700, while projected expenses are \$4,152,770, resulting in a projected operating deficit of \$17,070. Decisions are still pending about the future operations of the Authority.

CONTACTING THE RESOURCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Resource Authority's finances and to demonstrate the Resource Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Resource Authority's General Manager at 625 Rappahannock Wire Road, Gallatin, Tennessee 37066.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

**STATEMENTS OF NET ASSETS
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 590,433	529,654
Accounts receivable, less allowance for doubtful accounts of -0- for 2012 and 2011	474,025	415,369
Grant receivable	<u>9,401</u>	<u>11,866</u>
TOTAL CURRENT ASSETS	<u>1,073,859</u>	<u>956,889</u>
NONCURRENT ASSETS		
Non-depreciable capital assets	307,491	307,491
Depreciable capital assets net of accumulated depreciation of \$3,973,843 for 2012 and \$3,807,273 for 2011	<u>2,080,538</u>	<u>2,183,982</u>
TOTAL NONCURRENT ASSETS	<u>2,388,029</u>	<u>2,491,473</u>
TOTAL ASSETS	<u>\$3,461,888</u>	<u>3,448,362</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade accounts payable	\$ 259,950	274,347
Capital lease obligation – due within one year	99,303	60,946
Other accrued expenses	<u>61,167</u>	<u>55,725</u>
TOTAL CURRENT LIABILITIES	<u>420,420</u>	<u>391,018</u>
NONCURRENT LIABILITIES		
Capital lease obligation – due in more than one year	94,497	95,233
Accrued closure and post closure costs	<u>1,338,166</u>	<u>1,392,907</u>
TOTAL NONCURRENT LIABILITIES	<u>1,432,663</u>	<u>1,488,140</u>
TOTAL LIABILITIES	<u>1,853,083</u>	<u>1,879,158</u>
NET ASSETS		
Invested in capital assets – net of related debt	2,194,229	2,335,294
Unrestricted deficit	<u>(585,424)</u>	<u>(766,090)</u>
TOTAL NET ASSETS	<u>\$ 1,608,805</u>	<u>1,569,204</u>

(See Accompanying Notes to the Financial Statements)

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Tipping fees and payments in lieu of tipping fees	\$ 3,981,576	3,646,215
Recycling revenue	108,077	96,777
Post closure charges	72,747	39,834
Miscellaneous income	<u>1,237</u>	<u>913</u>
- TOTAL OPERATING REVENUE	<u>4,163,637</u>	<u>3,783,739</u>
OPERATING EXPENSES		
Advertising	1,124	384
Waste and tire disposal	2,983,903	2,748,265
Depreciation and amortization	225,930	210,360
Director's fees	33,600	33,486
Equipment rental and calibration	3,890	3,573
Insurance	42,942	39,902
Brush shredding	218,889	204,633
Landfill post-closure costs	17,206	91,269
Miscellaneous	20,630	21,056
Engineering	1,250	3,833
Recycling expenses	40,450	31,696
Office supplies	9,347	9,139
Professional services	13,670	17,515
Lubricating oil	2,813	4,611
Repairs and maintenance	29,357	49,196
Salaries	363,729	357,647
Safety equipment and training	652	746
Taxes and licenses	30,940	31,484
Travel	945	198
Telephone	4,429	3,795
Utilities	19,948	19,192
Employee benefits	122,837	137,287
Uniforms	<u>4,591</u>	<u>4,847</u>
- TOTAL OPERATING EXPENSE	<u>4,193,072</u>	<u>4,024,114</u>
OPERATING INCOME (LOSS)	<u>(29,435)</u>	<u>(240,375)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,561	1,584
Interest expense	(5,525)	(2,838)
Grant-operating	73,000	72,105
Gain on sale of capital assets	<u>-</u>	<u>2,000</u>
NET NONOPERATING REVENUES AND EXPENSES	<u>69,036</u>	<u>72,851</u>
INCOME (LOSS) BEFORE SPECIAL ITEMS	<u>39,601</u>	<u>(167,524)</u>
SPECIAL ITEM	<u>-</u>	<u>14,430</u>
CHANGE IN NET ASSETS	39,601	(153,094)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>1,569,204</u>	<u>1,722,298</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$1,608,805</u>	<u>1,569,204</u>

(See Accompanying Notes to the Financial Statements)

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,103,744	3,750,860
Miscellaneous income	1,237	913
Payments to suppliers	(3,672,551)	(3,355,570)
Payments to employees	<u>(358,287)</u>	<u>(353,645)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>74,143</u>	<u>42,558</u>
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Operating subsidy from grants	<u>75,465</u>	<u>73,379</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>75,465</u>	<u>73,379</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(11,238)	(76,554)
Payments on capital lease	(73,627)	(29,735)
Cash from sale of capital assets	-	16,430
Interest paid on capital lease	<u>(5,525)</u>	<u>(2,838)</u>
NET CASH USED BY CAPITAL AND RELATED ACTIVITIES	<u>(90,390)</u>	<u>(92,697)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Interest received	<u>1,561</u>	<u>1,584</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,561</u>	<u>1,584</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>60,779</u>	<u>24,824</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>529,654</u>	<u>504,830</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 590,433</u>	<u>529,654</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (29,435)	(240,375)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	225,930	210,360
(Increase) decrease in accounts receivable	(58,656)	(31,966)
Increase (decrease) in accounts payable	(14,397)	49,102
Increase (decrease) in accrued expenses	5,442	4,002
Increase (decrease) accrued closure costs	<u>(54,741)</u>	<u>51,435</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 74,143</u>	<u>42,558</u>

SUPPLEMENTARY CASH FLOW INFORMATION

Noncash transactions in the amount of \$111,248 and \$185,914 relate to acquisition of capital assets by capital leases in 2012 and 2011 respectively.

(See Accompanying Notes to the Financial Statements)

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes To Financial Statements

For The Years Ended June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Resource Authority in Sumner County, Tennessee is a public and governmental body acting as an instrumentality and agency of Sumner County and the Cities of Gallatin and Hendersonville, organized in 1979 under Chapter No. 157 of the Tennessee Private Acts of 1979, as amended.

Up until May 2005, the Authority operated a solid waste disposal and resource recovery facility, which incinerated and disposed of solid waste primarily from the County and the Cities, produced steam for distribution to industrial customers and generated electricity for internal plant consumption. The Authority also operated a construction/demolition debris landfill and an ash monofill both of which ceased operations in fiscal 2011. The Authority began operations of a recycling facility during fiscal year 1992. In May of 2005, the Authority began operating primarily as a transfer station for the solid waste within the county.

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements issued since that date.

Financial Reporting Entity

The Authority complies with GASB Statement No. 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

Basis of Presentation

The Authority is accounted for as an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes To Financial Statements (Continued)

For The Years Ended June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting, continued

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charged to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority 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, all the Authority's cash was deposited in an institution which is a member of the Local Government Collateral Pool. The Tennessee Bank Collateral Pool (the "pool"), is a multiple financial institution collateral pool where member financial institutions holding public funds pledge collateral to a common pool. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of the pool's collateral is inadequate to cover a loss. As a result the pool is similar to depository insurance.

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 deposits to be 105 percent secured by collateral, less the amount of Federal Deposit Insurance Corporation insurance (FDIC) or deposited in an institution which participates in the State Collateral Pool. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. Collateral agreements must be approved prior to deposit of funds as provided by law. The Authority approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of Authority staff.

At June 30, 2012 and 2011, there were no amount of deposits exposed to custodial risks.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. The capitalization threshold for utility plant is \$500. Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications. The Authority's policy is to take a full year of depreciation in the year of acquisition. Buildings, structures and improvements are depreciated over 20 to 30 years and equipment is depreciated over 3 to 10 years.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes to Financial Statements (Continued)

For The Years Ended June 30, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Compensated Absences

The Authority provides for paid vacations and sick leave for its employees. Accrued vacation costs are included in accrued expenses. However, accrued sick leave has not been recognized since the Authority does not compensate employees for unused benefits at termination or retirement.

Equity Classification

Equity is classified as net assets and displayed if applicable in three components:

- a. Invested in capital assets - net of related debt- Consists of capital assets net of accumulated depreciation.
- b. Restricted net assets- Consists of net assets with constraints. The Authority currently has no restricted net assets.
- c. Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CAPITAL ASSETS

The following is a summary of capital assets:

	Balance <u>7/01/10</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6/30/11</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6/30/12</u>
Non-depreciable capital assets							
Land	\$ <u>307,491</u>	-	-	<u>307,491</u>	-	-	<u>307,491</u>
Depreciable assets							
Disposal plant	320,436	-	-	320,436	-	-	320,436
Recycling plant	4,724,738	75,193	-	4,799,931	9,614	-	4,809,545
Equipment	<u>687,211</u>	<u>187,275</u>	<u>3,498</u>	<u>870,988</u>	<u>112,872</u>	<u>59,460</u>	<u>924,400</u>
Total depreciable assets	<u>5,732,385</u>	<u>262,468</u>	<u>3,498</u>	<u>5,991,355</u>	<u>122,486</u>	<u>59,460</u>	<u>6,054,381</u>
Less accumulated depreciation							
Disposal plant	48,889	16,022	-	64,911	16,022	-	80,933
Recycling plant	2,881,698	160,331	-	3,042,029	161,705	-	3,203,734
Equipment	<u>669,924</u>	<u>34,007</u>	<u>3,498</u>	<u>700,433</u>	<u>48,203</u>	<u>59,460</u>	<u>689,176</u>
Total accumulated depreciation	<u>3,600,511</u>	<u>210,360</u>	<u>3,498</u>	<u>3,807,373</u>	<u>225,930</u>	<u>59,460</u>	<u>3,973,843</u>
Net depreciable capital assets	<u>\$ 2,131,874</u>			<u>2,183,982</u>			<u>2,080,538</u>

Depreciation expense for 2012 and 2011 was \$225,930 and \$210,360 respectively.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes to Financial Statements (Continued)

For The Years Ended June 30, 2012 and 2011

NOTE C – CAPITAL LEASE OBLIGATION

During fiscal 2011 and 2012, the Authority entered into a lease for the purchase of \$ 185,914 and \$111,248 in equipment. The transactions have been accounted for as financing transactions. The Authority will have title to the assets by satisfying the minimum lease payments. The assets acquired by the lease have a net depreciated value of \$228,151.

	<u>2012</u>	<u>2011</u>
Lease obligation	\$ 200,320	162,863
Amount designated as interest	<u>(6,520)</u>	<u>(6,684)</u>
Net capital lease obligation	\$ <u>193,800</u>	<u>156,179</u>

The future capital lease obligation is as follows:

	Lease Obligation	Amount Representing Interest	Net Capital Loan Obligation
2013	\$ 104,016	4,714	99,302
2014	76,871	1,634	75,237
2015	<u>19,433</u>	<u>172</u>	<u>19,261</u>
	\$ <u>200,320</u>	<u>6,520</u>	<u>193,800</u>

NOTE D – LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Authority operated three landfills. Operation, closure and post-closure care of these landfills are highly regulated (Federal regulations 42 USC 6907 (a) (3) and 6949 (c) and USC 1345 (d) and (e), and Tennessee Rule 1200-1-76.03 (2)).

The Authority accounts for the landfills under the provisions of GASB Statement No. 18. This statement requires the current recognition of future closure and post closure costs based on landfill capacity used to date. These cost estimates require revision for future changes in the closure and post closure plan or operating conditions (including changes in technology or applicable laws or regulations); these revisions are recognized currently as such conditions occur. The following estimates were made by the Authority's independent engineer based on information from the Tennessee Department of Environment and Conservation.

Estimates of future closure and postclosure care costs are summarized as follows:

	<u>2012</u>	<u>2011</u>
Closure	\$ -	-
Postclosure	<u>1,338,166</u>	<u>1,392,907</u>
	\$ <u>1,338,166</u>	<u>1,392,907</u>

The Capps Gap Landfill is closed and is sixteen years into post closure monitoring. The Oak Grove Landfill and Ash Monofill's Cells I, II, and III were officially closed in 2006 and are six years into post closure monitoring. All Authority landfills are closed. In 2010, the waste to energy plant was dismantled and closed. Post closure costs exceeded estimates for 2012 and 2011 and resulted in post closure expenses for 2012 and 2011 to be \$17,206 and \$91,269 respectively.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes to Financial Statements (Continued)

For The Years Ended June 30, 2012 and 2011

NOTE D – LANDFILL CLOSURE AND POSTCLOSURE COSTS, Continued

The Authority, along with Sumner County and the cities of Gallatin and Hendersonville has a "Contract in Lieu of Performance Bond" with the State for financial assurance of the closure and post closure costs. The Authority is potentially responsible for environmental clean-up costs associated with its landfill operations. However, management anticipates any future clean-up cost would be assessed to, and paid by, the party responsible for generating the hazardous materials. The State calculations for the bond amounts were used as a basis for calculations of closure and post closure costs.

NOTE E - MUNICIPAL AND COUNTY AGREEMENTS

During fiscal year 2012 the Authority entered into a Solid Waste Disposal and Recycling Agreement with Sumner County and the Cities of Gallatin and Hendersonville.

Also during 2012 the Authority entered into a Post-Closure Monitoring and Maintenance Agreement with Sumner County and the Cities of Gallatin and Hendersonville. The agreement provides that the three entities will pay for the post closure costs associated with the landfills incurred by the Authority. This cost will be paid 3/7 by the county and 2/7 each by the cities.

The agreement provides that Sumner County will pay an annual \$100,000 fee in lieu of tipping fees. The cities of Gallatin and Hendersonville agree to pay tipping fees in such amounts as may be determined by the Authority but cannot exceed \$45 per ton for solid waste and \$3.50 per cubic yard for brush. The fees for 2012 were \$44 per ton and \$3.12 per cubic yard and for 2011 were \$40 per ton and \$3.12 per cubic yard.

Tipping and post closure fees and related receivables paid were as follows:

	<u>Solid Waste</u>		<u>Brush</u>		<u>Post-Closure</u>		<u>Receivable</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Sumner County	\$ 100,000	100,000	40,176	32,080	17,072	31,117	18,427	8,150
City of Gallatin	460,265	502,512	80,737	63,733	11,381	20,785	50,884	54,152
City of Hendersonville	-	-	37,380	100,727	11,321	20,785	17,857	10,693

NOTE F - PENSION PLAN

The Authority contributes a percentage of employees' salaries to a defined contribution retirement program. These funds are invested with ING Life Insurance and Annuity Company. The employee has several investment options. An employee must be full time and employed for 90 days in order to be eligible. The percentage of contribution is based on the following:

<u>If Employee Contributes:</u>	<u>The Authority Contributes:</u>
0.0% of salary	2.0% of salary
1.0% of salary	3.0% of salary
2.0% of salary	4.0% of salary
3.0% of salary	5.0% of salary

The Authority's total payroll was \$397,329 for 2012 and \$391,133 for 2011. Employees who are covered and participating under the pension plan were paid \$363,729 for 2012 and \$357,647 for 2011. The Resource Authority contributed 4.3%, (\$16,346) for 2012 and 4.5% (\$15,440) for 2011 of covered and participating salaries.

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Notes to Financial Statements (Continued)

For The Years Ended June 30, 2012 and 2011

NOTE G - TIPPING FEES

A major portion of the Authority's revenue is from tipping fees. A significant portion of tipping fees are from commercial haulers who are required under waste control laws to dump waste collected within Sumner County at the Authority. Court decisions have supported the enforcement of this law. One major commercial hauler is delivering most of Sumner County commercial waste to the Resource Authority and one major hauler is not. Enforcement by management has not been aggressively sought. Two major customers accounted for 44% and 44.79% of tipping fees for 2012 and 2011 respectively.

NOTE H - RISK OF LOSS

The Authority is exposed to the normal business risk and the environmental risk related to the operations of a transfer station and the post closure costs related to closed landfills. The Authority, is a member of the Tennessee Municipal Risk Management Self Insurance Program, for worker compensation, and general liability coverage. The Authority has obtained coverage from commercial insurance carriers for casualty and property coverage. These insurance coverage's minimize the loss from risks to which the Authority is exposed. There was no significant reduction in insurance coverage and settled claims resulting from these risks have not significantly exceeded insurance coverage in any of the past three fiscal years.

NOTE I - CONTINGENCY

The Authority is not involved in any lawsuits at the current time.

NOTE J - SPECIAL ITEM

During the fiscal year 2011, the Authority disposed of salvage property which came about due to the change in operations. The gain on the sale of these assets is reported as special items on the Statement of Revenues, Expenses and Changes in Net Assets.

NOTE K - CONTRACTS AND COMMITMENTS

The Authority has entered into a load, haul and disposal contract that runs through July 2015 and provides for a rate per ton plus adjustments for CPI and diesel prices. The amount paid relating to this contract for 2012 and 2011 was \$2,888,869 and \$2,646,501 respectively.

The Authority also has a contract with a company to grind brush for \$2.97 per cubic yard which runs through October 2012. The amount paid related to this contract for 2012 and 2011 was \$218,889 and \$204,633 respectively.

NOTE L - SUBSEQUENT EVENTS

Subsequent to year end the Authority extended the brush grinding contract three years, through October 2015, at the same per cubic yard rate.

NOTE M - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

FINANCIAL SCHEDULES

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

Schedule of Principal Officers

June 30, 2012

Scott Foster	Chairman
Craig Hayes	Vice-Chairman
Jim Young	Secretary-Treasurer
Frank Freels	Director
David Satterfield	Director
Joe Matthews	Director
L. K. Lannom	Director
Larry Wright	Manager

**THE RESOURCE AUTHORITY IN
SUMNER COUNTY, TENNESSEE**

SCHEDULE OF INSURANCE COVERAGE

JUNE 30, 2012

<u>Type of Coverage</u>	<u>Limits</u>
1. General liability, including automobiles	\$ 300,000 per person 700,000 per occurrence
2. Real and personal property	\$ 2,433,460 (buildings) and \$145,000 (personal property) \$10,000 deductible per occurrence)
3. Mobile Equipment	\$259,000 aggregate
4. Errors and omissions	\$1,000,000 per occurrence with a \$2,500 deductible
5. Workers compensation	\$1,000,000 policy limit
6. Public Employee Dishonesty	\$100,000;\$100,000 forgery, \$50,000 theft, destruction \$50,000 computer fraud with a \$1,000 deductible

THE RESOURCE AUTHORITY IN SUMNER COUNTY

Schedule of State Financial Assistance

For the Year Ended June 30, 2012

State Grants:

<u>State Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Deferred (Receivable) Balance 06/30/11</u>	<u>Grant Receipts</u>	<u>Grant Expenditures</u>	<u>Deferred (Receivable) Balance 6/30/12</u>
Z-08-212996-02 FY 11	Waste Tire Option Grant	Tennessee Dept of Environment & Conservation	\$ (11,866)	11,866	-	-
Z-08-212996-02 FY 12	Waste Tire Option Grant	Tennessee Dept of Environment & Conservation	\$ - <u>\$ (11,866)</u>	<u>63,599</u> <u>75,465</u>	<u>73,000</u> <u>73,000</u>	<u>(9,401)</u> <u>(9,401)</u>

OTHER REPORTS

YEARY, HOWELL & ASSOCIATES

Certified Public Accountants

501 EAST IRIS DRIVE
NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY
GREGORY V. HOWELL

(615) 385-1008
FAX (615) 385-1208

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 of the
Resource Authority in Sumner County
Gallatin, Tennessee

We have audited the accompanying basic financial statements of the Resource Authority in Sumner County as of and for the year ended June 30, 2012, and have issued a report thereon dated August 1, 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

In planning and performing our audit, we considered the Resource 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 the Resource Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Resource 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Resource 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*.

Resource Authority in Sumner County
Gallatin, Tennessee

This report is intended solely for the information and use of management, board members, and 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.

A handwritten signature in blue ink, appearing to read "Yancy H. H. Associates".

August 1, 2012

YEARY, HOWELL & ASSOCIATES

Certified Public Accountants

501 EAST IRIS DRIVE
NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY
GREGORY V. HOWELL

(615) 385-1008
FAX (615) 385-1208

August 1, 2012

Board of Directors of the
Resource Authority of Sumner County
Gallatin, Tennessee

Although our audit disclosed no matters of compliance and internal control required to be reported in our report on such matters, we want to bring the following matters to managements' attention for your consideration.

- 1) During our review of controls over diesel fuel, we noted that the reconciliation of fuel used and purchased each month did not always produce accurate results. We recommend these procedures be reviewed and altered so accurate results can be produced and management follow up can be taken for any variances outside the expected results.

If you should need further information regarding this matter please let me know.

Sincerely,



Gregory V. Howell, CPA

GVH/lmg