Financial Statements

LOUDON COUNTY SOLID WASTE DISPOSAL COMMISSION

Year Ended June 30, 2006

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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, 2006, and the related statement of revenue, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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, 2006, 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 on pages 3 through 5 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.

accordance with Government Auditing Standards, we have also issued our report dated January 15, 2007 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

January 15, 2007

Loudon County Solid Waste Disposal Commission Management's Discussion and Analysis June 30, 2006

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, LCSWCD 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:

	2006	2005	2004	2003
Condensed balance sheet				
Assets:				0 1 505 005
Current and other	\$ 2,248,810	\$ 1,931,773	\$ 1,761,676	\$ 1,735,027
Capital	282,117	286,539	291,314	298,033
Total assets	2,530,927	2,218,313	2,052,990	2,033,060
Liabilities:				
Current	205,736	180,425	169,868	155,632
Long-term	2.221,269	<u>1,751,854</u>	1,648,956	<u>286,902</u>
Total liabilities	2,427,005	1,932,279	1,818,824	442,534
Net assets:			no nacina danna d	
Invested in capital assets	282,117	286,539	291,314	298,033
Unrestricted (deficit)	(178,195)	(505)	(57,149)	1,292,493
Total net assets	\$ 103,922	\$ 286,034	\$ 234,165	\$ 1,590,526

Long-term liabilities at June 30, 2006, 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, 2006

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

	2006	2005	2004	2003
Condensed statement of revenue				
and expenses				9 gg/ 3c - 6
Operating revenue	\$ 2,308,453	\$ 1,964,044	\$ 1,610,580	\$ 1,608,782
Operating expenses	(2,577,480)	(1,952,048)	(1,724,499)	(1,645,966)
Depreciation and amortization	(4,421)	(4,774)	(6,113)	(7,374)
Net operating income (loss)	(273,447)	7,222	(120,032)	(44,558)
Nonoperating income	91,335	44,647	47,774	58,753
Change in net assets	\$ (182,112)	\$ 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.

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Loudon County Solid Waste Disposal Commission Management's Discussion and Analysis (continued) June 30, 2006

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

STATEMENT OF NET ASSETS

June 30, 2006

AS	SE	TS

CURRENT ASSETS Cash Accounts receivable, net of allowance for doubtful accounts Interest receivable		\$ 1,908,665 328,692 11,452
TOTAL CURRENT ASSETS		2,248,810
PROPERTY AND EQUIPMENT Land Landfill facilities Machinery & equipment Accumulated depreciation	\$ 243,378 86,087 101,793 431,258 (149,141)	282,117_
TOTAL ASSETS		\$ 2.530,927
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES Accounts payable Customer deposits		\$ 201,296 4,440
TOTAL CURRENT LIABILITIES		205,736
LONG-TERM LIABILITIES Estimated postclosure care cost		2,221,269
NET ASSETS Invested in capital assets Unrestricted (deficit)	\$ 282,117 (178,195)	103,922
TOTAL LIABILITIES AND NET ASSETS		\$ 2,530,927

See the accompanying notes to the financial statements.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2006

REVENUE Tipping fees		\$ 2,308,453
EXPENSES		
Salaries and wages:		
Board of Commissioners compensation		3,800
Contracted services:		
Contracts with private agencies	\$ 7,500	
Legal services	31,426	
Accounting and auditing	4,500	
Other contracted services	1,250	44,676
Fees:		
Landfill facilities operation	2,335,564	
Trustee's commissions	22,597	
State surcharge	95,976	
Tire disposal	40,606	2,494,743
Supplies and materials:		
Office supplies		92
Insurance		4,250
Wastewater treatment		12,713
Other expenses:		
Contributions to City of Loudon		
for debt service	15,000	
Royalties	200	
Travel	2,005	17,205

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS (continued)

Year Ended June 30, 2006

Depreciation		4,421 2,581,901
(LOSS) FROM OPERATIONS	S	(273,447)
OTHER INCOME State grant - tire disposal Interest	16,734 74,602	91,335
CHANGE IN NET ASSETS	S	(182,112)
NET ASSETS AT THE BEGINNING OF THE YEAR		286,034
NET ASSETS AT THE END OF THE YEAR	₹	\$ 103,922

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

CASH PROVIDED (USED) BY OPERATING ACTIVITIES Cash received from customers Cash paid to suppliers and employees			2,309,220 2,113,391)
NET CASH PROVIDED BY OPERATING ACTIVITIES			195,829
CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES State grant - tire disposal			16,734
CASH PROVIDED BY INVESTING ACTIVITIES Interest received			64,564
NET INCREASE IN CASH			277,127
CASH AT THE BEGINNING OF THE YEAR		-	1,631,539
CASH AT THE END OF THE YEAR		\$	1,908.665
RECONCILIATION OF (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES (Loss) from operations Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		\$	(273,447)
Depreciation (Increase)decrease in: Accounts receivable Prepaid expenses Increase(decrease) in: Accounts payable Customer deposits Estimated postclosure care cost	\$ 4,421 (34,123) 4,250 33,074 (7,762) 469,416		469,276
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$	195.829

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

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, 2006, 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. Revenue is 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.

Government Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net asset groups:

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2006

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, 2006. Invested in capital assets at June 30, 2006 has been calculated as follows:

Capital assets
Accumulated depreciation

\$ 431,258 (149,141)

\$ 282,117

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, 2006.

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. The Commission has a deficit of unrestricted net assets of \$178,195 as of June 30, 2006. The deficit was due to liabilities exceeding assets, except for capital assets, at year end.

Accounts Receivable

Accounts receivable which are deemed uncollectible based upon a periodic review of the accounts are charged to revenue. At June 30, 2006, 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.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2006

NOTE C - CASH

Cash is stated at cost, which approximates market value. These balances were held by the Loudon 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.

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

		Balance 7/1/05	_Ad	ditions_	Retireme	nts_		Balance 6/30/06
Capital assets not being depreciated Land	\$	243,378	\$	0	\$	0	\$	243,378
Capital assets being depreciated Landfill facilities Machinery and equipment		86,087 101,793 187,880		0 0 0	-	0 0 0		86,087 101,793 187,880
Accumulated depreciation Landfill facilities Machinery and equipment		(43,044) (101,676) (144,720)		(4,304) (117) (4,421)		0 0 0	_	(47,348) (101,793) (149,141)
	\$	586,539	<u>\$</u>	(4,421)	\$	0	<u>\$</u>	282,117

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2006

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. Landfill facilities operation expense reported in the accompanying financial statements consists of \$1,866,148 paid to the landfill operator and \$469,416 for the current year increase in the estimated liability for closure and postclosure costs.

At June 30, 2006, the estimated liability for closure and postclosure costs were as follows:

Phase I	\$ 821,224
Phase II/IV	1,400,044

\$ 2,221,269

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 22.5% of the estimated capacity of the landfill for that phase. The Commission will recognize the remaining estimated cost of \$4,001,152 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. 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, 2006, for closure and postclosure care.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2006

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.

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, 2006.

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

TIPPING FEES IN FORCE

June 30, 2006

Customer	Unit Cost
Gate rate – all customers without a designated rate Waste Services of Tennessee	\$ 34.88 per ton 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

BOARD OF COMMISSIONERS

June 30, 2006

Chairman

Vice-Chairman

Secretary/Treasurer

Member

Member

Member

Member

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

GRANT ACTIVITY

Year Ended June 30, 2006

Project		Federal Grantor/
Number	Program Name	Pass-Through Grantor
Z03011370-01	Waste Tire Option Grant	State of Tennessee Department of Environment and Conservation

Receivable July 1, 2005		Receipts		Expenditures		Receivable June 30, 2006	
\$	0	\$	16,734	\$	16,734	\$	0

INTERNAL CONTROL

<u>AND</u>

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, 2006, and have issued our report thereon dated January 15, 2007. 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. 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. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 finding reported for the prior year 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

January 15, 2007

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