

ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSON COUNTY LANDFILL



FOR THE YEAR ENDED JUNE 30, 2005

**Comptroller of the Treasury
Department of Audit
Division of County Audit
Nashville, Tennessee**

ANNUAL FINANCIAL REPORT
SEQUATCHIE/BLEDSOE COUNTY LANDFILL
FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
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Auditor 4

JUNE ROGERS, CGFM
State Auditor

This financial report is available at www.comptroller.state.tn.us

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Audit Highlights
Annual Financial Report
Sequatchie/Bledsoe County Landfill
For the Year Ended June 30, 2005

Scope

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2005.

Results

Our report on Sequatchie/Bledsoe County Landfill's financial statements is unqualified.

Our audit resulted in one finding, which we have reviewed with Sequatchie/Bledsoe County Landfill management. The detail for this finding is included in the reporting section of this report.

Finding

The following is a summary of the audit finding:

- ◆ Duties were not segregated adequately among landfill management and employees.

INTRODUCTORY SECTION

Sequatchie/Bledsoe County Landfill Officials
June 30, 2005

David Barker, Chairman
Gregg Ridley, Treasurer
Dan Barker
Ray Hobbs
Greg Johnson
Paul Powell
Roger Simmons
Gordon Smith
George Wagner
Charles Young

FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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INDEPENDENT AUDITOR'S REPORT

March 3, 2006

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the accompanying basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the landfill'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 auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 above present fairly, in all material respects, the financial position of the landfill as of June 30, 2005, and the respective changes in its financial position 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, we have also issued our report dated March 3, 2006, on our consideration of the landfill's internal control over financial reporting

and our tests of its compliance with certain provisions of laws, regulations and contracts. 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.

As described in Note IV.B., the landfill has implemented Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures, which modifies the landfill's disclosures for custodial credit risk and adds disclosures about other types of risk.

The management of the landfill did not prepare the management's discussion and analysis. The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the landfill's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/sb

BASIC FINANCIAL STATEMENTS

Exhibit A

Sequatchie/Bledsoe County Landfill
Statement of Net Assets
June 30, 2005

ASSETS

Cash	\$ 349,994
Due from Other Governments	6,708
Capital Assets:	
Land	71,550
Total Assets	<u>\$ 428,252</u>

LIABILITIES

Noncurrent Liabilities:	
Accrued Liability for Closure/Postclosure Care Cost:	
Due Within One Year	\$ 46,150
Due in More Than One Year	1,246,050
Total Liabilities	<u>\$ 1,292,200</u>

NET ASSETS

Invested in Capital Assets	\$ 71,550
Unrestricted	<u>(935,498)</u>
Total Net Assets	<u>\$ (863,948)</u>

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

Exhibit B

Sequatchie/Bledsoe County Landfill
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended June 30, 2005

<u>Operating Revenue</u>	
Miscellaneous Refunds	\$ 79,232
Total Operating Revenue	<u>\$ 79,232</u>
<u>Operating Expenses</u>	
Accountants/Bookkeepers	\$ 5,000
Social Security Tax	473
Unemployment Compensation	27
Audit Services	2,406
Landfill Closure/Postclosure Care Costs	13,970
Other Charges	<u>65,262</u>
Total Operating Expenses	<u>\$ 87,138</u>
Operating Income (Loss)	<u>\$ (7,906)</u>
<u>Nonoperating Revenues</u>	
Contributions From Government Entities	\$ 12,088
Investment Income	<u>2,463</u>
Total Nonoperating Revenues	<u>\$ 14,551</u>
Change in Net Assets	\$ 6,645
Prior Period Adjustment	32,180
Net Assets, July 1, 2004	<u>(902,773)</u>
Net Assets, June 30, 2005	<u><u>\$ (863,948)</u></u>

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

Exhibit C

Sequatchie/Bledsoe County Landfill
Statement of Cash Flows
For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Miscellaneous Refunds	\$ 79,232
Payments to Employees	(5,000)
Payments to Contractors	(13,970)
Other Payments	(82,138)
Net Cash Provided By (Used In) Operating Activities	<u>\$ (21,876)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Contributions From Government Entities	\$ 84,967
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>\$ 84,967</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	\$ 2,463
Net Cash Provided By (Used In) Investing Activities	<u>\$ 2,463</u>

Net Increase (Decrease) in Cash and Cash Equivalents	\$ 65,554
Cash and Cash Equivalents, July 1, 2004	<u>284,440</u>

Cash and Cash Equivalents, June 30, 2005	<u><u>\$ 349,994</u></u>
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Reconciliation of Operating Income to Net Cash

Provided By Operating Activities:

Operating Income (Loss)	\$ (7,906)
Adjustments to Reconcile Net Operating Income to Net Cash Provided By (Used In) Operating Activities	
Increase (Decrease) in Prior Period Adjustment	32,180
Increase (Decrease) in Accrued Liability for Landfill Closure/Postclosure Costs	<u>(46,150)</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (21,876)</u></u>

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

**SEQUATCHIE/BLEDSON COUNTY LANDFILL
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sequatchie/Bledsoe County Landfill's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of the landfill:

A. Reporting Entity

The Sequatchie/Bledsoe County Landfill is a joint venture entered into by four governmental entities, Bledsoe and Sequatchie Counties and the cities of Dunlap and Pikeville. The landfill was formed in 1973 by agreements entered into with these governments to provide solid waste disposal services to the citizens of Sequatchie and Bledsoe Counties. The landfill is administered under the oversight of a Board of Directors that consists of three people from each county and two from each city. The county and city mayors are members of the board, and the remaining members of the board are appointed by these officials subject to the approval of their respective governing bodies. The landfill stopped accepting waste in May 1999, and closure of the landfill site was concluded in November 2003. The landfill board will continue to oversee the necessary postclosure activities at the site until the members dissolve the original agreement. The landfill employs a part-time bookkeeper.

Sequatchie and Bledsoe Counties share equally in earnings and/or losses of the landfill. The cities of Dunlap and Pikeville share in any income/loss derived from the operations of the landfill in a ratio equal to the proportion that each city's population bears to the total population of its respective county.

The 1990 federal census was used to determine fund equity. The percentages were not adjusted to reflect the 2000 federal census because the landfill stopped accepting waste in 1999. Fund equity was determined using the following percentages:

Sequatchie County	28.5 %
City of Dunlap	21.5
Bledsoe County	39
City of Pikeville	<u>11</u>
 Total	 <u><u>100</u></u> %

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The landfill's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the landfill's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The landfill is maintained as a proprietary (enterprise) fund. Since the landfill no longer accepts waste, the principal operating revenues of the landfill are the contributions from the governments involved and interest earned on the landfill's demand deposit account. Operating expenses for the landfill include administrative expenses, engineering fees, and postclosure care costs.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted revenues first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets

1. Deposits

For purposes of the statement of cash flows, cash includes demand deposits held by the landfill.

2. Receivables

On the landfill's statement of net assets, \$6,708 represents uncollected appropriations and reimbursements due from the governments participating in the joint venture.

3. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not

capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. As previously noted, the landfill is closed and the only capital asset reported is land.

4. Long-term Obligations

In proprietary fund financial statements, long-term obligations (postclosure costs) are reported as liabilities in the statement of net assets.

5. Net Assets

In proprietary fund financial statements, equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

6. Prior-period Adjustment

Net assets were restated (\$32,180) from the prior year due to an adjustment to the accrued liability for closure/postclosure care costs. The estimated annual postclosure costs used to calculate the accrued liability was \$46,150; however, actual costs for the year were only \$13,970.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets Deficit

The Sequatchie/Bledsoe County Landfill had an unrestricted net assets deficit of \$935,498 at June 30, 2005. This unrestricted net assets deficit resulted from the recognition in the financial statements of a liability of \$1,292,200 for postclosure care costs. This liability represents accruals calculated according to estimates of annual postclosure care costs provided by the landfill's engineer. The landfill board plans to fund these costs using the cash balance as of June 30, 2005, and annual funding requirements from the four governments involved in the joint venture.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Cash on the statements of net assets consists entirely of demand deposits maintained by the landfill's treasurer.

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

B. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Landfill Closure/ Postclosure Care Costs</u>
Balance, July 1, 2004	\$ 1,338,350
Deductions	<u>(46,150)</u>
Balance, June 30, 2005	<u>\$ 1,292,200</u>
Balance Due Within One Year	<u>\$ 46,150</u>

The balance at June 30, 2005, represents the full accrual of the estimated postclosure care costs at the landfill site based on the landfill engineer's estimated annual cost.

IV. OTHER INFORMATION

A. Risk Management

Sequatchie and Bledsoe Counties provide for general liability, property, and casualty risks of loss at the landfill site through policies carried by the respective counties. Both Sequatchie and Bledsoe Counties provide for these risks through participation in public entity risk pools.

B. Accounting Change

During the year, the landfill adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the landfill's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

C. Contingent Liabilities

The attorney for the landfill advised that there was no threatened or pending litigation involving the landfill or its board at June 30, 2005.

D. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and postclosure care costs generally are paid near or after the date that the landfill stops accepting waste. The Sequatchie/Bledsoe County Landfill stopped accepting waste in May 1999. In November 2003, the final cover was placed on the landfill. The \$1,292,200 reported as landfill postclosure care liability at June 30, 2005, represents the amount of postclosure expenses estimated by the landfill's engineer based on the use of 100 percent of the estimated capacity of the landfill. Actual costs may fluctuate due to variable factors such as inflation, changes in technology, or changes in regulations.

E. Closure Cost Financing

The closure costs of the landfill were financed through the issuance of separate capital outlay notes by the participating governments. The notes totaled \$600,000 and were issued by the four governments according to their percentages of fund equity. The proceeds of these notes went to the respective governments, and the total amount was contributed to and held by the landfill for payment on the closure contract.

The repayment of these notes is the responsibility of the individual governments involved; therefore, no long-term liability is reflected in the financial statements of the landfill. The payment of the principal and interest on these notes will be calculated into the annual contribution to the landfill by each government until the notes are retired.

F. Purchasing Law

The landfill operates under the purchasing law applicable to the Office of the County Mayor of Bledsoe County. Bledsoe County's purchasing procedures are governed by provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

REPORTING SECTION



STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
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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

March 3, 2006

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the year ended June 30, 2005, and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the landfill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 the landfill's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 05.01.

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. However, the reportable condition described above was not considered to be a material weakness.

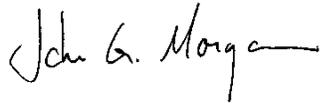
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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.

We also noted certain other matters that we reported to the management of the Sequatchie/Bledsoe County Landfill in separate communications.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/sb

Sequatchie/Bledsoe County Landfill
Schedule of Audit Finding Not Corrected
June 30, 2005

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below is the finding from the financial report for the Sequatchie/Bledsoe County Landfill for the period July 1, 2002, through June 30, 2004, which has not been corrected.

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
04.02	27	Duties were not segregated adequately

**SCHEDULE OF AUDIT FINDING
FOR THE YEAR ENDED JUNE 30, 2005**

The finding, as a result of our examination, is presented below. We reviewed this finding with management to provide an opportunity for their response. Management did not offer a written response to the finding. Officials offered oral responses to the finding; however, these oral responses have not been included in this report.

FINDING 05.01 DUTIES WERE NOT SEGREGATED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among management and employees of the Sequatchie/Bledsoe County Landfill. The employee responsible for maintaining accounting records was also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.