HAMBLEN COUNTY-MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

AUDIT REPORT

June 30, 2014 and 2013

Hamblen County-Morristown Solid Waste Disposal System
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June 30, 2014

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INTRODUCTORY SECTION

Hamblen County-Morristown Solid Waste Disposal System
Roster of Officials
June 30, 2014

Board Members:

Tony Cox, Chairman

Larry Baker, Vice-Chairman

Bill Brittain, Secretary/Treasurer

Rusty Rouse, Member

Doug Deering, Member

Bob Garrett, Member

Bill Blackburn, Member

Keith Jackson, Member

Management's Discussion and Analysis

This section of the Hamblen County/Morristown Solid Waste Disposal System's (System) annual financial report presents our discussion and analysis of the System's financial performance during the fiscal years ended June 30, 2014 and 2013. This section should be read in conjunction with the financial statements and accompanying notes, which follow this section.

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

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the System's financial statements. The financial reports include three financial statements: Statements of Net Position (Balance Sheet), Statements of Activities and Statements of Cash Flows. The financial statements are prepared on the accrual basis of accounting. The Statements of Net Position (Balance Sheet) include all assets and liabilities of the System as of June 30, 2014 and 2013. The difference in the assets and liabilities is the net position or equity of the System. The Statements of Activities report all the revenue and expenses during the years ended June 30, 2014 and 2013. The Statements of Cash Flows report the cash provided and used by operating activities as well as other cash sources and cash payments such as investment income and capital additions. The System would like to note that while the change in net position does report a loss, it believes that the System is financially secure. The losses that are reported are results of reporting non-cash expenses that are required. The System believes that a more accurate view of their financial condition can be obtained by reviewing the Statements of Cash Flows.

Management's Discussion and Analysis

Condensed Financial Information

Condensed financial information from the statements is as follows:

	2014	As Restated 2013	2012
ASSETS			
Current assets	$ 3,517,280	$ 3,480,533	$ 3,609,512
Capital assets	2,929,531	3,120,647	2,928,825
Restricted assets	201,432	544,790	526,733
TOTAL ASSETS	6,648,243	7,145,970	7,065,070
LIABILITIES			
Current liabilities	145,657	408,058	114,875
Other liabilities	5,257,088	4,655,851	4,846,840
TOTAL LIABILITIES	5,402,745	5,063,909	4,961,715
NET POSITION			
Net investment in capital assets	2,929,531	2,959,040	2,928,825
Unrestricted net position	(1,684,033)	(876,979)	(825,470)
NET POSITION	$ 1,245,498	$ 2,082,061	$ 2,103,355
OPERATING REVENUES	$ 2,015,096	$ 2,036,072	$ 2,219,492
OPERATING EXPENSES	2,906,277	2,299,480	2,840,076
NET OPERATING LOSS	(891,181)	(263,408)	(620,584)
OTHER INCOME	54,618	51,295	145,955
PRIOR PERIOD ADJUSTMENTS	-0-	190,819	-0-
CHANGE IN NET POSITION	$ (836,563)	$ (21,294)	$ (474,629)

Management's Discussion and Analysis

Operating Revenues

Operating revenues for the current fiscal year decreased by 1.03% as compared to June 30, 2013 and 9.21% as compared to June 30, 2012. As noted in previous reports, revenues have decreased over the years in part due to the loss of tonnage material being diverted from the System, as well as a continued shortfall in the industrial and manufacturing environment. In an effort to increase operating revenues, the System approved a 16% fee increase effective July 1, 2007. Due to the competitive market and the increased tax burden that may be placed on citizens, the System has been reluctant to consider additional fee increases.

Operating Expenses

The System has aggressively monitored operating expenses in an effort to operate in a positive balance. Following is an analysis of some accounts that have a substantial effect on the financial statements.

Wages and Benefits

Wages and benefits decreased during the periods ending June 30, 2014 and 2013, due to reduced workforce in both fiscal years and a change in management in February 2014.

Audit and Other Professional Services

Audit and other professional services increased during the period ending June 30, 2014, due to the hiring of an accounting firm to assist with the bookkeeping and financial reporting of the System.

Engineering Service

This line item has increased over the last two fiscal years due to several projects that the System has undertaken to help maintain the leachate collection system, work to begin a partial closing of the active landfill site, and costs to comply with orders placed by the State of Tennessee Department of Environment and Conservation, Division of Solid Waste Management.

Closure/Post Closure Expense

The System, working in conjunction with a certified engineer, conducted an aerial survey in 2011. This survey was then compared to an earlier survey completed in 2007. Based upon the two surveys, the System projected a final fill date of October 2023. During the fiscal year ended June 30, 2014, the System amended its plans of closing the entire landfill once at capacity to performing partial closures of selected spaces once those areas were filled. Based upon the previous models for landfill capacity and projected closure and post-closure costs, the System was required to record a cost of $716,654 for the period ending June 30, 2014.

Management's Discussion and Analysis

Misappropriation of Funds

The State of Tennessee, Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation, conducted a special investigation of selected records of the System involving alleged misappropriation of funds by the former Director. The results of that investigation were officially released on March 5, 2015, showing a misappropriation of at least $227,792. Such amount has been recorded as a receivable in the financial statements as of June 30, 2014. The matters of the investigation were referred to the local district attorney general and, on March 2, 2015, the Hamblen County Grand Jury indicted the former Director on one count of Theft over $60,000.

Contacting the System's Financial Management

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

FINANCIAL SECTION

CRAINE, THOMPSON & JONES, P.C.

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MORRISTOWN, TENNESSEE 37816-1779
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hamblen County-Morristown Solid Waste Disposal System as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements which collectively comprise the System's basic 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 opinions 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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamblen County-Morristown Solid Waste Disposal System as of June 30, 2014 and 2013, and the changes in financial position, and cash flows for the years then ended in accordance 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 on pages 2 thru 5 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 financial statements. We do not express an opinion or provide any other assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated March 18, 2015, on our consideration of Hamblen County-Morristown Solid Waste Disposal 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 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* in considering Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting and compliance.

Claine, Thompson & Jones, P.C.

March 18, 2015

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Position
June 30, 2014 and 2013

	2014	As Restated 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 3,104,923	$ 3,093,136
Accounts receivable	172,842	206,418
Accounts receivable - other	227,792	180,979
Prepaid health insurance	11,723	-
Total current assets	3,517,280	3,480,533
Capital assets (net of accumulated depreciation):		
Land	822,267	822,267
Land improvements	502,468	573,877
Rental property	293,059	306,756
Building and improvements	246,312	276,489
Office machines and equipment	-	128
Other machinery and equipment	1,065,425	1,141,130
Restricted assets:		
Closure/postclosure investments	201,432	544,790
Total assets	$ 6,648,243	$ 7,145,970

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Net Position
June 30, 2014 and 2013

	2014	As Restated 2013
Liabilities		
Current liabilities:		
Accounts payable	$ 107,322	$ 206,444
Payroll deductions payable	3,245	4,918
Accrued leave	14,207	14,207
Due to other governments	20,883	20,883
Notes and bonds payable	-	161,606
Total current liabilities	145,657	408,058
Long-term liabilities:		
Accrued post retirement health obligation	3,236	-
Closure/postclosure cost	5,253,852	4,655,851
Total long-term liabilities	5,257,088	4,655,851
Total liabilities	5,402,745	5,063,909
Net position		
Net investment in capital assets	2,929,531	2,959,040
Unrestricted net position	(1,684,033)	(876,979)
Total net position	$ 1,245,498	$ 2,082,061

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014 and 2013

	2014	As Restated 2013
Operating revenues:		
Refuse disposal charges	$ 1,990,057	$ 2,012,659
Sale of materials and supplies	25,039	23,413
Total operating revenues	2,015,096	2,036,072
Operating expenses:		
Supervisor/director	70,815	84,562
Laborers	432,811	448,899
Board and committee member fees	11,800	15,800
Social security	38,210	38,500
Retirement	59,291	61,967
Employee insurance	125,415	154,310
Retiree health insurance	3,236	-
Unemployment compensation	4,424	-
Advertising	308	492
Audit services	15,245	5,800
Communications	3,434	6,309
Freight expense	3,823	892
Maintenance and repair service building	-	671
Maintenance and repair service equipment	86,983	78,391
Maintenance and repair service vehicle	450	-
Engineering services	93,902	80,341
Postal charges	913	108
Printing, stationery, forms	1,853	2,671
Rentals	14,080	76,898
Travel	5,559	9,094
Permits and licenses	18,075	18,000
Other contracted services	121,224	107,888
Crushed stone	79,391	123,555
Custodial supplies	868	657
Diesel fuel	99,606	111,517
Drugs and medical supplies	799	279
Electricity	72,978	67,293
Equipment and machinery parts	11,012	32,788
Fertilizer, lime, chemicals and seed	7,770	1,318

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste System
Statement of Revenue, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	As Restated 2013
Operating expenses (continued):		
Garage supplies	$ 4,654	$ 2,388
Gasoline supplies	11,355	3,517
Lubricants	11,839	12,627
Office supplies	2,954	2,350
Small tools	785	1,106
Wire	37,074	21,109
Tires and tubes	28,555	29,637
Closure/postclosure expense	716,654	-
Uniforms	2,170	3,669
Water and sewer	102,788	127,316
Other supplies and materials	3,579	2,973
Liability insurance	9,984	16,610
Vehicle and equipment insurance	59,225	18,041
Workmen's compensation insurance	36,846	50,757
Depreciation and amortization	334,480	339,012
Other charges	48,853	20,395
Disposal of C&D material	34,520	43,737
Surcharge	75,687	75,236
Total operating expenses	2,906,277	2,299,480
Net operating income (loss)	(891,181)	(263,408)
Other income or (expense):		
Loss on disposal of property	(12,901)	-
Interest earned	67,822	51,295
Interest on bonds	(303)	-
Total other income or (expense)	54,618	51,295
Increase (decrease) in net position	(836,563)	(212,113)
Net position, beginning	2,082,061	2,103,355
Prior period adjustments	-	190,819
Net position, beginning as restated	2,082,061	2,294,174
Net position, ending	$ 1,245,498	$ 2,082,061

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2014 and 2013

	2014	As Restated 2013
Cash flows from operating activities:		
Receipts from customers and users	$ 2,048,672	$ 2,044,823
Payments to suppliers	(1,566,876)	(1,302,355)
Payments to employees	(503,626)	(533,461)
Other receipts (payments)	(59,389)	(242,901)
Net cash (used by) provided by operating activities	(81,219)	(33,894)
Cash flows from non-capital financing activities:		
Transfers between restricted account and operating account	343,358	(18,057)
Cash flows from capital and related financing activities:		
Proceeds received from issuance of short-term debt	-	242,410
Net additions to capital assets	(143,364)	(462,156)
Loss on disposal of asset	(12,901)	
Principal paid on notes and bonds	(161,606)	(80,804)
Interest paid on notes and bonds	(303)	-
Net cash used for capital and related financing activities	(318,174)	(300,550)
Cash flows from investing activities:		
Redemption of bonds	-	252,945
Interest from cash management activities	67,822	51,295
Net cash provided by investing activities	67,822	304,240
Net increase or (decrease) in cash and cash equivalents	11,787	(48,261)
Cash and cash equivalents at beginning of year	3,093,136	3,141,397
Cash at end of year	$ 3,104,923	$ 3,093,136
Consisting of:		
Cash in bank	$ 3,104,923	$ 3,093,136

The accompanying notes are an integral part of these statements.

Hamblen County-Morristown Solid Waste Disposal System
Statement of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents
For the Years Ended June 30, 2014 and 2013

	2014	As Restated 2013
Summary of cash and cash equivalents at end of year:	$ -	$ -
Cash - non-interest bearing	3,104,923	3,093,136
Cash - interest bearing	$ 3,104,923	$ 3,093,136
Total		
Adjustments to reconcile operating income (loss) to net cash (used for) provided by operating activities:		
Net operating loss	$ (891,181)	$ (263,408)
Depreciation and amortization	334,480	339,012
Changes in assets and liabilities:		
Decrease (increase) in receivables	(13,237)	(50,086)
Decrease (increase) in prepaid health insurance	(11,723)	
Increase (decrease) in accounts payable	(99,122)	124,883
Increase (decrease) in due to other governments	-	-
Increase (decrease) in accrued leave	-	(1,634)
Increase (decrease) in payroll deductions payable	(1,673)	8,328
Increase (decrease) in post retirement health obligation	3,236	
Increase (decrease) in liability for closure/postclosure	598,001	(190,989)
Net cash (used for) provided by operating activities	$ (81,219)	$ (33,894)

The accompanying notes are an integral part of these statements.

NOTE 1 - GENERAL INFORMATION

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

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

Certain amounts in the 2013 financial statements have been reclassified to conform to 2014 presentation.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues are charges to customers for disposal of waste and sale of materials. Operating expenses include cost of operations, administrative expenses, closure/postclosure expense and depreciation of capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Position

Deposits and Investments

As of June 30, 2014, the System had investments of $ 2,211,001 in certificates of deposit, FDIC insured accounts, guaranteed annuities and government securities at Morgan Stanley bearing an approximate rate of .90% and $778,324 at First Tennessee Bank bearing an approximate rate of .90%. The System also had $ 200,204 postclosure investment in certificates of deposits held by HomeTrust Bank earning a rate of .40% and $ 1,228 at Capital Bank earning a rate of .10%.

Investments for the System are reported at fair value.

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

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

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

Custodial credit risk – deposits
In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. As of June 30, 2014, all deposits were collateralized with securities held by the pledging financial institution in the System's name.

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

Cash equivalents – For purposes of the statement of cash flows, the System considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2014 and 2013, the System's deposits in financial institutions were entirely insured or collateralized with securities held by the System's agent in the System's name.

Receivables – All trade receivables were considered collectible at June 30, 2014. The amount in Accounts receivable – other was recorded based upon a report from the Tennessee Comptroller of the Treasury which can be viewed at http://www.comptroller.tn.gov/ai/.

Capital Assets

Capital assets include property, rental property and equipment. Capital assets are defined as those having an economic useful life that extends beyond 12 months and having an individual cost of more than $1,000. Repairs and maintenance costs are attached to an asset when said cost extends useful life.

Depreciation is calculated based on the following estimates:

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

Capital asset activity for the year ending June 30, 2014, was as follows:

	CAPITAL ASSETS			
	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 822,267	$ -	$ -	$ 822,267
Capital assets being depreciated:				
Land improvements	8,722,500			8,722,500
Rental property	341,978			341,978
Building and improvements	935,003			935,003
Furniture and fixtures	5,626			5,626
Office machines and equipment	48,931			48,931
Other machinery and equipment	4,552,764	252,237	158,620	4,646,381
	14,606,802	252,237	158,620	14,700,419
Less accumulated depreciation for:				
Land improvements	$ 8,148,623	$ 71,409	$ -	8,220,032
Rental property	35,222	13,697		48,919
Building and improvements	658,514	30,177		688,691
Furniture and fixtures	5,626	-		5,626
Office machines and equipment	48,803	128		48,931
Other machinery and equipment	3,411,634	219,069	49,747	3,580,956
Total	12,308,422	334,480	49,747	12,593,155
Capital assets being depreciated	$ 2,298,380	$ (82,243)	$ 108,873	$ 2,107,264

Capital asset activity for the year ended June 30, 2013, was as follows:

	CAPITAL ASSETS					
	Balance July 1, 2012	Prior Period Adjustment	Beginning Balance, as Restated	Additions	Reductions	Balance June 30, 2013
Capital assets, not being depreciated:						
Land	$ 822,267	-	$ 822,267	-	$ -	822,267
Capital assets being depreciated:						
Land improvements	8,722,500		8,722,500			8,722,500
Rental property	341,978		341,978			341,978
Building and improvements	935,003		935,003			935,003
Furniture and fixtures	5,593	33	5,626			5,626
Office machines and equipment	46,867	1,261	48,128	803		48,931
Other machinery and equipment	4,229,444	(138,033)	4,091,411	461,353		4,552,764
	14,281,385	(136,739)	$ 14,144,646	462,156	-	14,606,802
Less accumulated depreciation for:						
Land improvements	$ 8,059,844	$ (12,694)	8,047,150	$ 101,473	$ -	8,148,623
Rental property	21,526		21,526	13,697		35,223
Building and improvements	644,772	(16,435)	628,337	30,177		658,514
Furniture and fixtures	5,593	33	5,626	-		5,626
Office machines and equipment	46,455	2,145	48,600	203		48,803
Other machinery and equipment	3,396,638	(178,466)	3,218,172	193,462		3,411,634
Total	12,174,828	(205,417)	11,969,411	339,012	-	12,308,423
Capital assets being depreciated	$ 2,106,557	$ 68,678	$ 2,175,235	$ 123,144	$ -	$ 2,298,379

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

Net Position

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System does not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s), and so will not be recognized as an inflow of resources (revenue) until that time. The System does not have any items that qualify for reporting in this category

Use of Estimates

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

Fiscal Year-End

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

NOTE 3 – PENSION FUND DISCLOSURES

Plan Description

Employees of Hamblen County-Morristown Solid Waste Disposal System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Hamblen County-Morristown Solid Waste Disposal System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

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

Hamblen County-Morristown Solid Waste Disposal System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014, was 14.68% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Hamblen County-Morristown Solid Waste Disposal System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, Hamblen County-Morristown Solid Waste Disposal System's annual pension cost of $59,291 to TCRS was equal to Hamblen County-Morristown Solid Waste Disposal System's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Hamblen County-Morristown Solid Waste Disposal System's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011, was 8 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$ 59,291	100.00%	$ -
June 30, 2013	$ 62,686	100.00%	$ -
June 30, 2012	$ 62,549	100.00%	$ -

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 83.74% funded. The actuarial accrued liability for benefits was $2.06 million, and the actuarial value of assets was $1.73 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.33 million. The covered payroll (annual payroll of active employees covered by the plan) was $.49 million, and the ratio of the UAAL to the covered payroll was 71.40%.

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

Post-Retirement Benefits

In addition to the retirement commitments described above, the System provides postretirement health care benefits, in accordance with contract provisions, to all employees who retire from the System on or after age 55 with at least 10 years of service or 30 years of service until age 65. Currently, 3 retirees meet those eligibility requirements. The System pays 85 percent of medical premiums and 100 percent of dental and vision premiums to retirees and their dependents. The average annual medical, dental and vision premiums are $5,166 for the retiree and $5,359 for eligible spouses. The System funds the plan on a pay as you go basis and does not intend to contribute in excess of the annual premiums.

GASB 45 DISCLOSURE

A. Annual OPEB Cost and net OPEB Obligations	7/1/2012-6/30/2013	7/1/13-6/30/2014
1. Annual Required Contributions (ARC)	$ 16,969	17,342
2. Interest on net OPEB Obligation	259	218
3. Adjustment to ARC	(608)	(557)
4. Annual OPEB cost (Expense)	16,620	17,003
5. Contribution made (assumed middle of year)*	(17,643)	(19,219)
6. Increase in net OPEB Obligation	(1,023)	(2,216)
7. Net OPEB Obligation - beginning of year	6,475	5,452
8. Net OPEB Obligation - end of year	5,452	3,236

*Contribution made was assumed to equal Expected Benefit Payments

Compensated Absences

The System's compensated absences policy is as follows:

Sick leave – accumulated at the rate of 1 day per month. The number of days that may be accumulated is unlimited and may be applied toward early retirement. Otherwise, unused leave is lost.

Annual leave – accumulated as follows:

0 – 5 years	- 5/6 day per month
5-10 years	- 1 day per month
10-15 years	- 1 ¼ day per month
15-20 years	- 1 ¾ day per month
Over 20 years	- 1 ¾ day per month

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

At June 30, 2014 and 2013, the System's liability for accumulated leave was $14,207 and $14,207, respectively.

NOTE 4 – CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the System to place a final cover on its Sublett Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The System has chosen to perform six small closures instead of one large closure; therefore the calculation of closure and postclosure care costs have been adjusted accordingly. The System reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used at each balance sheet date. The $ 5,253,852 reported as landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of Phase I of the landfill and of the use of 76.9% Phase II of the landfill based upon a study conducted in 2013. The System will recognize the remaining estimated cost of closure and postclosure care of $7,057,098 for Modules A and B Class D liner and $43,954,618 for Phase II as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1996. Adjusted by inflation of 3.50% per year, the System closed Phase I in 1996 and Phase II in the year 2022. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

NOTE 5 - RISK MANAGEMENT AND LITIGATION

The System is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The System is insured through Strate Insurance Group. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years. Discrepancies in the former director's books and accounting have been referred to the TBI and Attorney General's office, and a report was issued on March 5, 2015.

NOTE 6 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2014, the System became aware that fixed assets presented in a previous period were understated. Also, after discovery of misappropriated assets and subsequent confirmation by the Tennessee Comptroller of the Treasury, unrestricted net position was understated. Net investment in capital assets has been increased $68,678 and Unrestricted net position has been increased $122,141.

The effect of the restatements on the financial position as of June 30, 2013 was:

	As Previously Reported	Prior Period Adjustment	As Restated
Statement of Financial Position			
Current assets	$ 3,358,392	$ 122,141	$ 3,480,533
Capital assets	3,051,969	68,678	3,120,647
Total assets	6,955,151	190,819	7,145,970
Net investment in capital assets	2,890,362	68,678	2,959,040
Unrestricted net position	(999,120)	122,141	876,979

REQUIRED SUPPLEMENTARY INFORMATION

Hamblen County-Morristown Solid Waste Disposal System

Required Supplementary Information

June 30, 2014

(Dollar amount in thousands)

Pension

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2013	$ 1,726	$ 2,061	$ 335	83.74%	$ 469	71.40%
July 1, 2011	$ 1,503	$ 1,816	$ 313	82.74%	$ 493	63.59%
July 1, 2009	$ 1,251	$ 1,360	$ 109	91.99%	$ 526	20.70%

OPEB

Fiscal Year Ending	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2013	$ 16,620	106.2%	$ 5,452	$435,533	3.82%
6/30/2014	$ 17,003	113.0%	$ 3,236	$446,421	3.81%

INTERNAL CONTROL AND COMPLIANCE SECTION

CRAINE, THOMPSON & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

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 Commissioners
Hamblen County-Morristown Solid Waste Disposal System
Morristown, 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 Hamblen County-Morristown Solid Waste Disposal System as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the System's basic financial statements and have issued our report thereon dated March 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hamblen County-Morristown Solid Waste Disposal System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2013-1, 2013-2, 2012-1).

JAMES W. CRAINE, CPA
GLENN B. THOMPSON, CPA
MIRA J. CRAINE, CPA

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not detect significant deficiencies during the fiscal year.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamblen County-Morristown Solid Waste Disposal System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-2, 2012-1.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity's 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 control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crane, Thompson & Jones, P.C.

Morristown, Tennessee
March 18, 2015

Hamblen County-Morristown Solid Waste Disposal System
Schedule of Findings and Questioned Costs
June 30, 2014

For the fiscal year ending June 30, 2014, we did not detect findings or questioned costs.

FYE 6-30-13

2013-1 Failure to adequately separate financial duties – The System's officials failed to ensure that employee responsibilities were adequately separated. Allowing one employee complete control over a transaction from beginning to end increases risk of fraud. **This condition was resolved by June 30, 2014.**

2013-2 Failure to oversee, monitor, and establish policies related to credit card – Members of the System's board failed to oversee, monitor, or establish policies related to a credit card issued in the System's name. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. **This condition was resolved by June 30, 2014.**

FYE 6-30-12

2012-1 Funds Not Being Deposited Within Three Business Days – All funds are being receipted, but they are not being deposited within three business days.
This condition still existed at June 30, 2014.