

HAMBLÉN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

Financial Statements

Year Ended June 30, 2015

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Financial Statements
Year Ended June 30, 2015

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HAMBLLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Roster of Officials and Board Members
Year Ended June 30, 2015

Officials

Mr. Dan Winter

Director

Board Members

Mr. Tony Cox
Mr. Bill Blackburn
Mr. Bill Britain
Mr. Bob Garrett
Mr. John Hofer
Mr. Keith Jackson
Mr. Louis Jarvis
Mr. Matt Lacy
Mr. Tom Rush

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Hamblen County - Morristown Solid Waste Disposal System (the "Landfill") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Landfill'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.

Auditors' 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 Landfill'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 Landfill'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 above present fairly, in all material respects, the respective financial position of the Landfill, as of June 30, 2015, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

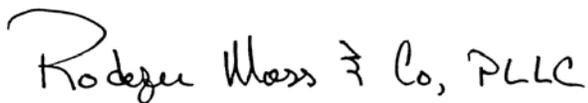
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information and schedules of retirement plan funding progress and post-retirement welfare funding progress as listed in 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, on our consideration of the Landfill'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 Landfill's internal control over financial reporting and compliance.



Greeneville, Tennessee
December 18, 2015

HAMBLÉN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

This section of the Hamblen County - Morristown Solid Waste Disposal System (the "Landfill") financial report presents an overview and analysis of the Landfill's financial performance for the fiscal year ended June 30, 2015. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Landfill exceeded its liabilities and deferred inflows of resources by \$352,338 (net position) at the close of the most recent fiscal year.
- The Landfill's total net position decreased by \$893,157 from the prior fiscal year. While the total net position decreased by \$620,252 from operating activities, a prior period adjustment related to the implementation of an accounting standard for the recording of retirement liability decreased total net position by \$272,905.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Landfill's financial statements. The basic financial statements consist of two parts: (1) government-wide financial statements and (2) notes to the financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the Landfill's finances in a manner similar to a private-sector business. The Landfill is reported as a business-type activity.

The statement of net position presents information on all of the Landfill's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Landfill is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Landfill's net position changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

Notes to the financial statements The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The additional information contained in these notes is essential to a full understanding of the information provided in the government-wide financial statements.

Financial Analysis of the Landfill as a Whole

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Landfill, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$352,338 at the close of the most recent year. Of the Landfill's net position, \$3,400,266 represents its net investment in capital assets. Because capital assets are used to provide services to customers, the assets are not available for future spending.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Management's Discussion and Analysis (Unaudited) (Continued)

Hamblen County - Morristown Solid Waste Disposal System's Net Position
(in thousands)

	2015	2014
Current and other assets	\$ 3,096	\$ 3,719
Capital assets	3,450	2,929
Total assets	6,546	6,648
Deferred outflows of resources	52	-
Current liabilities	125	146
Non-current liabilities	5,879	5,257
Total liabilities	6,004	5,403
Deferred inflows of resources	242	-
Net position:		
Net Investment in capital assets	3,400	2,929
Unrestricted	(3,048)	(1,684)
Net position	\$ 352	\$ 1,245

During the fiscal year, the Landfill's net position decreased by \$893,157. The following is a summary of financial activities for the Landfill during the fiscal year ended June 30, 2015:

Hamblen County - Morristown Solid Waste Disposal System's Changes in Net Position
(in thousands)

	2015	2014
Revenues		
Operating revenues	\$ 1,955	\$ 2,015
Other sources	48	55
	2,003	2,070
Expenses		
Operating expenses	2,623	2,906
Decrease in net position	(620)	(836)
Net position - beginning	1,245	2,081
Prior period restatement	(273)	-
Net position - beginning, restated	972	2,081
Net position - ending	\$ 352	\$ 1,245

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Management's Discussion and Analysis (Unaudited) (Continued)

Capital Assets

At the end of the current fiscal year, the Landfill had \$3,450,154 (net of accumulated depreciation) invested in capital assets. This investment includes land and improvements, buildings and improvements, and other capital assets such as equipment, furniture and rental property. The following table shows the investment in capital assets for the current and previous fiscal year.

Hamblen County - Morristown Solid Waste Disposal System's Capital Assets
(net of depreciation, in thousands)

	2015	2014
Land and improvements	\$ 1,273	\$ 1,325
Buildings	319	246
Other capital assets	1,858	1,358
Total capital assets	\$ 3,450	\$ 2,929

Requests for Information

This financial report is designed to provide a general overview of the Landfill's finances for all those with an interest in the Landfill's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Hamblen County - Morristown Solid Waste Disposal System, 3849 Sublett Road, Morristown, Tennessee 37813.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

Statement of Net Position

June 30, 2015

ASSETS

Current assets

Cash	\$ 861,278
Accounts receivable	213,296
Prepaid expenses	<u>10,748</u>
Total current assets	<u>1,085,322</u>

Non-current assets

Investments	<u>2,011,091</u>
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Capital assets

Capital assets, net of depreciation	<u>3,450,154</u>
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Total assets	<u>6,546,567</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension	<u>52,063</u>
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Total deferred outflows of resources	52,063
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LIABILITIES

Current liabilities

Accounts payable	58,647
Capital lease	25,925
Accrued compensation	<u>40,066</u>

Total current liabilities	<u>124,638</u>
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Non-current liabilities

Capital lease	23,963
Pension	1,657
Accrued closure and postclosure care costs	<u>5,853,714</u>

Total non-current liabilities	<u>5,879,334</u>
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Total liabilities	<u>6,003,972</u>
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DEFERRED INFLOWS OF RESOURCES

Pension	<u>242,320</u>
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Total deferred inflows of resources	<u>242,320</u>
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NET POSITION

Net investment in capital assets	3,400,266
Unrestricted	<u>(3,047,928)</u>

Total net position	<u>\$ 352,338</u>
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HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

OPERATING REVENUES	
Tipping fees	\$ 1,853,365
Tire disposal	54,854
Rent	15,445
Miscellaneous income	<u>31,622</u>
Total operating revenues	<u>1,955,286</u>
 OPERATING EXPENSES	
Postclosure care costs	599,862
Salaries	505,794
Equipment operations	383,366
Depreciation	353,226
Fringe benefits	187,915
Professional services	184,565
Maintenance and repairs	102,585
Fuel	86,396
Insurance	85,466
Utilities and telephone	58,396
Materials and supplies	40,208
Miscellaneous	22,595
Travel	<u>13,048</u>
Total operating expenses	<u>2,623,422</u>
Operating loss	<u>(668,136)</u>
 OTHER FINANCING SOURCES	
Interest income	23,546
Interest expense	(1,018)
Realized loss	(499)
Unrealized gain	14,620
Proceeds from sales of capital assets	<u>11,235</u>
Total other financing sources	<u>47,884</u>
Change in net position	(620,252)
Net position, at the beginning of the year, restated	<u>972,590</u>
Net position, at the end of the year	<u><u>\$ 352,338</u></u>

See accompanying notes to financial statements.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM

Statement of Cash Flows

Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Payments received from customers	\$ 2,142,624
Payments to employees	(494,992)
Payments to suppliers	<u>(1,247,684)</u>
Net cash flows used for operating activities	<u>399,948</u>

CASH FLOWS FROM CAPITAL AND RELATED INVESTING ACTIVITIES

Proceeds from sales of capital assets	11,235
Acquisition of capital assets	(820,250)
Principal paid on capital lease	(5,592)
Interest paid on capital lease	(1,018)
Redemptions of investments, net	<u>1,137,811</u>
Net cash flows from capital and related investing activities	<u>322,186</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earned	<u>23,546</u>
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Net increase in cash and cash equivalents 745,680

Cash and cash equivalents at the beginning of the year 115,598

Cash and cash equivalents at the end of the year \$ 861,278

Reconciliation of operating income to net cash flows from operating activities:

Operating loss \$ (668,136)

Adjustments to reconcile operating loss to net cash from operating activities:

Depreciation	353,226
Amortization of deferred inflows of resources	28,928
Changes in operating assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable - tipping fees	187,338
Prepaid expenses	975
Deferred outflow of resources	(52,063)
(Decrease) increase in:	
Accounts payable	(69,559)
Accrued compensation	19,377
Accrued closure and postclosure care costs	<u>599,862</u>

Net cash flows used for operating activities \$ 399,948

HAMBLLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The Hamblen County - Morristown Solid Waste Disposal System (the “Landfill”) is a joint venture of the City of Morristown, Tennessee (the “City”) and Hamblen County, Tennessee (the “County”). The facility serves to operate a single baling and waste disposal system. The intent of the governing board is that the costs of providing service to the public be recovered through fees paid by the City, County, and local industries for the disposal of waste.

Basis of Presentation - The Landfill is an enterprise fund which is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Landfill follows Governmental Accounting Standards Board Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.*”

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting - The Landfill is not required to operate within an approved budget. However, budgets are used internally for managerial purposes.

Cash and Cash Equivalents - The Landfill considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Capital Assets - Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Interest costs incurred during construction of fixed assets are capitalized as part of the cost of the assets.

All purchases and construction costs that have an economic useful life that extends beyond 12 months and was acquired or produced for a cost in excess of \$1,000 are capitalized at the date of acquisition or construction, respectively. Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Machinery and equipment	5-10 years
Buildings	10-31.5 years
Furniture and fixtures	10 years
Land improvements	12-20 years
Office equipment	5-13 years
Rental property	10-27.5 years

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Compensated Absences - It is the Landfill's policy to permit employees to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon separation from service. Sick leave will be accumulated at one day per month and can be accumulated indefinitely, but can only be used as service time for early retirement if not otherwise used. A maximum of 42 days of annual leave can be carried over to the next year.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Landfill's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Landfill's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Implementation of New Accounting Pronouncements - GASB 68, *Accounting and Financial Reporting for Pensions* supersedes existing guidance on financial reporting for defined pension plans found in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*. The Statement affects accounting and financial reporting of pensions by state and local governments, and establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No.68.

Statements No. 68 and 71 were effective for periods beginning after June 15, 2014. The Landfill implemented these standards effective July 1, 2014. The Landfill's beginning net position was restated and decreased \$272,905 as a result of the implementation of these two standards.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the statement of net position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 2 - CASH

Various restrictions on deposits are imposed by state statutes. The Landfill's bank balance at June 30, 2015 was \$872,938 and was fully covered by FDIC insurance and through the bank's participation in the Tennessee Collateral Pool. The Landfill also holds certificates of deposit in their name. At June 30, 2015, the carrying amounts of these deposits were \$2,011,091 and were fully covered by FDIC insurance.

The Landfill is exposed to concentration of credit risk by placing its deposits in financial institutions. The Landfill has mitigated the risks because the bank balances in excess of the FDIC limit are collateralized by the State of Tennessee bank collateral pool.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 consist of charges for fees and services totaling \$213,296. The Landfill considers the accounts to be fully collectible; therefore, no allowance for uncollectible accounts has been recorded.

HAMBLÉN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities				
Capital assets not being depreciated				
Land	\$ 822,267	\$ -	\$ -	\$ 822,267
Total assets not being depreciated	<u>822,267</u>	<u>-</u>	<u>-</u>	<u>822,267</u>
Capital assets, being depreciated				
Land improvements	8,722,500	-	-	8,722,500
Rental property	341,978	-	-	341,978
Buildings and improvements	935,003	108,904	-	1,043,907
Furniture and fixtures	5,626	4,927	-	10,553
Machinery and equipment	4,646,381	750,171	(87,895)	5,308,657
Office equipment	48,931	9,847	-	58,778
Total other capital assets	<u>14,700,419</u>	<u>873,849</u>	<u>(87,895)</u>	<u>15,486,373</u>
Less accumulated depreciation for				
Land improvements	8,220,032	51,656	-	8,271,688
Rental property	48,919	13,697	-	62,616
Buildings and improvements	688,691	36,370	-	725,061
Furniture and fixtures	5,626	109	-	5,735
Office equipment	48,931	1,413	-	50,344
Machinery and equipment	<u>3,580,956</u>	<u>249,981</u>	<u>(87,895)</u>	<u>3,743,042</u>
Total accumulated depreciation	<u>12,593,155</u>	<u>353,226</u>	<u>(87,895)</u>	<u>12,858,486</u>
Total capital assets, being depreciated, net	<u>2,107,264</u>	<u>520,623</u>	<u>-</u>	<u>2,627,887</u>
Governmental activities capital assets, net	<u>\$ 2,929,531</u>	<u>\$ 520,623</u>	<u>\$ -</u>	<u>\$ 3,450,154</u>

Depreciation charged to expense was \$353,226 for the year ended June 30, 2015.

NOTE 5 - RETIREMENT PLAN

Plan Description

Employees of Morristown Hamblen County Landfill (the "Landfill") are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 5 - RETIREMENT PLAN (Continued)

Benefits Provided:

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members become eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>10</u>
	<u><u>20</u></u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. The Landfill makes employer contributions at the rate set by the Board of Trustees as determined by actuarial valuation. For the year ended June 30, 2015, employer contributions for the Landfill were \$52,063 based on a rate of 10.52 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Landfill’s state shared taxes if required employer contributions are not remitted. The employer’s actuarially determined contributions (“ADC”) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

Valuation Date - The Landfill’s net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent.
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 5 - RETIREMENT PLAN (Continued)

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study performed for the period of July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	<u>1%</u>
		100%

The long-term rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Commission will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 5 - RETIREMENT PLAN (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 7/1/13	\$ 2,002,370	\$ 1,670,174	\$ 332,196
Changes for the year:			
Service Cost	40,562	-	40,562
Interest	145,638	-	145,638
Differences between expected and actual experience	(167,160)	-	(167,160)
Contributions - employer	-	59,291	(59,291)
Contributions - employee	-	23,828	(23,828)
Net investment income	-	266,967	(266,967)
Benefit payments, including refunds of employee contributions	(202,182)	(202,182)	-
Administrative expense	-	(507)	507
Net changes	<u>(183,142)</u>	<u>147,397</u>	<u>(330,539)</u>
Balances at 6/30/14	<u>\$ 1,819,228</u>	<u>\$ 1,817,571</u>	<u>\$ 1,657</u>

Sensitivity of the net pension liability (asset) changes in the discount rate. The following presents the net position liability (asset) of the Commission calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5) than the current rate:

	1 % Decrease (6.50)	Current Discount Rate (7.50)	1 % Increase (8.50)
Net pension liability (asset)	\$ 211,302	\$ 1,657	\$ (177,784)

Pension Income and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Landfill recognized pension income of \$28,928.

For the year ended June 30, 2015, the Landfill reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 125,370
Net difference between projected and actual earnings on pension plan investments	-	116,950
Contributions subsequent to measurement date of June 30, 2014	<u>52,063</u>	<u>-</u>
Total	<u>\$ 52,063</u>	<u>\$ 242,320</u>

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 5 - RETIREMENT PLAN (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 71,028
2017	71,028
2018	71,028
2019	<u>29,236</u>
Total	<u>\$ 242,320</u>

Payable to the Pension Plan

At June 30, 2015, the Landfill reported a payable of \$9,308 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 6 - OTHER POST EMPLOYMENT BENEFITS

The Landfill 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, one retiree meets these eligibility requirements. The Landfill pays 80 percent of medical premiums and 100 percent of dental and vision premiums to retirees and their dependents. The average annual medical, dental and vision premium is \$5,166 for the retiree and \$5,359 for eligible employee and spouse. The Landfill funds the plan on a pay as you go basis and does not intend to contribute in excess of the annual premiums.

During 2014, the Landfill had an actuarial study performed to determine the Landfill's actuarial accrued liability for other post employment benefits ("OPEB"). The present value of the unfunded actuarial accrued OPEB was \$9,504 as of the actuarial valuation date, July 1, 2012.

The valuation disclosure below assumed a funding interest rate of 4%; a 2012 medical trend rate of 9%; an ultimate trend rate of 5%; that the ultimate trend rate will be reached in 2016; an Entry Age Normal actuarial cost method; annual payroll growth rate of 2.5%; and a remaining amortization period of 10.97 years at June 30, 2013.

Annual OPEB Cost and Net OPEB Obligations

	7/1/14-6/30/15
Annual required contribution (ARC)	\$ 17,864
Interest on net OPEB obligation	129
Adjustment to ARC	<u>(366)</u>
Annual OPEB cost (expense)	17,627
Contribution made (assumed middle of year) *	<u>(11,359)</u>
Increase in net OPEB obligation	6,268
Net OPEB obligation - beginning of year	<u>3,236</u>
Net OPEB obligation - end of year	<u><u>\$ 9,504</u></u>

* Contribution made was assumed to equal expected benefit payments

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Notes to Financial Statements
June 30, 2015

NOTE 7 - CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

State and federal laws and regulations required that a final cover be placed on the Landfill site when it stops accepting waste, and that certain maintenance and monitoring functions be performed at the site for thirty years after closure. The Landfill has chosen to perform six small closures instead of one large closure; therefore the calculation of closure and postclosure care cost have been adjusted accordingly. The Landfill reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used at the balance sheet date. The \$5,853,714 reported as landfill closure and postclosure care liability at June 30, 2015 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 80% of Phase II of the landfill based upon a study conducted in 2013. These amounts are based on what it would cost to perform all closure and postclosure care in 1996 adjusted by inflation, the Landfill closed Phase I in 1996 and will close Phase II in the year 2022. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City and County have pledged to operate the Landfill and perform closure of the site 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 8 - CAPITAL LEASE

In 2015, the Landfill entered in a capital lease for a piece of equipment. The cost of the equipment was capitalized for \$53,600. The lease is for a period of 26 months and monthly payments are required in the amount of \$2,300. The following is a schedule of future lease payments at June 30:

	2016	\$ 29,900
	2017	<u>23,125</u>
Total minimum lease payments		53,025
Less amount representing interest		<u>3,137</u>
Present value of minimum lease payments		<u>\$ 49,888</u>

NOTE 9 - RISK MANAGEMENT

The Landfill 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 Landfill's risks of loss are covered by a commercial package insurance policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 10 - CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Landfill to concentrations of credit risk consist primarily of customer accounts receivable. Management does not believe significant credit risk exists as of June 30, 2015.

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
Year Ended June 30, 2015

Measurement Period Ended	<u>6/30/2014</u>
Total pension liability	
Service cost	\$ 40,562
Interest	145,638
Changes of benefit terms	-
Differences between expected and actual experience	(167,160)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(202,182)</u>
Net change in total pension liability	(183,142)
Total pension liability - beginning	<u>2,002,370</u>
Total pension liability - ending (a)	<u><u>\$ 1,819,228</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 59,291
Contributions - employee	23,828
Net investment income	266,967
Benefit payments, including refunds of employee contributions	(202,182)
Administrative expense	(507)
Other	<u>-</u>
Net change in plan fiduciary net position	147,397
Plan fiduciary net position - beginning	<u>1,670,174</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,817,571</u></u>
Net pension liability - ending (a) - (b)	1,657
Plan fiduciary net position as a percentage of the total pension liability	99.91%
Covered - employee payroll	\$ 467,602
Net pension liability as a percentage of covered employee payroll	0.35%

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Schedule of Contributions (Unaudited)
Year Ended June 30, 2015

Measurement period ended June 30,	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 59,291	\$ 52,063
Contributions in relation to the actuarially determined contribution	<u>59,291</u>	<u>52,063</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 467,602	\$ 494,992
Contributions as a percentage of covered employee payroll	12.68%	10.52%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Frozen initial liability
Amortization method:	Level dollar, closed (not to exceed 20 years)
Remaining amortization period:	9 years
Asset valuation method:	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases:	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return:	7.5 percent, net of investment expense, including inflation
Retirement age:	Pattern of retirement determined by experience study
Mortality:	Customized table based on actual experience including an adjustment for some anticipated improvement

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Schedule of Post-Retirement Welfare Plan Funding Progress (Unaudited)
Year Ended June 30, 2015

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)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2007	\$ -	\$ 253,959	\$ 253,959	0%	N/A	N/A
July 1, 2009	\$ -	\$ 217,687	\$ 217,687	0%	\$ 427,378	50.94%
July 1, 2012	\$ -	\$ 118,080	\$ 118,080	0%	\$ 435,533	27.11%

Independent Auditors' 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 the Hamblen County - Morristown Solid Waste Disposal System (the "Landfill"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Landfill's basic financial statements, and have issued our report thereon dated December 18, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Landfill'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Landfill's internal control. Accordingly, we do not express an opinion on the effectiveness of the Landfill'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 Landfill'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency, 2015-01.

Compliance and Other Matters

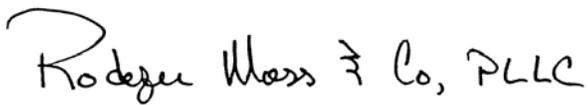
As part of obtaining reasonable assurance about whether the Landfill's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

Landfill's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Landfill'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 Landfill's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Roderic Messerly & Co, PLLC". The signature is written in a cursive, professional style.

Greeneville, Tennessee
December 18, 2015

HAMBLEN COUNTY - MORRISTOWN SOLID WASTE DISPOSAL SYSTEM
Schedule of Findings
Year Ended June 30, 2015

Current Year

2015-01 - Observation

During our audit, we noted no purchasing policy had been implemented. As a result, we noted several instances where purchase orders had not been properly completed (no date, no amount, and no authorized signature). We also noted that the Director was not reviewing invoices before payment was made, invoices were not being stamped paid to prevent duplicate payment, and there was no indication on the invoice whether items had been received.

Criteria

A purchasing policy should be implemented to correct the internal control deficiency noted above.

Effect

Due to lack of a purchasing policy and review of expenditures by the Director, funds could be misappropriated.

Recommendation

The Landfill should implement a purchasing policy that addresses the deficiency noted above.

Management's Response

Management concurs and will implement a purchasing policy.

Prior Year Finding Corrected

2014-1 Misappropriation of funds