

BI-COUNTY SOLID WASTE
MANAGEMENT SYSTEM
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2015 AND 2014

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BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
DIRECTORY OF OFFICIALS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2015

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 Jim Durrett	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



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, 2015 and 2014, 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 qualified audit opinion on June 30, 2015, and our unmodified opinion on June 30, 2014.

Basis for Qualified Opinion

We were unable to obtain the actuarial reports required by GASB 68, Accounting and Financial Reporting for Pensions, regarding the defined benefit pension plan for the June 30, 2014 plan year, due to ongoing legal discussions between the System and the Tennessee Consolidated Retirement System (TCRS). Due to these legal discussions being unresolved at the date of our audit report, we were unable to obtain sufficient appropriate audit evidence about the pension plan, required supplementary information, and entries by other auditing procedures.

Qualified Opinion on June 30, 2015, and Unmodified Opinion on June 30, 2014

In our opinion, except for the possible effects on the June 30, 2015 financial statements of the matter discussed in the Basis for Qualified Opinion paragraph, 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 25, 2015, 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 25, 2015

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015 AND 2014

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, 2015. 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 \$4,126,147 (net position).
- As of the close of the current fiscal year, the System reported combined ending net position of \$4,126,147, an increase of \$510,778 in comparison with the prior year.
- The System's total debt increased by \$896,062 during the fiscal year. The key factors in this increase were the purchase of a new tub grinder, dozer and motor grader.
- 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, 2015 AND 2014

Net Position

	<u>2015</u>	<u>2014</u>	<u>Restated 2013</u>
<u>ASSETS AND DEFERRED</u>			
<u>OUTFLOWS OF RESOURCES</u>			
Current and other assets	\$ 7,404,072	\$ 6,390,012	\$ 6,632,564
Capital assets (net)	<u>12,415,211</u>	<u>11,629,856</u>	<u>10,215,364</u>
Total assets	19,819,283	18,019,868	16,847,928
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	 <u>\$ 19,819,283</u>	 <u>\$ 18,019,868</u>	 <u>\$ 16,847,928</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>			
Long-term liabilities outstanding	\$ 14,316,821	\$ 13,331,393	\$ 12,140,599
Other liabilities	<u>1,376,315</u>	<u>1,073,106</u>	<u>725,730</u>
Total liabilities	15,693,136	14,404,499	12,866,329
 <u>DEFERRED INFLOWS OF RESOURCES</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 <u>NET POSITION</u>			
Net investment in capital assets	9,984,856	10,095,563	9,598,841
Unrestricted net position	<u>(5,858,709)</u>	<u>(6,480,194)</u>	<u>(5,617,242)</u>
Total net position (deficit)	<u>4,126,147</u>	<u>3,615,369</u>	<u>3,981,599</u>
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	 <u>\$ 19,819,283</u>	 <u>\$ 18,019,868</u>	 <u>\$ 16,847,928</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 \$4,126,147 as of June 30, 2015. The System's net position increased by \$510,778 for the fiscal year ended June 30, 2015. However, the largest portion of assets, 63%, 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 (\$5,858,709) 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, 2015 AND 2014

Statements of Revenue, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>Restated 2013</u>
Revenues:			
Operating revenues			
Charges for services	\$ 10,555,196	\$ 8,601,696	\$ 7,363,410
Recycle sales	806,901	1,036,128	1,004,633
User fees	3,012,777	2,907,516	2,969,096
Other	390,573	177,314	190,583
Non-operating revenues (expenses):			
Loss on sale of equipment	43,549	(5,178)	(7,275)
Government grants	40,676	143,447	149,621
Interest expense	(13,955)	(11,701)	(2,720)
Interest income	22,713	27,414	27,622
Total revenues	<u>14,858,430</u>	<u>12,876,636</u>	<u>11,694,970</u>
Expenses:			
Board/committee fees	5,000	5,900	5,300
Closure/postclosure cost	742,050	798,132	719,4532
Communications	28,267	39,359	40,047
Contracted services	2,337,250	1,933,786	1,695,548
Depreciation	1,367,619	1,123,407	939,254
Employee benefits	1,690,118	1,563,118	1,479,932
Fuels and lubricants	1,240,102	1,360,404	1,239,979
Insurance	157,654	141,177	136,596
Materials and supplies	772,631	688,996	828,360
Miscellaneous	41,672	64,233	80,700
Parts and supplies	584,230	465,803	457,683
Personnel	4,103,537	3,889,158	3,678,057
Property and equipment	136,577	112,483	65,123
Repairs and maintenance	784,685	737,689	670,373
Trustee commission	107,717	81,478	72,395
Uniforms	46,981	43,877	43,305
Utilities	201,562	193,866	179,513
Total expenses	<u>14,347,652</u>	<u>13,242,866</u>	<u>12,331,617</u>
Net change in net position	<u>510,778</u>	<u>(366,230)</u>	<u>(636,647)</u>
Net position (deficit) – beginning, as previously reported	3,615,369	3,981,599	(108,594)
Prior period adjustment	<u>-</u>	<u>-</u>	<u>4,726,840</u>
Net position - beginning, as restated July 1	<u>3,615,369</u>	<u>3,981,599</u>	<u>4,618,246</u>
Net position - ending, June 30	<u>\$ 4,126,147</u>	<u>\$ 3,615,369</u>	<u>\$ 3,981,599</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2015 AND 2014

Results of operations increased the System's net position by \$510,778. Key elements of this increase are as follows:

- The increase in the System's net position is primarily due to a notable increase in tipping fee revenue. During FY 2015 tipping fee revenue increased by over \$2 million. We attribute this to a price increase on Class I, Wood and Demo wastes and increased volume from several of our larger haulers.

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 FY15, the tipping fee revenue increased by approximately 24%. This increase helped boost the System's operating revenue to a new yearly high: \$2,042,793 above FY14. During the course of the year, the System purchased \$2,490,282 of capital assets. The System was able to secure financing in the amount of \$851,051 through two capital leases 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, 2015 totaled \$9,984,856 (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:

- Total increase in machinery and equipment of \$2,081,111. This increase is primarily due to the purchase of a tub grinder, a dozer, a motor grader, an excavator and three road tractors at a combined cost of \$1,616,957.
- The activity in machinery and equipment included a like-kind exchange transaction in the purchase of a tub grinder that resulted in equipment with a book value of \$570,566 and a capital lease obligation of \$365,596.
- Increase of other property in the amount of \$175,888. 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, 2015 AND 2014

	<u>Capital Assets</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 1,238,908	\$ 1,238,908	\$ 1,245,953
Buildings and Improvements	4,240,641	4,240,641	4,240,641
Machinery and equipment	16,440,516	14,637,716	13,302,058
Other equipment	2,217,379	2,041,492	868,938
Construction in progress	<u>57,397</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 24,194,841</u>	<u>\$ 22,158,757</u>	<u>\$ 19,657,590</u>

Long-term Debt: As of June 30, 2014, the System had total debt outstanding of \$2,430,355.

	<u>Outstanding Debt</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 304,424	\$ 460,473	\$ 616,523
Capital leases	747,190	-	-
Notes payable	<u>1,378,741</u>	<u>1,073,820</u>	<u>-</u>
Total	<u>\$ 2,430,355</u>	<u>\$ 1,534,293</u>	<u>\$ 616,523</u>

The System's total debt increased by \$896,062 during the past fiscal year due to the \$851,051 in capital leases and \$304,921 increase in the note payable issued for the purchase of the new motor grader and remaining portion of the front end loader purchase.

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

The System is anticipating positive growth during FY 16. The System has seen tremendous growth in revenue from tipping fees. As of the end of October 2015, three of the first four months of the fiscal year have each generated over \$1,000,000 in tipping fee revenue with our lowest month generating \$967,000. Although, the System anticipated a continued decline in revenue from recycled materials during FY 16, current transactions suggest the revenue from sales of recycled materials will be greater than or equal to FY 15. Additionally, throughout the beginning of FY 16 the System has maintained a strong monthly cash balance which has peaked to levels not seen since 2012. Finally, the System is currently in the process of closing sections of the main and demolition landfills with the expectation of a reduced closure/postclosure liability once the closures are approved by the State.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2015 AND 2014

Requests for Information

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2015</u>	<u>2014</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 708,630	\$ 714,430
Accrued payroll	159,500	142,380
Customer deposits	24,357	24,777
Employee savings	55,327	51,519
Current portion of capital lease obligation	288,501	-
Current portion of due to primary government - bonds payable	140,000	140,000
Total current liabilities	<u>1,376,315</u>	<u>1,073,106</u>
<u>LONG-TERM LIABILITIES</u>		
Other postemployment benefits	310,818	247,774
Accrued compensated absences	294,650	279,868
Due to primary government - bonds payable	135,000	275,000
Note payable	1,378,741	1,073,820
Capital lease obligation	458,689	-
Unamortized bond premium	29,424	45,473
Closure/postclosure liability	11,709,499	11,409,458
Total long-term liabilities	<u>14,316,821</u>	<u>13,331,393</u>
 Total liabilities	 <u>15,693,136</u>	 <u>14,404,499</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
	-	-
<u>NET POSITION</u>		
Net investment in capital assets	9,984,856	10,095,563
Unrestricted	(5,858,709)	(6,480,194)
Total net position	<u>4,126,147</u>	<u>3,615,369</u>
 Total liabilities and net position	 <u>\$ 19,819,283</u>	 <u>\$ 18,019,868</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 10,555,196	\$ 8,601,696
Recycle sales	806,901	1,036,128
User fees	3,012,777	2,907,516
Other	390,573	177,314
Total operating revenues	<u>14,765,447</u>	<u>12,722,654</u>
<u>OPERATING EXPENSES</u>		
Board/committee fees	5,000	5,900
Closure/postclosure cost	742,050	798,132
Communications	28,267	39,359
Contracted services	2,337,250	1,933,786
Depreciation	1,367,619	1,123,407
Employee benefits	1,690,118	1,563,118
Fuels and lubricants	1,240,102	1,360,404
Insurance	157,654	141,177
Materials	772,631	688,996
Miscellaneous	41,672	64,233
Parts and supplies	584,230	465,803
Personnel	4,103,537	3,889,158
Property and equipment	136,577	112,483
Repairs and maintenance	784,685	737,689
Trustee commission	107,717	81,478
Uniforms	46,981	43,877
Utilities	201,562	193,866
Total operating expenses	<u>14,347,652</u>	<u>13,242,866</u>
<u>OPERATING INCOME (LOSS)</u>	<u>417,795</u>	<u>(520,212)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Gain (loss) on sale of equipment	43,549	(5,178)
Government grants	40,676	143,447
Interest expense	(13,955)	(11,701)
Interest income	22,713	27,414
Total non-operating revenues (expenses)	<u>92,983</u>	<u>153,982</u>
<u>CHANGE IN NET POSITION</u>	510,778	(366,230)
<u>NET POSITION - BEGINNING</u>	<u>3,615,369</u>	<u>3,981,599</u>
<u>NET POSITION - ENDING</u>	<u>\$ 4,126,147</u>	<u>\$ 3,615,369</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 14,582,984	\$ 12,095,392
Cash paid to suppliers	(8,597,589)	(6,158,523)
Cash paid to employees	(4,004,783)	(5,375,975)
Other cash receipts	390,475	239,205
Net cash provided by operating activities	<u>2,371,087</u>	<u>800,099</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING</u> <u>ACTIVITIES</u>		
Government grants	40,676	143,447
Net cash provided by noncapital financing activities	<u>40,676</u>	<u>143,447</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED</u> <u>FINANCING ACTIVITIES</u>		
Proceeds from sale of equipment	-	5,209
Proceeds from note payable	304,921	1,073,820
Payments on bonds payable	(140,000)	(140,000)
Payments on capital lease obligation	(103,861)	-
Interest paid	(13,955)	(11,701)
Purchase of capital assets	(1,258,374)	(2,548,286)
Net cash used in capital and related financing activities	<u>(1,211,269)</u>	<u>(1,620,958)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	22,713	27,414
Net cash provided by investing activities	<u>22,713</u>	<u>27,414</u>
<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	1,223,207	(649,998)
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>4,266,647</u>	<u>4,916,645</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 5,489,854</u>	<u>\$ 4,266,647</u>

During the year ended June 30, 2015, the System entered into a like-kind exchange transaction resulting in equipment with a book value of \$570,566 and a capital lease obligation of \$365,596. Also, during the year ended June 30, 2015, the System purchased equipment in exchange for a capital lease obligation totaling \$485,455.

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u>		
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ 417,795	\$ (520,212)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,367,619	1,123,407
Amortization of bond premium	(16,049)	(16,050)
Changes in:		
Accounts receivable	208,531	(439,375)
Grants receivable	(99)	54,628
Inventories	715	(22,699)
Accounts payable	(5,800)	360,492
Accrued payroll	17,120	(14,997)
Customer deposits	(420)	(3,310)
Employee savings	3,808	5,191
Accrued compensated absences	14,782	26,594
Closure/postclosure liability	300,041	186,917
Other postemployment benefits	63,044	59,513
Net cash provided by operating activities	\$ 2,371,087	\$ 800,099

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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. Custodial credit risk for the System's deposits is the risk that the System's deposits may not be returned in the event of a bank failure. As required by state statutes, the System's policy is to require that financial institutions holding its deposits be members of the Tennessee Collateral Pool or pledge collateral 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. 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, 2015 AND 2014

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, 2015 and 2014 was:

	2015	2014
Capital assets	\$ 24,194,841	\$ 22,158,757
Accumulated depreciation	(11,779,630)	(10,528,901)
Debt related to capital assets	(2,430,355)	(1,534,293)
	\$ 9,984,856	\$ 10,095,563

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, 2015 and 2014.

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 \$5,858,709 and \$6,480,194 as of June 30, 2015 and 2014, 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, 2015 AND 2014

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.

Change in Presentation

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

Date of Management's Review

Subsequent events have been evaluated through November 25, 2015, 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 \$107,717 and \$81,478 during the years ended June 30, 2015 and 2014, 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, 2015 AND 2014

2. Deposits and Investments (Cont'd)

At June 30, 2015 and 2014, cash and other deposits included bank balances totaling \$5,678,942 and \$4,484,809, respectively, 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, 2015 follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Land – held for expansion	\$ 776,201	\$ -	\$ -	\$ 776,201
Land	462,707	-	-	462,707
Buildings and improvements	4,240,641	-	-	4,240,641
Property and equipment	14,637,716	2,081,111	278,311	16,440,516
Other property	2,041,492	175,887	-	2,217,379
Construction in progress	-	<u>233,284</u>	<u>175,887</u>	<u>57,397</u>
Total capital assets	<u>\$ 22,158,757</u>	<u>\$ 2,490,282</u>	<u>\$ 454,198</u>	<u>\$ 24,194,841</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

3. Capital Assets (Cont'd)

A summary of changes in accumulated depreciation for the year ended June 30, 2015 follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Buildings and improvements	\$ 1,231,245	\$ 109,373	\$ -	\$ 1,340,618
Property and equipment	8,291,409	988,948	116,890	9,163,467
Other property	<u>1,006,247</u>	<u>269,298</u>	<u>-</u>	<u>1,275,545</u>
Total accumulated depreciation	<u>\$ 10,528,901</u>	<u>\$ 1,367,619</u>	<u>\$ 116,890</u>	<u>\$ 11,779,630</u>

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	<u>868,938</u>	<u>1,172,554</u>	<u>-</u>	<u>2,041,492</u>
Total capital assets	<u>\$ 19,657,590</u>	<u>\$ 2,548,286</u>	<u>\$ 47,119</u>	<u>\$ 22,158,757</u>

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>

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

4. Long-term Debt

Long-term debt consisted as follows:

	<u>2015</u>	<u>2014</u>
\$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%.	\$ 275,000	\$ 415,000

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

4. Long-term Debt (Cont'd)

	2015	2014
3.00% obligation under a capital lease, secured by equipment with a carrying value of \$463,610 at June 30, 2015, payable in monthly installments of \$14,118 of principal and interest through January 2018.	420,612	-
3.00% obligation under a capital lease, secured by equipment with a carrying value of \$506,377 at June 30, 2015, payable in monthly installments of \$10,632 of principal and interest through January 2018.	326,578	-
	1,022,190	415,000
Plus: Unamortized net bond premium	29,424	45,473
Total long-term debt	1,051,614	460,473
Less: Current portion	428,501	140,000
Total long-term debt excluding current portion	\$ 623,113	\$ 320,473

Future payments on long-term debt are as follows:

June 30,	Principal	Interest
2016	\$ 428,501	\$ 32,060
2017	422,161	16,583
2018	171,528	1,720
Total future payments	\$ 1,022,190	\$ 50,363

Interest incurred of \$13,955 and \$11,701 was expensed during the years ended June 30, 2015 and 2014, respectively.

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

	2015	2014
Payable at July 1	\$ 415,000	\$ 555,000
Proceeds	851,051	-
Repayments	(243,861)	(140,000)
Payable at June 30	\$ 1,022,190	\$ 415,000

5. Note Payable

During the years ending June 30, 2015 and 2014, the Montgomery County Commission advanced \$304,921 and \$1,073,820, respectively, 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 years ending June 30, 2015 and 2014. The System will make ten annual bond payments of principal and interest to Montgomery County upon issuance of the bonds.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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 based on landfill section capacity used as of each balance sheet date. Closure/postclosure costs are calculated based on an engineering evaluation. The \$11,709,499 reported as landfill closure and postclosure care liability at June 30, 2015, represents the cumulative amount reported to date based on the use of 65 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 \$6,184,190 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 2015. 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 \$20,604,212 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:

	<u>2015</u>	<u>2014</u>
Accrued liability at July 1	\$ 11,409,458	\$ 11,222,541
Current year accrual	742,050	798,132
Current year closure costs	<u>(442,009)</u>	<u>(611,215)</u>
Accrued liability at June 30	<u>\$ 11,709,499</u>	<u>\$ 11,409,458</u>

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, 2015, were as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Accrued compensated absences	<u>\$ 279,868</u>	<u>\$ 14,782</u>	<u>\$ -</u>	<u>\$ 294,650</u>

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

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

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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, 2015 AND 2014

8. Other Postemployment Benefits (Cont'd)

	2015	2014
Normal cost	\$ 55,089	\$ 52,466
30-year amortization of accrued liability	38,948	35,572
Interest on net OPEB obligation	1,862	1,743
Annual required contribution	95,899	89,781
Interest on net OPEB obligation	9,911	7,530
Adjustment on annual required contribution	(10,414)	(7,842)
Annual OPEB expense	95,396	89,469
Contributions made	(32,352)	(29,956)
Increase in net OPEB obligation	63,044	59,513
Net OPEB obligation – beginning	247,774	188,261
Net OPEB obligation – ending	\$ 310,818	\$ 247,774

The System's annual OPEB expense, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 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, 2015	\$ 95,396	34%	\$ 310,818
June 30, 2014	\$ 89,469	33%	\$ 247,774
June 30, 2013	\$ 60,947	49%	\$ 188,261

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$917,805 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$917,805. 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 3.36% 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, 2015 AND 2014

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, 2015, is 24 years.

The System pays and expenses the costs of the benefits as they are incurred. At June 30, 2015, 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.
- b. Funding Policy: The System has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. Montgomery County is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2015, was 13.82% 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 are not separately stated from that of Montgomery County. The System is involved with legal discussions with TCRS as of the date of the audit. Accordingly, the required information and schedules required by Statement of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions, were not included for the System's financial statements for the year ended June 30, 2015.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

10. Concentrations

The System receives a substantial amount of its charges for services (tipping fees) from three entities: City of Franklin, Waste Industries and Queen City Disposal. These three haulers comprised 59.05 % and 57.31% of tipping fee revenues earned during the years ended June 30, 2015 and 2014, respectively, as well as \$524,174 (41.46%) and \$692,741.28 (47.37%) of accounts receivable balances at June 30, 2015 and 2014, 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. Leases

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, 2015 and 2014, were \$146,435 and \$169,465, 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 operating lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2016	\$ 19,138
2017	12,580
2018	2,400
Total	<u>\$ 34,118</u>

Capital Leases

The System is the lessee of equipment under two capital leases expiring in January 2018. The assets and liabilities under these capital leases are recorded at book value which is not materially different than the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive life.

Property held under capital leases, which is included in property and equipment, is as follows:

Property and equipment	\$ 1,056,021
Less: Accumulated depreciation	<u>(86,034)</u>
Total	<u>\$ 969,987</u>

The remaining minimum future lease payments under capital leases, which are included in notes payable, are:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2016	\$ 288,501
2017	287,161
2018	<u>171,528</u>
	747,190
Less: Amount representing interest	<u>(29,863)</u>
Present value of net minimum lease payments	<u>\$ 717,327</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2015 AND 2014

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
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2015

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)
6/30/2015	\$ -	\$ 917,805	\$ 917,805	0.00%	\$ 2,856,924	32.13%
6/30/2014	\$ -	\$ 859,995	\$ 859,995	0.00%	\$ 2,856,924	30.10%
6/30/2013	\$ -	\$ 606,254	\$ 606,254	0.00%	\$ 2,763,000	21.94%

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2015

<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, 2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2015</u>
<u>State of Tennessee, Department of Environment and Conservation</u>						
FY 2014 Waste Tire Options	DG1337817	N/A	\$ 20,679	\$ 22,977	\$ 2,298	\$ -
FY 2015 Recycling Rebate Funds	N/A	N/A	-	-	20,778	20,778
<u>State of Tennessee, Department of Transportation</u>						
Statewide Roadside Litter Pickup and Education	DG1338324	N/A	-	17,600	17,600	-
Total State Financial Assistance			<u>\$ 20,679</u>	<u>\$ 40,577</u>	<u>\$ 40,676</u>	<u>\$ 20,778</u>

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
JUNE 30, 2015

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, 2015

	<u>Due to Primary Government</u>		<u>Capital Lease Obligations</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ 13,750	\$ 140,000	\$ 18,310	\$ 288,501
2017	6,750	135,000	9,833	287,161
2018	-	-	1,720	171,528
	<u>\$ 20,500</u>	<u>\$ 275,000</u>	<u>\$ 29,863</u>	<u>\$ 747,190</u>



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

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, 2015, 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 25, 2015. We were unable to obtain sufficient audit evidence regarding the defined benefit pension plan for the plan year ended June 30, 2014, due to ongoing legal discussions between the System and the Tennessee Consolidated Retirement System (TCRS). Due to these issues being unresolved, we were unable to obtain sufficient appropriate audit evidence about the pension plan by other auditing procedures and have issued a qualified opinion on the June 30, 2015, financial statements.

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.

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 25, 2015

BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

There were no prior year findings reported.