

BI-COUNTY SOLID WASTE  
MANAGEMENT SYSTEM  
AUDITED FINANCIAL STATEMENTS  
AND OTHER INFORMATION  
JUNE 30, 2014 AND 2013

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BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
DIRECTORY OF OFFICIALS AND MANAGEMENT (UNAUDITED)  
JUNE 30, 2014

BOARD MEMBERS

	<u>Term Expires</u>
Mr. Joe Creek, Chairman	June 30, 2015
Mr. Jay Albertia	June 30, 2020
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, 2019

MANAGEMENT

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



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## INDEPENDENT AUDITOR'S REPORT

To the 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, 2014 and 2013, 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 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 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, 2014 and 2013, and the respective changes in financial position and cash flows thereof 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 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 directory of officials and management, the schedule of expenditures of state financial assistance, and the schedule of long-term debt principal and interest maturities are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of state 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 state 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 November 14, 2014, 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  
November 14, 2014

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2014 AND 2013

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, 2014. 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 greater than its liabilities at the close of the fiscal year by \$3,615,369 (net position).
- As of the close of the current fiscal year, the System reported combined ending net position of \$3,615,369, a decrease of \$366,230 in comparison with the prior year.
- The System's total debt increased by \$1,073,820 during the fiscal year. The key factors in this increase were the purchases of a new compactor, front end loader, and roll off truck.
- The System also discovered an error, dating back to 2007, in the calculation of closure/postclosure costs. The correction of this error resulted in a prior period adjustment of \$4,777,359. Combined with a second prior period adjustment, this correction increased the System's July 1, 2012, beginning net position (deficit) from (\$108,594) to \$4,618,246.
- The System maintained its AA+ bond rating.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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, 2014 AND 2013

	<u>Net Position</u>		
	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
<u>ASSETS AND DEFERRED</u>			
<u>OUTFLOWS OF RESOURCES</u>			
Current and other assets	\$ 6,390,012	\$ 6,632,564	\$ 7,872,168
Capital assets (net)	<u>11,629,856</u>	<u>10,215,364</u>	<u>9,365,587</u>
Total assets	18,019,868	16,847,928	17,237,755
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	 <u>\$ 18,019,868</u>	 <u>\$ 16,847,928</u>	 <u>\$ 17,237,755</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>			
Long-term liabilities outstanding	\$ 13,331,393	\$ 12,140,599	\$ 11,970,609
Other liabilities	<u>1,073,106</u>	<u>725,730</u>	<u>648,900</u>
Total liabilities	14,404,499	12,866,329	12,619,509
 <u>DEFERRED INFLOWS OF RESOURCES</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <u>NET POSITION</u>			
Net investment in capital assets	10,095,563	9,598,841	9,365,587
Unrestricted net position	<u>(6,480,194)</u>	<u>(5,617,242)</u>	<u>(4,747,341)</u>
Total net position (deficit)	<u>3,615,369</u>	<u>3,981,599</u>	<u>4,618,246</u>
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	 <u>\$ 18,019,868</u>	 <u>\$ 16,847,928</u>	 <u>\$ 17,237,755</u>

Net position may serve over time as one useful indicator of a government's financial condition. The assets of the System were more than the liabilities by \$3,615,369 as of June 30, 2014. The System's net position decreased by \$366,230 for the fiscal year ended June 30, 2014. However, the largest portion of assets, 56%, 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 (\$6,480,194) 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, 2014 AND 2013

Statements of Revenue, Expenses and Changes in Net Position

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>
Revenues:			
Operating revenues			
Charges for services	\$ 8,601,696	\$ 7,363,410	\$ 6,083,094
Recycle sales	1,036,128	1,004,633	1,327,091
User fees	2,907,516	2,969,096	2,898,946
Other	177,314	190,583	196,883
Non-operating revenues (expenses):			
Loss on sale of equipment	(5,178)	(7,275)	(2,339)
Government grants	143,447	149,621	151,552
Interest expense	(11,701)	(2,720)	-
Interest income	27,414	27,622	39,809
Total revenues	<u>12,876,636</u>	<u>11,694,970</u>	<u>10,695,036</u>
Expenses:			
Board/committee fees	5,900	5,300	5,000
Closure/postclosure cost	798,132	719,453	590,957
Communications	39,359	40,047	40,926
Contracted services	1,933,786	1,695,548	1,806,154
Depreciation	1,123,407	939,254	838,927
Insurance	141,177	136,596	133,323
Materials and supplies	3,296,769	3,239,699	2,921,083
Miscellaneous	64,233	80,700	70,483
Personnel	5,452,276	5,157,989	4,693,662
Property and equipment	112,483	65,123	89,692
Trustee commission	81,478	72,395	73,565
Utilities	193,866	179,513	152,066
Total expenses	<u>13,242,866</u>	<u>12,331,617</u>	<u>11,415,838</u>
Net change in net position	<u>(366,230)</u>	<u>(636,647)</u>	<u>(720,802)</u>
Net position (deficit) – beginning, as previously reported	3,981,599	4,618,246	612,208
Prior period adjustment	<u>-</u>	<u>-</u>	<u>4,726,840</u>
Net position - beginning, as restated July 1	<u>3,981,599</u>	<u>4,618,246</u>	<u>5,339,048</u>
Net position - ending, June 30	<u>\$ 3,615,369</u>	<u>\$ 3,981,599</u>	<u>\$ 4,618,246</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2014 AND 2013

Results of operations decreased the System's net position by \$366,230. 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, 2014 is \$11,409,458. This liability accounts for 79% of the System's total liabilities. The closure/postclosure expense for the year ended June 30, 2014 was \$798,132.

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.

During FY14, the tipping fee revenue increased by approximately 17%. This increase helped boost the System's operating revenue to a new yearly high: \$1,194,000 above FY13. The System also doubled the revenue received from the sale of methane gas by expanding the gas to energy project during FY14. During the course of the year, the System purchased \$2,548,286 of capital assets. The System was able to secure financing in the amount of \$1,073,820 through the primary government to cover the cost of several of the capital assets.

Capital Asset and Debt Administration

**Capital Assets:** The System's net investment in capital assets as of June 30, 2014 totaled \$10,095,563 (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 sold in the amount of \$7,045. This total consists of the sale of two small parcels that were included with the previous purchase of a larger parcel currently in use as a convenience center.
- Total increase in machinery and equipment of \$1,375,732. This increase is primarily due to the purchase of a compactor, front end loader, and a new roll off truck at a combined cost of \$1,155,670.
- Disposals of machinery and equipment totaling \$40,074.
- Increase of other property in the amount of \$1,172,554. This increase was solely for the construction of new cells at the landfill.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2014 AND 2013

	<u>Capital Assets</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,238,908	\$ 1,245,953	\$ 1,078,863
Buildings and Improvements	4,240,641	4,240,641	4,155,321
Machinery and equipment	14,637,716	13,302,058	11,767,274
Other equipment	<u>2,041,492</u>	<u>868,938</u>	<u>868,938</u>
Total	<u>\$ 22,158,757</u>	<u>\$ 19,657,590</u>	<u>\$ 17,870,396</u>

**Long-term Debt:** As of June 30, 2014, the System had total debt outstanding of \$1,534,293.

	<u>Outstanding Debt</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 460,473	\$ 616,523	\$ -
Notes payable	<u>1,073,820</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,534,293</u>	<u>\$ 616,523</u>	<u>\$ -</u>

The System's total debt increased by \$1,073,820 during the past fiscal year due to the \$1,073,820 note payable issued for the purchase of the new compactor, front end loader, and roll off truck.

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, 2015

Beginning in FY15 the System will raise tipping fees rates on class 1 and demolition wastes. The System anticipates the increase to produce approximately \$460,000 in additional revenue. In addition the System extended an interlocal agreement with its largest hauler. The agreement is now extended from June 30, 2014 to June 30, 2017 and will generate an estimated \$7,475,000 in total revenue. During the first four months of FY15 the System has already broken two monthly records for tipping fees. The System is also currently reviewing various user fee billing options that will minimize costs in the billing and processing of user fees and is preparing to begin a trial of a new method of billing and collecting user fees on or before July 1, 2015. Conversely, the System will continue the process of closing a section of the landfill with the expectation of a reduced closure/postclosure liability once the closure is approved by the State of Tennessee.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)  
JUNE 30, 2014 AND 2013

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.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2014</u>	<u>Restated 2013</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 4,266,647	\$ 4,916,645
Accounts receivable	2,051,362	1,611,987
Grants receivable	20,679	75,307
Inventories	51,324	28,625
Total current assets	<u>6,390,012</u>	<u>6,632,564</u>
<u>CAPITAL ASSETS</u>		
Land	1,238,908	1,245,953
Buildings and improvements	4,240,641	4,240,641
Property and equipment	14,637,716	13,302,058
Other capital assets	2,041,492	868,938
Total capital assets	<u>22,158,757</u>	<u>19,657,590</u>
Less: Accumulated depreciation	<u>10,528,901</u>	<u>9,442,226</u>
Net capital assets	<u>11,629,856</u>	<u>10,215,364</u>
Total assets	18,019,868	16,847,928
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 18,019,868</u>	<u>\$ 16,847,928</u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2014</u>	<u>Restated 2013</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 714,430	\$ 353,938
Accrued payroll	142,380	157,377
Customer deposits	24,777	28,087
Employee savings	51,519	46,328
Current portion of due to primary government - bonds payable	140,000	140,000
Total current liabilities	<u>1,073,106</u>	<u>725,730</u>
 <u>LONG-TERM LIABILITIES</u>		
Other postemployment benefits	247,774	188,261
Accrued compensated absences	279,868	253,274
Due to primary government - bonds payable	275,000	415,000
Note payable	1,073,820	-
Unamortized bond premium	45,473	61,523
Closure/postclosure liability	11,409,458	11,222,541
Total long-term liabilities	<u>13,331,393</u>	<u>12,140,599</u>
Total liabilities	<u>14,404,499</u>	<u>12,866,329</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
	-	-
 <u>NET POSITION</u>		
Net investment in capital assets	10,095,563	9,598,841
Unrestricted	(6,480,194)	(5,617,242)
Total net position	<u>3,615,369</u>	<u>3,981,599</u>
Total liabilities and net position	<u>\$ 18,019,868</u>	<u>\$ 16,847,928</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>Restated 2013</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 8,601,696	\$ 7,363,410
Recycle sales	1,036,128	1,004,633
User fees	2,907,516	2,969,096
Other	177,314	190,583
Total operating revenues	<u>12,722,654</u>	<u>11,527,722</u>
<u>OPERATING EXPENSES</u>		
Board/committee fees	5,900	5,300
Closure/postclosure cost	798,132	719,453
Communications	39,359	40,047
Contracted services	1,933,786	1,695,548
Depreciation	1,123,407	939,254
Insurance	141,177	136,596
Materials and supplies	3,296,769	3,239,699
Miscellaneous	64,233	80,700
Personnel	5,452,276	5,157,989
Property and equipment	112,483	65,123
Trustee commission	81,478	72,395
Utilities	193,866	179,513
Total operating expenses	<u>13,242,866</u>	<u>12,331,617</u>
<u>OPERATING LOSS</u>	<u>(520,212)</u>	<u>(803,895)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Loss on sale of equipment	(5,178)	(7,275)
Government grants	143,447	149,621
Interest expense	(11,701)	(2,720)
Interest income	27,414	27,622
Total non-operating revenues (expenses)	<u>153,982</u>	<u>167,248</u>
<u>NET CHANGE IN NET POSITION</u>	<u>(366,230)</u>	<u>(636,647)</u>
<u>NET POSITION (DEFICIT) - BEGINNING, AS PREVIOUSLY REPORTED</u>	3,981,599	(108,594)
<u>PRIOR PERIOD ADJUSTMENT - Note 14</u>	-	4,726,840
<u>NET POSITION (DEFICIT) - BEGINNING, AS RESTATED</u>	<u>3,981,599</u>	<u>4,618,246</u>
<u>NET POSITION (DEFICIT) - ENDING</u>	<u>\$ 3,615,369</u>	<u>\$ 3,981,599</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, 2014 AND 2013

	<u>2014</u>	<u>Restated 2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 12,095,392	\$ 10,975,292
Cash paid to suppliers	(6,142,473)	(6,654,139)
Cash paid to employees	(5,375,975)	(5,065,453)
Other cash receipts	239,205	153,631
Net cash provided by (used in) operating activities	<u>816,149</u>	<u>(590,669)</u>
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Government grants	<u>143,447</u>	<u>149,621</u>
Net cash provided by noncapital financing activities	<u>143,447</u>	<u>149,621</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds from sale of equipment	5,209	55,903
Proceeds from note payable	1,073,820	690,985
Payments on bonds payable	(156,050)	(74,462)
Interest paid	(11,701)	(2,720)
Purchase of capital assets	<u>(2,548,286)</u>	<u>(1,852,211)</u>
Net cash used in capital and related financing activities	<u>(1,637,008)</u>	<u>(1,182,505)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	<u>27,414</u>	<u>27,622</u>
Net cash provided by investing activities	<u>27,414</u>	<u>27,622</u>
 <u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	<u>(649,998)</u>	<u>(1,595,931)</u>
 <u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>4,916,645</u>	<u>6,512,576</u>
 <u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 4,266,647</u>	<u>\$ 4,916,645</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
STATEMENTS OF CASH FLOWS (CONT'D)  
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	Restated 2013
<u>RECONCILIATION OF OPERATING LOSS TO NET</u>		
<u>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Operating loss	\$ (520,212)	\$ (803,895)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,123,407	939,254
Changes in:		
Accounts receivable	(439,375)	(309,845)
Grants receivable	54,628	(37,271)
Inventories	(22,699)	(9,210)
Accounts payable	360,492	(88,897)
Accrued payroll	(14,997)	27,555
Customer deposits	(3,310)	(1,164)
Employee savings	5,191	(663)
Accrued compensated absences	26,594	34,849
Closure/postclosure liability	186,917	(372,177)
Other postemployment benefits	59,513	30,795
Net cash provided by (used in) operating activities	\$ 816,149	\$ (590,669)

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013

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 could 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 receivables. The System is exposed to credit risk by placing its deposits in financial institutions. The System has mitigated this risk because the bank balance in excess of the FDIC insurance limit is collateralized by the State of Tennessee Bank Collateral Pool. With respect to receivables, credit risk is dispersed across a large number of customers who are geographically concentrated in the System's service area. The System does not obtain collateral for receivables.

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, 2014 AND 2013

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 position 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 net investment in capital assets at June 30, 2014 and 2013 was:

	2014	2013
Capital assets	\$ 22,158,757	\$ 19,657,590
Accumulated depreciation	(10,528,901)	(9,442,226)
Debt related to capital assets	(1,534,293)	(616,523)
	\$ 10,095,563	\$ 9,598,841

Restricted: Net position 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 position as of June 30, 2014 and 2013.

Unrestricted: Net position that is not subject to externally imposed stipulations and that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position 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 position of \$6,480,194 and \$5,617,242 as of June 30, 2014 and 2013, 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, 2014 AND 2013

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 Position

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

Date of Management's Review

Subsequent events have been evaluated through November 14, 2014, 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 position as cash and cash equivalents. The System paid the Trustee \$81,478 and \$72,395 during the years ended June 30, 2014 and 2013, respectively, for these services.

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

2. Deposits and Investments (Cont'd)

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, 2014, cash and other deposits included bank balances totaling \$4,484,809, 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.

3. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Land – held for expansion	\$ 783,246	\$ -	\$ 7,045	\$ 776,201
Land	462,707	-	-	462,707
Buildings and improvements	4,240,641	-	-	4,240,641
Property and equipment	13,302,058	1,375,732	40,074	14,637,716
Other property	868,938	1,172,554	-	2,041,492
Total capital assets	<u>\$ 19,657,590</u>	<u>\$ 2,548,286</u>	<u>\$ 47,119</u>	<u>\$ 22,158,757</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

3. Capital Assets (Cont'd)

A summary of changes in accumulated depreciation for the year ended June 30, 2014 follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Buildings and improvements	\$ 1,120,391	\$ 110,854	\$ -	\$ 1,231,245
Property and equipment	7,471,661	856,480	36,732	8,291,409
Other property	<u>850,174</u>	<u>156,073</u>	<u>-</u>	<u>1,006,247</u>
Total accumulated depreciation	<u>\$ 9,442,226</u>	<u>\$ 1,123,407</u>	<u>\$ 36,732</u>	<u>\$ 10,528,901</u>

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	<u>868,938</u>	<u>-</u>	<u>-</u>	<u>868,938</u>
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	<u>847,998</u>	<u>2,176</u>	<u>-</u>	<u>850,174</u>
Total accumulated depreciation	<u>\$ 8,504,809</u>	<u>\$ 939,254</u>	<u>\$ 1,837</u>	<u>\$ 9,442,226</u>

Land is not depreciated. Construction in progress is not depreciated until placed in service.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

4. Due to Primary Government – Bonds Payable

Long-term debt consisted as follows:

	2014	2013
\$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%.	\$ 415,000	\$ 555,000
Plus: Unamortized net bond premium	45,473	61,523
Total long-term debt	\$ 460,473	616,523
Less: Current portion	140,000	140,000
Total long-term debt excluding current portion	\$ 320,473	\$ 476,523

Future payments on long-term debt are as follows:

June 30,	Principal	Interest
2015	\$ 140,000	\$ 20,750
2016	140,000	13,750
2017	135,000	6,750
Total future payments	\$ 415,000	\$ 41,250

Interest incurred of \$11,701 and \$2,720 was expensed during the years ended June 30, 2014 and 2013, respectively.

A summary of changes in long-term debt is as follows:

	2014	2013
Payable at July 1	\$ 555,000	\$ -
Proceeds	-	625,000
Repayments	(140,000)	(70,000)
Payable at June 30	\$ 415,000	\$ 555,000

5. Note Payable

During the year ending June 30, 2014, the Montgomery County Commission advanced \$1,073,820 cash for equipment purchases to be ultimately funded by bonds issued by Montgomery County in the fiscal year ending June 30, 2016. The System received 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.

6. 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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

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

based on landfill section capacity used as of each balance sheet date. Closure/postclosure costs are calculated based on an engineering evaluation. The \$11,409,458 reported as landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on the use of 63 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 \$6,622,141 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 2014. 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.

Montgomery and Stewart Counties have executed a "Contract in Lieu of Performance Bond" in the amount of \$20,297,563 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:

	2014	Restated 2013
Accrued liability at July 1	\$ 11,222,541	\$ 11,698,668
Current year accrual	798,132	719,453
Current year closure costs	(611,215)	(1,195,580)
Accrued liability at June 30	\$ 11,409,458	\$ 11,222,541

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.

7. Accrued Compensated Absences

Changes in accrued compensated absences for the year ended June 30, 2014, were as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Accrued compensated absences	\$ 253,274	\$ 26,594	\$ -	\$ 279,868

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

8. 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.

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) Codification Po50 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 Codification Po50 as described below. The plan does not issue stand-alone financial reports.

The GASB issued GASB Codification Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit” which 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 Codification Po50. 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.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

8. Other Postemployment Benefits (Cont'd)

	2014	2013
Normal cost	\$ 52,466	\$ 34,688
30-year amortization of accrued liability	35,572	25,056
Interest on net OPEB obligation	1,743	1,183
Annual required contribution	89,781	60,927
Interest on net OPEB obligation	7,530	6,299
Adjustment on annual required contribution	(7,842)	(6,279)
Annual OPEB expense	89,469	60,947
Contributions made	(29,956)	(30,152)
Increase in net OPEB obligation	59,513	30,795
Net OPEB obligation – beginning	188,261	157,466
Net OPEB obligation – ending	\$ 247,774	\$ 188,261

The System's annual OPEB expense, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 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, 2014	\$ 89,469	33%	\$ 247,774
June 30, 2013	\$ 60,947	49%	\$ 188,261
June 30, 2012	\$ 57,372	48%	\$ 157,466

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$859,995 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$859,995. The covered payroll (annual payroll of active employees covered by the plan) was \$2,856,924 and the ratio of the UAAL to the covered payroll was 30.10 percent. The ARC was 3.14% 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.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

8. Other Postemployment Benefits (Cont'd)

In the July 1, 2014, 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, 2014, is 24 years.

The System pays and expenses the costs of the benefits as they are incurred. At June 30, 2014, the System had two eligible retirees receiving benefits.

9. 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.treasury.state.tn.us](http://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 ended June 30, 2014 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, 2014, Montgomery County Comprehensive Annual Financial Report.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

10. Concentrations

The System receives a substantial amount of its charges for services (tipping fees) from three entities: City of Franklin, Clarksville Disposal and Queen City Disposal. These three haulers comprised 57.34% and 58.19% of tipping fee revenues earned during the years ended June 30, 2014 and 2013, respectively, as well as \$692,741 (47.37%) and \$457,737 (44.63%) of accounts receivable balances at June 30, 2014 and 2013, 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.

11. 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 two short-term leases for dump trucks during the fiscal year ended June 30, 2014. The lease payments for the years ended June 30, 2014 and 2013, were \$169,465 and \$92,781, 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>
2015	\$ 32,702
2016	19,138
2017	12,580
2018	<u>2,400</u>
Total	<u>\$ 66,820</u>

12. 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.

13. 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.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2014 AND 2013

14. Prior Period Adjustment

Closure/postclosure liability and net position were adjusted as of June 30, 2012 to correct accounting errors that occurred in previous years. An error was discovered in the calculation for the closure/postclosure liability. The System began receiving waste on a new parcel of land during the year ended June 30, 2014. The State had included the closure/postclosure costs of the parcel in its calculation provided to System management since 2007 while the System believed it was not included. Therefore, management had to separate the parcels to recalculate the closure/postclosure liability based on the capacity of the separate parcels, creating a reduction in the closure/postclosure liability. It was also discovered that, as a result of overpayment from the user fee billing agent, user fee revenue had been recorded for customers who had not paid their user fee in previous years.

Following is a schedule of adjustments to the June 30, 2012 statement of financial position:

Decrease in closure/postclosure liability	\$ 4,777,359
Decrease in user fee revenue	<u>(50,519)</u>
Total increase to net position	4,726,840
Net position (deficit), June 30, 2012, as previously reported	<u>(108,594)</u>
Net position, June 30, 2012, as restated	<u>\$ 4,618,246</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
YEAR ENDED JUNE 30, 2014

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)
6/30/2014	\$ -	\$ 860,000	\$ 860,000	0.00%	\$ 2,856,900	30.10%
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%

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2014

<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, 2013</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2014</u>
<u>State of Tennessee, Department of Environment and Conservation</u>						
FY 2013 Waste Tire Options	DG1337817	N/A	\$ 44,707	\$ 44,707	\$ -	\$ -
FY 2014 Waste Tire Options	DG1337817	N/A	-	92,578	113,257	20,679
FY 2014 Recycling Rebate Funds	N/A	N/A	-	12,590	12,590	-
FY 2013 Used Oil Collection Equipment	N/A	N/A	10,000	10,000	-	-
<u>State of Tennessee, Department of Transportation</u>						
Statewide Roadside Litter Pickup and Education	DG1338324	N/A	<u>20,600</u>	<u>38,200</u>	<u>17,600</u>	<u>-</u>
Total state financial assistance			<u>\$ 75,307</u>	<u>\$ 198,075</u>	<u>\$ 143,447</u>	<u>\$ 20,679</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
JUNE 30, 2014

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial assistance includes the 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, 2014

	<u>Due to Primary Government</u>	
	<u>Interest</u>	<u>Principal</u>
2015	\$ 20,750	\$ 140,000
2016	13,750	140,000
2017	6,750	135,000
	<u>\$ 41,250</u>	<u>\$ 415,000</u>



STONE,  
RUDOLPH  
& HENRY, PLC

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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

To the 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, 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 November 14, 2014.

**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.

*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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The System resolved prior year finding number 2013-001 by performing the specific tasks outlined in our report dated December 30, 2013.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

## **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

November 14, 2014

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Financial Statement Findings

<b>Finding Number</b>	<b>Finding Title</b>	<b>Status</b>
2013-001	Management Oversight Over Financial Reporting	Corrected