

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN
& LINCOLN COUNTIES, TENNESSEE**

Financial Statements and Supplemental Information

For the Year Ended June 30, 2015

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

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Independent Auditor's Report

Board of Directors
Interlocal Solid Waste Authority
of Giles, Franklin & Lincoln Counties, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Interlocal Solid Waste Authority of Giles, Franklin, Lincoln Counties, Tennessee (the Authority), as of and for the year ended June 30, 2015, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2015 and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 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.

Supplemental Information

The Supplemental Schedules have not been subjected to the auditing procedures applied by us and, accordingly, we express no opinion on them

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.



December 7, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD & A) of the Interlocal Solid Waste Authority activities and financial performance provides the reader with an introduction and overview to the financial statements of the Authority for the year ended June 30, 2015. This information should be considered within the context of the Accompanying financial statements and note disclosures.

FINANCIAL OPERATIONS HIGHLIGHTS

Net position decreased \$6,502 in 2015 as compared to a decrease of \$18,647 in 2014. The Authority's revenues increased from \$2,010,165 in 2014 to \$2,228,971 in 2015. The Authority has twelve (12) entities that are billed for disposal costs and fees on a monthly basis. All of the Authority's revenue comes from the administrative costs billed to these entities.

Operating expenses increased from \$2,033,747 in 2014 to \$2,230,936 in 2015, a 9% increase. The increase is due primarily to increased disposal costs.

OVERVIEW OF FINANCIAL STATEMENTS

MD & A introduces the Authority's basic financial statements. The basic financial statements include the statement of net position, statement of revenues, expenses and changes in fund net position, the statement of cash flows and the notes to the financial statements.

The statement of net position reports all the Authority's assets and liabilities, with the difference being reported as net position. Over time increases or decreases typically give some indication of whether the financial position of the Authority is improving or deteriorating. However, overall evaluation of the financial health of the Authority should include non-financial factors such as the physical condition of capital assets. The majority of the Authority's net position is invested in capital assets (equipment). These assets are used to provide services to the entities, which are members of the Authority.

The statement of revenues, expenses, and changes in fund net position reports all revenues and expenses for the year, regardless of whether cash has been received or paid. An important purpose of the statement is to show whether the Authority's revenues and operations are sufficient to support continued operations.

The statement of cash flows converts the operations of the Authority to a cash basis and shows how those cash flows were spent during the year, for example, purchases of fixed assets.

CONDENSED FINANCIAL INFORMATION

A condensed summary of the Authority's financial position follows:

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 676,315	752,710
Capital Assets, net of accumulated depreciation	681,125	2,088
Other Assets	<u>92,936</u>	<u>19,447</u>
Total Assets	<u>1,450,376</u>	<u>774,245</u>
Current Liabilities	<u>218,432</u>	<u>156,352</u>
Long-Term Liabilities	<u>640,000</u>	-
Net Position:		
Invested in capital assets	134,061	2,088
Unrestricted	<u>457,883</u>	<u>615,805</u>
Total Net Position	<u>591,944</u>	<u>617,893</u>
Total Liabilities and Net Position	<u>\$ 1,450,376</u>	<u>774,245</u>

A summary of the Authority's operations follows:

	<u>2015</u>	<u>2014</u>
Operating Revenues	\$ 2,228,971	2,010,165
Operating Expenses	<u>(2,230,936)</u>	<u>(2,033,747)</u>
Operating Income	(1,965)	(23,582)
Other Revenue	<u>(4,537)</u>	<u>4,935</u>
Change in Net Position	<u>\$ (6,502)</u>	<u>(18,647)</u>

CURRENT INTERLOCAL SOLIDWASTE ACTIVITIES

The Authority is under a five year contract, commencing April 1, 2015, with Waste Services of Tennessee and BFI Waste Systems of Tennessee for disposal of solid waste. The contracts specify a disposal price of \$43.11 and 49.00, respectively, per ton, plus \$3.76 per ton administrative fee. Financial operations remained generally unchanged and are expected to continue as such in the year 2016.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Net Position

June 30, 2015

<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 379,481
Accounts receivable	<u>296,834</u>
Total current assets	<u>676,315</u>
Capital Assets:	
Capital assets, net of accumulated depreciation of \$51,671	<u>681,125</u>
Other Assets:	
Unamortized contract negotiation costs, net of amortization of \$111,867	<u>92,936</u>
Total assets	\$ <u>1,450,376</u>
<u>Liabilities and Net Position</u>	
Current Liabilities:	
Accounts payable	\$ 217,145
Accrued expenses	<u>1,287</u>
Total current liabilities	<u>218,432</u>
Long-Term Liabilities:	
Note Payable-Bank	<u>640,000</u>
Total long-term liabilities	<u>640,000</u>
Total Liabilities	<u>858,432</u>
Net Position:	
Investment in capital assets	134,061
Unrestricted	<u>457,883</u>
Total net position	\$ <u>591,944</u>

See Accompanying Notes to Financial Statements.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended June 30, 2015

Operating revenue:	
Charges for services	\$ <u>2,228,971</u>
Operating expenses:	
Disposal services	2,052,906
Coordinator salary	39,610
Payroll taxes	3,872
Directors fees	10,900
Insurance	4,658
Professional services	23,200
Depreciation and amortization	47,197
Advertising	18,325
Membership dues	1,162
Billing services	4,800
Travel and training	6,762
Telephone	1,589
Library information	330
Recycling bins	7,494
Other operating costs	<u>8,131</u>
Total operating expenses	<u>2,230,936</u>
Operating income (Loss)	<u>(1,965)</u>
Other revenue (expense):	
Interest income	1,434
Interest expense	(6,396)
Other income	<u>425</u>
Total other revenue (expense)	<u>(4,537)</u>
Change in net position	<u>(6,502)</u>
Net position, beginning of year, as previously reported	617,893
Restatement	<u>(19,447)</u>
Net position, beginning of year, as restated	<u>598,446</u>
Net position, end of year	\$ <u><u>591,944</u></u>

See Accompanying Notes to Financial Statements.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Statement of Cash Flows

For the Year Ended June 30, 2015

Cash flows from operating activities:

Cash received from customers	\$ 2,103,107
Cash paid to suppliers and vendors	(2,082,646)
Cash paid to employees	(39,610)
Other	<u>425</u>
Net cash used by operating activities	<u>(18,724)</u>

Cash flows from capital and related financing activities:

Purchase of property, plant, and equipment	(703,000)
Capitalized legal fees	(116,170)
Interest paid	(5,799)
Proceeds from Borrowings	<u>640,000</u>
Net cash used by capital and related financing activities	<u>(184,969)</u>

Cash flows from investing activities:

Interest received	<u>1,434</u>
Net decrease in cash	(202,259)
Cash, beginning of year	<u>581,740</u>
Cash, end of year	\$ <u><u>379,481</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	\$ (1,965)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	47,197
Other	425
Change in assets (increase) decrease:	
Accounts receivable	(125,864)
Change in liabilities increase (decrease):	
Accounts payable and accrued expenses	<u>61,483</u>
Net cash provided (used) by operating activities	\$ <u><u>(18,724)</u></u>

See Accompanying Notes to Financial Statement

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Organization and Operation

The Authority was originally formed by joint resolution of the counties of Giles, Franklin and Lincoln and the municipalities of Tullahoma and Fayetteville for the purpose of developing a solid waste regional plan, as required by TCA 68-211-801, titled Solid Waste Management Act of 1991". The Authority's board was appointed by each participating County Executive or Mayor for varying terms of office. The Authority commenced operations in March of 1993 and has since inception, relied upon contractual agreements with third parties for landfill and solid waste disposal services. Also, since inception the municipalities of Shelbyville, Ardmore, Elkton, Petersburg, Pulaski and Minor Hill have been admitted as participants. During 2015, Giles County, TN and Pulaski, TN elected to not continue use of the Authority's solid waste disposal services.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Authority is accounted for as a proprietary fund. Proprietary funds are accounted for on a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

The accrual basis of accounting is utilized by the Authority. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts Receivable

Accounts receivable represent unpaid fees charged to user organizations for waste disposal services. An allowance for doubtful accounts receivable at June 30, 2015 was not deemed necessary by management due to the current status of all accounts.

Cash and Cash Equivalents

Cash includes amounts in demand accounts. Cash in excess of current requirements is held in interest-bearing money-market demand accounts. The Authority had no cash equivalents with an original maturity of less than thirty days, at June 30, 2015.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Capital Assets

Expenditures greater than \$500.00 for machinery and equipment and other intangible assets expected to provide economic benefits to the Authority are capitalized and depreciated as follows using the straight line method, office equipment, 5-15 years and solid waste transfer stations, 30 years method.

Contract Negotiation Costs

Significant legal fees were incurred in negotiating the current contract to provide transportation and disposal services for the Authority's solid waste. Such costs are presented as other assets and amortized over the term of the related contract using the straight - line method.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) CASH DEPOSITS

During 2015, the Authority invested in interest bearing checking accounts, and certificates of deposit.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority's policy requires that deposits be either (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institution, less the amount protected by federal depository insurance or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Institutions participating in the collateral pool determine the aggregate balance of their public deposits must be at least 105% of the average daily balance of public deposits held. Investments with the Tennessee Local Government Investment Pool are not categorized as to custodial credit risk. Cash was fully collateralized at June, 30, 2015.

(3) UTILITY PLANT AND EQUIPMENT

A summary of capital assets is as follows:

	Balance <u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>Ending</u>
Office equipment	\$ 29,796	-	-	29,796
Solid waste transfer stations	-	<u>703,000</u>	-	<u>703,000</u>
	<u>29,796</u>	<u>703,000</u>	-	<u>732,796</u>
Less accumulated depreciation				<u>(51,671)</u>
Office equipment	27,708	629	-	28,337
Solid waste transfer stations	-	<u>23,334</u>	-	<u>23,334</u>
	<u>27,708</u>	<u>23,963</u>	-	<u>51,671</u>
Net	\$ <u>2,088</u>			<u>681,125</u>

Depreciation expense was \$23,963 for the year ended June 30, 2015.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Notes to Financial Statements

June 30, 2015

(4) **NOTE PAYABLE**

The Authority borrowed \$640,000 from a local financial institution to finance the purchase of two solid waste transfer stations. The note requires monthly payments of interest only (2.27%) until June 16, 2017 at which time the unpaid principal will be due. The note is secured by demand deposits of the Authority held by the financial institution.

(5) **CONTRACT NEGOTIATION COSTS**

The Authority incurred legal costs relative to contract negotiations for its waste disposal services. The related costs were capitalized and are being amortized over the term of the related contract. Amortization expense amounted to \$23,234 for 2015.

(6) **SOLID WASTE DISPOSAL CONTRACTS**

The Authority presently maintains two solid waste transfer stations, one in Fayetteville (Lincoln County) TN and one in Estill Springs (Franklin County) TN. Commencing on April 1, 2015, the Authority contracted with Waste Services of Tennessee and BFI Waste Services of Tennessee for waste disposal services in its Estill Springs and Fayetteville, transfer stations, respectively. The contracts have a five year term and provide for the three county area of Giles, Franklin and Lincoln Counties. The contract has a term of five and provide for five one-year renewal options with no changes. The contract specifies, among other things, that rates will be adjusted annually by the percentage increase of the Gross National Product Fixed Weight Price Index and that such rates may be increased by certain additional taxes and regulatory changes as set forth in the contract. Contractor will charge the following prices per ton, as adjusted in accordance with applicable sections of the contract for transfer, transportation and disposal of solid waste from the transfer stations to the landfill.

Waste Services of Tennessee	\$43.11 per ton
BFI Waste Services of Tennessee	\$49.00 per ton

BFI Waste Services will charge \$22.00 per ton, as adjusted in accordance with terms of the contract for solid waste delivered directly to the landfill.

(7) **RISK MANAGEMENT**

The Authority is exposed to various risks for general liability and property and casualty losses. The Authority feels that it is more economically feasible to join a public entity risk pool established by the Tennessee Municipal League, an association of member governments. The Authority pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of \$130,000 for each insured event. Settled claims for losses have not exceeded coverage in any of the past three years.

(8) **OPERATING LEASE**

The Authority had entered into an agreement with the City of Fayetteville, Tennessee for the lease of land for its transfer station. The lease requires annual rental payments of \$1,700 through March 2035.

(9) **RESTATEMENT**

In 2015, it was determined that unamortized contract negotiation costs had inadvertently been incorrectly amortized, resulting in an increase of \$19,447 to accumulated amortization and a decrease of the same to net position as of July 1, 2014.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Schedule of Board Members and Compensation (Unaudited)

June 30, 2015

Board Members

Compensation

A.J. Williams	*
Barbara Finney	*
Robert Taylor	*
Danny Watson	*
Tommy Campbell	*
Doug Cunningham	*
Mark Clanton	*
Larry Moorehead	*
Wayne Limbaugh	*
Stanley Smotherman	*
William Anderson	*

* Compensation for each Board Member is \$100 per month, if meetings are attended.

**INTERLOCAL SOLID WASTE AUTHORITY
OF GILES, FRANKLIN & LINCOLN COUNTIES, TENNESSEE**

Schedule of Insurance in Force (Unaudited)

June 30, 2015

TML Risk Management Pool:		
General Liability	\$ 300,000	Per Person
	\$ 700,000	Per Occurrence for Bodily Injury
	\$ 100,000	Per Occurrence for Property Damage
Employment Practice Liability	\$700,000	Each Occurrence
	\$700,000	Policy Aggregate
Errors or Omissions	\$ 700,000	Each Occurrence
Auto Liability	\$ 700,000	Per Occurrence
	\$ 300,000	Per Person-Bodily Injury
	\$ 100,000	Per Occurrence-Property Damage
Workers Compensation		Statutory Limit

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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**

Board of Directors
Interlocal Solid Waste Authority
of Giles, Franklin & Lincoln Counties, 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 Interlocal Solid Waste Authority of Giles, Franklin & Lincoln Counties, Tennessee (the Authority), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

A handwritten signature in black ink that reads "Zfy. Hall: Assured". The signature is written in a cursive style and is followed by a long horizontal line that extends to the right.

December 7, 2015