

AUDIT REPORT

Loudon County Solid Waste Disposal Commission

Annual Financial Report

For the Fiscal Year Ended June 30, 1999

B. J. KING

**CERTIFIED PUBLIC ACCOUNTANT
9217 PARK WEST BOULEVARD
KNOXVILLE, TENNESSEE 37923**

Loudon County Solid Waste Disposal Commission

Table of Contents

June 30, 1999

Independent Auditor's Report	<u>Page</u> 1
<u>FINANCIAL STATEMENTS</u>	
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Retained Earnings	3
Statement of Cash Flows	4
Notes to Financial Statements	5-6
<u>SUPPORTING SCHEDULES</u>	
Schedule of Fixed Assets and Depreciation	7
Schedule of State Grant Activity	8
Schedule of Tipping Fees in Force	9
Schedule of Board of Commissioners	10
<u>INTERNAL CONTROL AND COMPLIANCE SECTION</u>	
Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11
Schedule of Findings	12

B. J. KING
CERTIFIED PUBLIC ACCOUNTANT
9217 PARK WEST BOULEVARD
KNOXVILLE, TENNESSEE 37923
TELEPHONE: (423) 693-1800

Independent Auditor's Report

March 15, 2000

Board of Commissioners
Loudon County Solid Waste Disposal Commission
100 River Road #109
Loudon, Tennessee 37774

I have audited the accompanying general-purpose financial statements of the Loudon County Solid Waste Disposal Commission, as of and for the year ended June 30, 1999, as listed in the table of contents. 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 on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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 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 estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose 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, 1999, and the results of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 15, 2000, on my consideration of the Loudon County Solid Waste Disposal Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the financial statements of the Loudon County Solid Waste Disposal Commission, taken as a whole. The accompanying supplemental schedules are not necessary for the fair presentation of the financial statements but are presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit 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, 1999

Assets

<u>Current Assets</u>		
Cash on Deposit - County Trustee	\$ 1,427,787.13	
Accounts Receivable (Net of Allowance for Uncollectibles of \$3,185.32)	267,365.68	
Interest Receivable	<u>5,019.92</u>	
Total Current Assets		\$ 1,700,172.73
<u>Fixed Assets</u>		
Property and Equipment	\$ 431,864.76	
Less Accumulated Depreciation	<u>(104,336.68)</u>	
Total Fixed Assets		<u>327,528.08</u>
Total Assets		<u>\$ 2,027,700.81</u>

Liabilities and Retained Earnings

<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 4,410.00	
Contracts Payable	146,889.57	
State Surcharge Payable	11,282.46	
Customer Deposits Payable	10,702.00	
Prepaid Customer Accounts	<u>184.26</u>	
Total Current Liabilities		\$ 173,468.29
<u>Long-Term Liabilities</u>		
Estimated Postclosure Care Cost	\$ <u>326,251.34</u>	
Total Long-Term Liabilities		<u>326,251.34</u>
Total Liabilities		\$ 499,719.63
<u>Retained Earnings</u>		
Unreserved		<u>1,527,981.18</u>
Total Liabilities and Fund Equity		<u>\$ 2,027,700.81</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 Changes
in Retained Earnings
For the Fiscal Year Ended June 30, 1999

Operating Revenues

Tipping Fees	\$ 1,741,088.09	
State Surcharge	40,143.27	
Miscellaneous Income	<u>2,069.89</u>	
Total Operating Revenues		\$ 1,783,301.25

Operating Expenses

Landfill Facilities Operation Fees	\$ 1,688,389.55	
State Surcharge	40,143.27	
State Maintenance Fee	10,000.00	
Board of Commissioners Compensation	2,950.00	
Legal Fees	892.70	
Accounting, Administrative and Clerical Services	18,000.00	
Audit Services	3,000.00	
Recycling Administration	900.00	
Wastewater Treatment Expense	8,612.55	
Tire Recycling Expense	17,975.00	
Insurance Premiums	2,745.00	
Postage and Copy Expense	340.80	
Software Maintenance Fee	800.00	
Trustee Commission	15,315.33	
Depreciation Expense	7,768.24	
Seminar Registration Fees	195.00	
Travel Expenses	564.93	
Commission Approved - Debt Adjustment	6,496.58	
Bad Debts	<u>797.34</u>	
Total Operating Expenses		<u>1,825,886.29</u>
Operating Loss		\$ (42,585.04)

Nonoperating Revenues

Interest Income	\$ 65,316.23	
State Used Oil Collection Grant	<u>6,449.60</u>	
Total Nonoperating Revenue		<u>71,765.83</u>

Net Income	\$ 29,180.79
Retained Earnings, July 1, 1998	<u>1,498,800.39</u>
Retained Earnings, June 30, 1999	<u>\$ 1,527,981.18</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 Fiscal Year Ended June 30, 1999

Cash Flows from Operating Activities

Operating Loss	\$ (42,585.04)
----------------	----------------

Adjustments to Reconcile Operating Income
to Net Income Provided by Operating Activities:

Depreciation Expense	\$ 7,768.24
----------------------	-------------

Changes in Operating Assets and Liabilities:

Increase in Accounts Receivable	(70,348.52)
---------------------------------	-------------

Increase in Accounts Payable	857.55
------------------------------	--------

Decrease in Contracts Payable	(4,225.10)
-------------------------------	------------

Increase in State Surcharge Payable	302.56
-------------------------------------	--------

Decrease in Prepaid Customer Accounts	(5,414.92)
---------------------------------------	------------

Decrease in Estimated Post Closure Care Costs	(9,833.33)
---	------------

Total Adjustments	<u>\$ (80,893.52)</u>
-------------------	-----------------------

Net Cash Used by Operating Activities	<u>\$ (123,478.56)</u>
---------------------------------------	------------------------

Cash Flows from Noncapital Financing Activities

State Grant Proceeds	\$ 6,449.60
----------------------	-------------

Net Cash Provided by Capital and Related Financing Activities	<u>\$ 6,449.60</u>
---	--------------------

Cash Flows from Investing Activities

Interest Received	\$ 77,056.82
-------------------	--------------

Net Cash Provided by Investing Activities	<u>\$ 77,056.82</u>
---	---------------------

Net Decrease in Cash	\$ (39,972.14)
----------------------	----------------

Cash, July 1, 1998	<u>1,467,759.27</u>
--------------------	---------------------

Cash, June 30, 1999	<u><u>\$ 1,427,787.13</u></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, 1999

Organization and Operations

The Commission has been delegated the authority and responsibility for operating the Loudon County Landfill. This agreement is pursuant to 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. §68-211-813 et seq.

The seven member Board of Commissioners is 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 is responsible for the operation of Phase II of the landfill and the closure and postclosure of Phase I and Phase II during the term of the contract which goes through March 31, 2004, unless earlier terminated as provided in the contract. Phase I of the landfill was closed in July 1995. Closure was approved by the State during fiscal year ended June 30, 1998.

Summary of Significant Accounting Policies

The financial statements of Loudon County Solid Waste Disposal Commission have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board pronouncements: Financial Accounting Standards Board Statements and Interpretations, and APB Opinions and Accounting Research Bulletins. The Commission has not elected to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The following is a summary of the more significant accounting policies:

1. Basis of Accounting and Measurement Focus
Transactions are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.
2. Property and Depreciation
Property and equipment are 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. On June 9, 1998, the Commission adopted a capitalization policy where property and equipment purchases of \$5,000.00 and greater, with an estimated life of more than one year are to be capitalized. Depreciation is calculated using the straight-line method to allocate the cost of depreciable assets over their estimated useful lives, which range from five to twenty years. Property placed in service during the fiscal year is depreciated only for the time actually in service. Depreciation expense for the fiscal year ended June 30, 1999, amounted to \$7,768.24.
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 equal to the estimated collection losses that will be incurred based on historical experience and a review of the current status of receivables.

Cash on Deposit with Loudon County Trustee

Funds of the Loudon County Solid Waste Authority Commission to be deposited with the Loudon County, Tennessee Trustee that were in transit at June 30, 1999, amounted to \$158,778.71. All deposits in excess of FDIC coverage are required to be collateralized by Tennessee law. These funds were adequately collateralized at June 30, 1999.

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

Closure and Postclosure Care Cost

Phase I of the Matlock Bend Landfill was closed during fiscal year ended June 30, 1996; however, state certification of closure was not approved until fiscal year ended June 30, 1998. State and Federal laws and regulations require the Commission to perform certain maintenance and monitoring functions at the site for thirty years after closure; therefore, the estimated postclosure costs will be amortized over a thirty year period. Closure and postclosure costs were recognized by the Commission in prior periods based on landfill capacity as of each balance sheet date. The \$326,251.34 reported as estimated postclosure care cost at June 30, 1999, consisted of the following:

Estimated Present Value of Postclosure Cost	\$ 265,606.34
Estimated Contingency Cost	<u>60,645.00</u>
Total Estimated Postclosure Care Liability	<u>\$ 326,251.34</u>

The above estimates are based on a report prepared by the State of Tennessee Department of Environment and Conservation, Division of Solid Waste Management on October 25, 1994. Actual costs may vary based on inflation, deflation, technology, or applicable laws and regulations.

The responsibility of closure and postclosure cost for Phase II of the Matlock Bend Landfill has been contractually assumed by the company the Commission contracted with to operate the landfill. At June 30, 1999, the estimated present value cost of closure, postclosure and contingency costs of Phase II based on a report provided by the State of Tennessee Department of Environment and Conservation, Division of Solid Waste Management is \$5,829,392.59.

The County of Loudon has entered into a Contract in Lieu of Performance Bond with the State of Tennessee Department of Environment and Conservation. In the event the County fails to perform closure and postclosure requirements pursuant to all applicable laws, statutes, rules and regulations as such laws, rules, statutes and regulations may be amended, the contract pledges future revenues of Loudon County, disbursed from the State of Tennessee to the County, up to the amount of \$13,444,521.00 for closure and postclosure care.

Concentration of Credit Risk

The Loudon County Solid Waste Disposal Commission provides sanitary services to citizens, governments and industries in Loudon County. The Commission grants credit to its customers, substantially all of whom are local governments and businesses. A significant portion of the Commission's revenue is attributable to a relatively small number of industrial plants and governmental entities.

Risk Management

It is the policy of the Commission to purchase commercial insurance for the risks of losses to which it is exposed other than those that are the contractual responsibility of the company contracted with to operate the landfill. These risks include professional liability and property and casualty. There have been no claims filed in any of the past three years.

Other Information

The contractual agreement between Loudon County Solid Waste Disposal Commission and the company the Commission has contracted with to operate the landfill contains information as to the term of the contract and liabilities that the Commission could incur at the termination of the contract based on future events which may or may not occur and which were not measurable at June 30, 1999; accordingly, no liability has been recorded in the financial statements.

SUPPORTING SCHEDULES

Loudon County Solid Waste Disposal Commission
Schedule of Fixed Assets and Accumulated Depreciation
For the Fiscal Year Ended June 30, 1999

	Balance 7-1-98	Additions and/or Retirements	Balance 6-30-99	Accumulated Depreciation 7-1-98	Current Depreciation	Accumulated Depreciation 6-30-99	Rate of Depreciation	Method of Depreciation
<u>Solid Waste Land and Facilities</u>								
Land	\$ 243,985.00	\$ -	\$ 243,985.00	\$ -	\$ -	\$ -	-	-
Landfill Facilities	86,086.76	-	86,086.76	12,913.34	4,304.34	17,217.68	5.00%	S.L.
Total Solid Waste Land and Facilities	\$ 330,071.76	\$ -	\$ 330,071.76	\$ 12,913.34	\$ 4,304.34	\$ 17,217.68		
<u>Equipment</u>								
Highlift	\$ 62,790.00	\$ -	\$ 62,790.00	\$ 62,790.00	\$ -	\$ 62,790.00	6.67%	S.L.
Computer Equipment	8,308.00	-	8,308.00	7,913.60	394.40	8,308.00	20.00%	S.L.
Scales	25,995.00	-	25,995.00	11,658.50	2,599.50	14,258.00	10.00%	S.L.
Waste Oil Burner	4,700.00	-	4,700.00	1,293.00	470.00	1,763.00	10.00%	S.L.
Total Equipment	\$ 101,793.00	\$ -	\$ 101,793.00	\$ 83,655.10	\$ 3,463.90	\$ 87,119.00		
Total Fixed Assets and Accumulated Depreciation	\$ 431,864.76	\$ -	\$ 431,864.76	\$ 96,568.44	\$ 7,768.24	\$ 104,336.68		

Loudon County Solid Waste Disposal Commission
Schedule of Grant Activity
For the Fiscal Year Ended June 30, 1999

<u>Grantor/Purpose of Grant</u>	<u>Grant Number</u>	<u>Balance 7-1-98</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6-30-99</u>
State of Tennessee, Department of Environment and Conservation, Used Oil Collection Grant	Z-40823507-00	\$ -	\$ 6,449.60	\$ 6,449.60	\$ -

Loudon County Solid Waste Disposal Commission
Schedule of Tipping Fees in Force
June 30, 1999

<u>Type</u>	<u>Unit Cost</u>
Permagrain	\$21.00 per ton
Quazite	\$15.50 per ton
All Other Types	\$33.92 per ton

Loudon County Solid Waste Disposal Commission
Board of Commissioners
June 30, 1999

Chairman
Vice - Chairman
Treasurer
Member
Member
Member
Member

Wayne Tolbert
Albert Jorden, Jr.
Ben Surrett
Robert Harrison
Sidney Mayes
Sally Proaps
Ted Sitzlar

INTERNAL CONTROL AND COMPLIANCE SECTION

B. J. KING
CERTIFIED PUBLIC ACCOUNTANT
9217 PARK WEST BOULEVARD
KNOXVILLE, TENNESSEE 37923
TELEPHONE: (423) 693-1800

Auditor's Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

March 15, 2000

Board of Commissioners
Loudon County Solid Waste Disposal Commission
100 River Road #109
Loudon, Tennessee 37774

I have audited the financial statements of Loudon County Solid Waste Disposal Commission as of and for the year ended June 30, 1999, and have issued my report thereon dated March 15, 2000. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Loudon County Solid Waste Disposal Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Loudon County Solid Waste Disposal Commission's internal control over financial reporting 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 over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operations that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my opinion, could adversely affect Loudon County Solid Waste Disposal Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 99-1 through 99-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider findings 99-1, 99-2 and 99-3 to be material weaknesses.

This report is intended solely for the information and use of management and the Board of Commissioners of the Loudon County Solid Waste Disposal Commission and is not intended to be and should not be used by anyone other than the specified parties.



Loudon County Solid Waste Disposal Commission

Schedule of Findings

Fiscal Year Ended June 30, 1999

Finding 99-1

~ @ 'County' - Sally
A general ledger customer accounts receivable account had not been utilized to monitor the total amount due from all customers on a monthly basis. Due to the failure to maintain this account, individual amounts due from customers at the end of each month did not have a control account with which to reconcile. As a result of failing to properly identify all receivables from customers, some customer receivables were not collected until May, 2000, while the audit was in progress.

Recommendation

Implement a simple general ledger accounting system to supplement the accounting records and financial statements presently prepared. This general ledger will include an "Accounts Receivable from Customers" ledger account in which receivables and collections of receivables will be posted to on a monthly basis. Each customer should also have an individual ledger account prepared in which monthly sales and collections are posted.

Management Response

The Loudon County Solid Waste Disposal Commission will install a general ledger accounting system, as described in the aforesaid recommendation, as soon as possible.

Finding 99-2 - County

Monthly landfill customers mailed all payments for landfill services to the Loudon County Central Accounting Office. Collections made at the landfill were also remitted to the Loudon County Central Accounting Office. In some instances, receipts issued at the Central Accounting Office did not specifically identify the name of and specific amount received from each customer.

Recommendation

Receipts issued should identify by name and amount the remittances received from each landfill customer.

Management Response

The Central Accounting Office has indicated that this information will be recorded on receipts issued.

Finding 99-3

The Loudon County Central Accounting Office prepared vendor checks for the Loudon County Solid Waste Disposal Commission. In some instances, these checks were prepared from a listing of vendors and amounts to be paid to each vendor, which were received from the Commission's bookkeeper.

Recommendation

The Solid Waste Disposal Commission representative who cosigns checks for the Commission should require itemized invoices to be attached to each check for their review and approval before checks are cosigned. After invoices have been reviewed and approved, the representative should sign and date the invoice.

Management Response

The Loudon County Solid Waste Disposal Commission Treasurer, who cosigns checks, will be directed to follow the aforesaid recommendation. —

