

BI-COUNTY SOLID WASTE
MANAGEMENT SYSTEM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2013 AND 2012

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BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
DIRECTORY OF OFFICIALS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2013

BOARD MEMBERS

	<u>Term Expires</u>
Mr. Joe Creek, Chairman	June 30, 2015
Mr. Jay Albertia	June 30, 2014
Mr. Ed Baggett	June 30, 2016
Mayor Carolyn Bowers	Coterminous
Ms. Betty Gibbs	June 30, 2018
Mayor Rick Joiner	Coterminous
Mr. Robert Lee	June 30, 2013

MANAGEMENT

Mr. Pete Reed, Director
Ms. Mary Anderson, Assistant Director for Administration and Education



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bi-County Solid Waste Management System
Clarksville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Bi-County Solid Waste Management System (the System), a component unit of Montgomery County, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the System as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The introductory section and other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of expenditures of financial assistance and schedule of long-term debt principal and interest maturities listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of financial assistance and schedule of long-term debt principal and interest maturities listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The directory of officials and management has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of the System's internal control over financial reporting and on our tests of

its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 30, 2013

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2013 AND 2012

As management of the Bi-County Solid Waste Management System (the System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the System's financial statements, which follow this narrative.

Financial Highlights

- The assets of the System were less than its liabilities at the close of the fiscal year by \$641,291 (net deficit).
- As of the close of the current fiscal year, the System reported combined ending net deficit of \$641,291, a decrease of \$532,697 in comparison with the prior year.
- The System's bonds payable increased by \$616,523 during the fiscal year. The key factor in this increase was the purchase of a Caterpillar 836G compactor.
- The System maintained its AA+ bond rating.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to System's basic financial statements. The financial statements herein are comprised of the statement of net position, the statement of revenue, expenses, and changes in net position, the statement of cash flows, and the accompanying notes to the financial statements.

The statements of net position present information on the System's assets and liabilities. Current assets as well as other assets and liabilities are presented in order of their liquidity. The table on the following page presents the significant components of net position:

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013 AND 2012

	<u>Net Position</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS AND DEFERRED</u>			
<u>OUTFLOWS OF RESOURCES</u>			
Current and other assets	\$ 6,632,564	\$ 7,872,168	\$ 8,900,786
Capital assets (net)	10,215,364	9,365,587	8,863,655
TOTAL ASSETS	16,847,928	17,237,755	17,764,441
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 16,847,928	\$ 17,237,755	\$ 17,764,441
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>			
Long-term liabilities outstanding	\$ 16,763,489	\$ 16,697,449	\$ 16,645,775
Other liabilities	725,730	648,900	506,458
TOTAL LIABILITIES	17,489,219	17,346,349	17,152,233
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-
<u>NET POSITION</u>			
Net investment in capital assets	9,598,841	9,365,587	8,863,655
Unrestricted net position	(10,240,132)	(9,474,181)	(8,251,447)
TOTAL NET POSITION (DEFICIT)	(641,291)	(108,594)	612,208
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 16,847,928	\$ 17,237,755	\$ 17,764,441

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the System were less than the liabilities by \$641,291 as of June 30, 2013. The System's net position decreased by \$532,697 for the fiscal year ended June 30, 2013. However, the largest portion of assets, 60%, reflects the System's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The System uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the System's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining net position (deficit) balance of (\$10,240,132) is unrestricted.

The statements of revenue, expenses and changes in net position present the System's results of operations. The table on the following page displays this information.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013 AND 2012

Statements of Revenue, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 7,363,410	\$ 6,083,094	\$ 5,362,095
Recycle sales	1,004,633	1,327,091	1,320,877
User fees	2,918,577	2,898,946	2,797,856
Other	190,583	196,883	157,749
Non-operating revenues (expenses):			
Loss on sale of equipment	(7,275)	(2,339)	(16,377)
Government grants	149,621	151,552	123,909
Interest expense	(2,720)	-	-
Interest income	27,622	39,809	45,327
Total revenues	<u>11,644,451</u>	<u>10,695,036</u>	<u>9,791,436</u>
Expenses:			
Board/committee fees	5,300	5,000	5,400
Closure/postclosure cost	564,984	590,957	535,287
Communications	40,047	40,926	36,822
Contracted services	1,695,548	1,806,154	1,532,846
Depreciation	939,254	838,927	780,517
Insurance	136,596	133,323	133,755
Materials and supplies	3,239,699	2,921,083	2,239,743
Miscellaneous	80,700	70,483	194,786
Personnel	5,157,989	4,693,662	4,495,844
Property and equipment	65,123	89,692	42,949
Trustee commission	72,395	73,565	93,239
Utilities	179,513	152,066	151,274
Total expenses	<u>12,177,148</u>	<u>11,415,838</u>	<u>10,242,462</u>
Net change in net position	(532,697)	(720,802)	(451,026)
Net position (deficit), July 1	<u>(108,594)</u>	<u>612,208</u>	<u>1,063,234</u>
Net position (deficit), June 30	<u>\$ (641,291)</u>	<u>\$ (108,594)</u>	<u>\$ 612,208</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013 AND 2012

Results of operations decreased the System's net position by \$532,697. Key elements of this decrease are as follows:

- The System is required to report closure and postclosure care costs as an operating expense each period. However, these costs will only be paid near or after the date the landfill stops accepting waste. Additionally the landfill will be closed in sections and therefore the entire liability will not become due at one time, but over the process of time. The closure/postclosure liability as of June 30, 2013 is \$15,845,431. This liability accounts for 90% of the System's total liabilities. The closure/postclosure expense for the year ended June 30, 2013 was \$564,984.

The statements of cash flows in the accompanying financial statements are presented using the direct method. This method outlines the sources and uses of cash as it related to operating income. In addition, included in the statement of cash flows are classifications for non-capital related financing, capital related financing and investing activities.

Financial Analysis of the System

Budgetary Highlights: During the fiscal year, the System revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

As a result of the System attracting new sources of waste, the System created five additional jobs and purchased equipment totaling \$317,622 during FY13 in order to efficiently process the increased volume of waste. In return one of the new sources produced an additional \$1,577,733 in tipping fee revenue for the System during FY13. Overall, the tipping fee revenue increased by 21%. The System also found it necessary to purchase a compactor and a track loader for a combined total of \$1,105,875. However, the System was able to secure financing through the primary government to cover the cost of the compactor. Additionally management made it a priority to decrease unnecessary spending, including the suspension of several purchases of equipment to compensate for the purchase of the compactor and track loader. Although the System continued to experience increases in our maintenance and repairs budget, the System managed to keep expenses lower (compared to FY12) in the "contracted services" category.

Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets as of June 30, 2013, totaled \$10,215,364 (net of accumulated depreciation). Those assets included buildings, land, machinery and equipment, and vehicles.

Major capital asset transactions during the year included the following additions and disposals:

- Land purchases in the amount of \$197,107. This total consists of two land purchases for the relocation of two convenience centers.
- Buildings and improvements of \$85,320.
- Total increase in machinery and equipment of \$1,569,784. This increase is primarily due to the purchase a compactor and a new track loader at a combined cost of \$1,105,875.
- Disposals of property and equipment and land totaling \$65,017.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013 AND 2012

<u>Capital Assets</u>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,245,953	\$ 1,078,863	\$ 1,078,863
Buildings and improvements	4,240,641	4,155,321	2,650,784
Machinery and equipment	13,302,058	11,767,274	11,032,756
Other equipment	868,938	868,938	868,938
Construction in progress	-	-	1,090,887
Total	<u>\$ 19,657,590</u>	<u>\$ 17,870,396</u>	<u>\$ 16,722,228</u>

Long-term Debt. As of June 30, 2013, the System had total debt outstanding of \$616,523.

<u>Outstanding Debt</u>			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 616,523	\$ -	\$ -
Total	<u>\$ 616,523</u>	<u>\$ -</u>	<u>\$ -</u>

The System's bonds payable increased by \$616,523 during the past fiscal year due to the \$625,000 general obligation bond issued for the purchase of Caterpillar 836G compactor.

As mentioned in the financial highlights section of this document, the System maintained its AA+ bond rating from Standard and Poor's Corporation. This bond rating is a clear indication of the sound financial condition of the System.

Next Year's Budgets and Rates

Budget Highlights for the Fiscal Year Ending June 30, 2014

Beginning in FY14 the System will raise tipping fees rates on class 1 and demolition wastes. The System anticipates the increase to produce approximately \$600,000 in additional revenue. The System also plans to expand the gas to energy program which will increase revenue. Conversely, the System will continue the process of closing a section of the landfill. Additionally the System will finish the construction of a new cell at the landfill. Both tasks are expected to increase expenditures across the board. However, the construction of the new cell will give the System approximately three and a half additional years of space.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2013 AND 2012

Requests for Information

This report is designed to provide an overview of the System's finances for those with an interest in this area. If you have any questions about this report or need any additional information contact the Financial Analyst at Bi-County Solid Waste Management System, 3212 Dover Road, Woodlawn, Tennessee 37191 or (931) 648-5751.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2013	2012
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 353,938	\$ 442,836
Accrued payroll	157,377	129,822
Customer deposits	28,087	29,251
Employee savings	46,328	46,991
Current portion of due to primary government - bonds payable	140,000	-
Total current liabilities	725,730	648,900
 <u>LONG-TERM LIABILITIES</u>		
Other postemployment benefits	188,261	157,466
Accrued compensated absences	253,274	218,425
Due to primary government - bonds payable	415,000	-
Unamortized bond premium	61,523	-
Closure/postclosure liability	15,845,431	16,321,558
Total long-term liabilities	16,763,489	16,697,449
 Total liabilities	 17,489,219	 17,346,349
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
	-	-
 <u>NET POSITION</u>		
Net investment in capital assets	9,598,841	9,365,587
Unrestricted	(10,240,132)	(9,474,181)
Total net position (deficit)	(641,291)	(108,594)
 Total liabilities and net position	 \$ 16,847,928	 \$ 17,237,755

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 7,363,410	\$ 6,083,094
Recycle sales	1,004,633	1,327,091
User fees	2,918,577	2,898,946
Other	190,583	196,883
Total operating revenues	<u>11,477,203</u>	<u>10,506,014</u>
<u>OPERATING EXPENSES</u>		
Board/committee fees	5,300	5,000
Closure/postclosure cost	564,984	590,957
Communications	40,047	40,926
Contracted services	1,695,548	1,806,154
Depreciation	939,254	838,927
Insurance	136,596	133,323
Materials and supplies	3,239,699	2,921,083
Miscellaneous	80,700	70,483
Personnel	5,157,989	4,693,662
Property and equipment	65,123	89,692
Trustee commission	72,395	73,565
Utilities	179,513	152,066
Total operating expenses	<u>12,177,148</u>	<u>11,415,838</u>
<u>OPERATING LOSS</u>	<u>(699,945)</u>	<u>(909,824)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Loss on sale of equipment	(7,275)	(2,339)
Government grants	149,621	151,552
Interest expense	(2,720)	-
Interest income	27,622	39,809
Total non-operating revenues	<u>167,248</u>	<u>189,022</u>
<u>NET CHANGE IN NET POSITION</u>	<u>(532,697)</u>	<u>(720,802)</u>
<u>NET POSITION (DEFICIT) - BEGINNING</u>	<u>(108,594)</u>	<u>612,208</u>
<u>NET POSITION (DEFICIT) - ENDING</u>	<u>\$ (641,291)</u>	<u>\$ (108,594)</u>

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 10,975,292	\$ 10,392,998
Cash paid to suppliers	(6,654,139)	(5,802,597)
Cash paid to employees	(5,065,453)	(4,597,936)
Other cash receipts	153,631	219,606
Net cash provided by (used in) operating activities	<u>(590,669)</u>	<u>212,071</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Government grants	149,621	151,552
Net cash provided by noncapital financing activities	<u>149,621</u>	<u>151,552</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds from sale of equipment	55,903	32,694
Proceeds from long-term notes payable	690,985	-
Payments on long-term notes payable	(74,462)	-
Interest paid	(2,720)	-
Purchase of capital assets	(1,852,211)	(1,375,891)
Net cash used in capital and related financing activities	<u>(1,182,505)</u>	<u>(1,343,197)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	27,622	39,809
Net cash provided by investing activities	<u>27,622</u>	<u>39,809</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(1,595,931)	(939,765)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>6,512,576</u>	<u>7,452,341</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 4,916,645</u>	<u>\$ 6,512,576</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET</u>		
<u>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Operating loss	\$ (699,945)	\$ (909,824)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	939,254	838,927
Changes in:		
Accounts receivable	(309,845)	67,331
Grants receivable	(37,271)	25,079
Inventories	(9,210)	(3,558)
Accounts payable	(88,897)	132,866
Accrued payroll	27,555	4,887
Customer deposits	(1,164)	(4,379)
Employee savings	(663)	9,068
Accrued compensated absences	34,849	8,124
Closure/postclosure liability	(476,127)	14,097
Other postemployment benefits	30,795	29,453
Net cash provided by (used in) operating activities	<u>\$ (590,669)</u>	<u>\$ 212,071</u>

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Bi-County Solid Waste Management System (the System) was established by an interlocal agreement on July 22, 1974, by Montgomery County, Stewart County, and the City of Clarksville for the joint and cooperative operation and maintenance of a solid waste collection and disposal system. The System operates a landfill (permit number SNL 63-102-0108 MOD), a transfer station, and numerous convenience centers. The System office is located at the landfill site, which is on Highway 79, east of Oakwood, and approximately ten miles west of Clarksville, Tennessee.

The System is a component unit of Montgomery County, Tennessee, which is the principal reporting entity and primary government. The board members of the System are appointed by the joint participants; however, Montgomery County appoints a voting majority of the board members. The System is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the System. The financial reporting entity of the System only includes the assets and operations of the System and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

Use of Estimates

The System's financial statements are presented in accordance with accounting principles generally accepted in the United States of America which require the use of management's estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates in the near term and these variations can have a material effect on these financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject the System to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Custodial credit risk for the System's deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As required by state statutes, the System's policy is to require that financial institutions holding its deposits be members of the State of Tennessee Bank Collateral Pool or pledge collateral in excess of federal depository insurance. The collateral is required to be held by the System or its agent in the System's name. With respect to accounts receivable, credit risk is dispersed across a large number of customers who are geographically concentrated in the System's service area.

Basis of Accounting

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

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

Basis of Accounting (Cont'd)

Resources are classified for accounting reporting purposes in the following three net asset groups:

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The System had no debt as of June 30, 2012. The net investment in capital assets at June 30, 2013 and 2012 was:

	2013	2012
Capital assets	\$ 19,657,590	\$ 17,870,396
Accumulated depreciation	(9,442,226)	(8,504,809)
Debt related to capital assets	(616,523)	-
	\$ 9,598,841	\$ 9,365,587

Restricted: Net assets for which use is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time. The System had no restricted net assets as of June 30, 2013 and 2012.

Unrestricted: Net assets that are not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “invested in capital assets.” Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties. The System had a deficit of unrestricted net assets of \$9,856,490 and \$9,474,181 as of June 30, 2013 and 2012, respectively.

Cash and Cash Equivalents

The System considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Uncollectible Accounts

Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectible accounts.

Inventories

Inventories consist of expendable supplies, primarily fuel held for consumption, and are valued at average cost. The cost is expensed at the time individual items or quantities are used and not at the time purchased.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

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

Capital Assets

Capital assets are valued at cost for assets purchased. All assets with an initial, individual cost of \$10,000 or more and an estimated useful life exceeding two years are capitalized. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized once the asset is placed in service.

Property, plant and equipment are depreciated using the straight-line method with salvage value over the following estimated useful lives:

Buildings and improvements	15-30 years
Equipment and vehicles	5-10 years

Accrued Compensated Absences

The System's policy is to permit employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from service. The System also provides for time worked in excess of a 40-hour work week known as "comp time". Comp time is to be used within 12 months of being accrued or it will be forfeited. The granting of sick leave has no guaranteed payment attached, either through official policy or custom, and is therefore not required to be accrued or recorded.

Restricted Net Assets

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

Change in Presentation

Certain items from the prior year may have been reclassified to conform to current year presentation.

Date of Management's Review

Subsequent events have been evaluated through December 30, 2013, which is the date the financial statements were available to be issued.

2. Deposits and Investments

The System participates in an internal cash and investment pool through the Office of the Montgomery County Trustee (the Trustee). The Trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most County funds. The System's portion of this pool is displayed on the statement of net assets as cash and cash equivalents. The System paid the Trustee \$72,395 and \$73,565 during the years ended June 30, 2013 and 2012, respectively, for these services.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

2. Deposits and Investments (Cont'd)

Cash and other deposits are restricted to deposits with federally-insured institutions and must be approved by the board of directors.

Custodial credit risk for the System's deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As required by state statutes, the System's policy is to require financial institutions holding its deposits to be members of the State of Tennessee Bank Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the System or its agent in the System's name. At June 30, 2013, cash and other deposits reported in the financial statements in the amount of \$4,915,695 were represented by bank balances totaling \$5,219,827, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Bank Collateral Pool.

The System is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the County's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The County may make investments with longer maturities if various restrictions set out in State law are followed. The System is also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the State Comptroller's Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. State statutes limit the maturities of certain investments as previously disclosed. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. The System has no investment policy that would further limit its investment choices.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

3. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2013 follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Land – held for expansion	\$ 616,156	\$ 197,107	\$ 30,017	\$ 783,246
Land	462,707	-	-	462,707
Buildings and improvements	4,155,321	85,320	-	4,240,641
Property and equipment	11,767,274	1,569,784	35,000	13,302,058
Other property	868,938	-	-	868,938
Total capital assets	<u>\$ 17,870,396</u>	<u>\$ 1,852,211</u>	<u>\$ 65,017</u>	<u>\$ 19,657,590</u>

A summary of changes in accumulated depreciation for the year ended June 30, 2013 follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Buildings and improvements	\$ 1,010,689	\$ 109,702	\$ -	\$ 1,120,391
Property and equipment	6,646,122	827,376	1,837	7,471,661
Other property	847,998	2,176	-	850,174
Total accumulated depreciation	<u>\$ 8,504,809</u>	<u>\$ 939,254</u>	<u>\$ 1,837</u>	<u>\$ 9,442,226</u>

A summary of changes in capital assets for the year ended June 30, 2012 follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Land – held for expansion	\$ 616,156	\$ -	\$ -	\$ 616,156
Land	462,707	-	-	462,707
Construction in progress	1,090,887	292,258	1,383,145	-
Buildings and improvements	2,650,784	1,504,537	-	4,155,321
Property and equipment	11,032,756	962,241	227,723	11,767,274
Other property	868,938	-	-	868,938
Total capital assets	<u>\$ 16,722,228</u>	<u>\$ 2,759,036</u>	<u>\$ 1,610,868</u>	<u>\$ 17,870,396</u>

A summary of changes in accumulated depreciation for the year ended June 30, 2012 follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Buildings and improvements	\$ 929,496	\$ 81,193	\$ -	\$ 1,010,689
Property and equipment	6,083,255	755,558	192,691	6,646,122
Other property	845,822	2,176	-	847,998
Total accumulated depreciation	<u>\$ 7,858,573</u>	<u>\$ 838,927</u>	<u>\$ 192,691</u>	<u>\$ 8,504,809</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

3. Capital Assets (Cont'd)

Land included in the totals on the previous page is not depreciated. Construction in progress is not depreciated until placed in service.

4. Due to Primary Government – Bonds Payable

Long-term debt consisted as follows:

	2013	2012
\$625,000 series 2012 Public Improvement Bonds due in annual installments of \$140,000 with a final payment of \$135,000 on April 1, 2017, plus interest payable semi-annually on October 1 and April 1 at a rate of 5.00%.	\$ 555,000	\$ -
Plus: Unamortized net bond premium	61,523	-
Total long-term debt	\$ 616,523	-
Less: Current portion	140,000	-
Total long-term debt excluding current portion	\$ 476,523	\$ -

Future payments on long-term debt are as follows:

Year Ending June 30,	Principal	Interest
2014	\$ 140,000	\$ 27,750
2015	140,000	20,750
2016	140,000	13,750
2017	135,000	6,750
Total future payments	\$ 555,000	\$ 69,000

Interest incurred of \$2,720 and \$-0- was expensed during the years ended June 30, 2013 and 2012, respectively.

5. Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the System to place a final cover on its landfill sections when the section stops accepting waste and to perform certain maintenance and monitoring functions at the section for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill section stops accepting waste, the System reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill section capacity used as of each balance sheet date. Closure/postclosure costs are calculated based on an engineering evaluation. The \$15,845,431 reported as landfill closure and postclosure care liability at June 30, 2013, represents the cumulative amount reported to date based on the use of 86 percent of the estimated capacity of the currently open sections of the landfill. The landfill will recognize an additional estimated cost of closure and postclosure care of \$2,504,541 as the remaining estimated capacity is filled in those sections. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Also, expansion of the landfill property could change these estimates. The System currently has 250 acres of unused land that it anticipates using for waste and estimates ample capacity to accept waste until 2107.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

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

Montgomery and Stewart Counties have executed a "Contract in Lieu of Performance Bond" in the amount of \$18,943,834 to provide financial assurance to the State of Tennessee for estimated operation, closure and postclosure costs.

Changes in long-term obligation for closure and postclosure cost:

	2013	2012
Accrued liability at July 1	\$ 16,321,558	\$ 16,307,461
Current year accrual	564,984	590,957
Current year closure costs	(1,041,111)	(576,860)
Accrued liability at June 30	\$ 15,845,431	\$ 16,321,558

These calculations are based upon a closure/postclosure study conducted in June 2000, but estimated costs have been updated for inflation by the State of Tennessee, Department of Environment and Conservation.

6. Accrued Compensated Absences

Changes in accrued compensated absences for the year ended June 30, 2013, were as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Accrued compensated absences	\$ 218,425	\$ 34,849	\$ -	\$ 253,274

Changes in accrued compensated absences for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Accrued compensated absences	\$ 210,301	\$ 8,124	\$ -	\$ 218,425

7. Other Postemployment Benefits

The System provides support for medical and dental insurance coverage and premiums for qualifying retired employees. Qualifying retired employees must have a minimum of thirty years of creditable service in the Tennessee Consolidated Retirement System (TCRS), with or without military service or accumulated sick leave, at any age, or must have a minimum of twenty years of service with the System, and be at least age 55. Coverage will continue until the retired employee is eligible for Medicare. The retired employee must make premium payments to the Director of Accounts and Budgets for Montgomery County in a timely manner, must be a current participant, and must have participated for at least two years in the group medical insurance program. The employee must be eligible for, and begin receiving retirement benefits from TCRS at the time of retirement from the System and must elect to receive this benefit at the time of retirement.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

7. Other Postemployment Benefits (Cont'd)

For qualifying retired employees the System pays a portion of the medical insurance premium until the retired employee is eligible for Medicare. The co-payment schedule is as follows:

<u>Months to age 65</u>	<u>System</u>	<u>Retiree</u>
0 to 120	85%	15%
121 to 132	80%	20%
133 to 144	75%	25%
145 to 156	70%	30%
157 to 168	65%	35%
169 to 180	60%	40%

This plan is a single-employer defined benefit plan. Prior to the year ended June 30, 2010, the plan was funded and expensed on a pay-as-you-go basis. The provisions of Governmental Accounting Standards Board (GASB) Statement 45 were retroactively implemented in the year ended June 30, 2010, to be effective as of June 30, 2009. For 2010 and forward, the plan continues to be funded on a pay-as-you-go basis with expense calculated under the provisions of GASB 45 as described below. The plan does not issue stand-alone financial reports.

In July 2004, the GASB issued GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB No. 45 requires employers that participate in single-employer or agent multiple-employer defined other postemployment benefit (OPEB) plans to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting.

The annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the System's annual medical and dental insurance OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation.

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Normal cost	\$ 34,688	\$ 33,036
30-year amortization of accrued liability	25,056	23,232
Interest on net OPEB obligation	<u>1,183</u>	<u>1,114</u>
Annual required contribution	60,927	57,382
Interest on net OPEB obligation	6,299	5,121
Adjustment on annual required contribution	<u>(6,279)</u>	<u>(5,131)</u>
Annual OPEB expense	60,947	57,372
Contributions made	<u>(30,152)</u>	<u>(27,919)</u>
Increase in net OPEB obligation	30,795	29,453
Net OPEB obligation – beginning	<u>157,466</u>	<u>128,013</u>
Net OPEB obligation – ending	<u>\$ 188,261</u>	<u>\$ 157,466</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

7. Other Postemployment Benefits (Cont'd)

The System's annual OPEB expense, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2013	\$ 60,947	49%	\$ 188,261
June 30, 2012	\$ 57,372	48%	\$ 157,466
June 30, 2011	\$ 46,587	0%	\$ 128,013

As of July 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$606,254 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$606,254. The covered payroll (annual payroll of active employees covered by the plan) was \$2,762,908 and the ratio of the UAAL to the covered payroll was 21.93 percent. The ARC was 2.21% of covered payroll and the funding was determined on a pay-as-you-go basis.

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to be consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the projected unit credit cost method was used. The actuarial assumption included an annual healthcare cost trend rate of eight percent initially, reduced by decrements to an ultimate rate of five percent after six years. UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, is twenty-five years.

The System pays and expenses the costs of the benefits as they are incurred. At June 30, 2013, the System had one eligible retiree receiving benefits.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

8. Retirement Commitments

- a. Plan Description: Certain employees of the System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.
- b. Funding Policy: The System has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. Montgomery County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 14.63% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirements for the System are established and may be amended by the TCRS Board of Trustees.
- c. Annual Pension Cost and Actuarial Information: Pension costs and actuarial information for the System cannot be separately stated from that of Montgomery County. The System is a component unit of Montgomery County, and aggregated pension information is reported for all Montgomery County employees in the June 30, 2013, Montgomery County Comprehensive Annual Financial Report.

9. Concentrations

The System receives a substantial amount of its charges for services (tipping fees) from three entities: City of Franklin, Clarksville Disposal and Waste Industries. These three haulers comprised 55.92% and 43.04% of tipping fee revenues earned during the years ended June 30, 2013 and 2012, respectively, as well as \$433,475 (42.26%) and \$142,525 (10.95%) of accounts receivable balances at June 30, 2013 and 2012, respectively. The System also collects a user fee from each household in Montgomery and Stewart Counties. A major reduction in revenue from any of the above sources may have a significant effect on the future operations of the System.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013 AND 2012

10. Operating Leases

The System has convenience centers in seventeen locations in Montgomery and Stewart Counties. Twelve of these convenience centers are located on leased property. The System also had a short-term lease for a dump truck during the fiscal year ended June 30, 2013. The lease payments for the years ended June 30, 2013 and 2012, were \$92,781 and \$152,719, respectively, and are included in the contracted services category on the statement of revenues, expenses and changes in net position. This amount includes payments made for short- and long-term leases.

Future payments on lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2014	\$ 57,751
2015	31,952
2016	19,138
2017	12,580
2018	<u>2,400</u>
Total	<u>\$ 123,821</u>

11. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System through its primary government, Montgomery County, has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Association Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

The System, along with other Montgomery County component units, has chosen to establish a combined Self-Insurance Fund for risks associated with the employees' health insurance plan, workers compensation claims (including on-the-job injury) and unemployment compensation claims.

12. Commitments and Contingencies

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

13. Subsequent Event

On December 9, 2013, the Montgomery County Commission approved \$1,708,900 of equipment purchases to be ultimately funded by bonds issued by Montgomery County in the fiscal year ending June 30, 2016. The System will receive an interest-free temporary loan from Montgomery County for the principal amount of the bonds in fiscal year ending June 30, 2014. The System will make ten annual bond payments of principal and interest to Montgomery County upon issuance of the bonds.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2013

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ -	\$ 606,000	\$ 606,000	0.00%	\$ 2,763,000	21.93%
6/30/2012	\$ -	\$ 578,000	\$ 578,000	0.00%	\$ 2,763,000	20.92%
6/30/2011	\$ -	\$ 359,100	\$ 359,100	0.00%	\$ 2,170,500	16.54%

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2013

<u>Grantor/Program Title</u>	<u>Grant Number or Pass-Through Grantor's Contract Number</u>	<u>Federal CFDA Number</u>	<u>Accrued Receivable July 1, 2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2013</u>
<u>State of Tennessee, Department of Environment and Conservation</u>						
FY 2012 Waste Tire Options	Z-08-212945-02	N/A	\$ 33,035	\$ 33,035	\$ -	\$ -
FY 2013 Waste Tire Options	DG1337817	N/A	-	62,131	106,838	44,707
FY 2013 Recycling Rebate	N/A	N/A	-	12,183	12,183	-
FY 2012 Used Oil Collection Equipment	1237730	N/A	5,000	5,000	-	-
FY 2013 Used Oil Collection Equipment	34532	N/A	-	-	10,000	10,000
<u>State of Tennessee, Department of Transportation</u>						
Statewide Roadside Litter Pickup and Education	DG1338324	N/A	-	-	20,600	20,600
Total State Financial Assistance			<u>\$ 38,035</u>	<u>\$ 112,349</u>	<u>\$ 149,621</u>	<u>\$ 75,307</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTE TO SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE
JUNE 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of financial assistance includes the federal grant activity of the System and is presented on the accrual basis of accounting. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST MATURITIES
JUNE 30, 2013

	<u>Due to Primary Government</u>	
	<u>Interest</u>	<u>Principal</u>
2014	\$ 27,750	\$ 140,000
2015	20,750	140,000
2016	13,750	140,000
2017	<u>6,750</u>	<u>135,000</u>
	<u>\$ 69,000</u>	<u>\$ 555,000</u>



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

Board of Directors
Bi-County Solid Waste Management System
Clarksville, Tennessee

We have audited, in accordance with the 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, the financial statements of Bi-County Solid Waste Management System (the System), a component unit of Montgomery County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-001 to be a material weakness.

The System did not resolve prior-year item 2012-1. The finding recurred in the current year and is reported as item 2013-001.

Compliance and Other Matters

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

The System's Response to Finding

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stone Rudolph & Henry, PLC

Clarksville, Tennessee
December 30, 2013

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

FINDINGS RELATED TO INTERNAL CONTROL

2013-001 (Recurring Finding) Management Oversight of Financial Reporting

Condition: The System has a lack of management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). In addition, five adjusting entries were required for the financial statements to be presented in conformity with GAAP.

Criteria: Proper management oversight over financial reporting should include the preparation of the financial statements and footnote disclosures in conformity with GAAP.

Effect: The financial statements and footnote disclosures may not be in conformity with GAAP.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with GAAP.

Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance to prepare the financial statements and footnotes in accordance with GAAP prior to the independent audit. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements, footnotes and all adjusting and reclassification journal entries.