

Loudon County Solid Waste Disposal Commission

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June 30, 2003

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

Independent Auditor's Report

October 8, 2003

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

I have audited the accompanying financial statements of Loudon County Solid Waste Disposal Commission, as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of 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 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of Loudon County Solid Waste Disposal Commission, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 8, 2003, on my consideration of 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements of Loudon County Solid Waste Disposal Commission, taken as a whole. The accompanying supplemental schedules 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 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, 2003

Assets

Current Assets

Cash on Deposit - County Trustee	\$ 1,550,991.18	
Accounts Receivable (Net of Allowance for Uncollectibles of \$1,471.90)	170,086.85	
Interest Receivable	1,462.18	
Due From Monroe County	1,699.25	
Due From State of Tennessee - Grant Funds	9,590.09	
Prepaid Expense	1,197.90	
Total Current Assets		\$ 1,735,027.45

Fixed Assets

Property and Equipment	\$ 431,864.76	
Less Accumulated Depreciation	(133,832.04)	
Total Fixed Assets		298,032.72
Total Assets		\$ 2,033,060.17

Liabilities and Retained Earnings

Liabilities

Current Liabilities

Accounts Payable	\$ 15,113.91	
Retirement Payable	340.42	
Payroll Deductions Payable	192.16	
Contracts Payable	115,625.00	
State Surcharge Payable	12,558.42	
Customer Deposits	11,802.00	
Total Current Liabilities		\$ 155,631.91

Long-Term Liabilities

Estimated Postclosure Care Cost	\$ 286,902.26	
Total Long-Term Liabilities		286,902.26
Total Liabilities		\$ 442,534.17

Retained Earnings

Unreserved		1,590,526.00
Total Liabilities and Fund Equity		\$ 2,033,060.17

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, 2003

Operating Revenues

Tipping Fees	\$ 1,555,951.69	
State Surcharge	52,320.38	
Miscellaneous Income	510.00	
Total Operating Revenues		\$ 1,608,782.07

Operating Expenses

Salaries - Commission Director	\$ 33,289.73	
Social Security - Commission Director	1,852.26	
Medicare - Commission Director	1,051.05	
Retirement - Commission Director	618.97	
Travel	2,448.14	
Landfill Facilities Operation Fees	1,408,220.43	
State Surcharge	52,320.38	
State of TN - Permits	6,000.00	
Sampling	933.21	
Board of Commissioners Compensation	3,450.00	
Utilities	3,144.35	
Wastewater Treatment Expense	26,031.92	
Tire Transportation and Recycling Expense	56,771.15	
Insurance Premiums	2,950.00	
Accounting Services	4,500.00	
Software Maintenance Fee	800.00	
Trustee Commission	15,485.33	
Depreciation Expense	7,373.84	
Office Supplies	1,057.82	
Printing, Stationary and Forms	166.00	
Postal Charges	260.00	
Communications	2,810.68	
Advertising	1,455.23	
Office Equipment	1,383.00	
Furniture and Fixtures	312.50	
Dues and Memberships	225.00	
Legal Services	823.00	
Donations	1,200.00	
Contributions To Local Governments	15,000.00	
Bad Debt Allowance	1,406.40	
Total Operating Expenses		1,653,340.39

Operating Loss \$ (44,558.32)

Nonoperating Revenues

Operating Grant	\$ 33,701.44	
Interest Income	25,051.45	
Total Nonoperating Revenue		58,752.89

Net Income	\$ 14,194.57
Retained Earnings, July 1, 2002	1,576,331.43
Retained Earnings, June 30, 2003	\$ 1,590,526.00

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, 2003

Cash Flows from Operating Activities

Operating Loss	\$ (44,558.32)
Adjustments to Reconcile Operating Income to Net Income Provided by Operating Activities:	
Depreciation Expense	\$ 7,373.84
Changes in Operating Assets and Liabilities:	
Increase in Accounts Receivable	(58,867.13)
Increase in Due From Monroe County	(1,699.25)
Increase in Accounts Payable	10,133.57
Increase in Payroll Deductions Payable	192.16
Increase in Retirement Payable	340.42
Increase in State Surcharge Payable	3,755.83
Increase in Customer Deposits	500.00
Increase in Prepaid Expenses	(1,197.90)
Decrease in Estimated Post Closure Care Costs	(9,837.27)
Total Adjustments	<u>\$ (49,305.73)</u>
Net Cash Used by Operating Activities	<u>\$ (93,864.05)</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received	<u>\$ 24,111.35</u>
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Cash Flows from Investing Activities

Interest Received	<u>\$ 25,828.45</u>
Net Cash Provided by Investing Activities	<u>\$ 25,828.45</u>

Net Decrease in Cash	\$ (43,924.25)
Cash, July 1, 2002	<u>1,594,915.43</u>
Cash, June 30, 2003	<u><u>\$ 1,550,991.18</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, 2003

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 III and IV of the landfill and the closure and postclosure of Phase I, III and IV during the term of the contract which presently expires when the cell the company is currently operating is filled. As of June 30, 2003, the aforesaid company estimates, if the current volume of waste continues to be accepted, the cell will reach capacity in June, 2006. Phase I of the landfill was closed in July 1995 and closure was approved by the State during fiscal year ended June 30, 1998. Phase II was never developed.

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, 2003, amounted to \$7,373.84.
3. Statement of Cash Flows
For purposes of the statement of cash flows, the Commission considers all highly liquid investments purchased with an original 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

The Loudon County Solid Waste Disposal Commission's deposits are pooled with other deposits of Loudon County, Tennessee, in the Office of the Loudon County Trustee. Therefore, separate disclosures cannot be made regarding the deposits of the Loudon County Solid Waste Disposal Commission. See the comprehensive annual financial report of Loudon County, Tennessee, for disclosures regarding pooled cash and investments maintained by the Office of the Loudon County Trustee .

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 the 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 \$286,902.26 reported as estimated postclosure care cost at June 30, 2003, consisted of the following:

Estimated Present Value of Postclosure Cost	\$ 226,257.26
Estimated Contingency Cost	<u>60,645.00</u>
Total Estimated Postclosure Care Liability	<u>\$ 286,902.26</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 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 \$5,202,224.00 for closure and postclosure care.

The responsibility of closure and postclosure cost for Phase I, Phase III and Phase IV of the Matlock Bend Landfill as of June 30, 2003, is currently contractually assumed by the company the Commission contracted with to operate the landfill. Once the contract expires and the Commission does not enter into a new contract which includes provisions for the company operating the landfill to assume responsibility for closure, postclosure and contingency cost, Loudon County will assume these responsibilities and related expenses.

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 property, general liability, auto, public official liability and equipment. The various types of insurance named are part of the insurance package of Loudon County and therefore, a separate schedule of insurance is not provided in the supporting schedules of this audit report. There have been no claims filed in any of the past three years.

Net Working Capital

At June 30, 2003, the net working capital of the Loudon County Solid Waste Disposal Commission was as follows:

Current Assets	\$1,735,027.45
Current Liabilities	<u>(155,631.91)</u>
Net Working Capital	<u>\$1,579,395.54</u>

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, 2003; accordingly, no liability has been recorded in the financial statements.

It is the intention of the Loudon County Solid Waste Commission to make contributions to the City of Loudon, not to exceed \$15,000.00 per year, for a period of twenty (20) years to defray the cost associated with the retirement of debt incurred by the City of Loudon to extend utility service lines to the Matlock Bend Landfill. Quarterly contributions of \$3,750.00 were made, for a total contribution of \$15,000.00, during the fiscal year ended June 30, 2003.

SUPPORTING SCHEDULES

Loudon County Solid Waste Disposal Commission
 Schedule of Fixed Assets and Accumulated Depreciation
 For the Fiscal Year Ended June 30, 2003

	Balance 7/1/02	Additions and/or Retirements	Balance 6/30/03	Accumulated Depreciation 7/1/02	Current Depreciation	Accumulated Depreciation 6/30/03	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	30,130.70	4,304.34	34,435.04	5.00%	S.L.
Total Solid Waste Land and Facilities	\$ 330,071.76	\$ -	\$ 330,071.76	\$ 30,130.70	\$ 4,304.34	\$ 34,435.04		
<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	8,308.00	-	8,308.00	20.00%	S.L.
Scales	25,995.00	-	25,995.00	22,056.50	2,599.50	24,656.00	10.00%	S.L.
Waste Oil Burner	4,700.00	-	4,700.00	3,173.00	470.00	3,643.00	10.00%	S.L.
Total Equipment	\$ 101,793.00	\$ -	\$ 101,793.00	\$ 96,327.50	\$ 3,069.50	\$ 99,397.00		
Total Fixed Assets and Accumulated Depreciation	\$ 431,864.76	\$ -	\$ 431,864.76	\$ 126,458.20	\$ 7,373.84	\$ 133,832.04		

Loudon County Solid Waste Disposal Commission
Schedule of Tipping Fees in Force
June 30, 2003

<u>Customer</u>	<u>Unit Cost</u>
Gate rate - All customers without a designated rate	\$34.13 per ton
Waste Services of Tennessee	\$20.00 per ton
A. E. Staley	\$24.00 per ton
Kimberly Clark	\$24.00 per ton

Loudon County Solid Waste Disposal Commission
Board of Commissioners
June 30, 2003

Chairman
Vice - Chairman
Member
Member
Member
Member
Member

Steve Field
Larry Stafford
Robert Harrison
Ted Sitzlar
Russell Alford
William Waldrop
Robert Phillips

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

October 8, 2003

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 fiscal year ended June 30, 2003, and have issued my report thereon dated October 8, 2003. I conducted my 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.

Compliance

As part of obtaining reasonable assurance about whether Loudon County Solid Waste 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 had 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 03-1 and 03-2.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the 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 the 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 03-1 and 03-2.

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 matters in the internal control over financial reporting that might be material weaknesses. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weaknesses.

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

B. J. King

Loudon County Solid Waste Disposal Commission
Schedule of Findings
Fiscal Year Ended June 30, 2003

Finding 03-1

No evidence could be found that paid invoices had been footed and extended.

Recommendation

Attach adding machine tapes to all paid invoices to confirm that invoice footings and extensions have been verified.

Management Response

Management concurs.

Finding 03-2

Some paid invoices reviewed had not been canceled by recording the check number and date paid on the invoice.

Recommendation

Cancel all paid invoices by recording the check number and date paid on the invoice.

Management Response

Management concurs.

Disposition of Prior Year Findings

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Loudon County Solid Waste Commission's audit report for the fiscal year ended June 30, 2002, which have not been corrected as of June 30, 2003.

<u>Finding</u>	<u>Page Number</u>	<u>Subject</u>
02-2	11	Invoice Footings & Extensions
02-3	11	Cancellation of Paid Invoices