

A U D I T R E P O R T

Loudon County Solid Waste
Disposal Commission
Financial Statements
Six months Ended June 30, 1994

B. J. KING
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Loudon County Solid Waste Disposal Commission

Table of Contents

June 30, 1994

	<u>Page</u>
Independent Auditor's Report	1
<u>FINANCIAL STATEMENTS</u>	
Balance Sheet	2
Statement of Retained Earnings	3
Statement of Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-8
<u>SUPPORTING SCHEDULES</u>	
Schedule of Fixed Assets and Depreciation	9
Schedule of Tipping Fees in Force	10
Schedule of Board of Commissioners	11
<u>INTERNAL CONTROL AND COMPLIANCE</u>	
Auditor's Report on Internal Control Structure Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	12-13
Auditor's Report on Compliance Based on an Audit of the Basic Financial Statements Performed in Accordance with Government Auditing Standards	14

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Independent Auditor's Report

May 8, 1995

Board of Commissioners
Loudon County Solid Waste
Disposal Commission
Loudon, Tennessee

I have audited the accompanying balance sheet of the Loudon County Solid Waste Disposal Commission as of June 30, 1994 and the related statements of income, retained earnings and cash flows for the six month period then ended. These financial statements are the responsibility of the Loudon County Solid Waste Disposal Commission's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with generally accepted auditing standards and generally accepted government auditing standards. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimate made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Loudon County Solid Waste Disposal Commission as of June 30, 1994, and the results of its operations and its cash flows for the six month period then ended in conformity with generally accepted accounting principles.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules and related information are not necessary for a fair presentation of the financial statements but are presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

B. J. King

FINANCIAL STATEMENTS

Loudon County Solid Waste
Disposal Commission
Balance Sheet
June 30, 1994

Assets

Current Assets

Cash on Deposit - County Trustee	\$ 1,236,019.00	
Accounts Receivable (Net of Allowances for Uncollectables of \$2,576.00)	402,423.00	
Interest Receivable - Cash on Deposit	2,996.00	
Prepaid Expenses	<u>1,987.00</u>	
Total Current Assets		\$ 1,643,425.00

Fixed Assets

Property and Equipment	\$ 344,643.00	
Less Accumulated Depreciation	<u>61,883.00</u>	
	\$ 282,760.00	
Construction in Progress - Phase II	<u>66,837.00</u>	
Total Fixed Assets		<u>349,597.00</u>
Total Assets		<u>\$ 1,993,022.00</u>

Liabilities and Retained Earnings

Liabilities

Current Liabilities

Contracts Payable	\$ 225,652.00	
State Surcharge Payable	<u>29,487.00</u>	
Total Current Liabilities		\$ 255,139.00

Long-Term Liabilities

Customer Deposits	\$ 9,802.00	
Estimated Closure and Postclosure Care Costs	<u>702,165.00</u>	
Total Long-Term Liabilities		711,967.00

Retained Earnings

Unreserved		<u>1,025,916.00</u>
Total Liabilities and Retained Earnings		<u>\$ 1,993,022.00</u>

The notes to the financial statements
are an integral part of this statement.

Loudon County Solid Waste
Disposal Commission
Statement of Retained Earnings
For the Six Months Ended June 30, 1994

Reserved

Balance, January 1, 1994, As Previously Reported	\$ 437,968.00
Change for the Six Months Ended June 30, 1994 (Note to Financial Statement - Restated Retained Earnings)	<u>(437,968.00)</u>
Balance, June 30, 1994, As Restated	<u>\$ -</u>

Unreserved

Balance, January 1, 1994, As Previously Reported	\$ 239,578.00
Adjustment for the Cumulative Effect of a Change in the Estimated Closure and Postclosure Care Cost (Note to Financial Statement - Restated Retained Earnings)	<u>247,240.00</u>
Balance, January 1, 1994, as Restated	486,818.00
Add: Retained Earnings Previously Reserved	437,968.00
Net Income for the Six Months Ended June 30, 1994	<u>101,130.00</u>
Balance, June 30, 1994	<u>\$1,025,916.00</u>

The notes to the financial statements
are an integral part of this statement.

Loudon County Solid Waste
Disposal Commission
Statement of Revenues, Expenses and Change
in Retained Earnings
For the Six Months Ended June 30, 1994

<u>Operating Revenues</u>		
Tipping Fees	\$1,206,667.00	
State Surcharge	58,187.00	
Tennessee Department of Environment and Conservation Grant	<u>8,400.00</u>	
Total Operating Revenues		\$ 1,273,254.00
<u>Operating Expenses</u>		
Landfill Facilities Operation Fees	\$1,001,762.00	
State Surcharge	58,187.00	
Drainage Material (Plas - Tanks)	14,190.00	
Amortization of Prepaid Expense - Santek	12,546.00	
Board of Commissioners Compensation	800.00	
Accounting, Administrative and Clerical Services	8,250.00	
Audit Services	1,250.00	
Consultant Services	9,000.00	
Legal Services	7,799.00	
Legal Notices	49.00	
Depreciation Expense	4,400.00	
Current Closure and Postclosure Cost	<u>68,690.00</u>	
Total Operating Expense		<u>1,186,923.00</u>
Operating Income		\$ 86,331.00
<u>Nonoperating Revenues</u>		
Interest Income		<u>14,799.00</u>
Net Income		\$ 101,130.00
Retained Earnings, January 1, 1994		677,546.00
Prior Period Adjustment: Reduction in Estimated Closure and Postclosure Care Cost		<u>247,240.00</u>
Retained Earnings, June 30, 1994		<u>\$ 1,025,916.00</u>

The notes to the financial statements
are an integral part of this statement.

Loudon County Solid Waste
Disposal Commission
Statement of Cash Flows
For the Six Months Ended June 30, 1994

Cash Flows from Operating Activities:

Operating Income		<u>\$ 86,331.00</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		4,400.00
Closure and Postclosure Care Cost		68,690.00
Changes in Operating Assets and Liabilities:		
Increase in Accounts Receivable		(184,284.00)
Increase in Interest Receivable		(2,996.00)
Increase in Current Liabilities		134,383.00
Increase in Customer Deposits		100.00
Decrease in Prepaid Expense		<u>12,546.00</u>
Total Adjustments		<u>32,839.00</u>
Net Cash Provided by Operating Activities		<u>119,170.00</u>
Cash Flows from Investing Activities		
Interest Income		<u>14,799.00</u>
Increase in Cash		133,969.00
Cash on Hand, January 1, 1994, As Previously Reported	\$ 664,082.00	
Add: Restricted Cash on Hand, January 1, 1994, Restriction Removed During Six Months Ended June 30, 1994	<u>437,968.00</u>	
Restated Cash on Hand, January 1, 1994		<u>1,102,050.00</u>
Cash on Hand, June 30, 1994		<u>\$1,236,019.00</u>

The notes to the financial statements
are an integral part of this statement.

Loudon County Solid Waste
Disposal Commission
Notes to Financial Statements
June 30, 1994

Summary of Significant Accounting Policies

Organization and Operations

The Loudon County Solid Waste Disposal Commission was created in November, 1992 by a intergovernmental agreement between the City of Lenoir City, the City of Loudon and the County of Loudon, Tennessee. The Commission has been delegated the authority and responsibility for operating the Loudon County Landfill. This agreement is pursuant to Tennessee State laws requiring the creation of municipal solid waste regions and the Commission is granted all the powers and duties of a municipal solid waste region board as set forth in T.C.A. Section 68-211-813 et seq.

The seven member Board of Commissioners are appointed by the County Executive (5 members), the Mayor of Loudon (1 member) and the Mayor of Lenoir City (1 member).

The Loudon County Solid Waste Disposal Commission has contracted with a company to operate the Loudon County Landfill. This company will be responsible for the operation, closure and post closure of Phase 1 of the Landfill during the term of the contract which goes through March 31, 2004, unless earlier terminated as provided in the contract. Also, the aforesaid company will develop Phase 2 of the Landfill site, upon completion of the construction of Phase 2 will operate the site and provide post closure care during the term of the previously referred to contract.

1. Basis of Accounting

The accrual basis of accounting, which recognizes revenues when earned and expenses as soon as the liability is incurred, is used by the Commission.

2. Property and Depreciation

Property and equipment is recorded at cost. Maintenance and repair costs are charged to expense as incurred. When property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets over their estimated useful lives. Property placed in service during the Commission's fiscal year is depreciated only for the time actually in service. Depreciation expense for the six month period ended June 30, 1994, amounted to \$4,400.00.

3. Statement of Cash Flows

For purposes of the statement of cash flows, the Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

4. Allowance for Uncollectible Accounts Receivable

The Commission provides an allowance for uncollectible accounts receivable equal to the estimated collection losses that will be incurred based upon historical experience and a review of the current status of receivables.

Loudon County Solid Waste
Disposal Commission
Notes to Financial Statements (Continued)

Cash on Deposit with Loudon County Trustee

All funds of the Loudon County Solid Waste Disposal Commission were deposited with the Loudon County, Tennessee, Trustee at June 30, 1994. All deposits are required to be collateralized to 105% of market value by Tennessee law. These funds were adequately collateralized as of June 30, 1994.

Concentration of Credit Risk

The Loudon County Solid Waste Disposal Commission provides sanitary services to Loudon County. The Commission grants credits to its customers, substantially all of whom are local governments and businesses. Customers are billed monthly. A significant portion of the Commission's revenues are attributable to a relatively small number of industrial plants and governmental entities.

Construction in Progress

Construction in progress at June 30, 1994, totaled \$66,837.00 and pertained to Phase 2 of the landfill site. This amount was also reported in the December 31, 1993, financial statements.

Net Working Capital

The Commission's net working capital (current assets less current liabilities) at June 30, 1994 is as follows:

Current Assets	\$1,643,425.00
Current Liabilities	<u>255,139.00</u>
Net Working Capital	<u>\$1,388,286.00</u>

Closure and Postclosure Care Cost

State and federal laws and regulations require the Commission to place a final cover on its Matlock Bend landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Commission reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$702,165.00 reported as landfill closure and postclosure care liability at June 30, 1994, represents the cumulative amount reported to date based on the use of 92 percent of the estimated capacity of Phase I of the Matlock Bend landfill. The Commission will recognize the remaining estimated cost of closure and postclosure care of \$61,058.00 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1994. The Commission expects to close Phase I of the landfill in 1995. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Restated Retained Earnings

Retained Earnings as of January 1, 1994, have been restated by the amount of \$247,240.00 to recognize a prior period adjustment to reduce the previously reported estimated closure and postclosure care cost of Phase I of the Matlock Bend Landfill site to estimated closure and postclosure care cost as provided by the State of Tennessee, Department of Conservation and Environment, Division of Solid Waste Management in a letter dated May 25, 1994. Also, on April 12, 1994, the official minutes of the Commission appear to indicate that an amount of \$437,968.00 which had previously been reserved in the Retained Earnings Account to provide for landfill postclosure care costs for the Popular Springs Landfill, which is no longer in use, should no longer be reserved. Subsequent to June 30, 1994, the Commission clarified the aforementioned minutes by indicating that the intention of the Commission was to eliminate the reserve in the Retained Earnings Account.

Loudon County Solid Waste
Disposal Commission
Notes to Financial Statements (Continued)

Other Information

The contract entered into by the Loudon County Solid Waste Disposal Commission with the company to operate the landfill contained certain information as to the term of the contract and liabilities that the Commission could incur at the termination of the contract based upon future events which may and/or may not occur and which were not measurable at June 30, 1994.

SUPPORTING SCHEDULES

Loudon County Solid Waste

Disposal Commission

Schedule of Fixed Assets and Depreciation

For the Six Months Ended June 30, 1994

	Balance 1-1-94	Additions and/or Deductions	Balance 6-30-94	Current Depreciation	Accumulated Depreciation	Deprecia- tion Rate	Method of Depreciation
<u>Solid Waste Facility</u>							
Land	\$243,985.00	\$ -	\$243,958.00	-	-	-	-
Highlift	62,790.00	-	62,790.00	2,093.00	58,604.00	6.67%	S.L.
Computer Equipment	11,873.00	-	11,873.00	1,007.00	1,979.00	20 %	S.L.
Scales	25,995.00	-	25,995.00	1,300.00	1,300.00	10 %	S.L.
Total Solid Waste Facility	<u>\$344,643.00</u>	<u>\$ -</u>	<u>\$344,643.00</u>	<u>\$ 4,400.00</u>	<u>\$ 61,883.00</u>		

Loudon County Solid Waste
Disposal Commission
Schedule of Tipping Fees in Force
June 30, 1994

<u>Type</u>	<u>Unit Cost</u>
Industrial Waste	\$ 16.85 per ton
Residential	32.25 per ton
Commercial	32.25 per ton
Sludge - City Waste	32.35 per ton
Asbestos	200.00 per ton plus
	49.00 per hour
Tires	1.00 each

Loudon County Solid Waste
Disposal Commission
Board of Commissioners
June 30, 1994

Names

Barry Baker	- Member
Albert Jordan	- Member
Frank Kamel	- Member
Aileen Longmire	- Member
Donald Pace	- Member
Wayne Tolbert	- Chairman
David Twiggs	- Member

INTERNAL CONTROL AND COMPLIANCE

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Auditor's Report on Internal Control Structure Based on an
Audit of the Basic Financial Statements Performed
in Accordance with Government Auditing Standards

May 8, 1995

Board of Commissioners
Loudon County Solid Waste
Disposal Commission
Loudon, Tennessee

I have audited the financial statements of the Loudon County Solid Waste Disposal Commission as of and for the six months ended June 30, 1994, and have issued my report thereon dated May 8, 1995.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing my audit of the financial statements of the Loudon County Solid Waste Disposal Commission for the six months ended June 30, 1994, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Loudon County Solid Waste Disposal Commission is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures in the following categories.

Accounting Controls
Revenues/Receipts
Purchases/Disbursements
Debt
Financial Reporting

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk.

Page 2 - May 8, 1995

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operations that I consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Commissioners. This restriction is not intended to limit the distribution of this report which is a matter of public record.

B. J. King

B. J. KING
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Auditor's Report on Compliance Based on an Audit of the
Basic Financial Statements Performed in
Accordance with Government Auditing Standards

May 8, 1995

Board of Commissioners
Loudon County Solid Waste Disposal Commission
Loudon, Tennessee

I have audited the financial statements of the Loudon County Solid Waste Disposal Commission as of and for the six months period ended June 30, 1994, and have issued my report thereon dated May 8, 1995.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Loudon County Solid Waste Disposal Commission is the responsibility of the Loudon County Solid Waste Disposal Commission management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests indicate that with respect to the items tested the Loudon County Solid Waste Disposal Commission complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to my attention that caused me to believe that the Commission had not complied, in all material respects, with these provisions.

This report is intended for the information of the Board of Commissioners. This restriction is not intended to limit distribution of this report, which is a matter of public record.

B. J. King

