

# KENNERLY, MONTGOMERY & FINLEY, P.C.

ALEXANDER M. TAYLOR  
JACK M. TALLENT, II  
G. WENDELL THOMAS, JR.  
STEVEN E. SCHMIDT  
BRIAN H. TRAMMELL  
C. COULTER GILBERT  
ROBERT H. GREEN  
WILLIAM S. LOCKETT, JR.  
REBECCA BRAKE MURRAY  
JAMES N. GORE, JR.  
TERRILL L. ADKINS  
KENNETH W. WARD  
KRISTI D. MCKINNEY  
ROB QUILLIN  
E. RICHARDS BRABHAM, III  
PAUL E. HELTON  
M. ERIC ANDERSON  
KEVIN C. STEVENS  
JONATHAN H. PEYTON

ATTORNEYS AT LAW

P.O. BOX 442

KNOXVILLE, TENNESSEE 37901-0442

www.kennerlylawyers.com

OFFICES LOCATED AT:

550 MAIN STREET  
FOURTH FLOOR  
BANK OF AMERICA CENTER  
KNOXVILLE, TENNESSEE 37902

TELEPHONE: (865) 546-7311  
FAX: (865) 524-1773

July 31, 2006

County Mayor George Miller  
Loudon County  
100 River Road  
Loudon, Tennessee 37774

Re: Loudon County Solid Waste Disposal Commission (10158-001)  
2005 Annual Audit Report

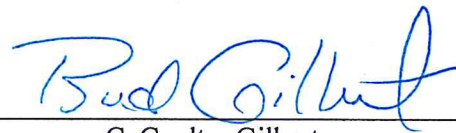
Dear Mayor Miller:

We serve as general counsel to the Loudon County Solid Waste Disposal Commission and in that capacity have been directed to forward to you a copy of the Commission's most recently completed audit for the year ending June 30, 2005. If you should have any questions or concerns, please do not hesitate to contact me or any member of the Commission. I have also enclosed a contact listing for the Commission members. On behalf of Chairman Steve Field and the Commission, we thank you for your continued support of the Commission and your service to the Loudon County and its citizens.

Sincerely,

KENNERLY, MONTGOMERY & FINLEY, P.C.

By



C. Coulter Gilbert

CCG/nlr

Enclosures

cc: Chairman Steve Field

*Financial Statements*

LOUDON COUNTY SOLID WASTE  
DISPOSAL COMMISSION

Year Ended June 30, 2005

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

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

We have audited the accompanying statement of net assets of Loudon County Solid Waste Disposal Commission, as of June 30, 2005, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of America. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Loudon County Solid Waste Disposal Commission as of June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Loudon County Solid Waste Disposal Commission. The accompanying supplementary information listed in the table of contents is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2006 on our consideration of Loudon County Solid Waste Disposal Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mitchell Emert & Hill*

April 14, 2006



**Loudon County Solid Waste Disposal Commission**  
**Management's Discussion and Analysis**  
**June 30, 2005**

**Introduction**

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. The Loudon County Solid Waste Disposal Commission ("LCSWDC") is a governmental agency created by Loudon County, the City of Lenoir City and the City of Loudon to operate and manage the Matlock Bend Sanitary Landfill in Loudon, Tennessee. The Commission also serves as the Municipal Solid Waste Regional Board for the Loudon County Solid Waste Region under the Solid Waste Management Act of 1991. Effective July 1, 2003, LCSWDC adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* as amended by Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*.

**Financial Statement Review**

The financial statements herein are comprised of the statement of net assets, the statement of revenue, expenses and changes in net assets, the statement of cash flows and the accompanying notes to the financial statements.

*Financial Highlights as of June 30:*

The Statement of Net Assets presents information on all LCSWDC's assets and liabilities. Current assets as well as other assets and liabilities are reported in order of their liquidity. The table below presents the significant components of net assets:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Condensed balance sheet</b>			
Assets:			
Current and other	\$ 1,931,773	\$ 1,761,676	\$ 1,735,027
Capital	<u>286,539</u>	<u>291,314</u>	<u>298,033</u>
Total assets	<u>2,218,313</u>	<u>2,052,990</u>	<u>2,033,060</u>
Liabilities:			
Current	180,425	169,868	155,632
Long-term	<u>1,751,854</u>	<u>1,648,956</u>	<u>286,902</u>
Total liabilities	<u>1,932,279</u>	<u>1,818,824</u>	<u>442,534</u>
Net assets:			
Invested in capital assets	286,539	291,314	298,033
Unrestricted (deficit)	<u>(505)</u>	<u>(57,149)</u>	<u>1,292,493</u>
Total net assets	<u>\$ 286,034</u>	<u>\$ 234,165</u>	<u>\$ 1,590,526</u>

Long-term liabilities at June 30, 2005 and 2004 include estimated postclosure care costs for the current phase, not included in 2003.

**Loudon County Solid Waste Disposal Commission  
Management's Discussion and Analysis (continued)  
June 30, 2005**

The Statement of Revenue and Expenses presents LCSWDC's results of operations. The table below is a condensed statement of revenue and expenses:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Condensed statement of revenue and expenses</b>			
Operating revenue	\$ 1,964,044	\$ 1,610,580	\$ 1,608,782
Operating expenses	(1,952,048)	(1,724,499)	(1,645,966)
Depreciation and amortization	<u>(4,774)</u>	<u>(6,113)</u>	<u>(7,374)</u>
Net operating income (loss)	7,222	(120,032)	( 44,558)
Nonoperating income	<u>44,647</u>	<u>47,774</u>	<u>58,753</u>
Change in net assets	\$ 51,869	\$ (72,258)	\$ 14,195

**Results of Operations**

The Loudon County Solid Waste Disposal Commission shows a positive net assets (formerly titled fund balance) and the amount is consistent with prior years, except for the increase in the estimated postclosure care cost liability first recorded in 2004.

Other expenses in total, including operations, maintenance and depreciation were consistent with the prior year, except for the current year increase in postclosure care costs.

The Statement of Cash Flows in the accompanying financial statements is presented using the direct method. This method outlines the sources and uses of cash as it relates 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.

Capital Assets

Capital Asset levels were consistent with the prior year.

**Loudon County Solid Waste Disposal Commission  
Management's Discussion and Analysis (continued)  
June 30, 2005**

**Request for Information**

Questions concerning this report or other requests for additional information should be directed to Steve Field, Chairman at (865) 576-1057 or at his office located at 100 River Road, #106, Loudon, Tennessee 37774.

Respectfully submitted,

Steve Field  
Chairman



LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**STATEMENT OF NET ASSETS**

June 30, 2005

**ASSETS**

**CURRENT ASSETS**

Cash		\$ 1,631,539
Accounts receivable, net of allowance for doubtful accounts		294,570
Prepaid insurance		4,250
Interest receivable		1,415

<b>TOTAL CURRENT ASSETS</b>		<b>1,931,773</b>
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**PROPERTY AND EQUIPMENT**

Land	\$ 243,379	
Landfill facilities	86,087	
Machinery & equipment	101,793	
	<u>431,259</u>	
Accumulated depreciation	<u>(144,720)</u>	<u>286,539</u>

<b>TOTAL ASSETS</b>		<b><u>\$ 2,218,313</u></b>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable		\$ 168,223
Customer deposits		12,202

<b>TOTAL CURRENT LIABILITIES</b>		<b>180,425</b>
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**LONG-TERM LIABILITIES**

Estimated postclosure care cost		1,751,854
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**NET ASSETS**

Invested in capital assets	\$ 286,539	
Unrestricted (deficit)	<u>(505)</u>	<u>286,034</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 2,218,313</u></b>
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See the accompanying notes to the financial statements.

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

Year Ended June 30, 2005

**REVENUE**

Tipping fees		\$ 1,964,044
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**EXPENSES**

Salaries and wages:

Board of Commissioners compensation		3,500
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Contracted services:

Contracts with private agencies	\$ 7,500	
Legal services	29,190	
Other contracted services	<u>5,352</u>	42,042

Fees:

Landfill facilities operation	1,743,407	
Trustee's commissions	18,792	
State surcharge	77,697	
Tire disposal	<u>28,756</u>	1,868,652

Supplies and materials:

Office supplies		159
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Insurance

3,850

Wastewater treatment

16,685

Other expenses:

Contributions to City of Loudon for debt service	15,000	
Royalties	800	
Travel	1,174	
Communication	<u>185</u>	17,160

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

(continued)

Year Ended June 30, 2005

Depreciation		4,774	
		<u>1,956,822</u>	
	<b>INCOME FROM OPERATIONS</b>		7,222
<b>OTHER INCOME</b>			
State grant - tire disposal	18,766		
Interest	<u>25,881</u>	<u>44,647</u>	
	<b>CHANGE IN NET ASSETS</b>		51,869
<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b>		<u>234,165</u>	
<b>NET ASSETS AT THE END OF THE YEAR</b>		<u>\$ 286,034</u>	

See the accompanying notes to the financial statements.

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2005

**CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Cash received from customers	\$ 1,878,425
Cash paid to suppliers and employees	<u>(1,842,843)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 35,582

**CASH PROVIDED BY NONCAPITAL FINANCING  
ACTIVITIES**

State grant - tire disposal	18,766
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**CASH PROVIDED BY INVESTING ACTIVITIES**

Interest received	<u>25,881</u>
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**NET INCREASE IN CASH** 80,229

**CASH AT THE BEGINNING OF THE YEAR** 1,551,311

**CASH AT THE END OF THE YEAR** \$ 1,631,539

**RECONCILIATION OF INCOME FROM  
OPERATIONS TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES**

Income from operations	\$ 7,222
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Adjustments to reconcile income from operations to  
net cash provided by operating activities:

Depreciation	\$ 4,774
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(Increase) in:

Accounts receivable	(85,619)
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Prepaid expenses	(4,250)
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Increase in:

Accounts payable	10,557
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Estimated postclosure care cost	<u>102,898</u>	<u>28,360</u>
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**NET CASH PROVIDED  
BY OPERATING ACTIVITIES** \$ 35,582

See the accompanying notes to the financial statements.



LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2005

**NOTE A - DESCRIPTION OF ORGANIZATION**

The Loudon County Solid Waste Disposal Commission has been delegated the authority and responsibility for operating the Loudon County Landfill under the Amended and Restated Loudon County Solid Waste Disposal Agreement dated March 1, 1993. This agreement was entered into pursuant to State laws requiring the creation of municipal solid waste regions and in addition to specific powers relative to the operation and management of the Matlock Bend Landfill, 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 Mayor (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/IV of the landfill and the closure and postclosure of Phases I and II/IV during the term of the contract, which expires when Module C the company is currently operating is filled. As of June 30, 2005, the company estimates, if the current volume of waste continues to be accepted, the cell will reach capacity in January 2008. Phase I of the landfill was closed during the year ended June 30, 1996 and closure was approved by the State during fiscal year ended June 30, 1998. Phase III was never developed.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Commission uses the accrual basis of accounting. Revenues are recognized when earned and measurable, and expenses are recognized when the liability is incurred. The Commission follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The Commission has not elected to follow FASB pronouncements issued after November 30, 1989.

The Commission's resources are classified for accounting and reporting purposes into the following three net asset groups:

Invested 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 Commission had no debt as of June 30, 2005.

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2005

Invested in capital assets at June 30, 2005 has been calculated as follows:

Capital assets	\$ 431,259
Accumulated depreciation	<u>(144,720)</u>
	<u>\$ 286,539</u>

Restricted: Net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Commission pursuant to those stipulations or that expire by the passage of time. The Commission had no restricted net assets as of June 30, 2005.

Unrestricted: Net assets that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "invested in capital assets". Unrestricted net assets may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

Accounts Receivable

Accounts receivable which are deemed uncollectible based upon a periodic review of the accounts are charged to revenue. At June 30, 2005, the allowance for uncollectible accounts was \$1,961.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives, which range from five to thirty years.

**NOTE C - CASH**

Cash is stated at cost, which approximates market value. These balances were held by the County Trustee in the Commission's name and were insured by the Federal Deposit Insurance Corporation (FDIC) and the State of Tennessee Bank Collateral Pool. The Commission considers all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2005

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/05</u>
<u>Capital assets not being depreciated</u>				
Land	\$ 243,379	\$ 0	\$ 0	\$ 243,379
<u>Capital assets being depreciated</u>				
Landfill facilities	86,087	0	0	86,087
Machinery and equipment	<u>101,793</u>	<u>0</u>	<u>0</u>	<u>101,793</u>
	187,880	0	0	187,880
<u>Accumulated depreciation</u>				
Landfill facilities	(38,739)	(4,304)	0	(43,044)
Machinery and equipment	<u>(101,206)</u>	<u>(470)</u>	<u>0</u>	<u>(101,676)</u>
	<u>(139,945)</u>	<u>(4,774)</u>	<u>0</u>	<u>(144,720)</u>
	<u>\$ 291,314</u>	<u>\$ (4,774)</u>	<u>\$ 0</u>	<u>\$ 286,539</u>

**NOTE E - CLOSURE AND POSTCLOSURE CARE COST**

State and federal laws and regulations require a final cover to be placed on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Phase I of the Matlock Bend Landfill was closed during the year ended June 30, 1996. However, state certification of closure was not approved until the year ended June 30, 1998.

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 the date of the statement of net assets.



LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2005

At June 30, 2005, the estimated liability for closure and postclosure costs were as follows:

Phase I	\$ 835,980
Phase II/IV	<u>915,874</u>
	<u>\$ 1,751,854</u>

The liabilities were estimated based on information provided by the State of Tennessee Department of Environment and Conservation. Closure and postclosure costs related to Phase I were recognized by the Commission in prior periods based on landfill capacity as of the date of each statement of net assets (formerly titled the balance sheet). The liability for Phase II/IV represents the cumulative amount of closure and postclosure care costs reported to date based on the use of 18% of the estimated capacity of the landfill for that phase. The Commission will recognize the remaining estimated cost of \$3,623,516 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. The Commission expects to close Phase II/IV of the landfill in August of 2030 (assuming 80,000 tons of disposal per year). Actual costs may vary based on inflation, deflation, technology, or applicable laws and regulations.

Loudon County, Tennessee has entered into Contracts in Lieu of Performance Bond with the State of Tennessee Department of Environment and Conservation for Phase I (dated February 24, 1994) and for Phase II/IV (dated September 1, 1997). 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 contracts pledge future revenues of Loudon County, disbursed from the State of Tennessee to the County, up to the amount of \$5,272,470 (covering all phases of the landfill) as of June 30, 2005, for closure and postclosure care.

**NOTE F - RISK MANAGEMENT**

The Commission 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 Commission carries commercial insurance for these risks of loss, including general liability coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2005

**NOTE G - CONTRIBUTIONS TO CITY OF LOUDON**

The Commission makes contributions to the City of Loudon, not to exceed \$15,000 per year, for a period of twenty 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. The loan payments commenced in March of 2002 and are expected to end in February of 2022. Quarterly contributions of \$3,750 were made, for a total contribution of \$15,000, during the year ended June 30, 2005.

**NOTE H - COMMITMENTS**

The Commission entered into an agreement with a contractor for the daily operations of the Matlock Bend Sanitary Landfill. The original agreement was dated April 5, 1994 and was amended by a first amendment dated as of October 1, 2001. The amendment provides that the contractor's operating agreement continues "until Module C is filled to capacity," which is expected to occur sometime in 2008.

SUPPLEMENTARY INFORMATION

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**TIPPING FEES IN FORCE**

June 30, 2005

<u>Customer</u>	<u>Unit Cost</u>
Gate rate – all customers without a designated rate	\$ 34.88 per ton
Waste Services of Tennessee	20.00 per ton
Trigen	19.95 per ton
Strongwell/Quazite	16.50 per ton
Staley's MSW	24.00 per ton
Staley's Ash	22.00 per ton
Viskase Ash	24.00 per ton
Kimberly Clark	17.00 per ton
Loudon County	34.88 per ton
Lenoir City	34.88 per ton
City of Loudon	34.88 per ton

See the accompanying independent accountants' audit report.

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

**BOARD OF COMMISSIONERS**

June 30, 2005

Chairman  
Vice-Chairman  
Secretary/Treasurer  
Member  
Member  
Member  
Member

Steve Field  
William Waldrop  
Robert Phillips  
Ted Sitzlar  
Robert Harrison  
Aprell Patterson  
John Watkins

See the accompanying independent accountants' audit report.



INTERNAL CONTROL

AND

COMPLIANCE

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

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

We have audited the financial statements of Loudon County Solid Waste Disposal Commission as of and for the year ended June 30, 2005, and have issued our report thereon dated April 14, 2006. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Loudon County Solid Waste Disposal Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, 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.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Loudon County Solid Waste Disposal Commission's financial statements are free of 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*.

The prior year's finding regarding the accounting records was corrected during the year.

This report is intended solely for the information and use of management and governmental regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Mitchell Emert & Hill*

April 14, 2006